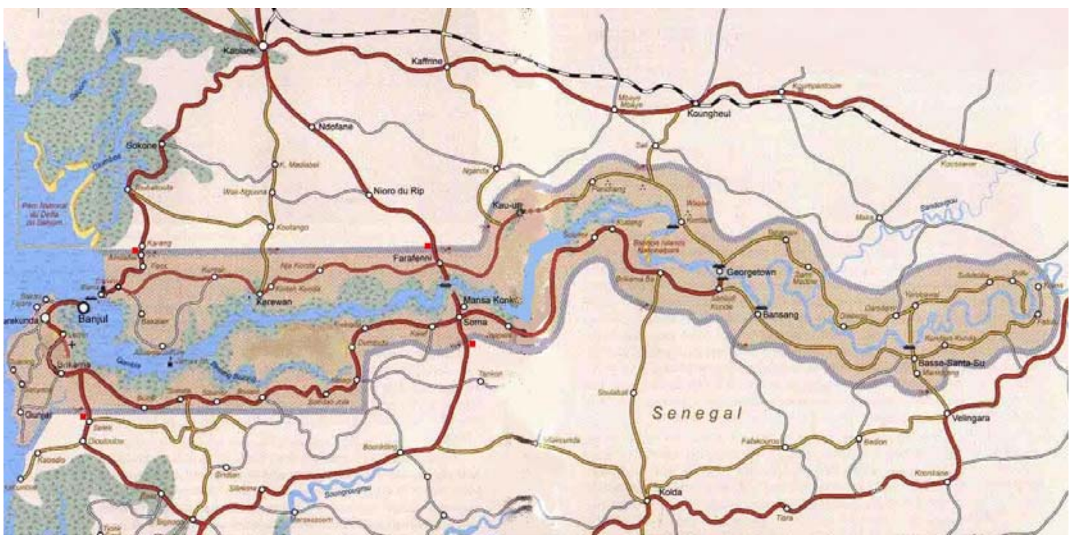
THE GAMBIA

From Entrepôt to Exporter and Eco-tourism



Diagnostic Trade Integration Study
for the Integrated Framework for Trade-related Technical
Assistance to Least Developed Countries

July, 2007

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CURRENCY EQUIVALENTS

(Exchange rate as of May 31, 2007)

Currency unit = Gambian Dalasi (GMD)
US$1.00 = 27.5 GMD

ABBREVIATIONS AND ACRONYMS

Administrative Divisions

CRD	Central River Division
LRD	Lower River Division
NBD	North Bank Division
URD	Upper River Division
WD	Western Division

Organisations:

ADB	African Development Bank
AFET	Association of Farmers Entrepreneurs & Traders
ASPA	Agri-business Service Plan Association
ASRE	Agricultural Statistics and Resources Economics Unit
ASSET	Association of Small-Scale Enterprises in Tourism
BOAD	*Banque Ouest-Africaine de Développement* (West African Development Bank)
CIF	Cost, Insurance & Freight
CRODT	*Centre de Recherches Océanographiques de Dakar – Thiaroye* (Oceanographic Research Institute)
CRS	Catholic Relief Services
CSD	Central Statistics Department
CSRP	*Commission Sous-Régional des Pêches* (Sub-Regional Fisheries Commission)
DFID	Department for International Development (U.K.)
DG SANCO	Directorate General for Sanitary Control, EC
DLS	Department for Livestock Services
DOF	Department of Fisheries
DOSA	Department of State for Agriculture
DOSFEA	Department of State for Finance and Economic Affairs
DOSTIE	Department of State for Trade, Industry and Employment
DOSWCI	Department of State for Works, Construction and Infrastructure Development
DTIS	Diagnostic Trade Integration Survey
EC/EU	European Commission/ European Union
ECOWAS	Economic Community of West Africa States
EEZ	Extended Economic Zone
FAO	Food and Agriculture Organisation

FOB	Free on Board
GAMWORKS	Gambian Agency for the management of public works
GCA	Gambia Customs Authority
GCAA	Gambia Civil Aviation Authority
GCCI	Gambia Chamber of Commerce and Industry
GCU	Gambia Cooperative Union
GGC	Gambia Groundnut Corporation
GHE	Gambia Horticultural Enterprises
GIG	Gambia is Good
GIPFZA	Gambia Investment Promotion & Free Zone Agency
GPA	Gambia Ports Authority
GPTC	Gambia Public Transport Corporation
GRTSA	Gambia Road and Transport Services Authority
HACCP	Hazard Analysis Critical Control Points
HPS	Hand Picked Selected (groundnuts)
JMC	Joint Management Commission
MARAD	Maritime Administration
MCS	Monitoring, Control and Surveillance
MMAP	Methodist Mission Agricultural Programme
NADA	National Agricultural Development Agency
NARI	National Agricultural Research Institute
NASS	National Agricultural Sample Survey
NAWFA	National Women Farmers' Association
NCFA	National Cashew Farmers' Association
NERICA	New Rice for Africa
NGO	Non-governmental Organization
OMVG	*Organisation pour la mise en valeur du fleuve Gambie* (Gambia River Basin Development Organisation)
PPP	Public-private partnership
RCN	Raw Cashew Nuts (in the shell)
PRSP	Poverty Reduction Strategy Paper
SGS	Senegalo-Gambia Secretariat
SPS	Sanitary and Phyto-sanitary (standards)
TRIE	*Transport routier inter-états convention* (Interstate Road Transport convention)
TEU	Twenty foot equivalent unit (container)
VISACA	Village Savings & Credit Association
VSO	Voluntary Service Overseas
WAEMU	West Africa Economic and Monetary Union

PREFACE

This Diagnostic Trade Integration Study (DTIS) has been prepared under the Integrated Framework (IF) for Trade Related Technical Assistance to Least Developed Countries in response to a request from the Government of The Gambia.[1] The ultimate objective of the study is to build the foundation for accelerated growth by enhancing the integration of its economy into regional and global markets.

A preliminary mission was held in July 2006 to discuss the objectives and priorities of the study and to ensure proper ownership of the process by the authorities. Terms of reference were then prepared and transmitted to the Government for approval. The main mission, consisting of national and international consultants, visited The Gambia in October 2006. A technical workshop was held in April 2007 to review the draft report. The study was reviewed internally within the World Bank, and among the IF agencies and selected donors, and appropriate changes made. The report and its Action Matrix were then discussed and validated during a workshop in The Gambia, on July 3, 2007. A final set of revisions was made as a result of comments received during that workshop and the report was approved by the Government in August.

The members of the main mission, and their areas of responsibility, were as follows: Philip English (World Bank, task team leader), Hoon Soh (World Bank, trade policy and institutions), and the following consultants: Prof. Stephen Golub, (lead consultant, re-exports, macro and trade policy), Robert Cleverdon and Abdoulie Mam Njie (tourism), Jean-Pierre Diehl (transport), Gabriel Gomez (agriculture), Peter Jaeger (non-traditional agriculture), Aly Mbaye and Matarr Touray (re-exports), Jean-Jacques Pesquet (groundnuts and cotton), Andrew Singer (private sector development and trade institutions), Gert van Santen (fisheries), and Abdoulie Touray and Abdou Njie (investment climate).

The study team wishes to thank the Government of The Gambia and notably the current and previous Permanent Secretaries of the Department of State for Trade, Industry and Employment, Yusupha Ka and Sulayman Samba, for their support to the DTIS process. We also thank A.O. Camara (DOSWCI), Lamin Dampha (DOSTIE), and Matarr Bah (DOF) for their contributions during the main mission, and all the members of the national steering committee who enriched the study through their active participation in various meetings and workshops. Finally, we owe a special word of thanks to Josette Percival and Yassin Njie for their dedication and professional administrative support throughout the entire process.

1The IF is a multi-agency, multi-donor program established to promote the integration of the least developed countries into the global economy. The participating agencies are the IMF, the ITC, UNCTAD, UNDP, the World Bank and the WTO. For additional details see http://www.integratedframework.org/.

EXECUTIVE SUMMARY

CROSS-CUTTING ISSUES

Overview

1. Reflecting the accidents of colonial history, The Gambia is a very small English-speaking country completely surrounded by francophone Senegal except for a 60 km border on the Atlantic Ocean. The Gambia's economy is undiversified and limited by a tiny internal market, and poverty is pervasive.

2. For decades, The Gambia has served as a regional entrepôt, using the river as a transportation link to the hinterland. Relatively low import taxes, well-functioning port and customs services, and limited administrative barriers reinforced The Gambia's position as a trading center. About 80 percent of Gambian merchandise exports consist of re-exports to the sub-region - goods imported into The Gambia and transported unofficially into Senegal and beyond. The Gambian economy and especially its public finances are highly dependent on this trade because imported goods destined for re-export pay the normal import duties. Recently, however, re-exports have declined due to a combination of tensions with Senegal, harmonization of import and sales taxes in the region, and improved port and customs operations in Senegal and other neighboring countries. The current re-export trade is unlikely to be sustainable, calling for a strategy to build growth on a more secure foundation.

3. Groundnuts are the other traditional pillar of the economy, but the sector now confronts severe domestic and international challenges, and exports have dropped sharply in recent decades, aggravated by the failed privatization of the mid-1990s. Fishing, horticulture, sesame and cashew nuts are promising areas of export diversification but so far progress has been limited, or even negative. Tourism has been the one bright spot and has become easily the country's most significant foreign exchange earner.

4. The Gambia's unusual geographic location makes cooperation with Senegal imperative, for trade and a variety of other economic issues. Although divided by colonial history, the two countries have much in common in terms of culture, economic structures and even language. Yet relations with its larger neighbor have not always been smooth.

5. This study focuses on the following priority issues:

   a. **The Gambia as gateway**. The report identifies directions for establishing a more sustainable foundation for the country's position as a gateway to the region by improving the transport system and reinforcing its efficient trade facilitation services, while recognizing the limited potential for growth.

   b. **Boosting competitiveness**. The study makes detailed recommendations on strengthening and diversifying domestic production of goods and services in the areas of tourism, groundnuts, other agriculture, and fishing, by improving the business climate as well as implementing sector-specific reforms.

   c. **Relations with Senegal**. The study proposes a "grand bargain" between the two countries in areas such as transport, transit trade, fishing rights, groundnut pricing, cotton ginning and seed production.

Macroeconomic Policies

6. The Gambia has taken some important steps towards macroeconomic stability since 2003, with progress in controlling the fiscal deficit, curtailing money growth and inflation, and improving transparency of fiscal and monetary accounts. Nevertheless, the authorities have yet to definitely break with the "stop and go" policies of the past decade, and the economic situation remains fragile.

7. Large budget deficits in the 1990s and more recently monetary sterilization of capital inflows led to an upward trend in domestic debt, reaching 36 percent of GDP in 2005. Although smaller than the foreign debt (at 138 percent of GDP in 2005), the domestic debt buildup is more significant because of a much higher servicing burden, and its ineligibility for debt relief. While foreign borrowing is on highly concessional terms, domestic debt carries very high interest rates, with a number of adverse consequences. i) The rising stock of Treasury bills pushes up interest rates, in turn raising the deficit, creating a vicious circle that is difficult to escape. ii) Private sector borrowers are crowded out as banks can earn good returns simply by holding Treasury bills. iii) The high debt-servicing requirements impose a fiscal squeeze on public finances, forcing the government to reduce development spending and/or raise taxes, adversely affecting the private sector.

8. The government has made considerable progress in fiscal policy, running a primary (non-interest) surplus of 8-9 percent of GDP since 2004. Extra-budgetary expenditures have been curtailed, notwithstanding slippages in 2006 associated with the African Union summit held in Banjul and the Presidential elections. The government has also taken important steps towards strengthening transparency and monitoring of government and central bank accounts. After a burst of double-digit inflation in 2001-2003, tight monetary policies brought inflation down below 2 percent in 2006. Given the background of high public debt and previous monetary mismanagement, the recent efforts to consolidate macroeconomic stability must be maintained.

9. The Gambia has a narrow tax base with an unusually high dependence on taxes on international trade (customs duties and sales taxes on imports), accounting for 43 percent of all revenues, 49 percent of domestic revenues, and 56 percent of tax revenues in 2003-2005.

Trade Policies

10. Customs duties and other trade taxes in African countries typically have a dual function of promoting economic development while providing government revenues. In the case of The Gambia, these two functions have been shaped by the importance of the re-export trade. With very little domestic industry and limited potential to promote such industry through import barriers, the Gambian authorities have sought to maintain trade taxes below those of neighboring countries to support the role of The Gambia as an entrepôt. At the same time, this entrepôt role contributes substantially to the high dependence of government revenues on trade taxes, because imported goods destined for re-export generally pay full duties when entering the country.

11. As of the late 1990s, The Gambia's trade regime was more liberal than those of its neighbors, but still involved considerable complexity and tariff peaks. The implementation in 1998-2000 of the Common External Tariff in the francophone West African Economic and Monetary Union (WAEMU) entailed significant declines in trade taxes in Senegal and Guinea Bissau, posing a new challenge to the role of The Gambia as a re-export hub. In 2000-01, The Gambia followed suit and simplified its customs duties to 4 bands, with a top rate of 18 percent.

12. In 2006, The Gambia aligned its external tariffs to the ECOWAS customs union structure. The Gambia experienced a slight rise in its average import taxes as a result of the top rate increasing from 18 to 20 percent and the sales tax on imports going up from 10 to 15 percent, eroding the country's competitive advantage as an entrepôt. Nevertheless, The Gambia's trade taxes remain low by African standards. Overall, the effect of import duties on resource allocation is minor in The Gambia, given the relatively low level and dispersion of customs duties. Any adverse effects of import protection on exports are swamped by the supply-side constraints on export sectors discussed below.

13. The negotiations with the EU to replace its non-reciprocal preferential agreements with Economic Partnership Agreements (EPAs) could require significant tariff reductions by The Gambia on goods imported from the EU. There is increasing concern that EPAs could involve significant costs to African countries in the form of forgone tariff revenue, greater EU imports at the expense of intra-regional trade, and increased pressure on local industry, that could outweigh any benefits of greater access to the EU market. The disadvantages of an EPA for The Gambia could be particularly severe given its unusually high dependence on import taxes—about half of imports come from Europe— and the potential negative effects on the re-export trade. At the same time, the benefits to The Gambia are likely to be small, at least in the short run. The EPAs will provide no additional access not already available under the Everything But Arms agreement, unless they are accompanied by relaxation of the EU's restrictive rules of origin. For groundnuts, fish and horticulture, the main barriers to the EU market are on the supply side, including capacity to meet stringent European quality standards. Reciprocal liberalization with the EU therefore appears to carry significant risks for The Gambia. However, it will be phased in gradually, there will be some room for exemptions, and it may be accompanied by greater financial assistance to offset lost revenues and boost Gambian export diversification. If the EPA is seen as an opportunity to lock-in new reforms, and strengthen implementation of ECOWAS agreements, it could serve as a useful mechanism to reduce dependence on the re-export trade.

Institutional Structure for Trade

14. The successful formulation and implementation of trade policy and export development poses a major institutional challenge for government. It requires effective coordination across government as well as with the private sector and civil society. Normally, this requires a clear strategy with broad ownership, political leadership at a high level, effective coordinating committees, and a secretariat to keep the process moving. None of these elements are in place at present. The Vision 2020 document emphasizes the importance of trade and growth, but the new PRSP does not provide a detailed strategy for export development. The Department of State for Trade, Industry and Employment (DOSTIE) is aware of the problem and plans to use the present study to meet this need. However, it will need to be strengthened, supported by other key ministries and senior political leaders, and in regular consultation with the private sector, if the strategy is to be properly implemented.

15. In response to the negotiating challenges posed by the EPA and ECOWAS, DOSTIE has established a committee system to involve other government departments and private sector representatives. More systematic prioritization and more regularized consultation with the private sector are needed, however. Thus DOSTIE should familiarize itself with exporters' concerns and act as their advocate. DOSTIE would also benefit from additional staffing, improved data collection on trade flows, and prioritization of its work program.

16. The Gambia Investment Promotion and Free Zones Agency (GIPFZA) is responsible for promotion of Foreign Direct Investment (FDI). FDI has grown rapidly in recent years, for which

GIPFZA can perhaps take some of the credit, despite the relative slow implementation of the free zone and some delays in granting of duty waivers. The incentive packages offered to investors are highly discretionary, often decided by the Office of the President, and should be replaced by a simpler, more transparent system based on a published negative list of restricted sectors.

17. Investment promotion should focus on priority sectors. One interesting option is clothing. Two small clothing factories producing for export to the EU market have begun operations in the last two years. GIPFZA could usefully focus on promoting more such firms, putting together a package of supporting measures tailored to their needs.

18. Customs clearance procedures work well by African standards. Like low tariffs, a relatively efficient customs service is a crucial ingredient in The Gambia's re-export trade, but the country cannot rest on its laurels if it wants to maintain a competitive advantage. The planned upgrade to Asycuda ++ would enable more selective inspection, through the introduction of risk management techniques, as well as facilitate adoption of WTO-compliant valuation methods.

19. Quality improvement and conformity to standards are increasingly important in world trade and are already posing problems in The Gambia. Top priority must be placed on raising awareness among farmers and fishermen, and providing the advice and infrastructure necessary to raise quality. Government capacity at the Standards Bureau needs to be improved, beginning with the most basic functions of metrology. The services of the private sector and of institutions in other countries should be tapped wherever possible.

Business Climate

20. The Gambia is in the middle of the rankings vis-à-vis other African countries in widely-used indicators of the business climate and economic competitiveness. In the 2007 World Bank Doing Business indicators, The Gambia is ranked 113th out of 175 countries, better than West African neighbors, notably Senegal, but below some of the better-performing countries in Africa, such as Ghana, Kenya, Uganda and Nigeria. The Gambia is ranked favorably in the areas of labor regulation and international trade, but poorly on investor protection, and tax rates and procedures. Large inflows of FDI in recent years are encouraging, but improvements are still necessary.

21. The country has made considerable progress in restoring its image of peace and stability following the 1994 coup, but concerns about governance remain. The Gambia's recent suspension from the United States Millennium Challenge Account (MCA) on account of alleged human rights abuses, political repression, and worsening corruption, sends a negative signal to investors. Some recent tourist guidebooks also warn about the increasing political repression. The Gambia's score on Transparency International's Corruption Perception Index has fallen over the last three years to a low 2.5 out of 10 in 2006, and a ranking of 121st out of 163 countries. The frequent reshuffling of high-level officials in government departments is likely to hamper the effectiveness of economic policy implementation and may shake investor confidence.

22. In the 2006 World Bank Investment Climate Assessment for The Gambia, formal sector firms rank electricity as the most serious obstacle by far, followed by credit, land access and taxation. Customs administration, transport and labor laws are seen as relatively minor problems.

23. ***Electricity***. Power outages are frequent and the price of electricity is high, due to lack of investment and inadequate maintenance of the aging infrastructure of the state-owned National Water and Electricity Company (NAWEC). The 2004 Electricity Act liberalizes the sub-sector and opens it up for private sector investment, but for the moment only private management has

been implemented. Even with the new generating station at Brikama, the power situation remains dire with total available capacity of 60 MW against a suppressed peak power demand in the order of 150 MW. Adding further generating capacity by itself will accomplish little, given the old and overloaded transmission and distribution system, with a capacity of some 50 MW. In the short run, NAWEC should strive to improve the efficiency of distribution and collection as a first step towards reversing the downward spiral of underinvestment and rising costs.

24. ***Finance.*** Long term financing for productive investment is largely unavailable in The Gambia, especially for small and medium enterprises. Currently, commercial bank lending to the private sector is mostly short term and largely related to the re-export trade. Loan interest rates are very high, while deposit rates are quite low. Several factors contribute to this situation: bank inefficiency and a large portion of bad loans; the large domestic public debt; the short-term nature of bank liabilities; lack of information about credit risk; a cumbersome judicial and legal framework, particularly the Mortgage Act of 1992; and lack of technical and management expertise.

25. ***Taxes, the judiciary and access to land.*** The Gambia has a very narrow tax base and is highly dependent on import taxes. The proliferation of local and sectoral taxes is oppressive to business, and tax rules are not well disseminated. The overall legal framework for business in The Gambia is largely consistent with international practices but the court system functions poorly. The land tenure system does not in itself pose any major obstacles for industrial use of land. The problem is the slow approval process for acquiring and leasing of land for commercial purposes, which could be remedied through delegation of the land approval process to a commission.

The Gambia as Gateway

Transport

26. ***The Port of Banjul.*** The focal point of the transport system is the port, operated by the public entity Gambia Port Authority (GPA). Although the port is small and suffers from a serious problem of silting which requires regular dredging, it is among the most efficient in Africa in terms of speed of handling of merchandise, usually just a few days, in contrast to 10-15 days in alternative ports. Banjul is at least as efficient as Dakar for ship-to-shore handling, and much more efficient for on-shore handling. Banjul's competitive edge has narrowed somewhat, however, as efficiency improvements have stalled while other regional ports have sought to improve. Moreover, Banjul has at best only slightly lower terminal handling charges, which are more than offset by lower freight rates from Europe to Dakar or Abidjan.

27. Despite the upward trend in port traffic since the early 1990s, there is still adequate capacity for additional growth, although some organizational improvements are needed due to increasing crowding. Further improvements are necessary for Banjul to remain competitive with Dakar and Conakry. The future of the port will depend not just on its own efficiency but also on that of the transport links from the port to its hinterland in The Gambia and beyond. This in turn will influence the size of the hinterland that Banjul port can realistically serve.

28. ***Ferries.*** Ferries are the only means of crossing the Gambia River. In 2001, GPA was assigned responsibility for ferry services, resulting in a *de facto* cross subsidization of ferries, and constraining investment in port activities. There are two main crossings, on the coastal highway (Banjul-Barra) and on the Trans-Gambia highway (Bamba Tenda-Yelli Tenda). Although the acquisition of some additional boats has improved the situation, trucks often have to wait for a day or more to cross on a ferry. A possible solution is the creation of a container depot on the

north bank at Barra, with the use of dedicated barges to move containers from the port, thereby freeing space on ferries for other traffic. Ferries should be split off from the GPA, with consideration given to privatizing them.

29. ***Roads*****.** Roads constitute the dominant mode of intra and inter-country regional transport. The primary network has improved considerably following substantial investments, especially on the North bank of the river. The Gambia's capacity to serve neighboring countries beyond Senegal is constrained by the uneven quality of Senegalese roads and the Senegalese obstruction of transit trade, notably to Mali. It is recommended that The Gambia appeal to ECOWAS transit agreements to mediate disagreements with Senegal.

30. ***River transport***. The River Gambia was the initial basis of The Gambia's role as a regional hub, and the main mode of transporting groundnuts. However, river transport has shown a steady downward trend. Reviving river transport and groundnut production could go hand-in-hand. In this respect, more attention should be paid to rehabilitating the long-neglected river transport infrastructure (barges, tugboats, wharves, navigation).

31. ***A bridge over the Gambia River***. The biggest incentive that the Senegalese may have for collaboration is their desire for a bridge to link its southern Casamance region to the rest of Senegal. The *Organisation pour la Mise en Valeur du Fleuve Gambie (OMVG)*, possibly by delegation by ECOWAS, could be responsible for oversight of construction. A key issue for The Gambia is the creation of a new pole of activity to compensate for the loss of jobs, including extensive retailing, due to the end of ferry service.

32. ***A Dry Port?*** The establishment of an upriver dry port at the proposed bridge where containers could be off-loaded is an attractive possibility that should be studied. It could help solve many of the above-noted problems that result from the poor connection of Banjul to the regional network: congestion around Banjul and the ferries; a source of jobs and revenues to compensate for the loss of ferries in the event of a bridge; and revival of river transport.

33. ***Air*****.** The airport is in good shape but the limited number of airlines serving The Gambia is a serious constraint to both tourism and horticulture exports, only partially alleviated by chartered flights. New airlines are entering the African market, often in partnership with innovative tour operators. The Gambia needs to actively seek out new partnerships, while seriously considering the well-established model of all-inclusive packages. Air transport safety and security are important foundations for tourism and The Gambia should strengthen its participation in related regional projects under ECOWAS.

Re-exports

34. Though not captured in official trade statistics, it is well recognized that there is a very large volume of unofficial re-exports from The Gambia to Senegal and other countries of the region. Indirect estimates suggest that re-exports account for about 80 percent of total exports and 20 percent of foreign-exchange earnings. The re-export trade also contributes significantly to government revenue as imported goods are subject to tariffs even if intended for re-export. The main products are basic consumer goods for the average African low- or middle-income household consisting of bulk food items such as rice, sugar, and flour; processed foods, tea, and soft drinks; various fabrics; used cars; and household items such as batteries and candles.

35. A matched product-level comparison revealed that wholesale prices in Dakar are higher than in Banjul, with the differential varying substantially, from a maximum of about 90 percent

for sugar and a low of about 10 percent for rice. These price differences have long provided a large incentive to bring goods from The Gambia into Senegal. Anecdotal evidence points to the existence of a complex re-export distribution chain running from wholesalers in Banjul to petty traders in the informal markets of Senegal and elsewhere in the region.

36. As noted earlier, The Gambia's relatively liberal trade policies in comparison to neighboring countries have contributed importantly to The Gambia's special role as a regional trading hub. Senegal's combined taxes on international trade remain higher and sometimes much higher than those in The Gambia. Not surprisingly, the greatest differential is for sugar, where the Senegalese composite tax rate is about 80 percent above the Gambian tax rate. Overall, the import tax rate differences accord well with the price differences for these same items.

37. The Gambia's relatively efficient customs contribute to the lower costs of importing in Banjul, especially in comparison to the more complex and bureaucratic procedures in Senegal. Also, unlike in Senegal or Guinea Bissau, the port of Banjul is known for its rapid and efficient clearance of goods. Overall, The Gambia's more laissez-faire tradition has contributed to the development of trading establishments in Banjul. On the other hand, economic relations with Senegal are also critical. Border disputes can and do severely disrupt re-export trade.

38. Re-exports fell about 20 percent in 2006, following a 10 percent decline in 2005, continuing the long-term decline since the mid 1990s. Wholesalers cite a number of factors reducing The Gambia's competitiveness: narrowing of the differential in favor of The Gambia with regard to trade taxes, speed of customs clearance and in port handling efficiency, as well as continuing Senegalese obstacles to transit trade from The Gambia.

39. The Gambia retains important geographical and institutional advantages as a trading hub, but the future of this trade is cloudy. Can the country find a new and more durable basis for serving as a regional gateway in the face of tariff harmonization, crackdowns on unofficial trade, and efforts of other countries to increase their share of intra-regional trade? A strategy must include a focused effort to improve the transport system; a possible roll back of the increase of the sales tax on imports if alternative revenue sources can be found; and high-level initiatives to improve relations with Senegal so as to find mutually-advantageous ways of expanding trade. An agreement covering the transport system might include building the bridge at Farafeni that Senegal has long sought, and for Senegal to allow legitimate transit trade to Mali. At the same time, diversification of the economy to reduce dependence on re-exports needs to be pursued more aggressively.

Key Sectors

Tourism

40. Tourism is The Gambia's top net foreign exchange earner, generating as much as all other exports combined, and is a major contributor to employment and therefore poverty reduction. Tourism is based on sun-sea-sand holidays during the European winter months, with about 75 percent of arrivals in November-April. Tourism grew strongly in the 1990s, suffered a setback in the early 2000s following the collapse of a major German tour operator and the fallout from September 11, 2001, but has recently rebounded and achieved new highs. New German and Spanish charter airlines started serving The Gambia in the 2006/07 season. Six new hotels were being completed in 2007, including a Sheraton, the first hotel from an international chain.

41. The Gambian tourist industry is highly seasonal and depends heavily on six European tour operators. It also suffers from a reputation for fairly bland holidays, plus some concerns over

prostitution and "bumsters"—overly aggressive young men seeking to befriend tourists. Local critics question tourism's economic and social impact. On the other hand, the relatively long length of stay and the high number of repeat visitors are indications of tourist satisfaction. The tour operators play a key role in marketing the country, and some have important vested interests in its success. Tourist expenditures outside the hotels are high by international standards, and generate significant linkages considering the small size of the local economy. The government and NGOs are tackling child prostitution and the bumster issue. The Gambia offers a range of opportunities to broaden its appeal through natural, cultural and historical attractions.

42. Although the tourism sector is thriving, a number of constraints handicap the long-run prospects for growth. The shortage and high cost of electricity and lack of access to reasonably-priced credit are cited as major impediments by hotel managers. The dependence on low-cost beach package tours is a limitation, given the global industry's shift in favour of adventure and culture tourism, along with independent travel. The average quality of most hotels is out of line with the rising standards being demanded by tourists. The small number of scheduled airlines and the ban on all-inclusive packages limit access.

43. The Tourism Master Plan recognizes these problems and recommends a strategy of upgrading facilities and attractions in The Gambia, along with an enhanced destination marketing effort to raise The Gambia's profile and gradually alter its image. However, the government has yet to approve it and so implementation has still not begun. This is partly due to the large number of recommendations compared to the limited human and financial resources available, plus some disagreements over certain details. It is recommended that the government quickly identify, endorse and implement reform priorities and allocate more funds to this mainstay of the economy.

44. Better destination marketing will help attract new airlines, increase low-season visitors, and help fill the new hotels. The Gambia Tourist Authority (GTA) needs to refocus its efforts and financing on marketing, with the help of technical assistance to lay out a cost-effective strategy. At the same time, the product must be improved and diversified. Higher occupancy rates and hence greater profits will support hotel upgrading, but an internationally-accepted hotel classification system would also help. Greater efforts are needed to develop environmental and cultural sites, including restoration of the dilapidated slave house at Georgetown. Innovative tour operators should be encouraged to develop new product lines. More international hotel chains such as Sheraton would also promote product development. This study recommends the recruitment of a long-term destination management advisor to kick-start the evolution of the sector.

Groundnuts

45. Groundnuts remain the country's main cash crop engaging directly or indirectly over 80 percent of the population, but exports have declined drastically since the 1980s due to a combination of low world prices, inconsistent sector management, and excessive government intervention. Farm-input credits were often forgiven and prices to producers subsidized, undermining efforts to involve private firms and operate the sector on a sound commercial basis. In 1993, the industrial assets were privatized but only until 1999, when the government took over once again. This episode revealed the advantages of privatization: adequate crop finance, reliable cash purchases of farmers' crops without default or delay, maintenance and investment of industrial assets, contributions to research funding, and credibility on the international market. But it also exposed some inadequacies: the weak capacity of the producers' associations, the

importance of sensitizing farmers, government and other stakeholders to commercial rather than patronage relationships, and the need for an appropriate regulatory framework.

46. Since 2000, mismanagement and policy instability have led to a downward trend in exports, hitting an all-time low in 2006-07. The underlying problems are grave: the cooperative movement has consistently shown poor financial and operational management to the point where farmers have lost faith in their institutions; subsidized fertilizer application is value subtracting; international standards for edible groundnuts and groundnut oil are not widely known or enforced; transport and storage are poor; the industrial processing facilities and river barges suffer from chronic lack of investment and maintenance; and prices do not reflect quality differences. Low quality, especially manifested by high levels of aflatoxin and pesticide residues, has exclude Gambian nuts from the lucrative European market in edibles, relegating them to the birdfeed market.

47. With improved organization, and the return of experienced strategic investors, groundnut output could be restored to previous highs. With current prices rising, and the prospect of still better prices as quality improves, revenues to farmers could quadruple. The sector needs gradual re-privatization of industrial assets, first through management contracts, and then through outright sale. This should be accompanied by complementary measures laid out in the Roadmap now being finalized: a new pricing system, the reorganization of input supplies, crop finance, quality control, maintenance and investment of assets, research and marketing, a revitalized producer organization and a regulatory framework.

Other Agriculture

48. ***Cashews*** appear to be the most promising source of export diversification at present, and exports have increased markedly in recent years, although their level remains small. Gambian production has benefited from the relocation of Indian cashew traders fleeing the strife and excessive government intervention in Guinea-Bissau. The Gambia produces high-quality cashews with even more intrinsic value that that of Guinea-Bissau, due to larger nut size. The sector also enjoys a freedom from government intervention. With limited and constructive public support, the sector could flourish.

49. ***Sesame*** is a new crop introduced by the NGO Catholic Relief Services and promoted by the National Women Farmers Association (NAWFA). It too appears well suited to Gambian conditions, world demand is growing, and it directly benefits many women engaged in its cultivation. Unfortunately, NAWFA lacks the necessary experience to act as the marketing intermediary for exports, creating a temporary crisis in 2006. More genuine private sector intermediaries are needed, along with the introduction of new seed varieties and up-country cleaning and storage facilities.

50. ***Cotton*** is the second traditional export crop after groundnuts, but its decline has been even more dramatic than that of groundnuts, with a 93 percent drop since 1993. The ginnery is operating far below capacity and incurring losses. A radical restructuring of the sector is proposed, drawing on the potential for irrigation to refocus on seed production, for cotton and other crops. A new deal will be necessary with Senegal to allow the ginnery to serve adjacent areas beyond The Gambia if it is to have any hope of financial viability.

51. ***Horticulture*** exports of fruits and vegetables to Europe showed exciting promise in the early 1990s, but the number of exporters has contracted significantly and exports have declined.

The cost and availability of air freight space has played a critical role. In addition, European standards have become ever more demanding, while other suppliers have entered the market. Recently, Gambian air-freighted green beans have suffered from increasing competition from Morocco where much cheaper surface freight options are available.

52. However, The Gambia does enjoy the presence of two major foreign investors (Radville Farms and M.A. Kharafi) who bring the kind of international contacts, financing and experience necessary to survive in today's global market. Radville has 20 years of experience and its products are certified for the European market. A recent initiative to collect mangoes from out-growers for sea shipment export is promising, and experiments are also under way to ship certain hardy vegetables by sea. M.A. Kharafi has launched a new project to sell potatoes and onions on the local and regional markets, with important technical support from a major Dutch player. These are lower value products but enjoy strong demand conditions in the region.

53. In spite of their strong financial backing, both ventures will require a supportive business environment in order to prosper. Government needs to follow them closely, doing what it can to facilitate smooth operations. Even Radville is finding that vegetable exports are difficult due to rising air transport and production costs, notably due to deficient power supply, poor roads, and lack of skilled labor. Radville no longer charters its own freighters due to the high cost, and with few regular commercial flights, air cargo space has become scarce. If Kharafi succeeds and can expand into the European market, this may offer an important opportunity to coordinate with Radville and other smaller producers to charter air freighters.

54. The Gambia is Good program is playing a useful role to increase local supplies of fruits and vegetables for hotels and restaurants, with notable impact on small farmers. It should be encouraged to expand. However, the size of this market is very small compared to the opportunities offered by international trade.

Fisheries

55. The coastal waters of The Gambia are part of one of the richest fish resources in the world, while the Gambia River offers additional potential. Artisanal fishing for pelagics (such as shad, sardinella, anchovies) in coastal waters and the river is thriving. Most of the catch is destined for the home and regional markets in dried or smoked form. On the other hand, industrial fishing for bottom-feeding demersal fish (shrimp, sole, snappers, cuttlefish, octopus) has nearly collapsed, and exports have plummeted, due to four key problems:

i) The stock of demersal fish is threatened by over-exploitation by Senegal, reflecting its lack of success in limiting fishing, as well as poor coordination of sector management policies between the two countries. Although declining catches and higher license fees have curtailed legal industrial fishing vessels, illegal fishing continues.

ii) Fish processing suffers from the unreliable provision and high prices for electricity, and the high cost of finance.

iii) The absence of a deep water fishing port for industrial vessels, and poor landing facilities for artisanal fishing, which undermine efforts to meet EU sanitary standards.

iv) The agreement between The Gambia and Senegal is lopsided. Senegal has much greater fishing capacity, its trawlers are not required to deliver any of their catch to local processors, and surveillance is ineffective. Senegal obtains US$5 to 10 million of fish in

Gambian waters whereas The Gambia gets less than US$1 million, while its own fishing stock is depleted.

56. The revival of industrial fishing would require a new agreement with Senegal to address these issues. The Gambia's own surveillance capacity should also be enhanced. Local processors need urgent upgrading to ensure that they meet EU food safety standards. Adequately-equipped landing sites and other facilities for artisanal fishing should be gradually increased. Improved understanding of fish stocks should be sought through research, which in turn should inform licensing of fishing vessels. These efforts could attract serious foreign investors, who could help revive industrial fishing and improve quality control.

Trade and Poverty Reduction

57. There should be no doubt that tourism plays a major role in poverty reduction in The Gambia, both indirectly through its contribution to growth, and directly through purchases of labor and goods from the poor. Its estimated net revenues – which stay in the country – of about US$50 million far exceed those of any other sector. Even the direct payments to the poor (US$14 million) exceed total gross payments from groundnuts in most recent years. This sector also has the most potential for further growth. The challenge now is to exploit this opportunity in a sustainable manner, promoting even stronger linkages to poor communities in a way which makes sense for the industry.

58. No solid analysis exists on the impact of re-exports, but the total value-added is probably greater than in groundnuts. Much of this is consumed by trucks and fuel, but the impact on employment in the transport sector is undoubtedly significant. The potential for further growth is however limited, given the increased Senegalese effort to limit unofficial imports and the trend towards harmonization of trade policies in the region.

59. The groundnuts sub-sector continues to involve the largest number of the poor, accounting for over half of all those living in extreme poverty in The Gambia. Any poverty reduction strategy must start by preventing increased poverty through the collapse of the sector, and then by improving the incomes of groundnut producers. The current crisis is not related to the comparative advantage of the country for groundnuts, the shortcomings of farmers, or international market conditions, but rather to the mismanagement of the sector, a factor very much under the control of the government.

60. Nonetheless, for some farmers groundnuts are a very marginal activity and there are better options. Nor is it wise for a country to be too dependent on any one commodity. Horticulture, sesame and especially cashew nuts represent viable alternatives which should be promoted as quickly as possible. Rough estimates suggest that feasible growth in cashew exports over the next ten years could offer income to some 30,000 households, generating annual revenues almost twice as high as for groundnut farmers. This would be more than all those engaged in tourism related activities – and significantly more of the poor – even if tourism should double in size.

Conclusions and Key Recommendations

61. The Gambia's relatively open trade policies and well-functioning port have enabled the country to serve as regional entrepôt, but the re-export trade in its present form is unlikely to be sustainable. The groundnut sector, the other traditional economic pillar, is now in a crisis. Fortunately, the tourism sector has prospered. The Gambia needs to shore up traditional activities

while expanding new ones to establish the foundations for a more fruitful integration into the global economy. The study's key recommendations are as follows:

1. Improve relations with Senegal, with a "grand bargain" covering the construction of a bridge across The Gambia River, renegotiation of the bilateral fishing agreement, respect of ECOWAS transit accords, highway linkages, and cotton ginning, etc. Revival of the Senegalo-Gambia Secretariat would be an important first step.

2. Further promote the tourism industry through enhanced marketing, hotel upgrading, and gradual diversification into areas such as cultural and eco-tourism.

3. Maintain The Gambia's competitive advantage as a sub-regional transit hub through continued modernization of the port, customs, and internal river and road transport.

4. Revitalize the groundnut industry, through privatization along with putting in place an appropriate institutional framework.

5. Facilitate private sector-led growth of new agricultural exports, notably cashews.

6. Improve the business climate to spur more foreign and domestic investment, most importantly in the area of electricity provision, while consolidating macroeconomic stability.

PRIORITY ACTION MATRIX

Overview of Highest Priority Recommendations

Objective	**Actions to be undertaken**
Improve relations with Senegal via a "grand bargain"	Establish a high level policy dialogue covering:
	•A bridge over the Gambia River
	•Renegotiation of the fishing agreement
	•Respect of ECOWAS transit accords
	•Highway linkages
	•Technical cooperation in groundnuts, cotton, etc.
Further promote tourism	Approve and begin implementation of the Tourism Master Plan (TMP)
	Hire long-term TA to support product development and diversification
	Prepare and implement a tourism marketing strategy
	Review the case for all-inclusive packages
	Improve key sites of natural and cultural interest
Consolidate The Gambia's role as a transit hub	Remove ferry operation from the Gambia Port Authority
	Privatize operation of the ferries
	Rehabilitate river transport and promote private operators
	Continue to upgrade the road network, especially on the South Bank
Revitalize the groundnut sector	Approve and implement a roadmap for the rehabilitation of the sector and privatization of industrial assets
Promote agricultural export diversification	Facilitate investment through access to land for commercial farms
	Strengthen cashew nut and sesame producer associations
	Develop rural infrastructure including storage depots and roads
	Promote private sector input supply and marketing
	Transform cotton growers into specialized seed producers
Improve the overall investment climate	Improve electricity supply through divestiture of NAWEC and increased investment
	Improve access to finance through reform of the mortgage act and training of bankers
	Consolidate macroeconomic stability

ACTION MATRIX

Objective	Action to be undertaken	Party responsible	Timing	Performance indicators
Trade Policy and Institutions				
Promote regional integration	Revive the Senegalo-Gambian Secretariat	DOSFEA	0-1 year	Budget and Executive Director in place
	Work through ECOWAS to improve the implementation of the ETLS among all members	DOSTIE, ECOWAS	0-2 years	Primary and certified manufactured goods traded without problems
Manage trade relations with the EU	Focus negotiations on accelerating regional reforms in a few key areas, ensure adequate financial compensation for lost revenues, and assistance on supply-side constraints	DOSTIE, DOSFEA, EC	0-1 year	Key reforms identified and implemented; EC commits to providing additional funding
Improve trade policy process	Develop a clear trade and export development strategy in consultation with stakeholders	DOSTIE	0-1 year	Strategy developed and approved by Cabinet
	Establish process of rolling 6-month work plans in DOSTIE	DOSTIE	0-1 year	Process in place
	Hire senior trade economist to head up trade division; establish IF secretariat	DOSTIE	0-1 year	New qualified staff in place
	Expand consultations with private sector through regular high-level fora and more frequent meetings of technical committees	DOSTIE, GCCI	0-3 years	Regular meetings designed jointly with private sector and with active participation of exporters
	Improve internal coordination across government	DOSTIE, DOF, DOSFEA, DOSA, etc.	0-1 year	High-level trade committee with specialized sub-committees established and functioning
	Improve quality and timeliness of trade data base with help of ASYCUDA, Eurotrace, and direct monitoring of exporters	DOSTIE, GBOS, GRA	0-2 years	Accurate export data released on a regular and timely basis
Improve trade-related investment promotion	Focus investment promotion on priority sectors with customized promotional material	GIPFZA	0-2 years	Priority sectors identified and activities refocused

Objective	Action to be undertaken	Party responsible	Timing	Performance indicators
	Special effort placed on attracting knitwear producers	GIPFZA	0-2 years	2 knitwear investors established in Free Zone
	Review investment incentive system	GIPFZA, DOSFEA	0-1 year	Review completed and recommendations implemented
Improve customs clearance	Extend hours of operation of port	GPA	0-1 year	Longer hours of operation
	Increase use of risk management techniques for more selective inspections	GRA	0-1 year	Fewer shipments inspected with no loss of revenues
	Upgrade to ASYCUDA ++	GRA	0-1 year	ASYCUDA++ up and running
	Implement recommendations of review of customs procedures	GRA	0-1 year	Recommendations implemented
Promote quality and strengthen standards compliance	Conduct institutional and human resource capacity assessment of SCPB and provide TA and training	DOSTIE	0-2 year	Study completed; TA and training provided
	Improve metrology equipment	SCPB	0-2 years	Equipment in good working order
	Support implementation of SPS measures in Food Act through TA and training	NNA	0-2 years	SPS measures effectively implemented
	Launch campaigns to improve quality in groundnuts, fish products, and sesame	DOSTIE, DOSA, NADA, DOF	0-2 years	Quality of exports improving
	Seek out opportunities for regional cooperation on standards testing	DOSTIE	0-3 years	MOUs signed with institutions in neighboring countries

Objective	Action to be undertaken	Party responsible	Timing	Performance indicators
Business Climate				
Finance				
Improve access to finance	Revise sections 18 and 20 of the 1992 Mortgage Act	Central Bank, DOSFEA	0-1 year	Sections 18 and 20 of the Act revised.
	Implement the credit reference bureau		0-1 year	Bureau up and running.
	Set up training courses for bankers in screening risk	Central Bank, Bankers' Assoc.	0-1 year	Training courses being offered
	Establishment of a commercial court	DOSFEA, Dept of Justice	0-2 years	Establishment of the court
	Participation in and linking of regional stock exchanges	Central Bank, DOSFEA	0-3 years	Listings of Gambian companies in Ghana, etc.
	Reduce public domestic debt to bring down high domestic interest rates		0-5 years	IMF targets met
Infrastructure				
Lower cost and increase supply of electricity	Reduce transmission and distribution losses	Office of the President, PURA	6 months	Competitively-bid management contracts with performance incentives
	Unbundling and divestiture of NAWEC		0-2 years	Strategic plan for divestiture
	Public investment in transmission and distribution		0-3 years	Increasing capacity of the system to handle 150 MW
	Private investment in generation		0-3 years	More IPPs, increasing capacity to 150 MW
Lower cost and increased coverage of telecoms	Unbundling of GAMTEL, opening competition in fixed lines	Office of the President, PURA	0-1 year	Enactment of telecommunications bill
	More competition in internet service		0-1 year	GAMTEL provides access to internet gateway to competitors
Improved electricity and telecommunications	Increase PURA's power and authority	Office of the President	0-1 year	

Objective	Action to be undertaken	Party responsible	Timing	Performance indicators
Taxation				
Increase tax revenues while lowering rates	Broaden the tax base, increase efficiency of collection	GRA, DOSFEA	0-2 years	Higher revenues without increasing rates or adding new taxes
Simplify the tax system	Consolidate proliferation of special and local taxes	GRA, DOSFEA	0-1 year	Number of taxes reduced
Improve export incentives	Eliminate export tax	DOSFEA	0-1 year	Law on export taxes amended
Speed-up tax dispute settlements	Implement tax tribunal	Office of the President, DOSFEA	0-1 year	Tribunal established
Legal and Judicial System				
Disseminate laws	Publish a compendium of laws and disseminate on internet	Attorney General	0-1 year	E-government website operational
Make legislation business-friendly	Increase consultations with stakeholders	Parliament, Office of the President	0-1 year	Regularized consultation schedule
Upgrade the judiciary	Improve training of judges	Dept of Justice	0-2 years	Courses for judges
	Strengthen the Faculty of Law at the university	DOSFEA, Bar association	0-2 years	More resources from the government and bar association
	Higher salaries for judges and other court personnel	Dept of State for Justice, DOSFEA	0-2 years	More resources from the government
Access to land				
Improve access to land for commercial use	Speed up approval of land use requests	Dept of State for Local Government	0-1 year	Delegation of minister's authority to a land commission.
Improve women's rights to land	Pass legislation establishing women's rights to inherit land	Office of the Vice-President, Attorney General	0-2 years	Legislation approved
Labor Relations				
Speed up resolution of labor disputes	Improve number and functionality of industrial tribunals	Department of state for labor	0-2 years	Tribunals in more areas, with more manpower and financing.

Objective	Action to be undertaken	Party responsible	Timing	Performance indicators
Transport sector				
Improve port performance	Conduct a traffic study to gain better understanding of demand and adjust 2002 port Master Plan and investments accordingly	DoSWCI / GPA	0-1 years	Port Master Plan revised
	Make a preliminary survey of workforce productivity, especially for privately operated stevedores, and recommend improvements	GPA Private partner(s)	0-1 year	Recommendations being enforced
	Complete initial dredging (and conduct maintenance dredging every 5 years)	GPA MARAD	0-1 year	Vessels with 9m draught pass freely
	Carry out the port development program according to GPA yearly plans : a better organization of the rehabilitated stevedoring sheds and of container storage areas, etc	GPA	0-3 years	GPA annual plans being implemented
Make the ferries a self-supporting separate entity	Make an audit of GPA(ferries), examine options for separation from GPA, including privatization, evaluate subsidy needs of smaller ferries, carry out reform	Government DoSWCI	0-2 years	Ferry service separated from GPA
Organize a better management of containers	Study the option of creating a container depot in Barra with barge service from the port on a public-private partnership basis	GPA Private partner(s)	0-2 years	Study completed and decision taken
Promote coastal shipping	Investigate the present tramping practices in the region; identify the traffic flows; compare costs of coastal shipping and trucking; contact potential private partners	GPA DoSWCI Private partner(s)	1-3 years	Study completed and private partners contacted
Develop the regional road network	Rehabilitate and improve roads to Kaolack, Ziguinchor, Tambacounda in partnership with Senegal; coordinate maintenance works; exchange technical and traffic data	DoSWCI Senegal OMVG	3 years	Roads rehabilitated

Objective	**Action to be undertaken**	**Party responsible**	**Timing**	**Performance indicators**
Complete the bridge on the Trans-Gambia Highway	Actualize BCEOM feasibility studies of bridge (ongoing); identify funding for detailed studies; prepare detailed studies; Identify possible private partners	OMVG/ DoSWCI Senegal Private partner(s)	0-2 years	Feasibility and detailed studies completed; private partners identified
	Begin construction of bridge		2-5 years	Construction under way
Facilitate regional transit and access to landlocked countries	Renegotiate “agreement on road transport’” with Senegal to include Basse-Velingara	DoSWCI Senegal ECOWAS National Facilitations Committee	0-1 year	Agreement renegotiated
	Push for implementation of ISRT with creation of appropriate guarantee fund		0-1 year	Guarantee in place and ISRT operational
	Develop joint border posts on Trans-Gambian Hwy		1-5 years	Two joint border posts in place
Increase and secure port hinterland and revive river navigation	Create a “Dry port” up-river : studies on demand, feasibility, river navigation, partnership. Identify potential private partners.	GPA MARAD DoSWCI ECOWAS	0-3 years	Studies conducted
	Prepare a navigation chart of the river			Navigation chart prepared
Update policy	Incorporate in the National Transport Plan 1998-2006 the above proposals if and when they are validated.	DoSWCI	0-1 year	National Transport Plan adjusted

Re-exports

Prevent future border closings	High level dialogue with Senegal, supported by revived Senegalo-Gambia Secretariat	Office of the President, DOSTIE, SGS	immediate	No new border closings
Promote transit trade	High level discussions with Senegal to reopen Basse border crossing for transit trade to Mali	Office of the President, SGS, ECOWAS	0-1 year	Trucks moving through Basse to Mali
	Collaborate with Senegal to move from unofficial re-exports to formal transit trade	DOSTIE, SGS, DOSFEA	0-3 years	Increasing share of transit trade in total imports

Tourism				
Objective	**Actions**	**Party responsible**	**Timing**	**Performance indicators**
Establish long term tourism development policy and program	1. Amend, approve and begin implementation of the Tourism Master Plan (TMP) 2. Conduct detailed, comparative study of all-inclusive policy 3. Recruit resident destination management advisor to develop plan for product development and diversification 4. Conduct a study of regulations governing designated TDAs and amend legislation as required	DOSTC DOSTC, GTA, GHA DOSTC. GTA DOSTC	0-1 year 0-1 year 0-2 years 2-3 years	Key features of TMP approved and implementation begun Policy on all-inclusive packages revised as necessary Phased plan of new product development in place TDA legislation amended as needed
Establish appropriate tourism institutions, and strengthen their capacity	1. Conduct a review of GTA institutional and financial arrangements for marketing, including public-private partnerships 2. Fast track the conversion of the present Hotel School into the National Tourism Training Institute 3. Launch program of in-country and overseas training in tourism administration, development & marketing	DOSTC, GTA DOSTC, DOE DOSTC, DOE	0-1 year 0-2 years 0-3 years	Refocused and properly financed GTA marketing division in place NTTI established with tailor-made campus and facilities, and an extended program of professional and vocational skills training Creation of a cadre of tourism officials capable of managing the administration, development & marketing of tourism
Establish a new image and brand for The Gambia	Recruit a short-term tourism destination marketing expert to prepare and start implementation of a tourism marketing and promotion strategy	DOSTC, GTA	0-1 year	Increased penetration of major tourist markets and broadening of market segments attracted from other main markets
Expansion of charter/scheduled charter air services from major European markets	1.Recruit an international civil aviation expert (short term contract); 2. Form a public-private sector civil aviation delegation to liaise with target airlines and	CAA, DOSTC, GTA, GHA, GTTA and international	0-1 year	New air services and tour programs launched, and existing ones expanded

	operators; 3. Devise a professional package of information and support; 4. Present to target airlines and operators	civil aviation expert		
Improve existing tourism facilities and amenities in The Gambia	1. Complete and implement the proposed hotel classification scheme 2. Accelerate program of hotel/resort upgrading to the level of 3+ stars 3. Prepare and implement regulatory, classification and licensing scheme	DOSTC/GTA/ GHA, private sector	0-1 year 0-2 year 0-2 years	Increased supply of tourist accommodation and other operations of international standard level, including full licensing and classification
Upgrade and expand tourist attractions and facilities	1. Clean up and improved presentation of key sites of natural and cultural interest e.g. Georgetown slave fort, James Island. 2. Establish roster of troupes and performers of traditional Gambian music and dance	Different government agencies, private sector	0-2 years	Main excursion sites attracting greater volumes of visitors; and increased performances at resorts and other venues of traditional Gambian music and dance
Product development geared to the attraction of new tourist market segments	1. Provide selected incentives for fixed facility developments related to natural and cultural resources along the river and inland 2. Improve road and river transport infrastructure and facilities	DOSTC, DOSFEA, NEA, private sector, DOT	1-2 years	Eco- and geo-tourism developments established
Strengthen linkages between local producers and the tourism industry	Establish a multi-year program of support for the Gambia is Good and ASSET schemes enabling them to expand their operations and increase linkages with the tourism sector	DOSTC, GTA	0-3 years	Increased and improved linkages between Gambian producers and supplies and local tourism businesses
Sensitization of young Gambians about the importance of tourism	Introduce tourism into the curriculum of junior schools	DOE, DOSTC, GTA	0-2 years	Increased awareness of the importance of tourism and the alternatives to ‘bumsterism’
Eliminate the problem of oil spills into the river	Study into the scale and causes of the oil spills, with recommendation on remedial actions required	NEA, GTA, NEWAC	1-2 years	Elimination of the oil spills and subsequent removal of dangers for the river’s bird and marine life

Agriculture				
Objective	**Action Needed**	**Party Responsible**	**Timing**	**Performance Indicators**
Revive the **groundnuts** sub-sector	Implement the road map for the rehabilitation and privatization of industrial assets and accompanying measures	DOSA, DOSTIE, DOSFEA	0-5 years	Commercial purchases reach 50,000 mt., industrial assets owned and operated by several competent strategic investors.
Restructure **cotton** sub-sector	Negotiate agreement with stakeholders on restructuring to focus on seed production	DOSTIE, DOSA with COGA, Dagris,	0-4 months	MOU signed
	Prepare and approve restructuring roadmap Implement roadmap		0-1 years 1-5 years	Roadmap approved
	Strengthen research capacity to support seed production	NARI	0-2 years	NARI has two agronomists working on seed production for export crops
	Establish a new inter-professional association for seed production	DOSA, NGO	0-2 years	Association up and running
Promote **horticulture** sales	Facilitate duty free import of inputs required for exports or investment to expand scale	GRA, GIPFZA	0-1 year	Exporters satisfied with process
	Promote increased air service and encourage cooperation between tourism and horticulture enterprises	GCAA, DOTC, DOSTIE	0-2 years	Increased horticulture exports by air
	Encourage import substitution by hotels and restaurants	GTA, GiG, DOSTIE	0-3 years	Share of imported fruit and vegetables reduced
	Release under-developed land suitable for large-scale commercial farms, and promote out-grower schemes	GIPFZA	0-5 years	2 major new investments in agriculture launched Radville and one other outgrower scheme operating well
Increase **sesame** exports	Hire TA to redefine role of NAWFA to focus on production, and coordination with private traders	DOSTIE, NAWFA	0-1 year	NAWFA sesame strategy designed; buyers negotiate directly with producer association
	Provide cleaning & bagging facilities at producer organization level			Value addition at producer organization level

Increase **cashew** exports	Recognize cashew as second national cash crop	DOSA, DOSTIE	0-4 months	Clear statement of government policy supporting cashew exports
	Confirm policy of non-intervention by government in marketing and input supply	DOSTIE	0-4 months	Private traders operating freely and expanding activities
Cross-cutting agricultural measures				
Clarify agricultural marketing policy	Define roles of ministries and agencies in support of private sector leadership; establish public-private coordinating committee	DOSTIE, DOSA, NADA, private sector	0-6 months	Clear statement of policy recognizing primacy of private traders; committee established
Increase input use	Promote private sector distribution of inputs, linked with a credit program.	DOSA/NARI/ Private Sector	0-5 years	Increased private sector sales of inputs
Improve extension	Support cashew and sesame associations with matching grant scheme to maintain services such as extension	NARI / NADA/ sub-sector associations	Immediate	Cashew and sesame associations active and effective in service provision
	Develop an efficient extension service through farmer field schools		Immediate	10 FFS providing extension services for export crops
Increase financing	Supplement pre-financing from exporters as output grows	DOSTIE, commercial banks	0-3 years	Fund for short-term finance established
Reduce post-harvest losses	Survey, design, construct and plan for the management of stores in cashew/sesame areas	DOSA/NGO	0-5 years	Number of stores in place
Improve marketing	Promote private sector role and avoid government intervention	NADA, DOSTIE	Immediate	No complaints of competition from public sector
	Adapt priorities for road improvement to reflect agriculture diversification options	GRTA	0-5 years	150 km. of rural roads improved
	Develop container terminal.	GPA	0-5 years	Container terminal in place
Increase export prices	Eliminate export taxes and scanning of export containers	DOSFEA, GRA	0-6 months	Decree issued
	Support foreign buyers seeking to establish in The Gambia	DOSTIE	0-5 years	Number of buyers active in the market
		NARI	0-10 years	Appropriate quarantine and pest and disease monitoring services.

Fisheries

Objective	Action to be undertaken	Party responsible	Timing	Performance indicators
Negotiate a new bilateral fisheries agreement with Senegal	Collect and study existing fisheries agreements	DoF, DoSFEA, Office of the President	0-1 year	Negotiating team in place, study tours conducted, minimum requirements identified, negotiating strategy outlined
	Conduct study tour to Morocco, Namibia and/or Mauritius on negotiating strategy			
	Train negotiating team			
	Seek political support from neighboring countries and donors			
	Define requirements for research program			
	Define responsibilities of proposed Joint Management Committee			
	Define procedures for joint preparation of annual management plans and monitoring, control and surveillance			
	Negotiate the new agreement		1-2 years	New bilateral agreement signed, JMC appointed.
	Reach agreement with CSRP and CRODT on implementation arrangements	DoF		
	Appoint JMC members and ensure financial support for operations			
Strengthen monitoring, control and surveillance	Identify priority actions for an effective MCS system covering industrial and artisanal fisheries.	DoF, Dept. of Defense	0-1 year	Report on priority actions prepared
	Allocate larger share of revenues from fines and licenses to cover MCS expenses, and increase budget allocations	DOSFEA		Available financing increased
	Formalize institutional arrangements for managing national MCS efforts.	DOSFEA, DoF, Defense, GRA		Coordination arrangements in place
Adjust vessel licensing policy	Test short term licensing policy based on average rates in the sub-region	DoF, DoSFEA	0-1 year	5-10 shrimp trawlers and < 20 cephalopod trawlers licensed

	Initiate program to register artisanal fishing boats			TA conducted to define program
	Prepare revised fishing vessel licensing policy reflecting the new bilateral agreement		1-2 years	New policy in place
Improve sanitary standards	Strengthen sanitary inspections, provide regular demonstrations of improved fish handling, and strengthen operations of the DoF sanitary control laboratory	DoF	0-1 year	More frequent inspections; better facilities and services at laboratory
	Develop plan to introduce basic services and infrastructure at fish landing places	DoF	1-2 years	Plan in place and being implemented
Improve energy efficiency	Introduce a voluntary energy audit as part of future fish processing plant licenses	DoF	0-1 year	Licensing policy adapted
	Arrange funding for energy audits of existing plants and training of local staff			Energy audits conducted
	Request outboard engine importers to demonstrate kerosene outboard engines.			5 private sector demonstrations made
	Expand program to introduce improved smoking kilns		1-2 years	5 improved smoking kilns in operation
Improve export incentives	Reduce or eliminate current export tax on fish exports without Letter of Credit	DoSFEA	1-2 years	Export tax reduced or eliminated
Develop a medium-term action plan for the fisheries sector	Review the results of the actions already undertaken	DoF, private sector	2-3 years	Final action plan approved and being implemented
	Organize a stakeholder workshop to discuss results and develop an action matrix for the next 5 years.			
	Present the final action plan to government for approval and implementation.			

1 THE GAMBIA: TOURIST HAVEN, GATEWAY TO THE SUB-REGION, AND MORE?

POLITICAL AND SOCIAL SETTING[2]

62. The Gambia is the smallest country in continental Africa, situated in West Africa along the Gambia River, completely surrounded by Senegal except for a 60 km border on the Atlantic Ocean (see maps). The Gambia has a population of 1.4 million, of which an estimated 400,000 are Senegalese. Another half million Gambians reside abroad, many of them in Senegal.

63. Even more than for most African countries, The Gambia's situation as a very small English-speaking enclave within francophone Senegal reflects the accidents of colonial history. The British took control of a sliver of territory running along the Gambia River at the end of the 19th century. The British colonialists understood the benefits of the strategic location of The Gambia as a potential gateway to West Africa. For decades, The Gambia has served as a regional entrepot, using the river as a transportation link to the hinterland. Relatively open trade policies and limited administrative barriers reinforced The Gambia's position as a trading center over time. Recently, however, this position has been challenged due to a combination of erratic policies in The Gambia, tensions with Senegal, and reduced trade barriers and improved trade facilitation in neighboring countries as the latter seek to garner a larger share of regional trade.

64. For three decades following independence from the UK in 1965, the Gambia was led by President Dawda Jawara. A military coup by Yahya Jammeh in 1994, together with the devaluation of the CFA franc in neighboring francophone countries that same year, led to a dramatic downturn in the economy. Subsequent constitutional and presidential elections have restored political stability, and economic growth has resumed. President Jammeh and the Alliance for Patriotic Reorientation and Construction (APRC) have remained in power. President Jammeh was re-elected in September 2006 by a large margin; legislative elections are scheduled in 2007.

65. The country has made considerable progress in restoring its image of peace and stability following the 1994 coup, but concerns about governance remain. The Gambia's recent suspension from the United States Millennium Challenge Account (MCA) on account of alleged human rights abuses, political repression, and worsening corruption, sends a negative signal to investors. Some tourist guidebooks also note the increasing political repression with concern. The Gambia's score on Transparency International's Corruption Perception Index in 2006 is a low 2.5 out of 10, a ranking of 121st out of 163 countries, marking a slight deterioration from the 2.8 and 2.7 scores in 2004 and 2005, respectively. The frequent reshuffling of high-level officials in government departments is likely to hamper the effectiveness of economic policy implementation and may shake investor confidence.

66. The Gambia's unusual geographic situation makes cooperation with Senegal imperative, for the re-export trade and for a variety of other economic issues of mutual concern. Although divided by colonial history, the two countries have much in common in terms of culture, peoples,

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[2] This section draws on EIU (2002, 2006), WTO (2004), USITC (2004), IMF (2006).

economic structures and even language. Yet relations with its larger and more populated neighbor have not always been smooth for The Gambia. (Box 1.1)

Figure 1.1: Map of The Gambia

Figure 1.2: Map of Region and Senegal

Box 1.1: The ups and downs of relations with Senegal

Given The Gambia's positioning within Senegal, economic and political integration has been considered by the authorities in both countries. In 1963, prior to The Gambia's independence in 1965, the interim government of The Gambia and Senegal requested assistance from the United Nations in determining a suitable relation between the two countries, resulting in the Van Mook study of 1964 presenting various options for confederation. Between 1965 and 1982 some thirty treaties were signed between the two countries. But closer ties were always frustrated by the Gambian authorities' reticence to be controlled by Senegal as well as Senegalese irritation at The Gambia's growing role in unofficial trade. Senegalese incursions into The Gambia to curb this trade lead to a number of border disputes. Moreover, ongoing concern that The Gambia provides alleged support to the rebels of Senegal's southern Casamance region has been a continuing source of friction.

In an attempt at unification, the Gambia and Senegal formed the federation of Senegambia between 1982 and 1989, following the Senegalese military intervention in 1981 to restore President Jawara to power after he was overthrown by a coup d'état while abroad. The Senegambia treaty envisioned an eventual economic and monetary union as part of a deep integration process, and the Senegalo-Gambia Secretariat was established. However, little progress was made in this and other areas, for the reasons noted above, and the federation was dissolved in 1990. In 1991, the two countries agreed to a less binding friendship and cooperation treaty.

Although co-operation takes place on a number of fronts, the relationship remains erratic, and tensions tend to recur over issues relating to cross border traffic. Most recently in August 2005, The Gambia doubled the fee on ferry crossings over the River Gambia on the main road to the Casamance to cover the cost of higher oil prices, prompting a hostile response from Senegal, including a blockade of The Gambia's border posts by Senegalese truck drivers and a slowdown of Gambia-bound freight passing through the port of Dakar. Although the increased fee could be justified as simply passing on higher costs of fuel for the ferries, the decision was taken without consultation with Senegal, contravening a protocol to this effect. Some Gambians claim that the Senegalese used this incident as a pretext for adopting wider measures to impede trade. The Economic Community of West African States deemed the situation serious enough to appoint the Nigerian president Obasanjo as mediator in the dispute. Although the conflict over the ferry was resolved after The Gambia rescinded the fee hikes in October 2005, simmering tensions in relations between The Gambia and Senegal remain.

67. The Gambia could benefit greatly from improved relations with Senegal. The Government should actively pursue its recent proposal to revive the Senegalo-Gambia Secretariat which served this function for the duration of the Senegambia federation. A "grand bargain" between the two countries could include the following issues of mutual concern:

- A bridge over the Gambia River, as sought by Senegal (see Chapter 6).
- Joint efforts to reduce unofficial re-exports, while promoting legitimate transit trade through:
    - Respect of ECOWAS regional transit accords (Chapter 7);
    - Improved highways linking the two countries (Chapter 6).
- Renegotiation of the lopsided fishing accord so that The Gambia benefits more from shared fish resources (Chapter 11).
- Cooperation in other sectors of crucial importance to both countries, notably groundnuts (Chapter 9), other agriculture (Chapter 10), and tourism (Chapter 8).

68. The Gambia is among the poorest countries of the world, ranking 156th out of 177 countries in the 2005 UNDP Human Development Index (HDI). The overall poverty rate in 2003 was estimated at 58 percent,[3] with rural poverty slightly exceeding urban poverty rates, except in Banjul where the rate is much lower at (a somewhat surprising) 10.6 percent. Table 1.1 compares selected economic and social indicators in The Gambia to those of a few other coastal small countries in West Africa.[4] The Gambia's per capita GDP measured at purchasing power parity (PPP) is higher than most of the others shown in Table 1.1, but literacy is low by regional standards.

Table 1.1: Development Indicators for The Gambia and Comparator West African Countries, 2004

	Gambia	Benin	Ghana	Senegal	Togo
Per capita GDP at PPP (US $)	1830	1003	2058	1574	1412
Life expectancy, male (years)	55	54	57	55	53
Life expectancy, female (years)	58	55	58	57	57
Adult literacy rate, male (percent)	32	38	70	38	60
Adult literacy rate, female (percent)	20	15	47	19	29
Inflation rate (CPI, percent)	14.2	0.9	12.6	0.5	0.4
Real GDP growth rate, 1997-2004 average	4.7	4.8	4.6	4.4	2.9
Exports of goods and services, % of GDP	42.4	15.1	34.5	27.8	33.5
Imports of goods and services, % of GDP	52.1	26.4	54.4	40.5	47.0
Foreign Aid (% of GNI)	16.0	9.3	15.4	13.9	3.0

Source: World Development Indicators

ECONOMIC STRUCTURE

69. Even more than most other West African countries, the Gambia's economy is undiversified and limited by a tiny internal market, and poverty is pervasive. The Gambia faces some of the usual array of daunting problems confronting Sub-Saharan Africa: inadequate infrastructure (energy, transport, and telecommunications), and deficiencies in the business climate (high and erratic taxation, weak judiciary system, high real interest rates and lack of access to credit). Yet The Gambia also has considerable strengths: the closest English-speaking African country to Western Europe, social harmony, improving political stability, progress in macroeconomic stabilization, a pleasant climate, and an unusually efficient port.

70. Services account for over 50 percent of GDP, reflecting the importance of re-export trade and tourism. Agriculture accounts for about a third of GDP but more than 70 percent of employment. The country has no significant industry except for groundnut and fish processing and the manufacturing sector is undeveloped, providing only 5 percent of GDP.

71. The Gambia has high export and import ratios to GDP, but as much as 90 percent of exports consist of re-exports to the sub-region. Its role as an entrepôt blossomed in the early 1990s, as The Gambia liberalized trade and improved its port and customs to a greater extent than

[3] This estimate is based on the "upper poverty line" in the 2003 household survey.
[4] The recent comprehensive African Economic Research Consortium (AERC) study of African economies categorizes Africa in coastal and land-locked countries, as well as resource-rich and resource-poor. See Collier, Gunning, O'Connell and Ndulu (2006).

its neighbors. The Gambia's ambition to serve as a regional service hub, however, is subject to external and internal challenges. Surrounded as it is by Senegal, The Gambia's links to the wider region are dependent on Senegal's cooperation. Senegal itself aspires to divert more regional trade flows through the port of Dakar and relations between the two countries are often tense. While the port of Banjul functions well, river transport has been neglected. With regional integration in West Africa eliminating many of the differences in trade policies, the effectiveness of trade facilitation, transport infrastructure, and the quality of the business climate are increasingly decisive in the competition to serve transit trade. At the same time, it is dangerous for the country to rely too heavily on re-exports, especially since these are largely unofficial.

72. Groundnuts are the dominant cash crop, typically representing about 70 percent of other merchandise exports, although production and exports have been quite volatile recently. Soil and climatic conditions are favorable for groundnut cultivation in The Gambia, and farmers have substantial experience in growing the crop, but the sector confronts severe domestic and international challenges which are reaching a crisis point (see Chapter 9). Gambian ocean waters are part of a fishery which has traditionally been one of the richest in the world, but the fishing industry is also undergoing a crisis (Chapter 11). Horticulture, sesame and cashew nuts are promising areas of export diversification but so far progress has been limited (Chapter 10). Tourism has been the most dynamic sector and is easily the country's most significant foreign exchange earner (Chapter 8). Although difficult to measure precisely, the re-export business is probably the country's second most important activity in terms of GDP and possibly the biggest generator of fiscal revenue (Chapter 7). The transport sector, which plays a critical role in the success of the re-export business, is examined in Chapter 6. The nascent clothing export industry is covered, along with trade institutions, in Chapter 5.

73. The dominant roles of tourism and re-exports emerge from the first column of Table 1.2. In order to improve the comparability of these very different exports, we have provided some rough estimates of net exports after accounting for imported inputs (so-called "leakages"). We have also taken averages for the last few years, and dropped atypical years. After these corrections (and the likely margin of error), the relative importance of the different sectors becomes clearer – tourism is decidedly the single most important export sector.

Table 1.2: The Main Exports of The Gambia (US$ mil.)

Sector (years given)	**Gross Foreign Exchange Earnings**	**Net Foreign Exchange Earnings**
Tourism (2005)	100	50-55
Re-exports (2004-05)	137	25-30
Groundnut products (2004-06)	12.0	10.0
Cashews (2005/6)	1.9	1.7
Fruit and vegetables (2003-05)	0.9	0.8
Sesame (2005/6)	0.6	0.5
Fish products (2003-05)	0.5	0.4
Total	250.7	87-97

Source: Mitchell and Fall (tourism), DOSTIE, and authors' estimates.

TRADE, GROWTH AND POVERTY REDUCTION

74. The Gambia's longer term policy objectives are sketched in the ambitious Vision 2020 document which aims to transform the country into "*…a tourist paradise, a trading export oriented agricultural and manufacturing nation, thriving on free market policies and a vibrant private sector…*". The role of trade is thus front and center in this vision.

75. The new Poverty Reduction Strategy Paper (PRSP) for 2007-2011 has considerably increased attention to economic growth and trade relative to the previous strategy, with rather specific discussions of some key export sectors, such as tourism and fishing. However, there is room for improvement, notably in the treatment of groundnuts, re-exports, and the identification of specific export targets. A clearer statement of the central role played by exports in promoting growth would also be helpful.

76. Only the very largest countries can rely predominantly on their internal markets to create growth and wealth. Even countries like China and India have turned to the still greater opportunities in the world market to drive their development. Smaller countries must inevitably generate a large share of their GDP from external trade, and The Gambia is a very small country. Its authorities have long ago understood this fact of life and, consequently, they have maintained a relatively open economy. Exports of goods and services from The Gambia are equivalent to roughly 45percent of GDP.

77. This figure for total exports is somewhat deceptive as it includes a lot of re-exports. Before comparing with other countries, it is necessary to correct for the disproportionate role of re-exports which are a rather uniquely Gambian phenomenon. Using the figure for net foreign exchange earnings from Table 1.2 (generously estimated at 20 percent of total re-exports), the ratio of exports of goods and services to GDP would be closer to 30 percent.[5] As summarized in Table 1.3, this is better than some West African countries, but considerably worse than some of the best performing small states in other parts of the world, such as Barbados and Mauritius. The Gambia needs to raise and diversify domestically-produced exports in order to raise the rate of economic growth, enlarge the available pie, and stimulate various demands for the goods and services offered by the poor.

[5] This is admittedly a very rough and somewhat inappropriate correction, as other export values include imported inputs, but these generally account for a much smaller share of total value.

78. Exports can also contribute directly to poverty reduction in a variety of ways, notably through employment, either by the creation of better jobs, through fuller employment in current jobs, or through higher prices for one's output. In particular, export opportunities encourage productive investment by the private and public sectors which might not otherwise take place, and this in turn generates employment.

Table 1.3: Exports/GDP 2004-5 (%)	
Barbados	58
Mauritius	57
Costa Rica	48
Côte d'Ivoire	44
Ghana	38
WAEMU	31
The Gambia	**30**
Senegal	28
Guinea	23

Source: World Bank; author's calculations

79. Tourism is a case in point. While there continues to be a debate in some quarters about the economic impact of tourism in The Gambia (and elsewhere), there should be no doubt as to the critical role played by this sector. This sector has attracted a lot of investment, much of which would not have occurred otherwise. As summarized in Chapter 1, tourism's net foreign exchange earnings – after deducting imported inputs and other payments abroad – are probably in the order of US$50 million. This is larger than all other exports combined. Of this, it has been estimated that some US$14 million goes directly to the poor, or rather the poor and some who would be poor if not for tourism.[6] This includes non-managerial hotel staff, local wholesale purchases of food, souvenirs and gifts purchased from the informal sector, informal sector excursions and local taxis. This is a conservative estimate as the US$36 million accruing to the non-poor undoubtedly has some positive indirect impact on the poor, including employees in modern sector firms supplying the tourism industry, as well as the multiplier effects of expenditures by the non-poor on local goods and services.

80. Hotels generate more than 4000 jobs, or 2700 in equivalent full-time jobs.[7] To this can probably be added a similar amount of direct employment (in restaurants, excursions, taxis, shopping) and another 3000 indirect jobs with suppliers.[8] Thus total formal and informal employment is in the order of 10,000 which compares with total formal, private sector employment of 22,000.[9] It has been estimated that food purchases by hotels alone benefit some 2600 rural households.

81. Jobs in tourism are also relatively well paying. The average monthly earnings of a hotel worker, including tips, have been estimated at Dalasi 5,000, or Dalasi 30,000 even for a half-year job.[10] Income from informal sector jobs in the tourism sector is of the same order of magnitude. In contrast, the typical groundnut farmer earns only about Dalasi 5000 per year from one hectare

[6] These figures are from the ODI report, *The Gambian Tourist Value Chain and Prospects for Pro-Poor Tourism*, 2006.

[7] Ibid. This report only provides the estimate for full-time equivalent jobs, but we assume that the total number of part-time jobs is closer to 4000.

[8] Based on various studies of developing country tourism, one can safely assume that for each hotel job there is at least one other job generated in other segments of the tourism industry, and a third job supported through backward linkages. English, 1986.

[9] The total employment figure for tourism is given in the Poverty Reduction Strategy for The Gambia, and is consistent with our rule of thumb in the previous footnote. A higher figure is provided in the Tourism Master plan, but it seems overly optimistic.

[10] Mitchell and Fall, 2006.

of output sold for export.[11] Poverty in the trade, hotel and restaurant sector is estimated at 48.8 percent, which is still high but below the national average and one of the lowest across sectors of employment (see Table 1.4).

Table 1.4: Poverty by sector of employment of household head

Industry	**% below poverty line**
Agriculture and fishing	76.4
Manufacturing and energy	50.0
Construction	63.6
Trade, hotels and restaurants	48.8
Transport and communication	52.4
Private and public financial admin.	49.2
Social and personal service	45.4
Not stated	53.5
Overall Average	**57.9**

Source: Muller, 2006.

82. The US$14 million going directly to the poor from tourism is roughly equal to the total net earnings from all agricultural and fish exports combined, of which not all accrues to the poor. In 2006, the 30,000 tons of commercial purchases of groundnuts pumped an estimated US$8.2 million into farm households – and this is at the subsidized reference price.[12] Although a detailed analysis has not been possible, it seems quite certain that tourism has required less public support than groundnuts over the last ten years.

83. However, revitalization of the groundnut sector has the greatest potential to alleviate poverty. The share of households engaged in groundnuts is variously estimated at between 63 and 80 percent of the 82,000 rural households.[13] Of these, 76 percent are estimated to be poor, as compared to a national average of 58 percent.[14] This is not surprising as rural poverty is always higher than urban poverty in Africa, and groundnut households are virtually synonymous with rural households in The Gambia. While a significant amount of groundnut production is consumed within the household or sold on the local market, the opportunity to sell for export offers a larger market and better prices. Exports permits fuller employment of household labor and land, and create some temporary jobs for farmer labor. The option to export groundnuts, although at present depressed, can boost farmer incomes substantially.

[11] The producer price in 2005 was D8200 per tonne, and the average production on one hectare was 0.9 tonnes. Deducting seed costs, and assuming no fertilizer use, net returns to labor (including hired labor if necessary) would be just under D7000. We assume that the typical farmer only produces one hectare of groundnuts for commercial sale. Author's calculations based on World Bank (2006).

[12] Author's calculations based on data in World Bank (2006).

[13] National Integrated Household Survey 2002-03 gives the lower estimate; DOSFEA, Poverty Reduction Strategy 2007-2011, 2006 gives the higher one.

[14] Muller, 2006.

84. Surprisingly, the level of poverty for rural households engaged in other agriculture or fishing is the same as or lower than that of groundnut producers.[15] Normally export crop households have higher incomes than food crop producers thanks to the higher value of their output. This is true of coffee farmers in Uganda, cocoa farmers in Ghana and cotton farmers in Burkina Faso. The dire state of the groundnut sector in The Gambia explains this discrepancy. As discussed in Chapter 9, groundnut exports have plummeted due to the mismanagement of the sector, with low yields and output, and discounted prices due to poor quality. Poverty has probably increased further following the disastrous results of the 2006-07 groundnut season.

85. The mediocre results of the groundnut sector suggest that some marginal farmers would be better off if they switched to alternative cash crops. The most interesting possibility identified in Chapter 10 is cashew nuts. Gross annual revenues per hectare would likely exceed Dalasi 8000, with most costs being labor inputs (hence rural incomes) once the trees are planted. Present production is only about 4000 tons, but it is estimated that already some 21,000 households have planted trees. As these trees mature, and plantings expand, exports could provide significant net income to 30,000 households, or more than one-third of all farm households. Net additional annual revenues per household would likely be 50 percent higher than for groundnut farmers.

Table 1.5: Additional earnings from potential export growth 2005-2015*

	Increase in exports	**Gross earnings**	**Net earnings**	**Households benefiting**	**Yearly earnings / household**
Cashew nuts	26,000 mt.	$14 mil.	$12 mil.	30,000	D 7,500
Groundnuts	50,000 mt.	$24 mil.	$19 mil.	50,000	D 5,000
Tourism arrivals	100,000 arrivals	$100 mil.	$50 mil.	10,000	D 30,000

* Net earnings are assumed to be 80 percent of gross earnings for groundnuts and 90% for cashew. The producer's share of the fob cashew price ($475/mt) is estimated at 73%. Groundnut producer price is taken as D5000/mt ($180) without price support. Both cashew and groundnut production are assumed to be spread out on the basis of one hectare per household, with yields of 850 kg/ha for cashew and 1.0 mt/ha. for groundnuts. Yearly earnings per household are net of input costs assumed to be 10% of gross revenues.
Source: Authors' calculations

86. Table 1.5 summarizes very rough estimates of additional foreign exchange receipts and producer incomes generated and the number of households affected if the recommendations adopted by this study are implemented. Over the next ten years, cashew exports could grow to 30,000 tons, while commercial purchases of groundnuts could reach 80,000 tons (from an average of 30,000 tons in 2004/5 and 2005/6). Tourism arrivals could double to reach 200,000 by 2015.

[15] Muller (2006) gives the same estimate (76%) for groundnut farmers and for all agricultural and fishing households. The National Integrated Household Survey 2002/3 estimates poverty among groundnut farmers at 83% compared to 67% for other farmers, but this may be explained by the fact that 2002/03 was a very bad year for groundnuts. The upper poverty line is used in both cases.

Tourism provides relatively fewer jobs, but probably pays well enough to lift many of its employees above the poverty line. Cashew nuts and especially groundnuts will have a more modest impact on earnings per worker but for a much larger number of people. As a complement to food production, they may pull many farmers out of poverty. Tourism has a higher import content, and hence a greater difference between gross and net earnings; some measures are possible to reduce these so-called leakages, which would further enhance tourism's impact on poverty reduction.

87. Tourism plays a major role in poverty reduction in The Gambia, both indirectly through its contribution to growth, and directly through purchases of labor and goods from the poor. Estimated net foreign exchange earnings of about US$50 million far exceed those of any other sector. Even the direct payments to the poor exceed total gross payments from groundnuts in most recent years. This sector also has the most potential for further growth. The challenge now is to exploit this opportunity in a sustainable manner, promoting even stronger linkages to the poor in a way which makes sense for the industry.

88. No solid analysis exists on the impact of re-exports, but the total value-added is probably greater than in groundnuts. Much of this is consumed by trucks and fuel, but the impact on employment in the transport sector is undoubtedly significant. The potential for further growth is however limited.

89. The groundnuts sub-sector continues to involve the largest number of poor, accounting for over half of all those living in extreme poverty in The Gambia. Any poverty reduction strategy must start by preventing increased poverty through the collapse of the sector, and then by improving the incomes of groundnut producers. The current crisis is not related to the comparative advantage of the country for groundnuts, the shortcomings of farmers, or international market conditions, but rather to the mismanagement of the sector, a factor very much under the control of the government.

90. Nonetheless, for some farmers groundnuts are a marginal activity and better options exist. Nor is it wise for a country to be too dependent on any one commodity. Horticulture, sesame and especially cashew nuts represent viable alternatives which should be promoted as quickly as possible. These crops would benefit more people than all those engaged in tourism related activities – and significantly more of the poor – even if tourism should double in size. Most of the poor are rural, and new opportunities must be found for them.

2 MACROECONOMIC POLICIES AND PERFORMANCE

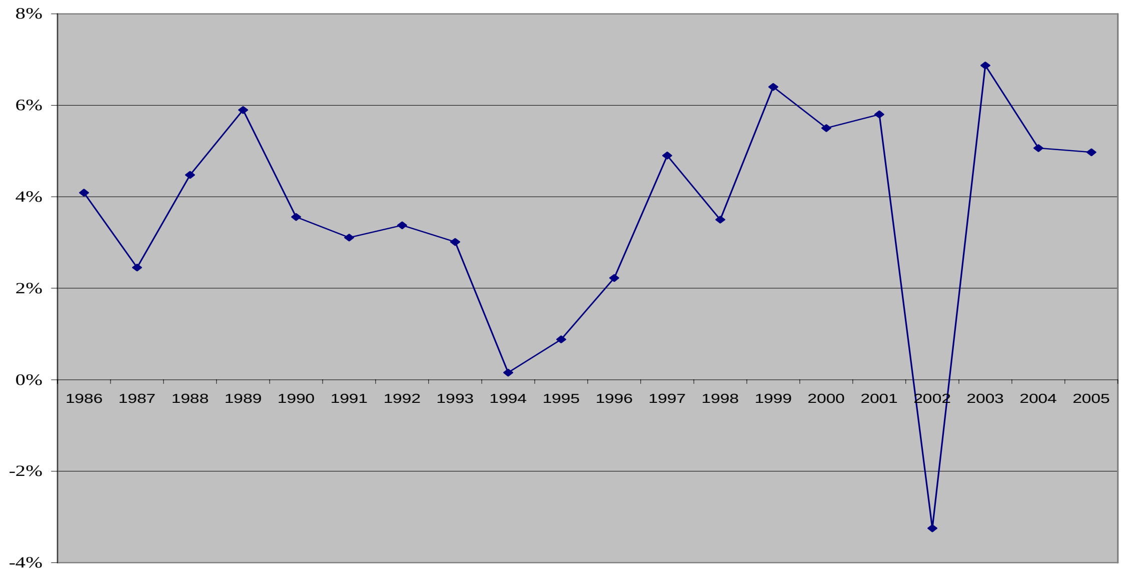
RECENT ECONOMIC PERFORMANCE

91. The Gambia has taken some important steps towards macroeconomic stability since 2003, with progress in controlling the fiscal deficit, curtailing money growth and inflation, and improving transparency of fiscal and monetary accounts. The IMF has approved a new Poverty Reduction and Growth Facility (PRGF), now that the conditions that derailed the previous PRGF in 2002 have largely been addressed. Nevertheless, the authorities have yet to definitely break with the "stop and go" policies of the past decade, and the economic situation remains fragile, in particular because of high levels of domestic and foreign debt, high domestic interest rates, and the associated heavy debt-servicing burden. Shifting the policy mix towards tighter fiscal policy and easier monetary policy could help bring down real interest rates. Continued efforts to control spending and raise revenues are necessary to lower the public debt and reduce real interest rates.

92. Like many African countries, The Gambia experienced a severe economic crisis in the mid 1980s due primarily to the cumulative effects of two decades of unsustainable macroeconomic policies, an overvalued exchange rate, price controls and a general over-expansion of the public sector, along with droughts and terms of trade deterioration. Reforms in the 1985 to 1993 period under the Economic Recovery Program led to significant improvements despite continued poor rainfall and low world groundnut prices (World Bank 2003). The re-export trade boomed during this period, as The Gambia's trade regime became one of the most liberal in Africa and its port and customs were more efficient than those of other countries of the region. In 1993-96, a series of adverse shocks set back The Gambian economy: reinforced border and transit controls in Senegal, the suspension of convertibility of CFA francs outside the CFA zone, followed by the 50 percent devaluation of the CFA franc in 1994, and the fall-off of foreign aid and tourism in the aftermath of the 1994 military coup.

93. The restoration of political stability and legitimacy following elections in 1997 and 2001 and renewed commitment to improving economic policies led to a resumption of economic growth, with output rising at around 6 percent annually in 1998-2001 (Figure 1). With population growing at just under 3 percent, per capita income rose about 3 percent per year. Nevertheless, policies continued to be characterized by a "stop and go" commitment to stabilization and structural reform, resulting in bouts of instability and inflation. Fiscal slippages and monetary accommodation led to a burst of inflation in 2001-03, and the resulting instability and a drought contributed to a drop in output in 2002. Since 2003, however, fiscal policy has become more prudent and monetary policy very tight. Growth has returned, averaging about 6.4 percent over 2003-2006, despite unfavorable terms of trade. Inflation fell to about 2 percent in 2006 from 15 percent in 2003-04. This progress remains fragile, however, as The Gambian authorities have to contend with high levels of foreign and domestic debt, severely constraining macroeconomic policy options.

Figure 2.1: Growth of Real GDP 1986-2005



Source: World Bank, World Development Indicators.

FISCAL POLICY[16]

94. From 1994 to 2001, large budget deficits led to an upward trend in foreign and domestic debt. After decreasing in 2002 and 2003, the domestic debt grew again in 2004-2005, due mostly to monetary rather than fiscal policies this time, as the central bank sought to sterilize the effects of capital inflows on money growth. The domestic debt as a ratio to GDP was 36 percent in 2005, far above the average for Sub-Saharan Africa, and up from 12.3 percent in 1994. Although smaller than the foreign debt (at 138 percent of GDP in 2005), the domestic debt buildup is much more significant because of a much higher servicing burden. While foreign borrowing is on highly concessional terms, domestic debt carries very high interest rates. Interest payments on the domestic and foreign public debt were respectively 6.8 and 1.8 percent of GDP in 2005.

95. The Gambia is seeking to lower its external debt by completing the Heavily Indebted Poor Country (HIPC) process and then acceding to the enhanced HIPC and Multilateral Debt Relief Initiative (MRDI), which should substantially reduce foreign but not domestic debt. This is conditional on satisfactory macroeconomic performance under the Poverty Reduction and Growth Facility with the IMF, as discussed below. The savings from relief of foreign debt could be used to pay down the domestic debt.

96. The large domestic debt accumulated over the last decade is an albatross for The Gambian economy in a number of respects:

[16] This section is based on IMF (2006a), IMF (2006b), World Bank (2006).

1) The rising stock of Treasury bills pushes up interest rates, while the rising interest rates in turn raise the deficit, creating a vicious circle that is difficult to escape.
2) The Treasury bills are mostly held by a limited number of institutions, the Social Security and Housing Finance Corporation (SSHFC) and the commercial banks, such that the market has limited depth, exposing the entire financial system to systemic risk in the event of a loss of confidence in the government's finances. (World Bank 2003)
3) The government debt crowds out private sector borrowers as banks can sit back and earn good returns simply by holding Treasury bills carrying high interest rates.
4) The high debt-servicing requirements imposes a fiscal squeeze on public finances, forcing the government to reduce development spending and/or raise taxes, adversely affecting the private sector.
5) Unlike for the foreign debt, debt relief is not an option for domestic debt.

Table 2.1: Government revenues, expenditures, and budget balance

(% of GDP)

	2003 Actual	2004 Actual	2005 Budget	2005 Actual	2006 Budget
Revenue and grants	18.2	25.5	23.3	21.4	23.1
Domestic revenue	15.7	20.9	21.4	19.8	21.8
Tax revenue	13.8	18.6	18.3	17.2	19.5
Direct tax	4.4	5.0	5.1	5.2	5.1
Domestic sales tax	2.1	2.4	2.5	2.8	4.0
Tax on international trade	7.3	11.2	10.6	9.2	10.4
Non-tax revenue	1.9	2.3	3.1	2.6	2.3
Grants	2.5	4.5	1.9	1.7	1.3
Expenditures and net lending	22.9	31.2	28.0	30.1	26.1
Current expenditures	17.0	16.9	18.4	18.3	17.4
Wages and salaries	4.5	4.3	4.2	4.2	4.8
Other charges	5.9	4.9	6.9	5.5	5.9
Interest	6.1	7.2	7.2	8.6	6.7
External	1.6	1.9	1.7	1.8	1.7
Domestic	4.4	5.3	5.5	6.8	5.0
HIPC expenditures	0.5	0.6	0.1	0.0	0.0
Development expenditures and net lending	5.8	14.2	9.6	11.8	8.7
Extra-budgetary expenditures	0.0	0.0	0.0	1.0	0.0
Overall balance	-4.7	-5.7	-4.7	-8.6	-3.3
Basic primary balance	3.6	9.6	8.7	8.5	10.0
Errors and omissions	-1.2	-0.5	0.0	-0.5	0.0

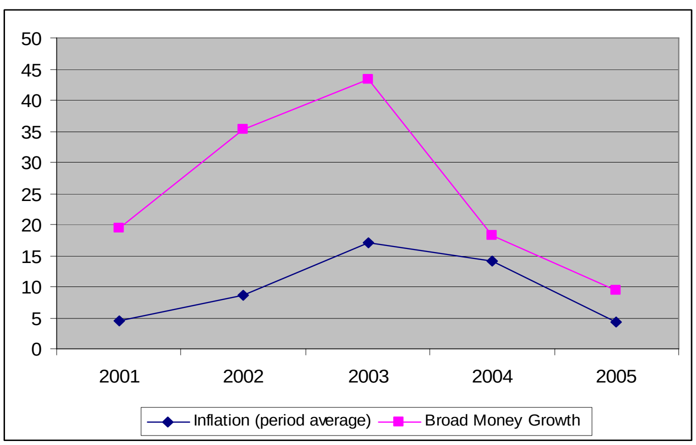
Source: World Bank (2006)

97. It is therefore crucial for the government to maintain a disciplined fiscal policy so as to gradually bring down the domestic debt. In this regard, the government has made considerable progress, running a primary basic balance surplus of 8-9 percent of GDP since 2004[17]. Although the primary basic balance surplus was below the target level in 2005, it still indicates an impressive fiscal effort. The Gambia has curtailed discretionary spending and raised petroleum prices so as to reduce the implicit subsidy to consumers. The government has also taken important steps towards strengthening transparency and monitoring of government and central bank accounts. (Box 2.1)

98. The Gambia has a narrow tax base with an unusually high dependence on taxes on international trade (customs duties and sales taxes on imports), accounting for 43 percent of all revenues, 49 percent of domestic revenues, and 56 percent of tax revenues in 2003-2005. In an effort to improve the fiscal position as well as to harmonize the tariff structure to the ECOWAS common external tariff, in January 2006 the government increased customs duties from 18 to 20 percent on some items, and pushed up the sales tax on imports from 10 to 15 percent, the same level that applies to most domestic goods. These increased taxes have apparently had a rather serious dampening effect on the re-export trade, as discussed in Chapter 7.

99. With regard to expenditures, higher than expected interest payments have forced reductions in development spending in 2005. Slippages in fiscal discipline in 2006 because of extra-budgetary expenditures associated with the African Union summit held in Banjul and the Presidential elections also contributed to the budget squeeze. The extra-budgetary expenditures were on a much smaller scale than in 2001-2003, however.

Figure 2.2: Money Growth and Inflation



MONETARY POLICY, INTEREST RATES AND INFLATION

100. The Gambia experienced a burst of inflation in 2001-2003 due to monetary accommodation of fiscal deficits, with the broad money supply growing by a whopping 45 percent in 2003 (Figure 2.1). More contractionary monetary policies in 2004 and 2005 conversely brought inflation down sharply to about 4 percent in 2005 and 2 percent in 2006, from a peak of over 15 percent in 2003/04, although recent figures using a new price index indicate a rise in inflation in 2007.

[17] The primary basic balance is the difference between domestic revenues and non-interest domestic expenditures, excluding capital spending financed by foreign borrowing.

101. The monetary contraction entailed open market sales of Treasury bills, however, worsening the domestic debt problem, thereby pushing up real interest rates from their already very high levels. Treasury bill rates have declined in step with inflation but in real terms are still about 10 percent; the real central bank rediscount rate and commercial bank loan interest rates have started to fall but remain at very high levels of about 15 percent. The real deposit rate, however, is much lower, reflecting unusually high spreads between deposit and loan rates in The Gambia. These spreads reflect a combination of high bank costs, partly due to high reserve requirement ratios, as well as an oligopolistic banking system dominated by Standard Chartered and Trust Bank.

Box 2.1: Towards Greater Independence of the Central Bank of The Gambia

Monetary and fiscal policy veered badly off track in 2001-2003, and combined with a drought, contributed to a sharp decline in real GDP of 3 percent in 2002 and a 34 percent growth of reserve money, leading to a jump in inflation to 15 percent. Lack of independence and transparency of the Central Bank of Gambia (CBG) was at the core of this episode. The authorities subsequently acknowledged that the CBG surreptitiously used US$28.6 million (6.8 percent of GDP) of international reserves in 2001 to fund an over-run of fiscal expenditures and then sought to conceal the loss of reserves by taking out a loan from a foreign bank in 2003. In addition, the CBG engaged in murky foreign exchange operations with foreign exchange bureaus, leading to losses of about US$11 million. These improper operating, accounting and reporting procedures at the CBG were a key reason for the interruption of the IMF's PRGF support in 2002 (IMF 2004).

Partly in recognition that the weak legal foundation for the CBG contributed to these lapses, the government put into place the CBG Act 2005. The new act increases the independence of the CBG, representing an improvement over the CBG Act 1992. Independence from the government, operational autonomy, transparency and accountability have been generally enhanced. In particular, the new act specifies clearer objectives for monetary policy with a focus on maintaining price stability, better procedures for appointing the governor and board of directors, tighter restraints on providing credit to the government, and more rigorous auditing and reporting requirements. In some respects, however, the political autonomy of the CBG has been weakened: two of the deputy governors are to be designated by the Secretary of State of DOSFEA, and process for removal of directors is now less clear.

Beyond the legal provisions, implementation is critical. In this regard, improvements are also in evidence. Monetary policy has been tightened and inflation has dropped dramatically. Some of the specific autonomy and accountability measures have not yet been into practice, however.

BALANCE OF PAYMENTS AND EXCHANGE RATES

102. The Gambia's current account deficit widened sharply from 5 percent in 2003 to 12 percent in 2004 and 15 percent in 2005, reflecting higher oil prices, increased spending on externally-financed development projects and the precipitous decline in groundnut exports. The current-account deficit was enabled by an upsurge in financing in the form of foreign direct investment, which rose to over 10 percent of GDP in 2004 and 2005. The bulk of the increased FDI was due to new hotel developments.

103. Exports of domestically-produced goods are very small relative to re-exports, according to IMF estimates (Table 2.2). Re-exports contribute to foreign exchange earnings and employment because of the transportation services provided in The Gambia; aside from trading services, however, there is no domestic processing of re-exports. Tourism accounts for the large surplus in non-factor services. Official financing (grants and concessional loans) averaged about 11 percent of GDP since 2001.

Table 2.2: Balance of Payments (percentage of GDP)

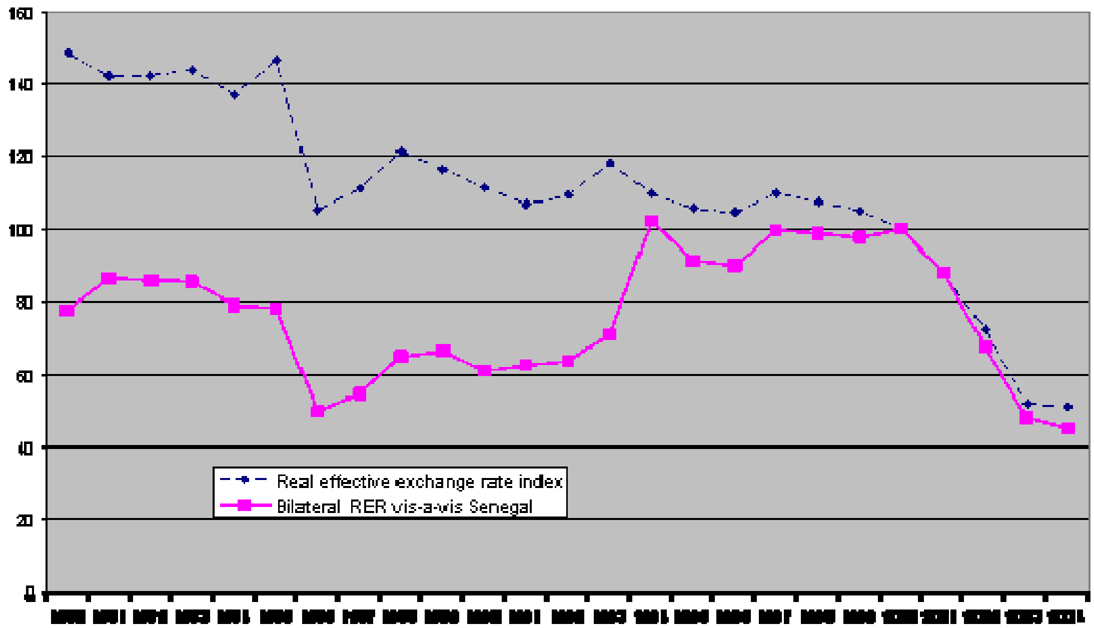
	2001	2002	2003	2004	2005
Current Account Balance	-2.6	-2.8	-5.1	-11.8	-14.5
Exports of domestic goods	6.3	8.4	5.0	6.5	2.5
Of which, groundnuts	4.3	6.5	2.6	4.2	0.4
Imports for domestic use	23.0	-30.8	-28.4	-41.3	-39.3
Of which, petroleum	-2.2	-4.5	-4.5	-8.4	-9.8
Re-export trade, net	4.8	5.6	6.4	7.9	7.6
Re-exports	18.1	21.1	23.6	25.2	28.8
Imports for re-export	-13.4	-15.6	-17.2	-17.4	-21.2
Factor services, net	-5.5	-6.0	-5.4	-5.0	-3.4
Non-factor services, net	6.6	8.5	7.7	9.4	8.7
Of which, travel income	11.5	12.9	14.5	14.3	13.5
Private Transfers	0.8	1.0	1.1	1.0	3.2
Official Transfers	7.5	10.6	8.5	9.9	6.3
Capital Account Balance	-10.1	0.9	2.4	16.7	14.8
Official Loans (net)	2.8	3.1	3.3	2.9	2.5
Foreign direct investment	2.4	3.5	3.6	12.4	10.1
Other private capital flows	1.0	-5.9	-6.3	-1.6	2.4
Errors and Omissions[1]	-16.3	0.2	1.8	3.0	-0.2
Overall Balance	-28.6	-1.6	-0.9	7.9	0.1

[1]Includes unaccounted-for-loss of official reserves amounting to 6.8 percent of GDP in 2001 and losses from foreign exchange operations (see IMF 2004).
Source: IMF.

104. The dalasi floats, unlike the CFA franc, which is pegged to the Euro. Figure 2.3 shows the real effective exchange rate and the bilateral real exchange rate vis-à-vis Senegal. The dalasi experienced a large real depreciation vis-à-vis Senegal and in the effective exchange rate in 2000-2003. This was due to a rapid rise in inflation stemming from loose fiscal policy, accommodated by expanding money supply, combined with the pegging of the CFA franc to the euro. The depreciated level of the dalasi would be expected to boost international competitiveness of domestically-produced goods,[18] but by itself is insufficient to generate export-led growth. Clearly, improving competitiveness so as to boost domestic exports is essential, but if macroeconomic stability can be maintained, the requisite measures are now more structural in nature, and these are the focus for the remainder of this study. The dalasi has experienced very little movement against the US dollar over the past two years, but has experienced a moderate depreciation vis-à-vis the CFA franc, reflecting the appreciation of the euro.

[18] Currency depreciation has ambiguous effects on the re-export trade insofar as it raises the cost of imports, while reducing the cost of Gambian transport services. For re-exports, exchange-rate stability is what matters most.

Figure 2.3: Multilateral and Bilateral Real Exchange Rates Indexes for The Gambia (2000 = 100)



Source: World Development Indicators and author's calculations

PRIVATIZATION

105. The government of The Gambia initiated its divestiture program under the Economic Recovery Program (ERP) from 1986-1994. In 2001 the Gambia Divestiture Agency (GDA) was created by the Divestiture Act. Privatization strategies were established for two tracks, with Track I consisting of public utilities and infrastructure (telecommunications, water, electricity, port) and Track II for government-controlled commercial enterprises, including the Gambia Groundnut Corporation. Track I requires specific legislation and regulatory changes, while Track II can proceed as long as fair competition takes place. While some progress has occurred, privatization of key enterprises in groundnuts, electricity and telecommunications has lagged. Privatization of groundnut enterprises is discussed in Chapter 4, while electricity and water are discussed in the chapter on the investment climate, Chapter 3.

CONCLUSIONS

106. Although the focus of the Integrated Framework program is mostly microeconomic, private sector development and export-led growth require a stable macroeconomic background. In this regard, The Gambia has made dramatic improvements, but further progress is necessary to overcome the legacy of the previous decade's erratic macroeconomic policies.

107. The 2002 IMF Poverty Reduction and Growth Facility (PRGF) went off track prior to the first review following spending overruns and irregularities at the Central Bank of The Gambia. Following steps to improve macroeconomic stability, the Gambian government established and completed a Staff-Monitored Program with the IMF in 2005-06. The IMF judged performance to be satisfactory, despite some slippages in fiscal discipline due to expenses associated with the African Union (AU) summit in 2006. Transparency in the government and central bank accounts improved markedly, although extra-budgetary spending remains a concern, as in the case of financing of the AU summit. A new PRGF was approved early in 2007. Satisfactory macroeconomic performance under the PRGF is a trigger for receiving debt relief under the Enhanced HIPC facility, which will provide important fiscal space for the government.

108. The authorities must continue to improve the monitoring and control of fiscal and monetary operations to avoid the irregularities observed in the early 2000s. The nexus of a large domestic debt and high real interest rates is a looming threat to economic stability. Fiscal discipline is imperative to enable real interest rate reductions.

3 TRADE PATTERNS AND POLICIES

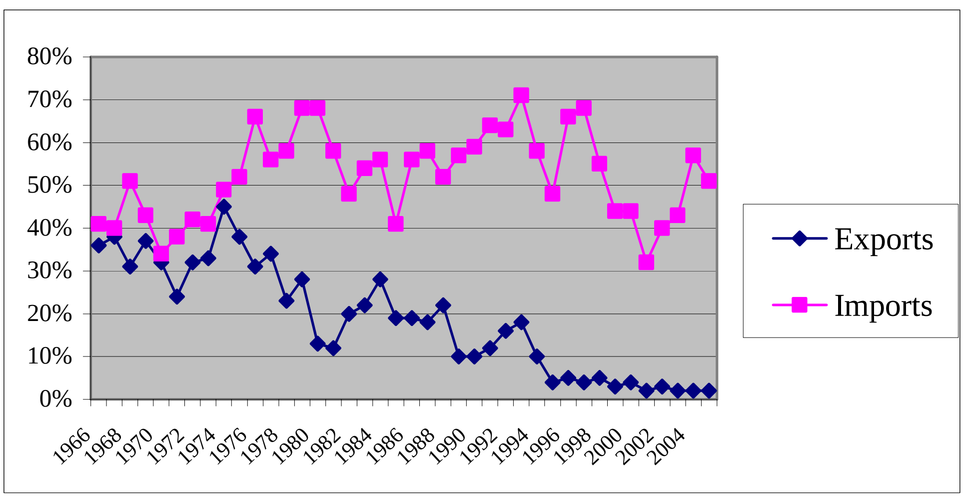
109. This chapter provides an overview of The Gambia's trade patterns and policies. The Gambia's trade is characterized by a narrow export base and a large and widening trade deficit, at least as measured by official trade flows. Unofficial re-exports, however, are much larger than official exports, as discussed in detail in Chapter 7. The Gambia has long had a relatively open trade regime, suited for its role as a regional trading center. Business climate surveys consistently rate The Gambia as having one of the least restrictive trade barriers in Africa. Recently, The Gambia has moved to harmonize its customs duties with those of ECOWAS, as part of the move towards a regional customs union, requiring a slight increase in trade taxes in The Gambia. Another looming challenge to the country's trade policy involves the proposed Economic Partnership Agreement (EPA) with the European Union, with its requirement for reciprocal liberalization having potentially large adverse effects on government revenues and regional trade flows, at least in the short run.

THE STRUCTURE OF THE GAMBIA'S TRADE

110. Data deficiencies hamper understanding and analysis of The Gambia's trade patterns. For example, official data show rising exports of fruits and vegetables, yet mirror data from the main EU importing countries show the opposite trend (see Chapter 6). The drastic decline in the number of horticulture exporters would seem to support the latter assessment. The situation is made more complex by the very large share of re-exports in The Gambia's trade. Nevertheless, the main characteristics of the country's trade pattern can be discerned. Figure 3.1 displays the time path of officially-recorded merchandise exports and imports, as a ratio of GDP.

Figure 3.1: The Gambia Official Merchandise Exports and Imports, 1966-2005

(% of GDP)



Source: World Bank, World Development Indicators Online

The Gambia's import to GDP ratio averaged nearly 60 percent in the 1980s and 1990s, before dropping somewhat in the early 2000s, but remaining well above the regional average, due to the fact that many of these imports are re-exported. On the other hand, official exports have plummeted, falling to only 2-3 percent of GDP in the 2000s. This precipitous decline in exports largely reflects the difficulties of the groundnut sector and the failure to diversify into other exports. Fish exports have collapsed, while fruits and vegetables, which surged in the early 1990s have also suffered a setback. However, the decline is somewhat exaggerated by the reduced effort to record re-exports in recent years. Unofficial re-exports are about four times all official exports. Furthermore, a focus on merchandise exports alone provides a misleading picture of The Gambia's trade, given the importance of tourism, remittances and re-exports. The data including commercial services (which at least captures tourism) are portrayed in Figure A3.1 in Annex 3.1 of this chapter.

Table 3.1: Composition of Merchandise Exports (Millions of US dollars)

	1998	2004
Groundnuts	12.5	9.8
Fruits and Vegetables	3.5	3.0
Fish and fish products	3.1	0.3
Cotton	1.4	0.2
Other Domestic Products	2.3	3.1
Re-exports	109.3	101.1
Total	132.1	124.8

Source: IMF (2006b, Table 34); fruits and vegetables figures corrected using Comtrade data as reported in Chapter 10; 2004 groundnuts figure also corrected by authors.

111. An estimated breakdown of The Gambia's foreign exchange earnings on current account over 1997-2003 is shown in Table 3.2. Here we include only net re-exports after deducting the value of the associated imports. Tourism accounted for 33 percent of foreign exchange earnings during this period. Transit hub activities (re-exports and transport) together accounted for another 30 percent. Remittances accounted for 20 percent, while merchandise exports represented somewhat less.

112. Imports are strongly affected by demand for re-exports, with perhaps 40 percent of imports exiting the country as re-exports. As described in more detail in Chapter 7, re-exports consist mostly of food, other household goods such as textiles, and used cars. Food accounts for about 30-40 percent of total imports, with rice being the largest single food import. Textiles/clothing and vehicles each account for about 10 percent of imports. Oil is another major import item currently accounting for about 15 percent of imports.[19]

[19] These figures are based on data provided by DOSTIE for 2002-2005 and WTO (2004) for earlier data.

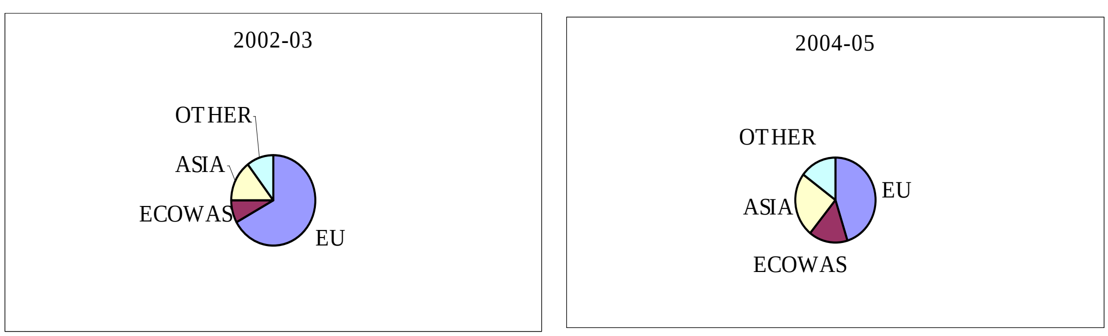
Table 3.2: The Gambia's Foreign Exchange Earnings by Category - 1997-2003 Average (Percentage Share of Total)

Merchandise	17.3
Groundnuts	10.6
Fruits and vegetables	3.0
Fisheries	2.4
Other Merchandise	1.3
Services	62.8
Re-export trade, net	18.8
Transportation	10.8
Tourism	33.2
Remittances	19.8
Total	100

Source: IMF (2004, Table III.2, p. 39).

113. Typically, more than 50 percent of imports into The Gambia originate in Europe (about 2/3 in 2002 and 2003, dropping to just under half in 2004 and 2005 due largely to higher oil prices raising the non-European share—see Figure 3.2). 10-15 percent of recorded imports are from other ECOWAS countries, mostly consisting of oil imports from Nigeria. The information on destination of exports is less complete due to the importance of unrecorded exports. For official exports, the share going to other ECOWAS countries is very low—less than 10 percent. However, if unofficial re-exports are counted, then the share of exports to neighboring countries is much higher, since such re-exports amount to about 4 times official exports.

Figure 3.2: Shares of Imports By Origin



Source: DOSTIE, Trade Review Tables.

THE EVOLUTION OF GAMBIAN TRADE POLICIES

114. The Department of Trade, Industry and Employment (DOSTIE) has primary responsibility for trade and industrial policies, although tariffs are set by the Department of State for Finance and Economic Affairs (DOSFEA). The institutional structure of trade policy is discussed in chapter 4; this chapter focuses on the policies themselves.

115. In The Gambia as in many African countries, customs duties and other trade taxes have a dual function of promoting economic development while providing a large part of government

revenues. In the case of The Gambia, these two functions are altered by the importance of the re-export trade. With very little domestic industry and little effort to promote such potential industry through import barriers, trade policy is not much oriented by the usual protectionist or infant-industry motives, in contrast to countries such as Senegal and Nigeria. Instead, the Gambian authorities have sought to maintain trade taxes below those of neighboring countries to promote the role of The Gambia as an entrepôt. At the same time, this entrepôt role contributes substantially to government revenues, because imported goods destined for re-export generally pay full duties when entering the country. The consequences of this policy orientation is manifested by the fact trade taxes are even more important for The Gambia than for most other African countries, accounting for about half of tax revenues and 40 percent of all government income, although the dependence on trade taxes has fallen about 10 percentage points since the late 1990s. In short, the main consideration driving Gambian trade policy has been to maximize government revenue from trade taxes by keeping them as high as possible but below the level of duties in neighboring countries.

116. For these reasons, since independence in 1965 The Gambia has had a relatively liberal trade regime. Restrictions were increased somewhat in the 1970s, followed by liberalization under the Economic Recovery Program in 1985. All import bans, except for a few items relating to public health and safety, were eliminated. As of the late 1990s, The Gambia's trade regime was more liberal than those of its neighbors, but still involved considerable complexity and tariff peaks, with rates of up to 90 percent and 27 tariff bands.

117. The implementation of the Common External Tariff in the francophone West African Economic and Monetary Union (WAEMU) countries in 1998-2000, entailed significant declines in trade taxes in WAEMU, posing a new challenge to the role of The Gambia as an entrepôt, and contributed to the impetus for a substantial further liberalization. In 2000, The Gambia consequently simplified its customs duties to 5 bands, with the highest carrying a rate of 20 percent, the same as the top rate in WAEMU. In 2001, the number of bands was further reduced to 4, and the top rate to 18 percent (Secka et al 2003). Relative to 1998, the simple average tariff rate fell to 12.7 percent from 13.6 percent. The majority of imported items, including food products and most manufactured goods, are subject to the maximum rate.

118. The WTO (2004) estimated that agriculture is overall the most protected sector, with applied tariffs averaging 14.4 percent in 2003, in contrast to non-agricultural products at 12.3 percent. The WTO (2004) expressed some concern about the degree of reverse escalation, i.e., lower tariffs on processed relative to unprocessed goods, thereby discouraging domestic manufacturing. On the other hand, Milner et al (2004) find that the majority of highly-taxed sectors are manufactured goods. As indicated in Table 3.3, some manufacturing sectors do have relatively high tariffs. These tariffs are likely to have increased slightly in 2006 due to the harmonization with ECOWAS trade policies (see below), but not to have much changed the structure of protection. Overall, the effect of import duties on resource allocation is likely to be minor in The Gambia, given the relatively low level and dispersion of customs duties. Any anti-export bias associated with import protection is swamped by supply-side constraints discussed in later chapters of this study.

Table 3.3: Average Applied Tariff Rates by Industry, 2003

	Number of lines	Average Tariff	Standard Deviation
Total	5,025	12.7	6.7
Agriculture, hunting, forestry & fishing	283	14.4	6.2
Mining and quarrying	104	7.3	4.8
Manufacturing	4,637	12.8	6.7
Food, beverages and tobacco	449	16.4	4.1
Textile, wearing apparel and leather	858	15.3	3.8
Wood and wood products	81	14.9	4.2
Paper, paper products, printing	149	15.1	5.5
Chemicals, petroleum, coal, rubber	1,006	9.8	7.0
Non-metallic mineral products	158	13.6	4.7
Basic metal industries	401	11.9	4.7
Fabricated metal and machinery	1,330	11.1	8.2

Source: WTO (2004)

119. The other main tax on international trade in The Gambia is the sales tax on imports. Until 2006, the sales tax on imports in The Gambia was set at 10 percent, providing a competitive advantage over the WAEMU neighbors with value-added taxes (VAT) of 18 percent. As part of the harmonization with ECOWAS, as well as pressure to increase revenues to bring down the fiscal deficit and the public debt, the sales tax on imports was raised to 15 percent in 2006, bringing it in line with the rate on domestic goods. In addition a 1.05 percent "processing fee" is levied on all imports and exports and a 0.5 percent ECOWAS fee is levied on all non-ECOWAS trade. Excise taxes are applied on a few "luxury goods" namely cigarettes, canned goods, alcoholic beverages, fruit juice and soft drinks.

120. Exports are in principle subject to a 10 percent tax, but in practice almost all exports are exempt, including groundnuts, fish and all exports to the European Union. It is inconsistent to be promoting exports while at the same time taxing them, and most countries have eliminated such taxes. The same logic applies to re-exports, especially in a country that is striving to maintain its role as an entrepôt. As the traditional rationale for re-exports into neighboring countries is eroded, The Gambia must be careful not to add further obstacles to this trade. Re-exports from the sub-region to the rest of the world, such as cashews from Guinea Bissau, are no different. The Gambia benefits from the presence of cashew traders who have moved from Guinea Bissau due to its instability as they will play a critical role in promoting a domestic cashew export industry. As export taxes are not, in any event, levied in practice, it would be best to formally eliminate them, as another small but useful indication of the priority attached to export development.

121. Various incentives and exemptions are available to promote exports, most notably free zones. Incentives and the free zones are overseen by the Gambia Investment Promotion and Free Zones Agency (GIPFZA). These schemes are analyzed in Chapter 4.

TOWARDS A CUSTOMS UNION WITH ECOWAS?

122. The move towards an ECOWAS customs union has added a new challenge for The Gambia's trade policy. After numerous delays, ECOWAS has now agreed to the adoption of a

common external tariff (CET) by 2008 as part of its move to a customs union. This entails adoption of the WAEMU tariff structure of 0, 5, 10 and 20 percent rates, though with some room for changes in the assignment of products by tariff band. In 2006, The Gambia moved to align its tariff to the ECOWAS configuration. Overall, The Gambia has experienced a slight rise in its average tariff as a result of the top rate increasing from 18 to 20 percent. Also, a few commonly re-exported products with current rates of 5 or 10 percent are slated to have their tariffs increased to the top 20 percent rate but this has not yet been implemented, as countries are permitted to file temporary exceptions up to 2008 (Coulibaly and Plunkett 2006). To the extent that countries continue to harmonize import taxes within ECOWAS, The Gambia's competitive advantage as an entrepôt could be eroded. Some significant differences in protection remain in place, however, as documented in Chapter 7. The increase in the sales tax on exports, noted above, was also partly due to pressures to align with ECOWAS.

123. Some ECOWAS members, notably such important countries as Senegal and Nigeria, are likely to retain some tariff and especially non-tariff barriers, and The Gambia may benefit from additional delays and exceptions in the implementation of the CET by Senegal. But this will not represent the basis for a sustainable trade. The Gambia will need to work hard to keep non-tariff import barriers below those of other countries in the region

124. The harmonization of policies entailed by regional integration within ECOWAS could be beneficial in the long run for The Gambia if ECOWAS spurs legitimate intraregional trade. As a very small country vulnerable to the decisions of larger countries, notably Senegal, The Gambia also stands to benefit from ECOWAS applying the "rule of law" in inter-regional commercial relations.[20] But to the extent that it undermines Gambia's competitive advantage in re-exports, it could be harmful in the short run.

125. Another important dimension of the ECOWAS customs union is internal free trade, which is much further away from completion than the CET. The ECOWAS Trade Liberalization Scheme (ETLS) aims to promote intra-regional trade through the elimination of duties on all primary products as well as industrial goods from approved factories which meet minimum value-added criteria. The Gambia currently has three companies which have been approved for ETLS. These companies produce groundnut cake and oil, candles and soap, pipes and tubes.

126. Given the small number of qualifying firms, the impact of the ETLS is minimal. In addition, there appears to be a need for further sensitization of customs officials in the region in order for the ETLS approved products to be traded duty-free. Trade in primary products is still not free in the sub-region. Nigeria bans imports of several such products, though they have made a commitment in principle to remove them. Various countries place unofficial barriers on imports and/or exports of food, ostensibly for food security reasons. Senegal has been known to place temporary bans on some imports during the local harvest season (e.g. onions). The Gambia has every interest in promoting the respect of the ETLS within the ECOWAS framework.

PREFERENTIAL ACCESS TO THE EU AND THE UNITED STATES

127. The Gambia has preferential access to its current main overseas markets. The EU offers full preferences on all products under the Everything but Arms (EBA) scheme for an indefinite period. Preferential access to the US is provided by the African Growth and Opportunity Act

[20] For example, Gambian authorities allege that Senegal violates intra-ECOWAS transit rules to block transit trade to Mali through The Gambia. See Chapter 7.

(AGOA), which offers duty free access for most, but not all products, until 2015. Exports of domestically produced goods remain dominated by groundnuts, for which The Gambia benefits from preferential treatments in its major markets. Rather than tariff measures, erratic domestic marketing arrangements and high aflatoxin content are the more significant constraints to market access. Preferential access to major markets could play a significant role in promoting the country's fish exports if the problems in meeting EU sanitary standards are addressed. Preferential access could also help to promote exports of new products and facilitate the shift to a more diverse export base.

128. The opportunities for The Gambia are currently hindered by restrictive rules of origin under AGOA and EBA. The basic rule of origin under AGOA requires that 35 percent of the price of the product be due to activities in The Gambia or other AGOA beneficiaries. This precludes the export of final products derived from processing inputs imported from non-AGOA countries, and there is limited scope for sourcing competitive inputs domestically or even regionally. A relatively high value added requirement makes it particularly difficult for countries with low labor costs, such as The Gambia.

129. AGOA does have a non-restrictive rule of origin for apparel produced in the least developed countries, which allows these countries to use third-country fabrics, for example China and India, and qualify for preferences in the US. This more flexible approach to rules of origin for apparel has contributed to a substantial increase in exports countries such as Lesotho, Kenya, Swaziland, and Madagascar. However, this third-country fabric provision is due to be removed in 2011, so it is likely that The Gambia does not have enough time remaining to exploit this opportunity. While the provision may be extended once again, investors may be unwilling to bet on this eventuality.

130. EU rules of origin are product specific and complex. For example, the rule for apparel disqualifies products produced from fabrics imported from outside of Africa and the EU. The EU is currently reviewing its rules of origin and has accepted that the current rules have been a constraint in meeting its development objectives. Within this review and in the negotiations for the Economic Partnership Agreement, The Gambia should strongly push for simple and non-restrictive rules of origin. But even under current rules, the prospects for knitted wear are promising, as discussed in Chapter 4.

131. The negotiations with the EU to replace its non-reciprocal preferential agreements under the Lomé and Cotonou conventions with Economic Partnership Agreements (EPAs) is a key issue confronting African countries. EPAs are based on reciprocal liberalization and as such require significant tariff reductions by The Gambia. The impetus for negotiating EPAs between the EU and the ACP (African, Caribbean and Pacific) countries arose out a challenge by non-ACP countries at the WTO against the discriminatory nature of the preferences granted to ACP countries under the Lomé and Cotonou conventions. While the EPAs respond to this challenge, but there is increasing concern that they could involve significant costs to African countries in the form of foregone tariff revenue, increased imports from the EU at the expense of intra-regional trade, and increased pressure on local industry, that may outweigh any benefits of greater access to the EU market.[21] While the EPAs may be beneficial in the long run if they promote domestic reforms and provide a push to regional integration, the short-run adjustments could be painful. EPAs are more likely to be beneficial if phased in gradually and accompanied by adequate trade

[21] See Hinkle and Schiff (2004) for an overall assessment of the EPAs.

promotion assistance from the EU. In recognition of these difficulties, the EU has proposed an extended transition period from 2008 to 2020 and substantial aid is promised.

132. The disadvantages of an EPA for The Gambia could be particularly severe given its unusually high dependence on trade taxes and the potential negative effects on the re-export trade. [22] As noted above, about half of The Gambia's revenues derive from trade taxes on imports, of which the majority usually originate from the EU. Moreover, imports from the EU, consisting mostly of manufactured consumer goods and foods, tend to face relatively high duties. Zvogu et al (2004) estimated that over 1999-2003, 42 percent of customs duties were collected on imports from the EU, with another 40 percent from imports from ECOWAS, the latter largely on taxes on oil imports from Nigeria. Thus the combined implementation of the ECOWAS customs union and the EPA with the EU, entailing elimination of duties on oil imports from Nigeria and on food and manufactured goods from the EU, would reduce customs duties by as much as 90 percent, with a resulting decline of as much as 40 percent in total revenues.[23] To the extent that the EPA results in further harmonization of trade taxes within ECOWAS, and obliges maintenance or even an increase in the current level of the sales tax, an EPA would also further reduce The Gambia's competitive advantage as an entrepôt.

Box 3.1: Coping with the Economic Partnership Agreement

Here are 8 elements that have been identified to help ECOWAS members move forward with this difficult agenda, though additional time will now be required to apply them.

1. Simplify the agenda by identifying priority issues and resist pressure to negotiate on the full range of issues initially laid out.
2. Develop a realistic calendar and action plan for genuine regional free trade including detailed proposals for trade facilitation.
3. Commission analysis on the choice of tariff lines to be excluded from the agreement, taking into account concerns for both revenue and domestic protection; about 20 percent of ECOWAS trade can probably be excluded and still achieve WTO compatibility.
4. Prepare tax and customs reform to replace the lost tariff revenues.
5. Use the negotiations to promote improvements in the investment climate (e.g. through the harmonization and reduction of administrative barriers).
6. Negotiate improved access for temporary workers in the EU.
7. Improve the rules of origin through a 10 percent value-added rule, or else, cumulation rules which allow ACP producers to use lowest-cost inputs from all developing countries.
8. Obtain additional "aid for trade" in the form of technical and financial assistance to deal with supply side constraints.

Source: Adapted from Hinkle, Hoppe and Newfarmer, 2005.

133. At the same time, the benefits to The Gambia of the EPA are likely to be relatively small, at least in the short run.[24] The EPAs will provide no additional access to the EU market given that EU customs duties have already been eliminated for Gambian products under the Everything But Arms (EBA) agreement. For groundnuts, and other sectors where The Gambia has a likely potential comparative advantage such as fish and horticulture, the main barriers to the EU market

[22] See Enterplan (2005) and Zvogu, Mendy and Milner (2004) for detailed analysis of an EPA for The Gambia.

[23] These are the estimates from the detailed study by Zvogu et al (2004). It appears that the authors are assuming that ECOWAS will also entail elimination of Gambian excise taxes on oil imports, which seems questionable. So this may be an overestimate.

[24] Another possible quid pro quo would involve EU easing of temporary entry of workers from Africa.

are on the supply side, including the capacity to meet stringent European quality standards. Simply offering free access to the European market will have no effect in spurring Gambian exports. The European Commission has recognized this and is putting in place programs to deal with the challenge, but The Gambia must ensure that they are fully implemented and maintained.

134. While the EPA agreement will in the longer run theoretically increase the efficiency of resource allocation by reducing trade diversion, the relatively low pre-EPA trade barriers in both the EU and The Gambia suggest this effect will be relatively small, especially in the absence of other measures to increase Gambian export capacity. In the meantime, the EPA could further swell the Gambia's already large merchandise trade deficit.

135. Reciprocal liberalization with the EU therefore appears potentially dangerous for Gambian public finances and macroeconomic equilibrium. However, it will be phased in gradually, with some options for exemptions, and may be accompanied by greater financial assistance to offset lost revenues in the short run and measures to boost Gambian export diversification along the lines suggested elsewhere in this study. Under these conditions, and if the EPA is seen as an opportunity to accelerate needed reforms and strengthen the application of ECOWAS agreements, the EPA may yet be beneficial.

CONCLUSIONS AND RECOMMENDATIONS

136. The Gambia's trade policies are conditioned by its unusual situation as an entrepôt with very little domestic industry even by regional standards. Consistently with this traditional role as a trading hub, The Gambia has long maintained relatively liberal trade policies. The effects of tariffs on distorting resource allocation in The Gambia are probably quite small, given their relatively low level and narrow dispersion. The country is currently confronted with two serious trade policy challenges to its role as a regional trading hub: the ECOWAS common external tariff and the proposed EPA with the EU. Combined or individually, these two developments could have a dramatic effect in undermining the country's competitive advantage in re-exporting and government revenues from trade taxes.

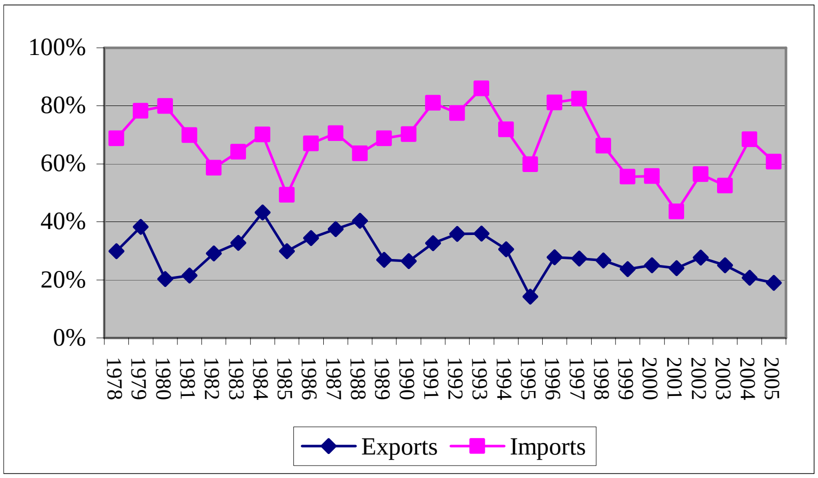
137. The Gambia may be able to count on some delays in implementation of the ECOWAS harmonized common external tariff by neighboring countries, but these will only be temporary. Ultimately, it will only be able to maintain a re-export trade through minimizing non-tariff barriers and maximizing transport efficiency.

138. The potential for a negative impact is even greater in the case of an EPA with the EU. The losses from an EPA in the form of customs revenues and re-exports are large and immediate, while the gains in the form of market access appear minimal. In the absence of a major and credible commitment by the EU to provide financial compensation for lost revenues and technical assistance in boosting export capacity, the Gambia could refrain from joining the EPA and instead rely on the EBA. However, if Senegal should proceed to open its market to the EU through signature of an EPA, this could effectively end much of the re-export trade and even reverse the flows. Thus, coordination with Senegal is, once again, essential.

139. Since the export tax applies to very few items, and acts as a deterrent to potential exports, consideration should be given to its elimination.

Annex 3.1

Figure A3.1: The Gambia: Official Merchandise and Commercial Service Exports and Imports, 1966-2005 (% of GDP)



4 THE INSTITUTIONAL STRUCTURE FOR TRADE

140. A country's trade policy should be based in principle on an open and outward-oriented economy with limited state involvement in commercial activities. The key elements of an effective trade policy process are:[25]

- A clear trade and export strategy, developed with and supported by stakeholders, based upon careful identification of the key constraints to trade;
- Effective consultation with the government, private sector and civil society;
- Successful inter-ministerial coordination;
- Collection and timely dissemination of accurate, easily accessible trade information;
- Capacity for analysis of trade related information and provision of advice on all major trade issues;
- Effective trade support institutions – standards, export promotion, customs.

141. The Gambia can improve in almost all the above areas. It currently does not have a comprehensive trade policy document. This shortcoming is also reflected in the absence of a coherent approach to trade policy in the PRSP, the country's main development policy document. The outputs of this study could be the basis for the country's trade policy. However, The Gambia has limited capacity to define and pursue its trade policy interests. Thus, it will be necessary to identify clear priorities among all the possible institutional capacity building, and all the issues and negotiations which could use attention.

TRADE POLICY INSTITUTIONS

142. The Department of State for Trade Industry and Employment (DOSTIE) is the institution responsible for developing and implementing the country's trade policy. The department has separate divisions responsible for trade, industry and employment, as well as a division dealing with internal finance and administration. The current trade policy team consists of a Senior Trade Economist and a Trade Economist. A third economist is currently away on long-term training, but was expected back by the end of 2006. The head of the Industry Division is also currently responsible for overseeing this team in its work.

143. In the absence of trade policy, there is little to guide the small DOSTIE team in its work. There has been no regular systematic planning of activities. Individual members of the team do not specialize in specific aspects of trade policy. The team undertakes virtually no formal analytical work, and rarely prepares draft position papers on trade policy issues. Much of the team's work appears to be in response to incoming correspondence. There is a regular flow of invitations, policy papers, etc. coming in from ECOWAS that appears to dominate the work. The team also travels a great deal. It will be important to prioritize among the various possible trips and workshops to ensure that there is adequate time to conduct analytical work and consult with local stakeholders.

[25] OECD (2001) 'The DAC Guidelines: Strengthening Trade Capacity for Development, OECD, Paris

144. Lack of capacity to analyze key trade issues, define trade objectives and formulate and implement effective trade policies is a major limitation in The Gambia. This weakness limits the ability of DOSTIE to motivate and coordinate inter-ministry cooperation, organize effective dialogue with the private sector and other stakeholders and to effectively represent the interests of the country in regional and multilateral institutions and negotiations.

145. Greater recruitment appears to be a prerequisite for building capacity of the ministry. It is recommended that there be a review of the structure and organization of the ministry. The ministry should participate in the ongoing civil service reform exercise in order to benefit from the capacity assessments being conducted. It should take advantage of the exercise in order to prepare a program for capacity building. If there are limited options for building capacity using local resources, the authorities can consider augmenting the unit through a long term resident technical adviser funded by one of the development partners. One of the main responsibilities of the technical adviser should be local capacity building and knowledge transfer.

146. DOSTIE's lead role in matters of trade policy is broadly accepted, both within the government machinery, and also in the private sector. However, the Department of State for Finance and Economic Affairs (DOSFEA) continues to lead in tariff-setting, for which it is formally responsible. DOSFEA also takes the lead in monitoring the impact on the Gambian economy of the gradual implementation of the ECOWAS Common External Tariff (CET).

147. The Policy Analysis Unit in the Office of the President also has an indirect role in matters of trade policy. In the somewhat centralized system which operates in The Gambia, this unit has the role of coordinating and monitoring sector policies. It is kept fully informed on all developments in the area of trade policy. It does not appear to intervene often.

148. The Department of State for Foreign Affairs (DOSFA) has an indirect role in matters of trade policy, in that it oversees The Gambia's embassies abroad. The Brussels Embassy is most involved with trade policy, since it is the point of contact for the European Community. Since there is no embassy in Geneva, the Brussels Embassy also serves as the link to the WTO. It is clear that, in matters of substance, DOSFA defers to DOSTIE. DOSFA and its embassies serve primarily as channels of communication to and from DOSTIE.

149. Beyond these Departments, many other sectoral ministries play a critical role in export development, including those dealing with agriculture, tourism, fisheries, and infrastructure among others. Perhaps more than any other issue, trade policy suffers from a fragmented policy making process because such a wide array of government ministries develop or affect policies concerning international trade. In this light, the trade ministry must consult widely while also pushing other officials to address constraints which fall under their responsibilities. To do this effectively, The Gambia needs to formulate a detailed trade and export policy, and to have an effective committee system.

150. The challenge of dealing with the negotiation of an Economic Partnership Agreement with the EU has led to the establishment of a committee system, used to develop negotiating positions, and also to disseminate the results of negotiations back to all concerned parties. The system not only includes other government departments and agencies, but also includes representatives of the private sector and civil society. The system is broadly supported.

151. The private sector role in the committee system appears somewhat passive. The Chamber of Commerce and Industry (GCCI) is the dominant body, representing the private sector in nearly all forums. However, the Chamber does not usually prepare formal written submissions

to government, or to the trade policy committees. Nevertheless, the Chamber appears reasonably satisfied with the committee system, as an appropriate instrument for developing national positions on trade policy issues.

152. Capacity building should emphasize the need to improve the data infrastructure. Due to shortcomings in data availability and reliability, it is difficult to gain an accurate picture of trade and other economic variables which would inform trade policy. DOSTIE requires a database of trade related statistics from across the government. The establishment of the database would facilitate cooperation and coordination across the government.

153. Trade related data are collected and compiled by the Customs and the Central Bank of The Gambia (CBG). There continues to be a critical need to improve the quality and availability of trade related data, particularly with regards to the re-export trade. Raw data related to merchandise trade are collected by Customs through its ASYCUDA system, then reports are generated by the Gambia Bureau of Statistics (GBOS) using Eurotrace, an application software developed by the European Union to analyze trade data outputted from ASYCUDA. The authorities should consider installing Eurotrace in Customs in order to facilitate building capacity within Customs for analyzing trade data.

154. The authorities are currently taking steps to improve the quality of the balance of payments statistics. Data quality and timely availability are areas that can be improved. Trade data on goods are collected by Customs, whereas data on services and the capital account are the responsibilities of CBG. CBG is in the process of upgrading the compilation of the BOP statistics according to the fifth edition of the IMF's Balance of Payments Manual. New surveys on the current account have been conducted which focused mostly on improving data collection of service related transactions, such as remittances and training, and on petroleum imports. CBG is currently conducting surveys of private sector international capital transactions and external debt flows in order to improve estimates of the capital account. Areas that could be further improved are estimates of re-export trade and travel related income. The findings of the economic census should be incorporated into the BOP. CBG should work closely with the recently established Statistics Council and the semi-autonomous Gambia Bureau of Statistics with respect to its ongoing efforts to improve estimates of the BOP.

155. The following recommendations are considered key. Unless action on these is taken, it appears unlikely that the effectiveness of the Trade Division will be significantly improved.

156. *First*, regular systematic planning of activities must be introduced, to direct the work of the Trade Division of DOSTIE. The basic principle should be that, at any given moment, the available limited resources should be directed to where the largest potential gains are likely to be made, from The Gambia pursuing its own interests within trade negotiations, or within any other trade policy interventions or activities carried out by the Trade Division.

157. There should be a rolling formal review every six months, planning twelve months ahead, to define a plan of activities based on this principle. As part of this rolling review, each professional within the division should be assigned specific issues. Each active committee would thus have one single point of contact with the division. This professional would be individually responsible for the quality of the secretariat service he or she provided to the committee concerned. Travel should be prioritized and carefully prepared. Analytical work should be submitted to the appropriate committee for discussion, normally including a draft position paper. Full written reporting back should be submitted upon return.

158. *Second*, the Trade Division should be headed by an economist with substantial experience, and supported by a resident technical assistant or ODI fellow. As envisaged in the Enhanced Integrated Framework, a coordinating unit should be established to assist with implementation of the DTIS Action Matrix. A budget should also be set aside for commissioning outside analysis work.

159. *Third*, the committee structure should be formalized, with the one main committee, and the other committees formally treated as sub-committees, or as technical committees on implementation matters. The EPA issue is important enough to justify setting up a sub-committee to deal with this issue specifically. Committee meetings should only be planned where a national position needs to be formulated, or where a negotiations outcome needs to be reported back to members. An agenda should be sent out from the Trade Division at least one full week ahead of each meeting. Chairpersons should ensure that each and every discussion on the agenda leads to a committee decision on actions.[26]

160. *Fourth*, the process of developing a statement of trade policy has stalled, due to lack of external donor funding. The emphasis now should be on a very short statement of general aims that change little over time. The real basis for the planning of trade policy activities would become the six-monthly review of actions.

THE NEED FOR A BROADER DIALOGUE

161. Although the committee system, which forms the core of trade policy work, actually incorporates dialogue with the private sector as an essential ingredient, the same cannot be said for the wider "productive sectors" agenda.

162. A system of regular dialogue between the government and the representative organizations of the private sector should be set up. As planning for the third PRSP eventually gets underway, this dialogue can become a major driver of the PRSP planning process, so far as it concerns trade, industry and services. What is proposed here is a three-level structure. The top level would consist of a high-profile annual event, ideally chaired by the Head of State, and attended by all ministers involved in some way with private sector development.

163. The middle level would be where real discussions and decisions on actions would happen. It would probably consist of a main committee, small enough to reach decisions, but large enough to include representation from the main concerned ministries, at PS or even SoS level, plus the main private sector representative organizations. This committee would probably meet quarterly. The bottom level would consist of a secretariat. This could be permanent, and established outside the civil service, so as to be wholly independent. Alternatively, it could consist of a small group of, say, two civil servants, plus two staff from GCCI, meeting weekly. The proposed IF secretariat could logically fill this function.

THE PROMOTION OF EXPORTS AND EXPORT-ORIENTED INVESTMENT

164. ***Export Promotion***: There is no agency in the Gambia charged with promoting exports. Nor does the country have any financial instruments aimed specifically at developing exports, such as an export guarantee scheme, or concessional financing for exports. There is very little

[26] Each and every action should be minuted, together with the name of the organization which will undertake the action, plus the date by which that organization's representative on the committee will report back to confirm the action's completion, or to report progress to date on its implementation.

activity of any sort aimed specifically at developing the country's exports. However, the Chamber of Commerce (GCCI) is in the process of setting itself up as the Gambia link to an ECOWAS system for firms to post and respond to offers to buy & sell within the region.

165. The absence of a separate export promotion agency is probably appropriate for a small country like The Gambia. Thinking has moved on in the last ten years. It is now widely recognized that it is not export promotion agency activities, focusing as they do on market-entry services, that do most to facilitate export growth, but rather activities that deal with the binding supply-side constraints to export growth.

166. The recommendation here, therefore, is to shift the focus. Government efforts to develop or promote exports should focus on dealing with supply-side constraints. This is preferable to expending scarce resources, whether donor-supported or not, on setting up and resourcing a new export promotion agency. The recommended means of dealing with supply-side constraints have been described in the two previous sections.

167. ***Investment Promotion***: The Gambia can offer some attractions to the investor, either foreign or local, seeking a base in West Africa from which to export, particularly to the European Union, or to the ECOWAS market. The Gambia offers a port that is faster and more efficient than others in West Africa; a good airport with links (albeit limited) to the region and to Europe; a stable government; use of English as the language of business and government; and very good access to the EU market, based on ACP and EBA preferences. In addition, The Gambia is an attractive place to live for an expatriate investor or manager. More can and should be done to improve the investment climate, but this package has already attracted an interesting variety of investors.

168. Since GIPFZA started active investment promotion in 2002, Gambia has managed to attract in a good flow of new investments. Forty-five new investments are operational, with a total investment of over US$220m., and a total new employment created of over 2500. There are another 33 investments in the pipeline. GIPFZA's activities have probably improved the general awareness abroad of The Gambia as an investment location. GIPFZA's servicing of would-be foreign investors, when they visit to explore, has also made a useful contribution. However, it seems likely that the major factor in attracting foreign investments to The Gambia has been some of the factors mentioned above, especially when compared to alternative locations within the ECOWAS region. Personal and random factors have also played a role (eg. relatives living in The Gambia; a chance meeting with a potential local business partner).

169. With respect to the promotion of export-oriented investment, the team of three professionals working on the promotion of foreign investment is probably about right for the time being. However, their activities should probably more focused on key sectors. There are no strong regional or national concentration patterns evident among recent new investments, so promotion campaigns devoted to particular countries may be less effective than programs designed to provide customized information to target sectors. This approach is more typical of successful investment promotion agencies, according to a recent global survey.

170. ***Special Investment Certificate***: In theory, a local or foreign investor can set up without the need for an investment certificate. In practice, the incentives offered under the Special Investment Certificate (SIC) scheme are sufficiently attractive that almost all new investors take this option. SIC's offer several benefits. Both capital equipment and production inputs can be imported free of duty and sales tax. There is a five-year tax holiday on the turnover tax. Accelerated depreciation is also available.

171. However, obtaining and utilizing a Special Investment Certificate is by no means trouble-free. Each project has to be individually approved, as does each list of capital equipment and production input imports. Although GIPFZA administers the SIC scheme, the approval of these import duty waivers is complex, since DOSFEA has to sign off on each case. Investors report that each import consignment seeking a duty waiver has to be individually approved, and that GIPFZA approval can be over-ruled by DOSFEA. To streamline the process, and improve predictability, GIPFZA certificates should be accepted by Customs for import duty waiver.

172. Both GIPFZA and DOSTIE report that a thorough review is about to begin on the whole system of regulating new investments, primarily the SIC scheme. This review is welcome. It provides an excellent opportunity to make the whole process of setting-up an export-oriented investment in The Gambia easier and more transparent. The review should give serious consideration to the following changes: (a) abandon case-by-case investment approval, in favor of the simpler, more transparent approach based on a published "negative list"; (b) abandon case-by-case approval of lists of capital equipment and inputs to be granted "duty waivers," and abandon approval of individual consignments; (c) eliminate presidential discretion in the granting of investment incentives, and reduce use of the Head of State non-dutiable code; (d) abandon time-bound tax holidays: (e) ensure that any incentives based on corporate taxation apply both to Turnover Tax and to Profits Tax.

173. ***Free Zone Status:*** Alongside the SIC, new investors can instead opt for the Free Zone Certificate. This offers a similar set of incentives, except that the tax holiday lasts for ten years, instead of five. In return, there is an obligation to export at least 70 percent of sales.[27] The enabling legislation, The Gambia Free Zones Act 2001, allows for single-factory free zones, as well as multi-factory fenced zones. Surprisingly, out of the 45 foreign and local firms that have set up new investments over the past five years, only two firms have opted for the Free Zone Certificate.

174. The review of investment certificates referred to in the previous section should extend to the Free Zone Certificate system. A survey should be undertaken to understand why so few new investors have taken up this option. The review should also challenge the ECOWAS practice of not allowing export from free zones into ECOWAS, to verify that this is based on an agreed protocol. The Government of The Gambia should press for a change, to allow exports from free zones into ECOWAS on payment of the appropriate duties.

[27] The enabling legislation, the Gambia Free Zone Act talks only of an obligation to carry on a business or industry "primarily for export outside The Gambia." However, it is understood that this is interpreted in practice as meaning "exporting at least 70%."

Box 4.1: An Emerging Opportunity – Clothing Export Production

So far, almost all exports from The Gambia have been either primary products, or primary products with modest added value (eg. groundnut oil, fresh vegetables prepared for air shipment). However, two small factories are managing to pioneer a radically different form of export-oriented production, namely the production of garments for the EU market. Both have just begun operations in the last two years.

One factory imports un-dyed cloth from Europe, assembles this cloth into unusual up-market ladies' garments, and then air-freights them to the Netherlands, where they are dyed and finished. The other factory imports yarn from Europe, then knits it into patterned, multi-color knitted cloth on large, computer-programmed flat-bed knitting machines. This cloth is cut and assembled into sweaters and ladies' tops, for export by air to Belgium. The fact that these two small factories are already in operation is a very positive development. The EU clothing import market is huge. If two factories can show the way, then many others could, in principle, be attracted. The impact on employment and foreign exchange earnings could be rapid and dramatic.

The first recommendation is for GIPFZA to shift focus, away from AGOA, and towards the EU. AGOA has admittedly been a wonderful basis for clothing export take-off in other African countries such as Lesotho and Kenya. However, clothing exporters in these African countries mainly rely on the AGOA Third Country Cloth Concession, and they have a head's start. There is now a limited window of opportunity, as the concession runs out in 2012. This is unlikely to be long enough to justify a brand new investment in a new location such as The Gambia. Clothing exporters selling to the EU market from The Gambia do not face this kind of time limit. They can sell into this market free of duties and quotas, on the basis of the Cotonou Agreement and Everything But Arms concessions which apply to The Gambia.

The second recommendation is that the main target should be knitted goods, with up-market woven goods being a subsidiary target. The rules of origin for entering the EU market under Cotonou or EBA concessions are tough. Knitted garments can qualify, if the imported content consists of yarn, and all further transformations beyond yarn are in an ACP (Africa, Caribbean, and the Pacific) country.[28] Woven garments can qualify, if the woven cloth used is bought from EU sources. Since EU cloth tends to be more expensive than cloth sourced from Asia, this suggests that woven cloth garments will probably be assembled in The Gambia only if they are sufficiently up-market to justify the use of EU cloth.

The third recommendation is that the government develops a "package" of measures, aimed specifically at drawing in clothing producers, and overcoming some of the main hurdles that have faced the two pioneers. This should include the following elements: (a) access to suitable well-serviced industrial plots or factories needs to be readily and quickly available; (b) reliable electricity must be assured; (c) customs treatment of free-zone input and output movements should be based on international best practice; (d) arrangements should be made for pre-setup training of would-be clothing assembly workers in basic sewing-machine operation skills.

The fourth recommendation is that, once this "package" of measures is put in place, but not before, GIPFZA could then mount pro-active investment promotion activities, aimed specifically at potential investors in knitwear and up-market wovens, for the EU market.

CUSTOMS CLEARANCE FOR EXPORTERS

175. Customs clearance is not a major constraint on export activity. It is still considered less troublesome in Banjul Port than in competing ports such as Dakar. However, the competition is catching up, aided by trade liberalization within ECOWAS. The Gambia has to stay ahead of the

[28] The big ACP clothing export success story has been Mauritius, which was almost entirely built on knitting, not weaving, and is now the World's third largest exporter of knitwear.

competition. The application of procedures can be improved, and corruption needs to be carefully monitored.

176. At the airport, traders can do all the work connected with Customs clearance on site. At the port, they have to chase between the port and the Customs head office, which is a few blocks away. Service would be greatly improved if traders could handle all clearance matters without leaving the port. This would only work well, however, if the opening hours of the port itself were substantially increased. The current hours of 8am to 12 mid-day, and 2pm to 4pm are not adequate.

177. Although precise data are not available, duty waivers have been estimated to be as high as 16 percent of merchandise imports. The high value of waivers, lapses in recording procedures, and discretionary granting of concessions potentially indicate problems with corruption. Decisions on the level of documentary and physical examination are generally not based on risk assessment as Customs inspects most imported goods.

178. The following are ongoing initiatives and key next challenges to strengthen customs administration:

179. ***Gambia Revenue Authority (GRA).*** The authorities are in the process of establishing the GRA which will integrate the operations of customs with internal tax administration by creating a semiautonomous agency. The establishment of a semiautonomous agency with an independent Board is expected to strengthen the governance arrangement of tax revenue. The GRA Act was enacted in 2004, an implementation plan has been prepared, the Commissioner General (CG) and the Board of Directors appointed in 2006, and the new organizational scheme established. Currently, the GRA is recruiting senior managers through open competition, after which the rest of the staff will either be transferred or newly recruited.

180. The implementation plan for the GRA had been prepared based on a review of the organization and operational procedures of customs (Customs and Excise Department) as well as the internal tax agency (Central Revenue Department). The plan outlines the new organizational structure, operational procedures, budget, personnel management, staffing and staff incentives.

181. Detailed review of customs procedures were carried out as part of the preparation of the implementation plan for the GRA. The review outlined key recommendations for streamlining customs procedures and further mainstreaming ASYCUDA into operations, including the need to redefine and strengthen the role of the Jerquing unit into an internal audit and an enforcement unit, and to produce customs receipts using ASYCUDA. Key recommendations should be implemented based on an action plan with milestones.

182. ***Information Technology.*** The country operates ASYCUDA version 2.7 for which the core modules were recently upgraded and stabilized. With support from donors, the authorities were able to build local capacity and relatively stabilize the system by providing technical assistance and training, including support for overseas training. This was a major achievement as it effectively computerizes customs administration. At present, the authorities are upgrading the system so that manifest information can be transmitted electronically, and import and export declarations can be inputted directly by the traders. An independent assessment concluded that the authorities should strongly consider upgrading the system from version 2.7 to version ++. Such an upgrade would enable Customs to introduce formal risk management techniques. This would be a major step forward, and is strongly supported.

183. The authorities are also implementing an incomes and sales tax administration system which is being used to issue new unique Taxpayer Identification Numbers (TINs) for all taxpayers. The TINs would be used for customs as well as income and sales tax matters.

184. ***Taxpayer Survey.*** For the first time in history, customs conducted a survey of taxpayers at the end of 2005 in order to identify ways to improve services and reduce corruption. The authorities should publicize the results of the report and the measures identified for improving customs operations, and the identified measures should be implemented. Without publicizing the findings of the survey and addressing the problems identified, the impact of the survey would be minimal and the credibility of the process would be undermined such that future surveys could result in low participation.

185. ***Customs Valuation.*** The Gambia currently applies a hybrid valuation system using the Brussels Definition of Values (BDV), under which both transaction values and reference values are taken into account. The country has been gradually attempting to move towards customs valuation based on transaction values. This migration would be facilitated by the upgrade of the ASYCUDA customs IT system to version ++ which allows for easy updating of transaction values from external websites. Given the delays in revising the valuation system, The Gambia should apply to the WTO for an extension of the transition period for the implementation of the WTO Customs Valuation Agreement, which is based on the use of transaction values.

186. The implementation of WTO consistent customs valuation system will require technical assistance in: training of officials in the principles of the transaction value method; assistance in the drafting of legislation; and training on valuation, post-clearance auditing, and anti-fraud. The authorities are currently updating the Customs Act to make it consistent with WTO agreements. The country's previous attempt at a major customs reform, when it tried to implement pre-shipment inspections in 1999, had failed. Lessons should be learned from the previous experience, and reform of customs valuation should be based on a systematic and comprehensive plan which accounts for major contingencies.

QUALITY AND STANDARDS

187. The development and implementation of standards and other technical requirements, particularly sanitary and phyto-sanitary (SPS) measures, are key priorities for exports such as groundnuts, sesame and fish. The capacity to meet commercial quality requirements and comply with standards is increasingly being seen as a core competence for effective participation in international trade. The underlying capacities in The Gambia for standards management, both in the public and private sectors, are weak.

188. A strategic approach is needed, which gauges near and longer term challenges and opportunities, within the context of extremely scarce public resources. Compliance with standards involves costs which may include up-front investment in new infrastructure, equipment, management systems, and human capital. They may also include various recurrent costs—for inspection, testing, etc. The level of these 'compliance costs', and their distribution between the public and private sectors, must be compared to the expected benefits, as with any other policy decision. Compliance should not be sought 'at any cost'. Given that most countries in the region face similar challenges with respect to quality standards, regional cooperation can help deal with domestic capacity constraints.

189. The Food Act of 2005 has defined the framework for SPS standards setting and compliance. The structures, systems, and institutional arrangements required for implementation

of the Act are being established. The key structures are the Food Control Advisory Board, the National Codex Committee, and the Compliance Committee. These bodies are accountable to the National Nutrition Agency, and the National Nutrition Council, headed by the Vice-President. The National Nutrition Agency is responsible for overall coordination of the food control system and hosts the National Codex secretariat.

190. The Food Act also defines the roles and responsibilities of the competent sectoral authorities, including the Standards and Consumer Protection Bureau (SCPB) under DOSTIE. This bureau was established five years ago, and has approximately 10 professional staff who operate essentially as weights and measures inspectors. They rely on metrology equipment which is antiquated, and is housed in a lab in an old building in central Banjul which is unsuitable because of vibration. A Standards Bill has been drafted which outlines the main responsibilities of the bureau and proposes transforming the institution into a semi-autonomous agency. An assessment of its functions is needed, together with technical assistance and training.

191. Horticultural exporters are able to use the services of the government's water quality lab to do some of the tests on water quality required by export customers. The National Agricultural Research Institute offers soil analysis services, but it is not clear whether these are of a standard acceptable to export customers.

192. Moving forward, both the government and the private sector need to develop a strategic approach to improving standards and quality management, with some consensus on priorities and the responsibilities of different official and private entities. There are various crucial regulatory and risk management functions that are normally carried out by the public sector, and importing countries may require that particular functions be performed by governmental entities. The Food Act represents a good first step, and support is now required for effective implementation, notably related to compliance with SPS standards.

193. To support the current flows of exports, and what is likely to develop over the coming five years, what matters above all else is good metrology, supported by adequate equipment in a suitable building. This should be the government's priority. Otherwise, quality issues are probably best pursued in the context of broader industry or sub-sector strategies – for example, the serious quality issues currently affecting the exports of both fish and groundnuts – with the private sector playing a leading role.

194. In the groundnut sector, processors and exporters such as the Gambia Groundnut Corporation (GGC) operate laboratories to test for aflatoxin levels, a key determinant of quality of groundnuts which is stringently monitoring by the EU. Producer associations and NGOs could play major roles in reducing aflatoxin levels if properly sensitized and trained. Capacity building in the private sector can complement, or even substitute for, public sector capacity, as in the development of certification and testing services. In industry "codes of practice" may go a long way in assuring self-regulation.

195. The foundation of any quality and standards management system is not sophisticated equipment and accredited laboratories. Rather, it is broad awareness among participating stakeholders about the relevance and importance of consistently high quality, food safety, agricultural health and other standards to the competitiveness of their country/sector/firm and recognition of their own role in this system. Where this awareness is especially weak, any system of regulatory enforcement will almost certainly be overwhelmed, and advanced testing will only serve to demonstrate that one has serious, systemic problems with the supply chain.

196. Awareness of major standards and quality challenges is needed at several levels: (i) senior agricultural and trade officials, in order to assign appropriate priorities for public programs and expenditures; (ii) owners and managers of producing/exporting firms and their industry organizations as these people make pertinent investment, personnel and other decisions; and, perhaps most importantly, (iii) large numbers of farmers, and farm and industry workers, who produce and handle agricultural raw materials on a day-to-day basis. If there is not strong awareness at all of these levels, the system's foundations will be weak.

197. The Gambia should concentrate at present on these bedrock functions. Development of broad awareness and promotion of the adoption of 'good' agricultural and manufacturing practices and quality management systems will set the stage for later developments. Initial efforts should focus on particular higher risk/higher gain export-oriented sub-sectors that require specific regulation and institutional structures.

198. The country should develop a strategy which defines the roles of the different institutions, focuses initially on awareness raising and the diffusion of good agricultural and manufacturing practices, distinguishes between the contributions which can be made by the public and private sectors, separates out the functions of consumer protection and trade facilitation, and takes into account the regional options. In the meantime, programs to improve groundnut quality, and certify fish exports for the EU market must proceed urgently.

199. In the current context of limited demand and capacity constraints, regional coordination by using foreign product certification facilities is an option to consider. Exporters of new products will typically require internationally recognized conformity assessment services for testing, inspection and certification. The Gambia should carefully assess which conformity assessment services can best be imported, especially from neighboring countries. The communication process with overseas laboratories is relatively simple for testing and calibration work, although it could be more difficult for organic samples. As demand grows, further analysis will be required to illustrate the benefits of developing a specific conformity assessment mechanism for a particular product or sub-sector.

5 THE INVESTMENT CLIMATE[29]

Overview

200. There is an increasing consensus in the literature on economic development that the quality of domestic institutions and infrastructure are decisive in determining whether countries can benefit from globalization.[30] It is beyond the scope of this study to analyze all facets of institutions and the business climate in depth. Instead, this chapter identifies and discusses the most important cross-cutting domestic constraints to international trade and economic development for The Gambia, as they emerge from the sectoral chapters of this and other studies, notably the World Bank's Investment Climate Assessment of The Gambia conducted in July-August 2006, the World Bank's Doing Business indicators and other cross-national measures of "competitiveness".

201. The business climate encompasses a wide range of factors, including infrastructure. Reliable and reasonably-priced infrastructure is one of the main requirements for export diversification and growth.[31] Infrastructure includes transport (land, air, and maritime), electricity and water, and telecommunications. Transport infrastructure is discussed in detail in Chapter 6. This chapter covers electricity and telecommunications, as well as the institutional environment: the financial system, the legal-judicial system, taxation, access to land, and labor relations.

202. There are a number of surveys ranking countries' "competitiveness" and investment climates—here these terms are used interchangeably, as they often are. These include the World Bank's Investment Climate Assessment (ICA), the World Bank's Doing Business (DB) indicators, The World Economic Forum's (WEF) Competitiveness Index and the Heritage Foundation's Index of Economic Freedom (IEF). In addition to providing overall rankings, these surveys examine various components of the investment climate, so that the relative severity of various constraints, as seen by businesses or potential investors, can be ascertained.

203. ***Overall rankings***. Table 5.1 presents the 2006 country rankings for The Gambia and selected other African countries, in some of the better-known international comparisons of competitiveness, where the quality of the business climate is ranked in descending order (1 is most competitive). Overall, The Gambia is in the middle of the rankings vis-à-vis other African countries. In the DB indicators, the Gambia is ranked 113th out of 175 countries, better than Tanzania and West African neighbors, notably Senegal (ranked 146th), but below some of the better-performing countries in Africa, such as Ghana, Kenya and Uganda and the improving Nigeria. The Gambia has generally placed well in the World Economic Forum's rankings[32]. In the latest WEF report, The Gambia ranks higher than the others shown in Table 5.1 for which data are available, except for Kenya and Nigeria. In the Heritage Foundation's IEF, on the other

[29] This chapter was prepared by Stephen Golub with the help of information provided by Abdou Njie and Abdoulie Toure and in FIAS (2004).

[30] See for example, Acemoglu, Johnson and Robinson (2004), Dollar and Kraay (2003), and Hall and Jones (1999).

[31] See Yeaple and Golub (2006) and Golub, Jones, and Kierzkowski (2006) for theory and evidence on the role of infrastructure in affecting productivity, exports and FDI.

[32] In the 2004 African Competitiveness Report, The Gambia was ranked 6th out of 25 African countries.

hand, The Gambia does less well than most other countries in the table, with a ranking of 123 out of 157 countries, compared to Senegal at 83rd and Mali at 88th.

Table 5.1: Selected Competitiveness Indicators - The Gambia and Other African Countries, 2006

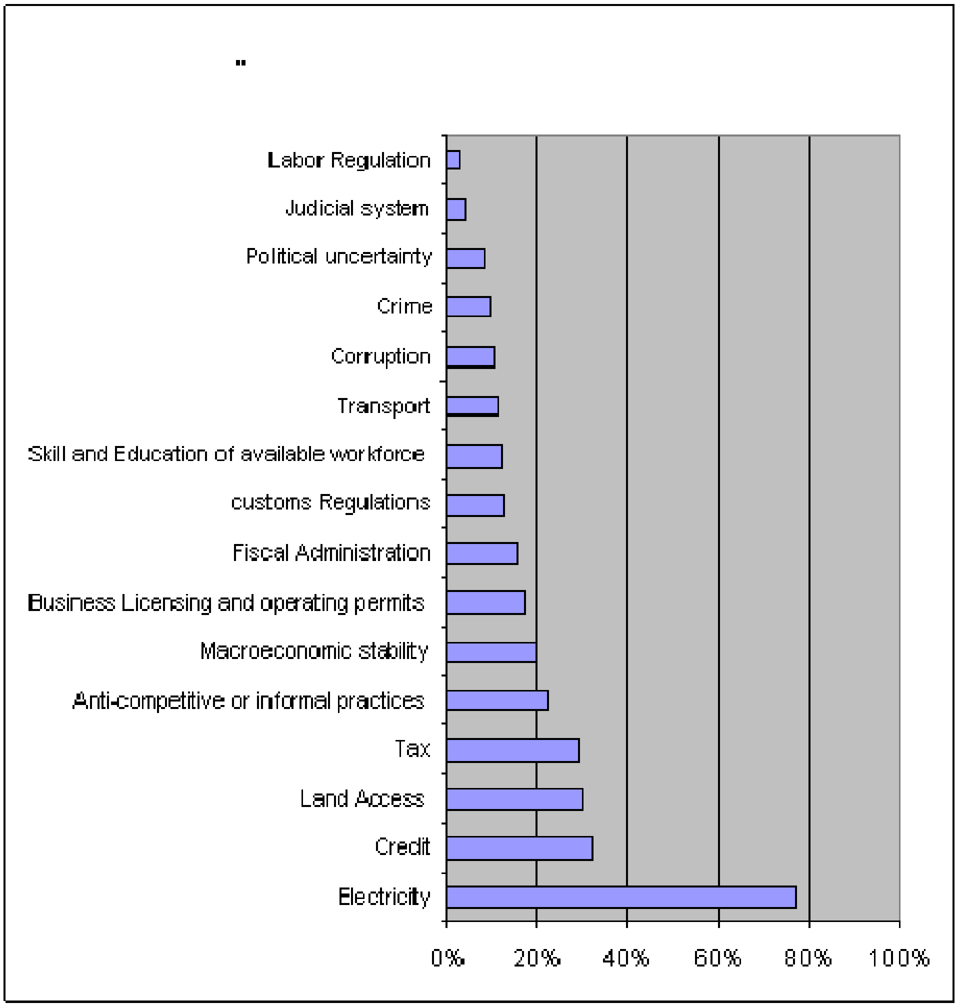
(1 = most competitive)

	Doing Business	World Economic Forum	Heritage Foundation
The Gambia	113	102	123
Benin	137	105	117
Ghana	94	NA	105
Guinea	157	NA	126
Guinea-Bissau	173	NA	131
Kenya	83	94	95
Mali	155	118	88
Nigeria	108	101	146
Senegal	146	NA	83
Tanzania	142	104	94
Uganda	107	113	66
Number of countries	175	125	157

Source: World Bank, World Economic Forum, Heritage Foundation.

204. ***Ranking by Issue***. The above-mentioned surveys also ask local investors about the severity of the various constraints they face. Figure 5.1 shows the results for the recently completed ICA for The Gambia, based on interviews with 174 formal firms. Electricity is by far the most serious obstacle, followed by credit, land access and taxation. Importantly for the DTIS, customs administration and transport are seen as of relatively minor importance. For informal firms the rankings are similar, except that access to credit is almost as important as electricity and macroeconomic stability is surprisingly third. Customs is ranked as the least important constraint by the informal sector.

Figure 5.1: Relative Importance of Constraints to Growth in Formal Sector Firms*



* Percentage of formal firms perceiving obstacles to be "major" or “very severe".

Source: World Bank, Investment Climate Assessment 2006.

205. The DB indicators are aggregated from 10 policy categories. Table 5.2 compares The Gambia’s scores by category to those of a few nearby countries. The Gambia’s scores vary widely, doing well on “trading across borders” and “employing workers” and poorly on “protecting investors”, “paying taxes” and “getting credit”. The Gambia also performs poorly in some sub-categories. The cost of starting a business is nearly three times per capita income, about double the average rate in sub-Saharan Africa. The total tax rate as a percent of profits is much higher in The Gambia than in other African countries. For international trade, The Gambia is the third best in sub-Saharan Africa. Times to export and import are less than half the African average, and costs of trading are about one quarter. Overall these results are consistent with those of the ICA as well as others such as the WEF: customs administration and international trade procedures more generally are not seen as key problems in The Gambia, but some other aspects of the institutional environment are not so favorable.

206. The remainder of this chapter discusses some of these issues in more detail.

Table 5.2: Doing Business Indicators by Issue, Selected Countries, 2006

	The Gambia	Ghana	Mali	Senegal
Ease of Doing Business Composite	113	94	155	146
Starting a Business	124	145	163	150
Dealing with Licenses	73	83	122	66
Employing Workers	25	120	131	152
Registering Property	130	113	93	151
Getting Credit	143	117	143	143
Protecting Investors	162	33	99	135
Paying Taxes	165	77	141	159
Trading Across Borders	24	61	167	94
Enforcing Contracts	53	50	140	138
Closing a Business	76	94	99	74

Source: World Bank Doing Business Indicators, online.

INFRASTRUCTURE: ELECTRICITY AND TELECOMMUNICATIONS

207. The ICA and DB identify access to finance as one of the most important constraints in The Gambia. Like many countries in the sub-region, The Gambia has an underdeveloped and undiversified financial sector; the financial market is dominated by a few commercial banks and poorly capitalized insurance companies. There are currently eight private and largely foreign-owned commercial banks and nine insurance companies. Notwithstanding prospects for entry of additional banks, the banking system remains highly concentrated, with two large banks, Standard Chartered and Trust Bank, accounting for the bulk of the system's assets and liabilities. There are also non-banking financial institutions and village savings and credit associations which provide micro credit facilities at a very small scale to agriculture and the informal sector. The possibility of establishing a stock market for financing long term investment has been studied by the Central Bank but, given the size of the economy, such a venture is not feasible in the immediate future. The possibility of participating in a regional stock exchange is an option The Gambia should consider. One of the major banks in The Gambia (Trust Bank Ltd) is already listed on the Ghana Stock Exchange. Newly-privatized companies could perhaps also be listed on such exchanges.

208. ***Electricity*** is identified by the ICA as the most important constraint facing formal sector firms. Power outages are frequent and the price of electricity is very high even by African standards (Table 5.3). The recent increase in NAWEC electricity and water tariff to 30 percent effective November 2006 has further damaged The Gambia's competitiveness relative to other African countries. Lack of investment and inadequate maintenance of the aging infrastructure

have led to a progressive decline in reliability, cost effectiveness and efficiency of the state-owned National Water and Electricity Company (NAWEC). Power losses are estimated at 35-45 percent, far above the industry norm. Of these losses, NAWEC estimates that 25 percent are attributable to theft with the remaining 75 percent being technical.

Table 5.3: Comparative Cost Structure – Electricity and Telecommunications

	The Gambia	**Ghana**	**Côte d'Ivoire**	**Senegal**
Electricity rates (non-residential) US$ per kwh	\$0.33-0.38	\$0.08-0.10	\$0.11-0.13	\$0.16-0.18
Telephone charges to Europe per minute	\$0.55-0.65	\$0.50	\$0.92	\$0.34-0.38

Source: NAWEC, Volta River Authority, WAEMU Central Bank (BCEAO) for electricity rates; ECOWAS data base for telephone rates.

209. Energy has been identified by the government as a priority sector in the Poverty Reduction Strategy Paper II. The main program during the first three years of the PRSP II is to expand the generation, transmission and distribution of electricity in the Greater Banjul Area to meet existing and projected energy demand. The 2004 Electricity Act liberalizes the sub-sector and opens it up for private sector investment but it has only been partially implemented.

210. NAWEC was slated for divestiture under the Track I privatization category. However, the government opted instead for a 5-year management contact with a private firm to begin the process of improving performance and restructuring of NAWEC. Earlier efforts by the government to advance private sector participation in electricity have not been very successful, partly due to the absence of an appropriate policy and legal framework. The partnership with South Africa's ESKOM negotiated in 2003 did not materialize. The government backed away from a Memorandum of Understanding (MOU), agreed at the technical level. Recently, however, the Lebanese IPP Global Management Services installed 25 Mega Watts of generating capacity at the Brikama Power Station for the Greater Banjul Area. Reliability of supply improved in early 2007, but at the cost of a 30 percent increase in tariffs, making electricity far more expensive than most other African countries (see Table 5.3).

211. At present, NAWEC does not cover its costs despite high rates and effective subsidies in the form of low-cost access to credit from the government. As a result, the company has a chronic shortage of funds for maintenance and investment. The high costs reflect the extreme inefficiency of the operation, which results largely from underinvestment, creating a vicious circle. Furthermore, overuse of equipment and the need to shed load frequently so as to rotate the scarce supplies of power to different areas itself further stress the system.

212. Even with the new IPP at Brikama, the power situation remains dire with total available capacity of 60 MW against a suppressed peak power demand of perhaps 150 MW. Moreover, adding further generating capacity by itself will accomplish little, given the old and overloaded transmission and distribution system, with a transmission capacity of some 50 MW. Thus the priority is expanding the transmission and distribution system.

213. In the short run, NAWEC should strive to improve the efficiency of distribution and collection as a first step towards reversing the downward spiral of underinvestment and rising

costs. Competitively-procured service contracts, with payments based on performance in improving efficiency, should be issued. Improved distribution efficiency would have multiple benefits: higher revenues, lower costs, and reduced imports of oil, which is used to power the generators. In the longer run more investment is required. Since private sector investors are not likely to invest in transmission projects, the government should as a matter of urgency seek funding from multilateral or bilateral institutions.

214. Collection efficiency is improving due to installation of pre-paid electricity meters and is at about 80 percent. Government agencies are chronic non-payers, but there are plans to introduce meters in government buildings. Also, the possibility of obtaining power generated in the sub-region within the context of ECOWAS Power Pool should be explored. NAWEC should also clamp down on illegal connections. The West African Power Pool (WAPP) seeks to establish a common grid linking different states. It is not expected to materialize immediately, but could eventually provide one third or more of the Gambia's power. Studies have also been undertaken into alternative renewable sources of energy particularly bio-fuel and solar power. Government should consider providing incentives to investors in alternative energy.

215. The rural electrification project is expected to be completed in 2007, providing a boost to the development of rural industries. The tariff structure has yet to be determined, and must balance financial viability against meeting basic needs.

216. NAWEC is also responsible for distribution of water. This task is undermined by the difficulties with electricity since the water must be pumped. Although the water situation is much less dire than for electricity, and water quality is good, some areas are subject to daily cuts in water supplies and pressure is often weak. Consideration should be given to separating water supply from electricity generation and distribution, as is the case in most other countries.

217. The ***telecommunications*** situation is far superior to electricity, although still in need of improvement. The Gambia Telecommunications industry comprises a state monopoly for fixed (GAMTEL) and two GSM providers (GAMCEL and AFRICELL). A third mobile network COMIUM will soon be operational. There are also four Internet Service Providers (ISPs). The pending Telecom Bill is expected to open up competition for fixed lines.

218. The costs of fixed line telecommunication services provided by GAMTEL exceed the regional average (see Table 5.3 above). However, prices for mobile telephone calls are on the decline with more market entry and competition. Connection rate for mobiles are generally high and compare favorably with many countries in the sub-region. As for NAWEC, the government implicitly subsidizes GAMTEL through low-cost credit. The financial situation of GAMTEL is much sounder than for NAWEC, however.

219. The four commercial ISPs in The Gambia channel their internet traffic through one international data gateway owned by GAMTEL. A second gateway has been issued to a private operate GAMSAT. Some of the ISPs have wireless access infrastructure configured for high speed internet services. However, they remain handicapped by limited access to the internet gateway. GAMTEL does not provide full broadband access due to the failure to invest in the requisite equipment, and its desire to remain the dominant provider. There are, however, plans for such investments in 2007.

220. The proposed Telecommunication Bill further liberalizes the market. However, plans to unbundle GAMTEL and expand private sector participation have stalled, mainly because of the

absence of a legal framework and GAMTEL's reluctance to open its fixed line network for competition.

221. The Public Utilities Regulatory Authority (PURA) was established in 2001 to regulate newly-privatized utilities in electricity, water, and telecommunications. However, the Act only came to force towards the end of 2003 and the Authority set up in 2004. PURA's functions are to oversee competition and rate-setting so as to protect consumers while ensuring viability of utilities. It remains to be seen if PURA will have sufficient resources, authority and autonomy to carry out its mandate. The fact that the government has removed two General Directors since the inception of PURA in 2003 is not encouraging.

222. ***Recommendations for improving provision of electricity and telecommunications services.***

- Immediately seek to improve electricity transmission and distribution efficiency through competitively-bid contracts with performance incentives.
- Accelerate the unbundling and divestiture of NAWEC either through public-private partnership or the participation of more IPPs.
- Public investment for the upgrading and expansion of the electricity transmission and distribution system of NAWEC is urgently needed, with funding from donors.
- Once the transmission and distribution problem is addressed, the government should encourage the participation of more IPPs in generation.
- Expedite the enactment of the Telecommunication Bill which will provide the framework for the unbundling of GAMTEL and opening up the sector especially for fixed line telecommunication services.
- GAMTEL should be required to provide broadband access to the internet gateway to other providers.
- Real power and authority should be accorded to PURA to carry out its mandate.

ACCESS TO FINANCE

223. Long term financing for productive investment is of course vital for economic development, but is largely unavailable in The Gambia, especially for small and medium enterprises (SMEs). Various attempts to establish development banks have proved unsuccessful as the banks have suffered large losses from non-performing loans, due to poor management and political interference. The defunct Agricultural Development Bank is a classic example.

224. Currently, commercial bank lending to the private sector is mostly short term and largely related to the re-export trade. Table 5.4 shows the sectoral composition of bank lending. Until recently, the share of loans going to the distribution sector (largely re-exports) amounted to about 40 percent of total lending. In 2005 the distributive trade sector's share was lower, at 24 percent. The sharp drop in the share of bank credit extended to the distribution sector in 2004-2005 did not reflect a drop in lending to this sector but rather was due mainly to the rise in bank lending to the agriculture sector. This increase in agricultural lending did not unfortunately reflect a burst of new lending, but was a result of the restructuring of non-performing loans for groundnut marketing in previous years. These non-performing loans have now been adequately provisioned by the banks based on the guarantees provided by the state agency, the Social Security and Housing Finance Corporation.

Table 5.4: The Structure of Sectoral Lending

(Percent of total new loans)

Sector	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Agriculture	16	6	5	4	11	15
Construction	8	7	6	6	5	7
Transportation	4	6	7	12	7	6
Distributive trade	46	44	40	38	30	24
Tourism	4	4	2	3	6	3
Others including fishing & personal loans	23	32	40	37	41	45
Total	100	100	100	100	100	100

Source: Central Bank of The Gambia

225. Bank loans are overwhelmingly short term or overdraft facilities with little or no roll over. The average maturity of these loans is 90 days. Despite being the dominant customers of the banks, the distributive trade obtains 80 percent of its total credit needs abroad mainly through suppliers credit, while they use the local banks only for their local financing needs such as the payment of custom duties.

226. Loan interest rates are also very high, while deposit rates are quite low. Despite the relatively low T-bill rates (11 percent) and rediscount rates (14 percent) in September 2006, the commercial bank lending rates were still around 20-25percent. Interest rate spreads between lending and deposit rates increased from 12 percent in 2000 to 24 percent in 2004 and the real interest rate on deposit actually turned negative beginning in 2002.

227. There are several reasons for inadequate supply and high cost of loans to the private sector: bank inefficiency, the high public debt, the short-term nature of deposits, the lack of an organization to disseminate information on credit risk, and deficiencies in the legal environment.

a. *Bank inefficiency and bad loans.* The volume of non-performing loans amounts to about 20percent of total loans; 40 percent of the bad debt is in distributive trade and 27percent in agriculture, mainly in groundnut marketing. Nevertheless, the situation seems to have improved since 90 percent of the non-performing loans have been provisioned for. These non-performing loans and bank inefficiencies contribute to the large gaps between deposit and loan interest rates.

b. *Monetary and Fiscal Policies.* Relatively high real interest rates due to high public domestic debt combined with restrictive monetary policy, as discussed in Chapter 2, crowds out the supply of credit to the private sector, as banks and other financial institutions can obtain higher returns on their funds by investing in Treasury Bills. In 2004 T-Bills accounted for 40percent of commercial banks assets.

c. *Nature of bank liabilities*. The bulk of the resources available to banks are in the form of short-term demand, time and savings deposits. The maturity of these deposits is generally less than one year. One possible alternative source of funding, more suitable for long-term loans, is lines of credit from multilateral financial institutions for on-lending to SMEs.

d. *Lack of information about credit risk*. There is no credit reference bureau or other similar organization to provide information about the creditworthiness of potential borrowers. However, the Central Bank in agreement with the commercial banks has decided to set up a Credit Reference Bureau. Steps have already been taken to identify office space and staff for the Bureau and arrangements are underway to acquire computer software similar to the one being used by the Credit Reference Bureau of Nigeria.

e. *Cumbersome Judicial and Legal Framework.* The current judicial framework, particularly the Mortgage Act of 1992, constrains the ability of commercial banks to obtain redress against defaulters. Section 18 of the Act requires the court's approval of a receiver and Section 20 impedes the seizing of collateral on a delinquent loan, as the lender must apply to the courts for an order of judicial sale of the mortgaged property. The Sheriff Act and Civil Process Act of 1992 is also limiting. The Sheriff's Division needs improvement in the area of manpower, logistics and motivation to ensure greater efficiency and integrity in executing judgments.

f. *Lack of Technical Management Expertise.* There is a dearth of bankers with knowledge of lending techniques suitable for SMEs, limiting the number of projects that banks can effectively and speedily process. More bankers should be trained in the areas of project analysis and appraisal.

228. ***Recommendations for increasing access to finance***

- Review the 1992 Mortgage Act to amend or rescind Sections 18 and 20.
- Strengthen the Administrative capacity of the courts including the setting up a commercial court with full-time judges.
- Explore the possibility of participating in a regional stock exchange within ECOWAS.
- Set up a credit reference bureau to enhance banks' capacity to screen credit risks.
- Encourage the Bankers' Association in collaboration with other training institutions in the country to offer training courses for bankers.
- Strengthen fiscal and monetary policy management through the reduction of the public domestic debt and the avoidance of extra-budgetary expenditures to ensure macroeconomic stability. (See Chapter 2).

TAXATION

229. The Gambia has a very narrow tax base and is highly dependent on import taxes. The newly established the Gambia Revenue Authority (GRA) has as one of its objectives the broadening and diversification the tax base in the country, notably by taxing the informal sector, but this is not easy to accomplish.

230. Another central issue concerns the proliferation of local and sectoral taxes, which together are oppressive to business. For example, the tourism industry faces a variety of special and uncoordinated taxes from both municipalities and the Tourism Authority. The cumulative level of these taxes is too high. Greater coordination of the various taxes is urgently needed. The possibility of substituting a value added tax for the sales tax should be considered as a way of improving the equity and efficiency of the system. Moreover, the tax rules are not well disseminated.

231. ***Recommendations for making the tax system more business-friendly***

- GRA should explore the possibility of broadening the tax base by extending the tax net to the informal sector and improving the efficiency of tax administration and collection, so as to reduce dependence on import taxes.
- Consolidate the various taxes currently imposed on business from different authorities.
- The Tax Tribunal as provided in the Income and Sales Tax Act 2003 should be implemented without delay.

LEGAL AND JUDICIARY SYSTEM

232. The overall legal framework for business in The Gambia is largely consistent with international best practices and some important laws have been enacted recently, notably the Gambia Investment and Free Zone Act 2001 and the Revised Income and Sales Tax Act 2003. Implementation by the judiciary and the administration, however, has lagged. For example, the Local Government Act 2002 has only been partly implemented leaving the financial and audit section unenforceable. There is also inadequate up-to-date information on laws, as legal decisions are not published. Investors complain that they are not keep informed about legislative decisions. The lack of independence of the judiciary from the executive branch is also a problem.

233. Poor functioning of the court system and slow execution of court orders are not perceived as one of the major impediments to doing business in the country according to the ICA, but deficiencies of the judiciary impinge on other constraints, notably access to credit. Court cases move very slowly and enforcement of judgments can take even longer, especially for cases involving debt recovery. The key constraints include the following:

- insufficient judges and magistrates;
- poor supporting administrative staff;
- inadequate logistical facilities including information technology;
- poor remuneration, and inadequate incentives for judges, magistrates and other legal officers.

234. The government has embarked on a major reform program to strengthen the judiciary under the Economic Management and Capacity Building Project (CBEMP), which includes:

- The introduction of an Alternative Dispute Resolution for negotiation, adjudication and mediation. A Dispute Resolution Foundation has been established.
- Application of computers and communication technology in the judiciary.
- A commercial chamber has been set up in the high court to facilitate liquidation of collateral and bankruptcy procedures. However, the three commercial court judges hold only part time appointments.

- Capacity building is being addressed by the CBEMP through local and overseas training of lawyers and judges; the decision to create a faculty of law in the University of the Gambia will in the medium term increase the supply of legal professionals in the country.

235. ***Recommendations for the legal system***

- The Attorney General's Chamber should publish a compendium of recent amendments of the law as soon as possible.
- The Attorney General's Chamber should also provide access to legal information via the internet using the "E-Government" project.
- The new approach in which stakeholders are consulted and invited to comment on draft legislation should continue and be institutionalized.
- Training of judges should be improved.
- The government and the Bar Association should provide adequate resources to fully support the newly created Faculty of Law at the University of the Gambia.
- Appoint specialized judges to the commercial courts on a full time basis.
- Government should provide adequate financial resources to the courts.
- Salary structures and other remuneration of judges, magistrates and other judicial personnel should be raised.

ACCESS TO LAND

236. The land tenure system does not in itself pose any major obstacles for industrial use of land. The problem is rather the approval process for acquiring and leasing of land for commercial purposes. In agriculture, however, customary legal traditions prohibit women from inheriting land. Since 80 percent of women are engaged in agricultural activities new legislation is necessary to remedy this inequity.

237. Most land in the Greater Banjul area is State land and approval from the Department of State for Local Government and Land is needed for the leasing and mortgaging of land. The approval process for obtaining a lease or transfer of land for commercial purposes is seen as one of the main impediments to investment in The Gambia. Many investors find the process of leasing or mortgaging land very cumbersome, taking up to one year. The problem is compounded by the fact that there is no complete and up-to-date real estate cadastre in the Greater Banjul area, as the cadastre is only restricted to land that is already leased. Establishing proof of ownership is a major problem contributing to the inordinate delays in processing leases. Another source of delay is that Secretary of State for Local Government and Lands must personally approve all land transfers. A proposal is under consideration for the delegation of authority to approve land transfers.

238. ***Recommendations for the legal system***

- Rapidly set up a Permanent Land Commission to administer the land approval process.
- Complete and update the real estate cadastre.
- Establish women's rights to inherit agricultural land.

LABOR RELATIONS

239. Labor relations are considered less problematic in The Gambia than the other obstacles discussed in this chapter. Nevertheless, employers find it difficult to lay off employees. The

Labor Act of 1990 mandates a lengthy and detailed procedure for layoffs. The proposed new Labour Act and the newly-established Industrial Tribunals in KMC and in Banjul are expected to improve labor relations; there are plans to institute similar tribunals in other parts of the country in the immediate future. Employers also tend to seek out-of-court settlements in disputed cases, as they view the courts as biased and unreliable. The newly established Industrial Tribunal, which is now functional and is staffed by a magistrate, is expected to address labor disputes relating to termination of employment more expeditiously and judiciously.

240. The dearth of skilled Gambian workers is a more important constraint on economic growth. Almost 75 percent of the skilled workers employed in the country are non-Gambians. Some new vocational training programs are being established, notably under the National Training Authority (NTA), a public/private partnership.

241. ***Recommendations on labor relations***

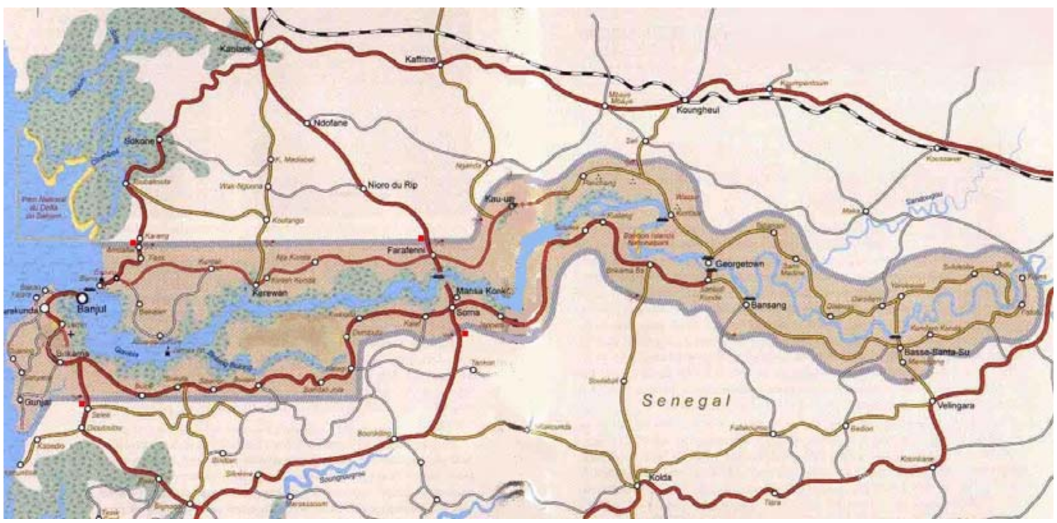
- The newly established Industrial Tribunal should be made more functional by providing it with more manpower and financial resources.
- Vocational training programs should receive a high priority.

6 THE TRANSPORT SECTOR

242. The transport system of The Gambia is largely determined by its unique geographic features:

- Its narrow, elongated shape along both sides of a major river,
- An estuary port that can be reached from the sea through a channel of 26 nautical miles,
- The Gambia River that runs for 480 km in the country,
- Mangrove swamp extending inland along the banks of the river, which make it difficult to establish permanent settlements,
- Senegal which contains The Gambia on three sides and is in need of a north-south passage.

243. In this chapter, the focus is on land and water transport. Air transport is discussed in the chapters devoted to tourism and horticulture.



THE PORT OF BANJUL

244. The focal point of the transport system is the port. This is run by the Gambia Port Authority (GPA), and is a public entity, but shares some activities with private operators (movements, handling, stevedoring). The port is rather small in size (2 jetties, a berthing length of 750 m, and one million tons of cargo per year) but quite efficient, mainly because of unusually rapid clearance of merchandise through the port. Access to berths is limited to vessels under 15,000 tons. A master plan has been drafted in 2002 and is being implemented. At this date, it compares well the other major ports in the region (Dakar and Abidjan) in terms of speed, though not in terms of size of port or depth of harbor.

245. The number of vessels calling on the port of Banjul is 280-300 per year – a little less than one per day. Import traffic has doubled in the last 10 years, such that the port now handles about 900 000 tonnes a year. As its theoretical capacity is 1.2 mt., there is still some room for more traffic without additional investment in capacity. Containerized traffic has grown four-fold over this same time period, and it now accounts for 45 percent of total imports. However, this traffic is extremely unbalanced: almost all the incoming boxes are full, 90 percent of the outgoing boxes are empty.

Table 6.1: Cargo Traffic Statistics, 1994-2005 (in 000 t)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
IMPORTS												
Imports, containerized	131.0	100.8	112.0	130.4	150.9	200.1	191.5	234.8	263.1	354.1	405.9	400.8
General cargo	25.3	11.4	16.7	8.2	7.3	11.8	14.6	19.4	35.0	23.1	21.1	8.8
Rice	78.9	94.5	85.3	80.7	86.5	77.8	93.8	105.4	131.1	114.2	85.1	130.5
Sugar	43.8	38.4	38.7	38.6	63.2	83.8	85.2	83.4	104.6	98.1	85.8	54.0
Flour	29.7	12.3	29.4	15.5	24.7	34.8	26.6	44.3	26.5	24.9	19.0	22.0
Cement	97.3	89.4	98.2	102.3	105.6	140.5	101.3	105.6	191.7	201.1	120.4	158.9
Petroleum products								87.4	78.3	77.7	77.5	67.4
Heavy fuel	77.0	54.2	77.4	71.6	91.8	91.1	88.2	16.0	32.1	28.5	26.8	35.0
Total Imports	**491.4**	**403.1**	**460.7**	**449.6**	**534.2**	**658.0**	**610.9**	**710.6**	**872.0**	**939.1**	**860.8**	**898.7**
EXPORTS												
Exports (containerized)	34.8	28.5	34.0	37.8	37.5	40.8	45.6	59.1	64.0	89.3	86.6	84.8
Groundnut	7.7	18.2	17.1	6.2	23.9	5.7	1.5	6.9	3.0	0	0	0
Total Exports	**48.8**	**52.5**	**51.3**	**44.7**	**62.0**	**53.3**	**54.0**	**74.8**	**101.9**	**92.0**	**96.0**	**84.8**
Total trade	**540.2**	**455.5**	**512.0**	**494.3**	**596.2**	**711.4**	**664.9**	**830.9**	**973.8**	**1,032**	**956.8**	**983.5**

Sources: HBC (1994-2000), GPA (2001-2005)

246. The volume of traffic far exceeds the domestic demands of The Gambia due to a vibrant overland re-export trade to neighboring countries. There is however virtually no re-export through coastal shipping at present. Banjul can not be characterized as a maritime hub, but neither can any of the other ports in West Africa. The major shipping lines have instead established hubs in Southern Europe on their global shipping routes, from where they operate loops to serve the West coast of Africa. The competition in West Africa is therefore to obtain advantageous positioning on those loops – one of the first ports of discharge or one of the last for loading – and to attract importers through the quality of service.

247. In Dakar, Banjul, Conakry and Abidjan "terminal handling charges" (THC) are in the range 150 euros to 250 euros per TEU container, with Banjul reportedly at the lower end. The competitive advantage of Banjul, when there is one, is no more than 50 euros. This is more than offset by a disadvantage in freight rates between Europe and West Africa which are set by an agreement between major shipping lines (EWATA). The Banjul rate (2,300 euros per TEU) is higher than that for Dakar and Abidjan (1875 euros) and also for Conakry (2000 euros), easily offsetting any advantage in THC.

248. In 1998, the government introduced a Memorandum of Understanding with GPA with 11 quantitative performance measures of port management. The most important ones for shipping companies appear to have been met (turnaround time for container vessels – 22 hours, rate of unloading of containers – 17 per hour, and of bagged cargo – 50 tons per hour). Targets for labor cost per ton of cargo have not been met, but the payroll represents only 17 percent of operating costs which is somewhat lower than in Dakar (20 percent).

249. Banjul is at least as efficient as Dakar for ship-to-shore handling, and much more efficient for on-shore handling. It performs better than Conakry in both respects. Shipping agents estimate that it is 10-30% cheaper to import a container through Banjul as opposed to Dakar. But they underline that the main advantage of Banjul is the speedy clearance of merchandise due to close cooperation with customs – usually a few days, as opposed to 10-15 in alternative ports. However, the port does not seem to have made much progress in improving efficiency in recent year. Dakar enjoys the advantages of a better deep-water port, and much larger traffic, and is working to improve the quality of service. Dakar has also re-established coastal shipping to Zinguinchor in Southern Senegal (Casamance), and has launched similar service to Cape Verde and Guinea Bissau. Maersk, which had once chosen Banjul as a hub (in 1993), is now focusing on Dakar, where it is competing to be the new container terminal operator.

250. *Strategic Planning*: A Master Plan for the port was prepared in 2002, and implementation is currently underway. Most of its recommendations are sound. However, an updated traffic study should be undertaken since the estimated traffic growth may be overestimated due to some recent developments: the development of Dakar port, including the present partnership for container movements, plus the modernization of the Dakar-Bamako railway, changes in shipping lines practices, and new developments in the port of Conakry.

251. *Port modernization*: The approach channel to Banjul port poses a major constraint to further expansion. Periodical dredging is needed in order to regain design depth at all berths. These costs must be recognized as a necessary expense of running an estuary port and be included in the operating budget, rather than being treated as "extraordinary investments". The solution proposed in the Master Plan seems appropriate - channel dredging investments (7 M euros) and maintenance dredging every five years (2 to 3 M euros). There is no other alternative. Banjul port will remain an estuary port and will never enjoy the natural advantages of a deep-sea port.

252. The on-land area of the port is also crowded and needs enlargement. The storage area needs redesign and new facilities, possibly through a partnership with private operators. The transit shed at the south terminal is to be demolished soon. If more space for storage is needed in the coming years, it may be found in the 'New container terminal'. This yard is to be physically merged with the main port area when the Half-Die area is reclaimed. On the other hand, no new investment in berthing capacity is needed at present, so the planned jetty extension can be postponed.

253. *Labor.* Shipping companies complain about the rigid work rules and low productivity of the stevedores.

254. *Pollution risks*: In the Master Plan, a special section is devoted to environmental concerns. The port is not equipped to handle emergency oil pollution situations though a contingency plan is in place. There are two documented cases of vessels carrying toxic wastes trying to unload them in Banjul. The fire fighting system needs to be revamped. The proposed GPA action program is very relevant and should be implemented.

255. *Maritime affairs:* The GPA is not only a port but also a "maritime department" and the operator of river ferries. The GPA mandate should focus on port activities. A new agency for Maritime Administration (MARAD) is being created. It will be in charge of all issues relating to the Law of the Sea, the exclusive economic zone (EEZ), navigation in Gambian waters, lighthouses and channel buoys, as well as delivering the necessary navigation permits and professional licenses. It shall be the implementing and enforcing agency for international maritime conventions and subsequent protocols. It will also define a national strategy that would deal with the serious problems encountered by a fragile estuary. The MARAD bill has been passed into law, but a budget has yet to be allocated. It is unadvisable to ask GPA to support the operating budget, though it could be asked to contribute to the MARAD investment budget where its own interests are served, on a case by case basis.

256. *Coastal shipping*: Coastal shipping is almost non existent now, though it used to be active some decades ago. GPA should explore with its partners (other ports, local tramping operators) the possibility of starting a service linking Banjul to neighboring harbors (Conakry, Bissau, Ziguinchor, Praia, etc) or to be incorporated into existing services offered by Senegal. Such a service would deal with general cargo, most of it originating from containerized imports which would be unstuffed in the bonded port area or in Banjul unbonded warehouses.

257. Banjul will have to work hard to remain competitive with Dakar and Conakry. The future of the port will depend not just on its own efficiency but also on that of the transport system which links the port to its hinterland in The Gambia and beyond. This in turn will determine the size of the hinterland that Banjul port can realistically serve.

258. *Container transport to the North shore*: One of the obstacles to port development is the gap between Banjul and the North bank of the Gambia River estuary. Containers have to be trucked to the north on an all-purpose ferryboat, which consumes much time and is unreliable for operators who look for streamlined operations. A solution yet to be considered is the creation of a container depot on the north bank at Barra. This depot would be inside the GPA perimeter though it may be developed and operated by a private partner through an appropriate public-private partnership (PPP). It would not be a port *per se* since its depth would not be more than 3 meters at low tide, just sufficient to allow barges to moor. The use of dedicated barges would also free up space on ferries for passenger traffic, thereby facilitating ferry operation. A technical, pre-feasibility study would be needed, after which a partnership should be explored with one of the

shipping groups. Reasonably, it could take four to six years for such a project to mature; for an opening in 2011-2012.

CROSSING THE RIVER GAMBIA : FERRYBOATS

259. Currently, The Gambia relies exclusively on ferryboats to close the gaps in the national and regional road network created by the Gambia River. There are two motorised crossing points of major importance (on the coastal highway : Banjul-Barra) and on the Trans-Gambia highway (Bamba Tenda-Yelli Tenda), plus seven crossing points of much lesser importance.

260. Initially, the ferryboats were operated under the then Ministry of Finance and Trade, through the Gambian Produce Marketing Board. In 1993 they were transferred to the Gambia Passenger Transport Company (GPTC). In 2001, the government directed GPA to take over ferry services under a caretaker management. New ferries were acquired in 1994-1995 and again in 2006 and 2007, and others were rehabilitated in1997, 1999 and 2000.

261. Ninety percent of the vehicle traffic is concentrated on the two main crossings. In Banjul and Barra, 15 roundtrips are organized every day. In Yelli Tenda, up to 20 roundtrips may be organized on a busy day. The Trans-Gambia crossing provides about 55 percent of the income. Vehicle traffic generates 80 percent of the ferry earnings. Trucks used to have to queue for days at a time before crossing; such delays have now shortened, but can still be quite long, as much as 24 hours.

262. Capital expenses are very inadequate. No investment was made in 2005, though in 2006 a capital budget of 21.6 M Dalasis has been earmarked. Much more will be needed in the next years in order to rehabilitate the passengers installations at both crossings.

263. Though ferries are boats, they serve road vehicles (and passengers) and are part of a road transport system. Putting the ferries under GPA administration in 2001 was not a bad move. Management and operations of the vessels have undergone significant structural and operational development with a view to improving efficiency. However, at present, ferryboats present a financial burden to GPA through an operational subsidy and on-going investments (new ferries, terminal installations, etc). The very high cost of maintaining and repairing the ferries is undermining the otherwise sound revenue position of GPA.

264. Consolidating the investment budgets for port and ferry activities leads to a de-facto cross subsidization of ferries. Such a subsidy undermines the capacity of GPA to invest in port activities. An independent ferry operator would be forced to tackle the issues facing this service more efficiently. Subsidizing ferries could be done with more transparency if it were more closely linked to their contribution to the economy as well as their social character. Consequently, it would be wise to explore the possibility of operating the ferryboats as an independent structure, linking their utility to land transport.

265. In the nineties, the GPTC was plagued with problems of its own and could not mobilize funds to upgrade and modernize ferry activity. Thus a return to the GPTC does not seem appropriate. A better solution might be found with the proposed Gambia Road and Transport Services Authority, as this could facilitate access to funding through donor assistance to the road transport system. Another option to be considered is privatization of the ferries, as private investors have already indicated an interest in buying and operating this service in the recent past.

ROADS AND ROAD TRANSPORT

266. Altogether, the road network of The Gambia comprises 1,559 km of classified roads of which 495 km are paved and 1,064 km are unpaved. There are also approximately 1,300 km of rural feeder roads. In 1997, a National Transport Policy (1998-2006) was formulated. In 2003, the Gambia Roads and Technical Services (GRTS) Act provided a new framework for better management of the road network, including the establishment of a road authority (GRSTA) which is becoming fully operational in 2007, and a proper road fund. The Poverty reduction strategy 2007-2011, coupled with the public expenditure review of the DoSWCI (June 2004) gives a clear picture of the constraints and challenges facing road transport. The bulk of the road investment made over the past decade has been on the primary network. The North bank road is considerably improved; the South bank road, however, remains rather poor. Using the North bank road requires taking the ferry to cross the river to reach the port, so improvement in the South bank road is a priority, which the EU plans to support.

267. Road transport is the dominant mode of transportation, accounting for more than 90 percent of the total motorized freight and passenger movements. Long distance haulage is divided between a) shipments of rice, flour, etc. to a Gambian destination, b) shipments to a neighboring country, and c) transport of groundnut exports to the Banjul area. Short distance haulage occurs between the port and the various depots in the greater Banjul area, or between stores. The transit through the Trans-Gambia from Northern Senegal to the Casamance (in compliance with the road transport agreement of 1997) has not much to do with The Gambia. Transport fares are liberalized and quite low; much lower in fact than they would be if proper amortization was taken into account

268. Each day, less than ten trucks are seen on each of the main east-west national corridors. An average of two to five loaded trucks a day is seen at the border posts on the coastal road. Senegalese transit transport through Gambia is steady: between 40 and 50 trucks on the Bamba Tenda ferry every day (in both directions); most of them are Senegalese.

269. From Banjul, export and import trucking routes to the neighboring countries use two roads: to the North via the Barra ferryboat and then to Kaolack; to the South via the Mandina Ba – Séléti road where it joins the Senegalese road to Ziguinchor. From Bassé, in the extreme Eastern part of the country, a route has developed to Velingara in Senegal. The latter two serve Casamance, Guinea –Bissau and Guinea. Some traffic also goes to Mali through Tambacounda, Senegal.

270. The Gambia's capacity to serve neighboring countries beyond Senegal is constrained by two major hurdles beyond its control – the quality of Senegalese roads, and the willingness of Senegalese authorities to facilitate transit trade. Authorities need to exploit ECOWAS agreements as much as possible to address this problem. The ECOWAS priority road transport program includes a) facilitation of road transport across national borders b) construction of the trans-West African highways network which includes the trans-coastal highway linking Lagos to Nouakchott (through The Gambia) and c) construction of interconnecting roads. ECOWAS-brokered agreements are to take over bilateral transit agreements, although the timing and effectiveness of ECOWAS control remains in some question.

271. An ECOWAS "Regional Transport and Transit Facilitation Program" is being implemented, which includes measures to:

* build joint border control posts on priority corridors;

* eliminate all other road control posts, official and informal, along all corridors;
* introduce and apply a single transit document under the Inter-State Road Transit (ISRT) convention, to be computerized and transmitted electronically from the entry ports to all border posts and at destination;
* set a single guarantee system to cover the customs risks, to be recognized by all countries;
* certify vehicles that meet required standards.

272. The ISRT convention was agreed upon in 1982 but never enforced. Within two to three years, the convention is supposed to become the rule. In the case of The Gambia, the first priorities are the creation of a guarantee fund and the construction of joint border control posts. Proper application of the ISRT convention, and arrangements such as "the sealed grid" for road convoys should allow smooth road services to eastern Senegal, Mali, Guinea Bissau.

A BRIDGE OVER THE RIVER GAMBIA

273. The biggest incentive that the Senegalese may have for collaboration is their desire for a bridge over the Gambia River in order to link the Casamance region to the rest of the country. This bridge is a necessity for Senegalese territorial integrity, but it would also close the historical gap between the North and the South of The Gambia. The bridge would be 950 m long and cost around 40 M euros. Clearly, it should be a regional venture. According to the Presidents of both countries, ECOWAS is to provide the overall framework, with reference to the Trans African highway network. According to the European Union, the *Organisation pour la mise en valeur du fleuve Gambie* (OMVG) is best suited, possibly by delegation by ECOWAS. The OMVG offers a better administrative structure to collect and manage the necessary external funding. Past studies are being updated and the EU is considering inclusion of partial funding in its 10^{th} EDF.

274. The key issue for The Gambia is the creation of a new pole of activity in the area, in order to compensate for the immediate loss of jobs due to the end of ferry service and its associated retail activity. The best possibility would appear to be the establishment of an upstream dry port where containers could be off-loaded (preferably from river barges) and cleared through customs before re-export to neighboring countries. The bridge could also generate significant revenues through toll charges.

RIVER TRANSPORT

275. The River Gambia used to be the backbone of the economy of The Gambia and the key feature of its trade with the sub-region. Sea-going vessels used to travel upriver, as far as Basse. However, river transport has shown a steady downward trend. The revival of river transport is part of the national transport policy.

276. In its heyday, the Gambia River Transport Company (GRTC) conveyed 80-90 percent of the groundnut harvest along the river to the processing facilities near Banjul. The Gambia Produce Marketing Board refused to pay realistic transport rates to its subsidiary, GRTC, which was unable to undertake routine maintenance and repairs. In 1991, there remained only one functional tugboat and eleven marginally acceptable barges. However, recently, some 20 barges have been rehabilitated.

277. Navigation is still possible, though siltation is a problem, and signaling has completely disappeared. The depth of the river at high tide is about -8m at Kerewan, -6m at Balingho/Yelli

Tenda, -3.5m at Kuntaur and -1m at the eastern border. The river is still navigable at least up to Kuntaur and even Basse.

ACCESSING THE MALIAN MARKET

278. One of the biggest opportunities facing The Gambia, but also one of its greatest challenges is capturing part of the Malian market. Mali is larger than any of its other neighboring markets, its economy is steadily growing, and it has no port of its own. Mali imports are about 1.5 Mt yearly, while its exports are between 250,000 and 300,000 tons a year. However, it does enjoy numerous options - primarily Dakar, Abidjan, Lomé, and Tema. Dakar enjoys the advantage of a rail link to Bamako (though in principle The Gambia could also use this service in a multi-modal system). At present, Banjul accounts for less than 1 percent of Malian trade.

279. If Gambia wants its port to become a Mali gateway, it must make sure that its road network is properly rehabilitated and maintained, that containers can move easily across the Gambia River, and offer a formal agreement with Mali for the creation of a Malian bonded warehouse. Bonded warehouses have existed for years, in Dakar, Abidjan, Kayes, and Bamako, but not in Banjul. The GPA says it has signed an accord with Mali for the Port of Banjul to be used as a gateway for cargo destined for Mali; a throughput of 500,000 t is projected, which means more than one fourth of all Malian movements. However, that agreement needs to be supported by improvements in the corridor and a strategy to promote Banjul and sell it to the Malian authorities. If the agreement is implemented, some expansion of the port may be necessary.

280. A north bank container depot at Barra across the estuary from Banjul and served by barges from the port is one option to facilitate container transport; a bridge on the Trans-Gambia is another. A useful parallel development would be the setting up of a dry port upcountry, on the Trans-Gambia at Bamba Tenda or Yelli Tenda, in Kaur or in Basse, to receive river transported goods and dispatch them by road to Mali. This would take advantage of the opportunities for low-cost transport offered by the river Gambia. If it were built at the Trans-Gambia ferry crossing, it would also respond to one of the concerns related to the construction of a bridge – the loss of jobs.

281. The interest of creating a dry port inside Gambia lies in pushing the international logistics center (the port) to the east, where it is closer to the regional road network: the Trans-Gambia highway, the Senegalese road to Guinea, the East-West axis to Mali. That would solve most of the problems that result from the poor connection of Banjul to this regional network.

282. The dry port should be located at a crossing of an East-West corridor with a North-South corridor, in order to increase Banjul's hinterland in the most efficient way. With the present road grid, the only feasible location is on the Trans-Gambia highway, on the Farafenni-Mansa Kanko road. However, two other locations may be of interest, provided the national road grid is improved – in Kaur where there is already a port, though idle at present, and in Basse, where access to the Tambacounda-Guinea link is easy.

283. Such a venture would have to be backed by the leading stakeholders: the GPA, Gambian freight forwarders, maritime companies, trucking associations, etc. The road network should be improved accordingly. The dry port would be a GPA dependency, even though it would be privately operated.

284. It is therefore recommended that a feasibility study be carried out to include:

* A sketch of the concept of the dry port and of its connection with Banjul port.
* A study of transport demand in the next ten years, with a focus on the possibility for The Gambia to capture a larger share of Malian trade.
* A study of river transport: barges, tugboats, wharves, navigation.
* A study of the best location.
* An estimate of costs.
* An assessment of technical, economic and financial viability.
* A possible institutional framework (public-private partnership).

CONCLUSIONS AND RECOMMENDATIONS

285. If Banjul is to compete with other larger ports in the sub-region and maintain its role as an attractive alternative gateway, it will have to make numerous improvements in its entire transport network, including but certainly not limited to the port. As other countries invest in improvements in their ports and related transport systems, The Gambia will have to run hard to stay one step ahead of them. The main elements of a medium-term strategy towards this end can be summarized as follows. However, with the exception of the recommendations related to road transport, these suggestions are not based on specific studies. Proper pre-feasibility and feasibility studies should be conducted taking full account of the regional perspective.

286. To summarize, our recommendations are as follows:

- Modernize the port.
- Promote coastal shipping.
- Set up juxtaposed border posts between The Gambia and Senegal and promote ISRT.
- Create a container depot in Barra, north of the estuary, as a GPA dependency.
- For the Banjul-Barra crossing, isolate ferry operations from GPA and separate container traffic from light vehicles.
- Build a bridge over the Gambia River on the Trans-Gambia highway
- Create a dry port, either at Bamba Tenda / Yelli Tenda, Kaur or in Basse
- Build and develop regional roads within the OMVG and ECOWAS frameworks and provide for their maintenance in a regional context,
- Restart river transport.

7 THE RE-EXPORT TRADE

OVERVIEW

287. Although there is no reliable data on the re-export trade, there is general recognition that re-export activities have long been one of the most important industries in The Gambia. Re-exports are estimated to account for about 80 percent of total exports. Net re-exports (after deducting imports intended for re-export) contribute about 20 percent of foreign-exchange earnings, and 7 percent of GDP, below tourism's contributions but larger than those for groundnuts[33]. Large numbers of people are employed in the handling, storage, and transport of goods. The re-export trade also contributes significantly to government revenue as goods are subject to tariffs when imported even if intended for re-export. As noted in chapter 2, 40 percent of The Gambia's total government revenues and 50 percent of tax revenues are from taxes on international trade, a very high dependence even by African standards. Imports intended for re-export probably account for about half of these receipts from international trade taxes. Yet re-exports are largely ignored in the available documentation on The Gambia and remarkably little seems to be known about this form of trade. Information is limited about the magnitude, composition, causes, main actors, and modalities of this trade. There is also considerable ambivalence about the sector: its contributions to economic well-being are very large, but there are concerns about sustainability, especially if neighboring countries eliminate the distortions that provide a major stimulus to this trade, and if they crack down on its unofficial nature.

288. The re-export trade grows out a long tradition of trading networks in West Africa dating to the pre-colonial era. By the 1920s, the Gambia was as a regional hub for trade in foodstuffs, textiles and footwear. Large expatriate trading houses were well established in The Gambia by the end of the World War II. The Gambia's favorable geographical location at the mouth of the most navigable river in West Africa provided the original foundation for the Gambia's position as an entrepôt (Gailey 1965). Its relatively liberal trade policies, in the British tradition, especially compared to the more protectionist and interventionist policies in Senegal, became increasingly significant over time. Whereas Senegal sought to establish and maintain a domestic manufacturing sector behind high tariff barriers, The Gambia has never had much of a domestic industrial base to protect (Boone 1989). Social harmony, tolerance, and relative political stability also have contributed to The Gambia's appeal to expatriates as a trading center.

289. The re-export trade involves both global and regional dimensions. Diamonds and gold originating from Sierra Leone, Guinea and Liberia are re-exported to Europe, cashews produced in Guinea–Bissau are expedited to India, manufactured products from Asia to the West African sub-region and even East Africa, and most importantly by far, imports of foodstuffs and other consumer goods entering through the port of Banjul and re-exported to Senegal and other countries of the region. The main products are basic consumer goods for the average African low- or middle-income household consisting of bulk food items such as rice, sugar, and flour; processed foods such as tomato paste, cooking oil, condensed and canned milk, tea, and soft

[33] IMF (2004), Table III.1, p. 38, IMF (2006), Table 1 p. 5. The contribution to GDP is based on the IMF's estimate of "the margins added to the cost of imports to account for services provided by enterprises based in The Gambia."

drinks; fabric of various sorts; used cars; and other basic household items such as batteries, candles, and matches.

290. The re-export trade appears to be on a declining trend since its peak in the early 1990s, although there is considerable fluctuation over time. The factors contributing to this trend are the declining differentials in taxation of imports and the quality of trade facilitation between the Gambia and Senegal, as well as a hardening of Senegalese policies towards this trade.

291. The next section of this chapter provides estimates of the magnitude and nature of re-exports; the following section presents comparisons of wholesale price differentials between Banjul and Dakar for products involved in the re-export trade. The reasons for these price differences are then discussed, notably trade policies and customs administration. The final section provides conclusions and recommendations.

THE MAGNITUDE AND NATURE OF RE-EXPORTS

292. Re-exporting involves importation of goods into The Gambia and subsequent shipment to another country with no additional processing or packaging, except for transport services. One can distinguish between transit and re-exports. Transit consists of imports of merchandise brought into The Gambia but manifested for a third country destination and escorted from the port of Banjul to the border. Goods in transit pay processing and ECOWAS fees of 2.05 percent and escort fees, but no customs duties or sales taxes in The Gambia. Re-exports, on the other hand, are imported into The Gambia as for domestic consumption but then shipped out of the country. Re-exports are therefore subject to all normal import duties and sales taxes in The Gambia. Re-exports in turn can exit the country officially or unofficially. If shipped officially to third countries, these goods are registered as re-exports and then in principle fully taxed again at the border of the destination country, raising the question of why anyone would find it advantageous to engage in this practice, since transit is clearly less costly. Transit, however, requires establishing contracts and payment well in advance, and in West Africa, this is not always feasible for traders. Of course, if re-exports do not in fact pay import taxes again, then the incentives are very different.

The View from Official Trade Statistics

293. Official transit passing through The Gambia on the way to other countries is quite small. It accounted for only about 3 to 4 percent of total Gambian imports in 2004 and 2005 (Table 7.1). Official re-exports, i.e. re-exports that are contracted in the Gambia and reported as such to Gambian customs, are even lower, about 1 percent of total merchandise imports on average over 2000-2005, and peaking at a mere 2.8 percent in 2004, before dropping back to a minuscule 0.1 percent in 2005.[34] Quite evidently, these official re-export figures are completely inconsistent with the acknowledged major role that re-exports play in The Gambia. Domestically-produced exports are also a very small fraction of imports, such that the official trade statistics indicate an enormous merchandise trade deficit, with total recorded exports, including official re-exports and transit, representing only about 5-10 percent of total imports in recent years.[35]

[34] In 2004, official re-exports were relatively large. The main component of official re-exports involved temporary importation of machinery from Europe for beach reclamation.

[35] The deficit on goods and services is not as large as the merchandise trade deficit, however, due primarily to tourism, as noted in chapter 4.

Table 7.1: Official Imports, Exports, Re-exports and Transit

	2004		2005	
	D million	Percent of imports	D million	Percent of imports
Transit	282	4.00%	209	2.80%
Re-export	199	2.80%	10	0.10%
Domestic Exports	342	4.80%	137	1.80%
Total imports	7,105	100%	7,422	100%

Source: DOSTIE and authors' calculations

294. Similarly, official bilateral trade statistics from both The Gambia and Senegal indicate that the volume of trade between The Gambia and Senegal is tiny. According to these official statistics:

1) The Gambia's bilateral exports and imports with Senegal each accounted for only about 3.5 percent of The Gambia's total exports and imports, respectively, over 2002-2005;

2) Exports to The Gambia from Senegal greatly exceed Gambian exports to Senegal, with Gambia's exports to Senegal amounting to less than 4 percent of Gambia's imports from Senegal over 2002-2005.

295. It is particularly noteworthy that Senegalese trade statistics do not indicate significant imports arriving from The Gambia, since it would seem to be in Senegal's interest to capture import duties on such goods. According to these Senegalese statistics, there are almost no imports from The Gambia of the goods that are thought to be most prominently involved in the re-export trade such as sugar, textiles, tomato paste, and cooking oil.

Estimating Re-exports from other statistics

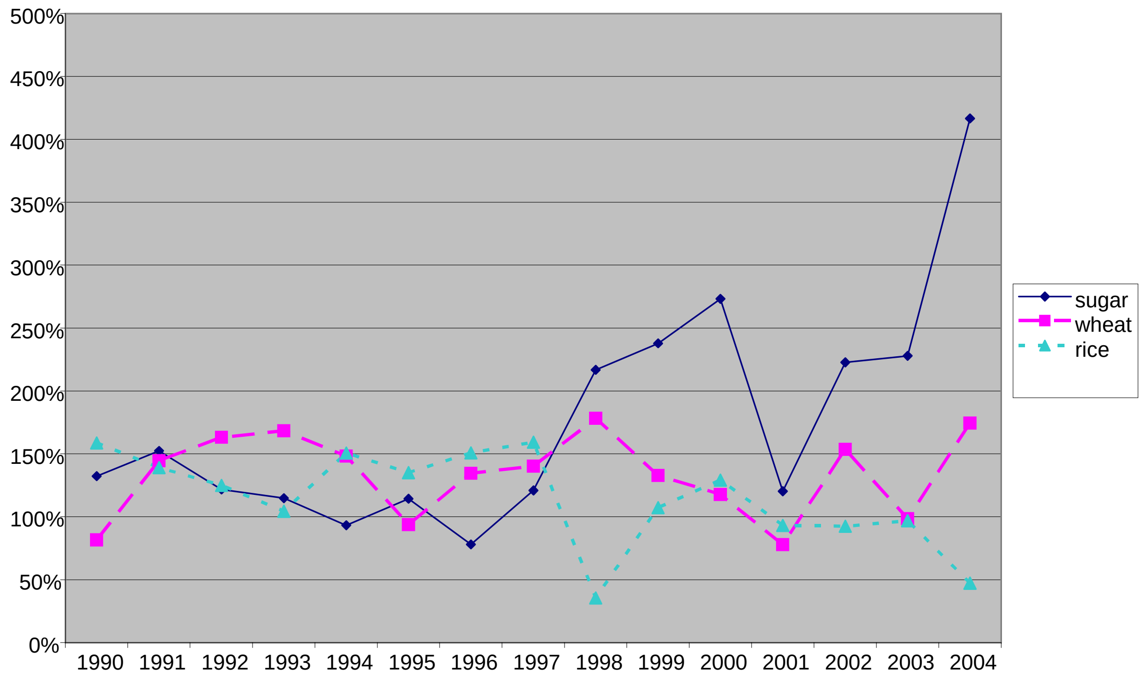
296. The official statistics therefore seem at variance with reality. By all accounts, there is a very large volume of re-exports from The Gambia to Senegal and other countries of the region, in particular Guinea-Bissau, Guinea, and Mali. But there are no reliable estimates of the volume of this trade.

297. ***Evidence from individual products***. Insight into the importance and time path of re-exports can be garnered by examining the pattern of imports entering The Gambia, under the assumption that these are recorded correctly at the port. As noted above, anecdotal evidence suggests that the re-export trade consists overwhelmingly of basic consumer goods and foodstuffs.

298. Figure 7.1 shows Gambian net imports (imports minus exports minus domestic production if any) divided by estimated consumption, for 1990-2004, for three basic commodities: sugar, wheat, and rice. If this ratio is 100 percent then there is no unrecorded trade, with consumption equal to production plus net recorded imports. Where this ratio exceeds 100 percent, The Gambia can be inferred to have corresponding unrecorded re-exports. Several observations can be made. First, re-exports are most prevalent for sugar, followed by wheat, with little evidence of re-export activity in rice, especially in the last few years. In the case of sugar, re-exports can be inferred to be more than double consumption since 1998, with the exception of

2001. In 2004, sugar net imports were four times domestic consumption. The prominent role of re-exports in the case of sugar is not surprising given the notoriously high level of protection accorded to sugar in Senegal, as discussed below. This high volume of re-exports of sugar stands in contrast to official Senegalese and Gambian trade data which report no bilateral trade in sugar!

Figure 7.1: Net Imports as a Ratio of Domestic Consumption, Selected Products, 1990-2004



Source: Authors' calculations based on FAOStat data.

299. The time path of implied re-exports is also illuminating. Sugar and wheat follow roughly similar patterns. Sugar re-exports rose in the early 1990s, dropped in the years following the 1994 shocks (CFA franc devaluation in Senegal, change in government in The Gambia), started increasing again around 1997, and then dropped sharply in 2001, during the episode of macroeconomic turmoil described in Chapter 2. The instability of the dalasi was a major impediment to commerce around 2001, according to wholesalers we interviewed. Sugar-re-exports boomed in 2002-2004. Wheat followed a roughly similar but more attenuated pattern, except that wheat re-exports started to decline in 1999, and only returned to the 1998 level in 2004. Rice re-exports, on the other hand, appear to have largely ceased since 1997.

300. Textiles have also been an important sector involved in the re-export trade. In 1980, although it has only about 15 percent of the economic size of Senegal, Gambian imports of textiles were 25 percent higher than Senegalese imports of textiles, reflecting the massive unofficial imports of textiles into Senegal at that time. This trade contributed to the demise of the Senegalese textile industry. Even in 1998, Gambian imports of textiles were equal to almost half of Senegal's, suggesting continuing re-exports although on a much smaller scale than in 1980. By 2003, however, Gambia's textile imports had fallen to about 15 percent of their Senegalese counterpart, roughly in line with the respective sizes of the two economies, indicating that re-exports had largely ceased by then.

301. ***The Overall Volume of Re-exports***. The import patterns for individual commodities reveal some common influences on the re-export trade along with substantial product-specific variations. It is difficult to estimate the magnitude of the re-export trade as a whole. IMF documents provide estimates of total re-exports, under the assumption that imports for re-exports are a constant share of total imports

302. As an alternative to the IMF figures, re-exports are estimated here as “surplus” non-fuel imports over and above some “normal” level of imports in relation to GDP. The normal level of imports was taken to be the long-term average non-fuel import-to-GDP ratio for Senegal over 1966-2005, which is about 25 percent[36].

303. Figure 7.2 shows the time path of the new estimated import for re-export to GDP ratio over 1966-2005. Figure 7.2 suggests that re-exports boomed in the 1970s, declined in the early 1980s, and resumed growth in the later 1980s, reaching highs in the early 1990s. The decline in the early 1980s coincides with the occupation of the Gambia by the Senegalese army following their restoration to power of President Jawara, who had been overthrown in a coup in 1981. During the occupation, the Senegalese army patrolled the border and cut down on the unofficial cross-border trade.[37] As noted for the individual products, estimated re-exports dropped sharply with the 1994 shocks, and have not re-attained the early 1990s levels despite some resumption of growth up to 1998. Also consistently with the individual commodity results, re-exports dropped again sharply in 1998-2001. This decline in 1998-2001 can be attributed to several factors discussed below: the import duty reductions in Senegal with the phasing in of the WAEMU Common External Tariff over 1998-2000; The Gambia’s implementation of a Pre-Shipment Inspection (PSI) requirement for imports in 1999; and the macroeconomic instability and central bank scandal that disrupted currency markets and the banking system in 2001.

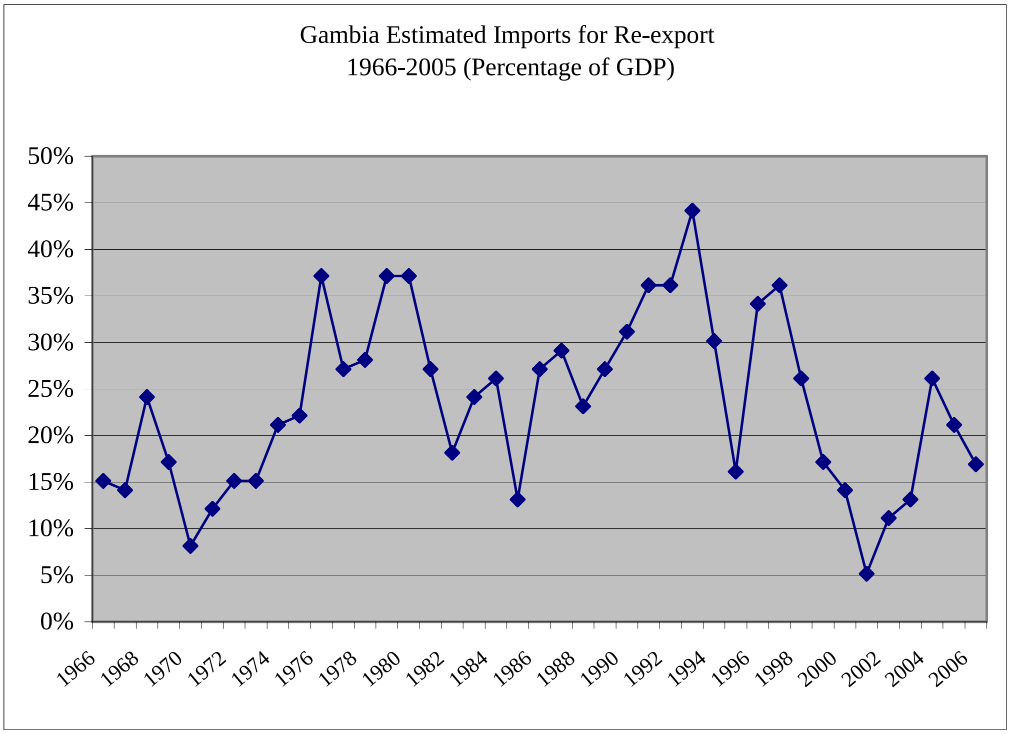
304. Re-exports picked up again in 2002-2004 before falling back somewhat in 2005, according to this measure, but remained well below the peaks achieved in the early 1990s. Actors in the trade report that re-exports are again on the decline in 2006, with a further drop of about 20 percent over the previous year. The decline in 2005-2006 apparently reflects greater Senegalese efforts to curb unofficial trade, along with the rise in the rates of customs duties and sales taxes to increase revenues and harmonize with ECOWAS rates, as discussed in Chapter 3. Most wholesalers express considerable alarm about the current situation and future prospects of the re-export trade, and some of the biggest players are seeking alternative sources of activity or downsizing. It remains to be seen, however, if this reported decline in 2006 reflects a return to more normal levels or part of a longer-run decline.

[36] Of course, these estimates are subject to the limitations in the underlying method and data, but the patterns appear broadly consistent with information obtained from knowledgeable observers. Moreover, the magnitudes of estimated re-exports are similar to those of IMF estimates.

[37] Boone, Catherine (1989), Merchant Capital and the Roots of State Power in Senegal, 1930-1985.

Figure 7.2: Estimated Imports for Re-export 1966-2006

(Percentage of GDP)



Discussion and Implications

305. The prevalence of re-exporting in The Gambia confronts three paradoxes:

- Official trade between Senegal and The Gambia is a very small part of The Gambia's trade, especially for Gambia's exports to Senegal, according to both countries' official trade statistics.

- Official re-exports and transit from The Gambia also account for a very small proportion of The Gambia's imports.

- It is difficult to understand why anyone would find it profitable to engage in re-exporting as opposed to transit, since re-exporting involves paying duties twice, first when the goods pass through the port of Banjul and second when they are sent through the land border crossing to Senegal. For some goods, as shown below, the price differences between the countries are large enough to make such activities marginally profitable even if double duties are paid. But for most goods, it would not be profitable to re-export legally, paying duties twice.

306. All of these considerations fly in the face of the recognized importance of the re-export trade. The unavoidable implication is that either record-keeping is poor for goods crossing borders over land or that most re-exports move unofficially across the border. A combination of

the two is of course possible and even likely. Goods may be brought through customs posts in Senegal, but by mutual agreement between the trader and the customs official in Senegal, a reduced duty is paid but not recorded, benefiting both the trader and the customs official.

Box 7.1: The Re-Export Distribution Chain

The re-export trade involves a complex distribution chain, which has been in place for the past 50 years or longer. Goods are brought into The Gambia by a handful of large wholesale importers, many of whom are Lebanese. The wholesalers then sell much of their merchandise to other traders, often Mauritanians, who have shops all along the border, and who in turn sell to small-scale traders, typically "market women", from countries in the region, mainly Guinea-Bissau, Guinea-Conakry, Mali and of course Senegal. These petty traders then bring the goods into Senegal either by going through the bush or paying off customs officials at the official border posts. Alternatively, the wholesalers in Banjul sell directly to Senegalese businessmen who then transport the goods to the frontier in large trucks. At the border, the trucks can then be unloaded and the goods brought through in smaller quantities, as described above. Sometimes, the truck crosses the border with the connivance of Senegalese customs officials. Social, religious, and cultural ties amongst the participants, notably through their frequent affiliation with Mouride muslim brotherhoods, greatly facilitate these transactions. The political influence of the Mourides, who became increasingly involved in trading activities in the 1970s and 1980s as a reaction to the crisis of the groundnut sector, also limits the Senegalese government's will to crack down on the trade. Goods can also be brought into Senegal by sea using pirogues operating at night. One Senegalese customs official surmised that pirogues are used more for such trade than for fishing. The sprawling informal markets in Dakar, notably Sandaga, and in other cities, are substantially supplied by contraband, much of it flowing from The Gambia, with the tacit acquiescence of the Senegalese authorities.

Knowledgeable observers estimate that about half of the re-exports passing through The Gambia are destined for Senegal with the other half continuing on to Guinea--the destination of about one quarter of all Gambian re-exports--, Mali, Guinea-Bissau, and sometimes even Cote D'Ivoire and Sierra Leone. Few of the traders are reportedly Gambian. Often they are Senegalese who have established themselves in The Gambia. Likewise most of the truckers are Senegalese nationals.

307. Customs officials on both sides of the border, and traders themselves, generally deny that smuggling is significant. Traders insist that they always pay duty at the border. This is hardly surprising. But the reality is that re-exports are mostly traded illegally across the border to Senegal. Given the limited number of official border posts, the difficulty of patrolling the wide-open frontier, and the incentives faced by customs officials, it is relatively easy to circumvent the legal requirements. Box 7.1 provides more information on the nature of this trade.

EVIDENCE FROM WHOLESALE PRICE COMPARISONS

308. Evidently, there is an incentive to import goods into Senegal and other countries from The Gambia rather than directly. To investigate this, a comparison of wholesale prices in Dakar and Banjul was undertaken at the product level. A list of basic household products widely said to be involved in the re-export trade were included, and attempts were made to match the product characteristics as much as possible in the two countries. The list of products for which successful comparisons were possible is shown in Table 7.2. The products include key bulk items (rice, wheat and sugar), various processed food products (tomato paste, cooking oil, mayonnaise, milk powder, green tea, and canned sardines) and other consumer goods (cigarettes, matches, candles and soap). It proved too difficult to make price comparisons for the important case of fabric due to the much greater extent of product differentiation for this item.

309. Table 7.2 shows prices in local currency and in Euros for the two countries. The results shown in Table 7.2 are generally in line with expectations. In all cases, wholesale prices in

Senegal exceed those in The Gambia. The price differential, however, varies substantially, with a maximum of about 90 percent for sugar and a low of about 10 percent for rice. The high differential for sugar accords well with the well-known extraordinary protection of the sugar industry in Senegal, discussed in the next section. The low price difference for rice fits with the fact that the rice industry has been liberalized in Senegal, and reports by Gambian wholesalers themselves that they have largely abandoned trade in rice except for the local market. As one would also expect, wheat is an intermediate case, with a price differential of about one third.

Table 7.2: Wholesale Prices for Selected Goods, Banjul and Dakar, October 2006

	Gambia		Senegal		Price Difference (Senegal - Gambia)
	Dalasi	Euro	CFA	Euro	
Bulk Items					
Sugar (50 kg bag)	690	19.7	24560	37.4	**90.5%**
Flour (50 kg bag)	525	15.0	13070	19.9	**33.2%**
Rice (50 kg bag)	495	14.1	10460	15.9	**13.1%**
Other consumer goods					
Matches (carton)	620	17.7	19750	30.1	**70.5%**
Candles (carton)	540	15.4	17200	26.2	**70.4%**
Tomato paste (12 tins 2200 grs)	780	22.2	23700	36.1	**62.6%**
Cooking oil (20 liter jug)	400	11.4	11800	18.0	**57.9%**
Mayonnaise (12 bottles)	420	12.0	12250	18.7	**56.1%**
Milk powder (12 tins 500 grs)	700	19.9	18250	27.8	**39.5%**
Marlboro (carton)	11000	313.4	266000	405.5	**29.4%**
Toilet soap (box of 24 bars)	240	6.8	5600	8.5	**24.9%**
Green tea (carton)	500	14.2	11500	17.5	**23.1%**
Sardines (carton)	550	15.7	12240	18.7	**19.1%**

Source: Interviews with wholesalers in Banjul and Dakar and authors' computations.

310. The imputed re-exports for these three commodities shown above in Figure 7.1 are also entirely consistent with these price differences. Prices for other items are bracketed within this range too, with significant variations. The goods with the highest price differentials are matches, candles, tomato paste, cooking oil, and mayonnaise, all of which have prices in Senegal that exceed Gambian prices by more than 50 percent. Price differentials for sardines, green tea, and soap, on the other hand, are below 25 percent, while cigarette and milk powder prices in Senegal are about one third above those in The Gambia.

311. In summary, wholesale prices in The Gambia remain systematically lower than those in Senegal, but the size of the gap varies greatly. For some goods such as rice, the price difference seems too small to make re-exports lucrative. For others such as sugar, there remains a huge incentive to find ways of bringing goods from The Gambia into Senegal.

DETERMINANTS OF PRICE DIFFERENCES AND RE-EXPORTS

312. Among the factors that can explain the large and variable price differences and the resulting competitive advantage of Banjul over Dakar, the following can be considered:

1. Differences in customs duties and other trade taxes
2. The functioning of the port and customs
3. Other aspects of the institutional environment.

313. Differential shipping costs from Europe, North America or Asia cannot be an explanatory factor, since the distance of shipping to Banjul and Dakar from any origin point is virtually identical. If anything, shipping to Dakar is cheaper insofar as Dakar serves as a regional hub for some of the major shippers (see Chapter 6 on the port).

Trade taxes

314. The Gambia's relatively liberal trade policies in comparison to neighboring countries have undoubtedly contributed importantly to The Gambia's special role as a regional trading hub. The Gambia liberalized earlier and more aggressively than other countries of the region, notably Senegal. Recently, however the differential has narrowed.

315. Taxes on international trade include customs duties, sales or value-added taxes (VAT), fees, and special taxes. In The Gambia trade taxes consist of customs duties, sales taxes, fees, and special excise taxes on a few goods, including cigarettes. These duties and taxes are discussed in more detail in Chapter 3 above. As noted there, in January 2006, Gambian customs duties were aligned with the ECOWAS common external tariff (CET), resulting in an increase in some rates. The maximum rate, applicable to most consumer goods, was raised from 18 percent to 20 percent. At the same time, the sales tax on imports was increased from 10 to 15 percent, aligning the tax rate on imports with that on domestic goods. The fees applicable to imports (as well as exports) are a 1.55 percent processing fee and a 0.5 percent ECOWAS levy. There is a specific excise tax on cigarettes of 50 Dalasi per kilogram, estimated to be equivalent to about 15 percent in ad valorem terms.

316. Senegal and other West African Economic and Monetary Union (WAEMU) countries phased in their common external tariff (CET) between 1997 and 2000, resulting in substantial declines in import duties. The top rate, applicable to consumer goods, is 20 percent. The VAT is 18 percent on all goods. The fees, applicable to all imports, include the statistical levy, ECOWAS and WAEMU fees and the fee for the port handlers association COSEC. In addition, special taxes on particular goods include the Taxe Conjoncturelle à l'Importation (TCI), the Taxe Intérieure (TI) and the Droit d'Enregistrement (DA). The TCI is the most important of these, a safeguard introduced to protect sensitive sectors exposed to greater competition following the tariff reductions associated with the TEC. The TCI currently is in force for flour, sugar, rice, tomato paste, cigarettes and cooking oil, i.e., many of the most significant re-export goods for The Gambia. In the case of sugar, notoriously protected in Senegal for decades, the TCI takes the form of a price-equalization tax whereby the tax is set so as to offset any difference between the import price and the target price. If the import price of sugar is below the target price, the duty is set equal to the difference between the two, thereby ensuring a minimum price for Senegalese sugar through endogenous levels of protection, currently estimated at about 50 percent. For the other goods subject to the TCI the rate is 10 percent ad valorem. The TI applies mainly to cigarettes, with a 31 percent rate.

317. Thus, the applications of the respective WAEMU and ECOWAS CET in Senegal and The Gambia in recent years have narrowed the differential between the two countries' levels of protection. The WAEMU CET also dramatically reduced the infamous complexity and lack of transparency of Senegal's tariff structure. Overall, Senegal's import tax structure has been simplified but remains more complex than that of The Gambia.

Table 7.3: Comparison of Trade Taxes*- Senegal and The Gambia

(Percent)

	Gambia	Senegal	Difference
Flour	22.5	56.6	34.1
Sugar	22.5	103.8	81.3
Rice	16.8	22.7	5.9
Tomato paste	28.3	56.6	28.3
Cigarettes	58.0	97.7	39.7
Soft drinks	39.8	48.2	8.4
Milk (canned liquid)	22.5	44.8	22.3
Condensed milk	22.5	27.1	4.6
Cooking Oil	22.5	56.6	34.1
Mayonnaise	39.8	44.8	5.0
Toilet soap	39.8	44.8	5.0
Candles	39.8	44.8	5.0
Matches	39.8	44.8	5.0
Tea	28.3	37.3	9.0
Canned sardines	39.8	44.8	5.0
Shoes	39.8	44.8	5.0
Fabric	39.8	44.8	5.0

*Includes sales taxes, fees, and other special taxes.
Source: Customs in The Gambia and Senegal and authors' computations.

318. Table 7.3 compares The Gambia's and Senegal's import taxes as of end 2006 for some of the key goods said to be involved in the re-export trade. In all cases, Senegal's taxes are higher and sometimes much higher. Not surprisingly, the greatest differential is for sugar, where the Senegalese composite tax rate is about 80 percent above the Gambian tax rate. For flour, tomato paste, cooking oil, and cigarettes the differential is also quite high (25 to 40 percent). These tax rate differences accord well with the price differences for these same items noted in Table 7.2. For some items, however, the difference in tax rates is only about 5 percent. These include condensed milk, mayonnaise, soap, candles, matches, tea, fabric and shoes. Yet at least some of these items are allegedly still re-exported, as would be expected given the price differences shown in Table 7.2 for some of them such as matches and candles.

319. The tariff differential in the 1970s through the early 1990s was very large, with Senegalese import duties alone as high as 100 percent for goods such as textiles, while Gambian duties were around 30 percent. Senegal liberalized somewhat in the late 1980s but it was not until the 1994 devaluation that import barriers were significantly lowered and simplified, in particular with the elimination of variable levies ("valeurs mercuriales") and quantitative restrictions, except for a few products, notably sugar. The institution of the TEC over 1998-2000 provided a major additional reduction and simplification in import duties in Senegal. In response

to the institution of the TEC, The Gambia also simplified and reduced import duties in 2000. In summary, import tax differentials between The Gambia and Senegal were at one time very large. The differentials have narrowed significantly but Senegal's import taxation remains higher and more complex than The Gambia's, such that the latter retains a competitive advantage in re-exports.

Trade facilitation and the overall business climate

320. It has been shown that trade taxes can explain much but not all of the observed wholesale price differences. What else can account for the price differences?

321. **C*ustoms practices***. The practices of customs are as important as statutory customs duties. These practices include customs valuation procedures and speed and ease of clearance of goods through the port and beyond. In Senegal, customs is said to engage in highly discretionary valuation practices. Senegalese customs apparently still apply reference pricing mechanisms to protect "sensitive goods" such as matches that are produced domestically, similar to but less blatant than the reference price maintained though the variable levy on sugar. The Gambia's relatively efficient customs are well-known, especially in comparison to the more complex and bureaucratic procedures in Senegal. The Gambia's introduction of a Pre-Shipment Inspection (PSI) scheme in 1999 adversely affected the re-export trade due to the extra fees (1.4 percent of cif value) and delays it entailed. The PSI was abolished in 2000.

322. ***Port***. Another factor is the efficient port of Banjul. Unlike other African countries, including Senegal, the port of Banjul is known for its rapid and efficient clearance of goods. As discussed in Chapter 6, while merchandise can languish for days or even weeks in most African ports, including Dakar, in Banjul clearance usually occurs within 24 hours. In Dakar, port procedures are much more complex and subject to delays, although equipment is better. Port charges, on the other hand are roughly equal in the two countries. According to shipping officials and wholesalers, the advantage in favor of Banjul has been diminishing in recent years. While Dakar is improving, Banjul is deteriorating, they say. In Banjul, port charges have increased, and efficiency has declined as maintenance of infrastructure is inadequate, the stevedores are increasingly old and work practices are inflexible. The port practices have become less helpful, some say, for example with regard to the length of time and cost of storing merchandise at the port. The port in Bissau is also improving, although it too remains inferior to Banjul.

323. ***The Overall Business Climate***. Both Senegal and The Gambia benefit from social harmony and relative political stability. But, while Senegal suffers from the legacy of a French-style highly bureaucratized system, The Gambia's more laissez-faire tradition has contributed to the development of trading establishments in Banjul. Ease of access to foreign exchange through the banking system in particular is a plus for The Gambia. In all these areas too, however, other countries are narrowing the gap with The Gambia. In some cases, The Gambia is at a disadvantage. For example, the tax rate of profits is 35 percent in The Gambia, while it has been lowered to 25 percent in Senegal. See Chapter 5 for more discussion of the strengths and weaknesses of the investment climate in The Gambia.

324. ***Currency movements***. Depreciation of the dalasi vis-à-vis the CFA franc can also impact the attractiveness of re-exporting. Although imported goods' prices are set in euros or U.S. dollars, and therefore f.o.b. import prices are unaffected by fluctuations of the bilateral dalasi-CFA franc, the competitiveness of the transport services sector in the Gambia improves when the dalasi depreciates. The real depreciation of the dalasi in 2001-2003 may explain some of the

increase in re-exports since 2001. Substantial exchange-rate volatility, however, is inimical to the re-export trade as it makes arbitraging between markets more risky.

Relations with Senegal

325. Quite evidently, Senegal looms large in the Gambian re-export business, given The Gambia's near-total enclosure within Senegal. For the same reason, economic relations with Senegal are critical. Yet relations with Senegal have not always been smooth, as noted in Chapter 1. Border disputes with Senegal can severely disrupt re-export trade, especially the legal forms of this trade. According to wholesalers, every significant border conflict with Senegal leads to a substantial drop in re-exports, and the subsequent recovery is always incomplete.

326. The most significant recent border dispute occurred following the increase in ferry fees in August 2005, described in Chapter 1, when Senegalese truckers blockaded the border crossings in retaliation. While traders are to some extent able to avoid the official border crossings and slip across the frontier in the bush, the re-export trade was severely disrupted until the issue was resolved in October 2005 when The Gambia rescinded the fee increases.

327. A number of wholesalers and customs officials in The Gambia contend that the Senegalese have sought to obstruct trade through the Gambia despite the settlement of the ferry fee issue. According to these interviews, Senegalese customs has deliberately increased delays for trucks crossing the border. Also, Senegal has required that all transit trade destined for Mali pass through customs at Karang in the western part of The Gambia rather than go through the preferred route through Basse at the eastern edge of The Gambia and then through eastern Senegal on the way to Mali. This latter requirement has effectively stopped all transit trade to Mali, in effect blocking an agreement by Mali, Senegal and The Gambia to permit transit trade through The Gambia in destination for Mali. The Malians had decided in 2004 to ship 25 percent of goods in transit via The Gambia despite having a designated zone in the port of Dakar, presumably because of the greater ease of operating in the port of Banjul. The Senegalese claim that this decision to effectively halt Malian transit through The Gambia was taken because truckers were violating the transit agreements and diverting goods to Senegal ostensibly destined for Mali. The Gambians deny these allegations and view the Senegalese actions as excuses to impede transit through The Gambia so as to increase transit through the port of Dakar. Senegal has not imposed similar measures to divert transit trade through Banjul destined for Guinea.

328. While Senegal is blocking transit to Mali, which is a legal form of trade and in violation of ECOWAS conventions on transit, it permits a re-export trade, often conducted by its own citizens, which typically avoids official customs procedures. At the same time, the Gambian government has not been pro-active enough in establishing a legitimate foundation for transit trade. Strangely, The Gambia is one of only two ECOWAS countries that have not signed the regional transit convention ISRT, providing a ready-made excuse for Senegal's obstructions. Senegal is taking active measures to promote transit trade with land-locked countries of the region with dry port facilities designated for trade with Mali and Guinea, while The Gambia is doing little.

PROSPECTS FOR THE RE-EXPORT TRADE

329. According to a number of sources in The Gambia, including wholesalers, truckers, and customs officials, re-exports fell about 20 percent in 2006, following a 10 percent decline in 2005, continuing the long-term decline since the mid 1990s, and negating the recovery in 2004. They cite intensification of a number of factors reducing The Gambia's competitiveness

described above: narrowing of the differential in favor of The Gambia with regard to trade taxes, speed of customs clearance and in port handling efficiency, as well as the continuing Senegalese harassment of trading transiting through The Gambia. The recent 5 percent sales tax increase in The Gambia is viewed as particularly damaging.

330. The Gambian economy is highly dependent on the re-export trade, but the future of this trade is cloudy. The sustainability of a business which is substantially based on unofficial trade into its neighbors is certainly questionable. The Gambia is at a crossroads. Can the country find a new and more durable basis for serving as a regional gateway in the face of increasing tariff harmonization in the region, crackdowns on smuggling, and efforts of other countries to increase their share of intra-regional trade?

331. The Gambia retains important geographical and institutional advantages on which it must build. The Gambia's natural hinterland at the least includes the Casamance region of Senegal, Guinea Bissau and Guinea. In order to respond to the threats discussed above, it is imperative that The Gambia pursue a multi-pronged strategy that includes measures to shore up the re-export trade in the short run, while moving towards more sustainable forms of trade and revenue generation in the longer run.

a. a shift in focus toward transit trade, with an appeal to ECOWAS conventions on road transit to improve compliance by Senegal ;
b. improvement of the transport system as a whole, including the port, roads and river; transport, so that The Gambia is the unquestioned regional leader in transport efficiency;
c. high-level initiatives to improve relations with Senegal so as to find mutually-advantageous ways of expanding trade, and avoid further border-closing incidents;

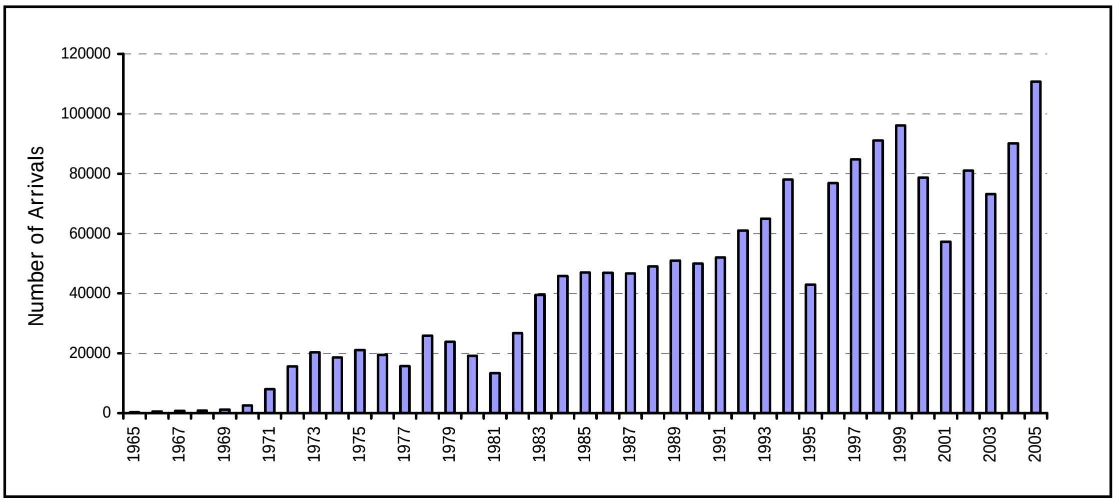
332. At the same time, diversification of the economy to reduce dependence on re-exports seems only prudent, given the vulnerability and dubious legality of this trade. Improving the transport system and relations with Senegal can also be helpful in this regard, and so are win-win policies.

8 TOURISM

PAST AND PRESENT DEVELOPMENT, PROFILE AND PERFORMANCE

333. Like many developing countries, tourism in the Gambia is relatively small but of considerable economic significance. It is the top net foreign exchange earner, generating as much as all other exports combined (see Table 1.2 in Chapter 1). Tourism constituted 13 percent of Gross Domestic Product (GDP) in the Gambia in 2004, a level that has now risen to 16 percent[38]. It also contributes over 10,000 direct and indirect jobs[39]; amounting to about 20 percent of all private sector formal jobs. The revenues going directly to the poor have been estimated at US$14 million, as much as total earnings by all stakeholders from groundnuts, fish, and other agricultural exports.[40] Total tourism revenues remaining in the country are closer to US$50 million.

Figure 8.1: Growth in Tourism Arrivals



Sources: 1965 to 1984: World Bank (1986) *Tourism Impact Study;* 1985 to 1994 : GTA, The Gambia Tourism Development Master Plan; 1995 to 2005, from Mitchell and Fall, 2006.

334. Organized, commercial tourism started in the Gambia in the mid-1960s when Scandinavian tour operators recognized the potential for sun-sea-sand holidays during the European winter months. They invested in hotels and brought in tourists through charter flights. Tourism has grown – albeit relatively modestly – in the past four decades with little diversification of product offered until the mid-late 1990s when the potential for tourist activity and experiences based on the country's natural resources inland and along the river was identified

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[38] DOSFEA, Poverty Reduction Strategy: 2007-2011, June 2006, p.49.

[39] Ibid. The total number is probably higher as explained in Chapter 1.

[40] Mitchell and Fall, The Gambian Tourist Value Chain and Prospects for Pro-Poor Tourism, ODI, December 2006.

and a number of developments have taken place in recent years. The Gambia has still not achieved the status of a major tourist destination, but recent growth is encouraging. Total arrivals set a new record of 110,000 in 2005, surpassing the previous high of 1999. The Gambia Tourism Authority (GTA) estimates that arrivals in the 2006/07 tourism season exceeded 130,000.

335. Charter package holiday tourists predominate - 84 percent[41] of all arrivals. The pattern of tourism is highly seasonal with 74 percent of arrivals in the peak winter months of November-April[42] when average hotel occupancies[43] are 88 percent as against just 34 percent in the remainder of the year. Overall average annual occupancy is of the order of 55 percent.

336. The Gambia has a room stock of 3,800, though only around 1,300 of these are rated by tour operators to be of international standard – i.e. 3+ stars and above. The hotel stock is of variable and, with a few exceptions, modest quality.[44] Most of it is relatively old and dated in appearance and facilities. There has been no national classification system, although one is now under development; over half of the national bed stock would be rated at 3-star or below.

337. Considerable increases are being made or planned in hotel capacity with several new developments. Some 600-700 rooms have recently come on stream, will do shortly or are presently under construction. Much of this additional capacity is of moderate-to-good standard – typically 3-star – and is the result of new players in the industry, without detailed marketing strategies.[45]

338. The most significant of the new developments will be the Kuwaiti-financed 195-room Sheraton. Half its capacity was scheduled to open in early 2007 with the remainder scheduled later in the year. Its significance is that it will give the Gambia its first flagship hotel brand. This represents an opportunity for the destination to target the upmarket, special interest tourist with a higher level of spend than the present typical visitor.

339. Out-of-resort facilities are essentially African rather than international in style. The excursion programs offered, natural and cultural attractions available, and shopping facilities operate to generally adequate standards to meet the demands of Gambia’s present tourists. Restaurant and entertainment facilities are a mix of African and international, again with reasonable standards. The range of facilities outside the resorts, however, is not extensive: excursion programs to go inland are limited by road and river transport infrastructure; the presentation of natural and cultural attractions could be upgraded to permit better appreciation of the flora and fauna, and heritage of the country; and a more extensive range of night-time entertainment facilities, focusing on performances of Gambian song and dance, would be a valuable addition. Action on all these aspects will be needed to enable the Gambia to broaden its market appeal.

340. The Gambia’s prime competitors for winter sun-sea-sand holidays have been the Canary Islands, Egypt, Goa (and other Indian Ocean destinations), the Caribbean and East Africa, and

[41] The Gambia Tourism Development Master Plan, Technical Report No.3: Visitor Survey at Banjul Airport. Emerging Market Group Deloitte. July 2006. (p.18)

[42] Monthly tourist arrivals statistics. Gambia Tourism Authority

[43] Mitchell and Fall, p.21

[44] Ibid (p.15)

[45] Notably two Libyan-financed hotels.

recently, West African destinations such as Senegal and Cape Verde . The fact that these destinations/destination areas attract many times the visitor volumes to the Gambia is due to three main factors of equal importance:

- low awareness of the Gambia and consequent weak image compared to competing destinations
- preference for the “tourism product” offered by competitors
- easier access – i.e. flights – to competitors

341. There have been two marked dips in an otherwise pattern of slow but steady growth in tourist arrivals over the past 25 years: the first downturn was triggered by the UK Government’s travel advisory in 1994 after a change of government in the Gambia and led to a halving in arrivals from the 80,000 recorded in the early 1990s; and more recently the combined effects of the reduction in tourist activity in destinations following the events of September 11, 2001, and the withdrawal of a major German tour operator’s program.

342. Discretionary daily tourist expenditure of Dalasi 1,460 (US54) and an average length of stay of around 11 days are high both by regional and international standards.[46] The Gambia has a repeat visit factor of 35 percent, with 15 percent having previously been to the country at least three times. This indicates a high level of satisfaction among a significant proportion of visitors to the country – this is not the problem, increasing the overall volume of visitors coming to The Gambia is.

343. The Gambia is dependent on four source markets: the UK, the Benelux countries, Scandinavia and Germany, which combined accounted for 86 percent of all arrivals in 2003. Over the past three years, Germany declined further in importance while the Benelux countries and Spain have improved. The UK is by far the largest and most established market for The Gambia, generating tourist numbers at between 35,000 and 49,000 a year since the mid 1990s – though there is no clear pattern of growth. The Scandinavian market has similarly shown consistency but no expansion over the same timeframe. German arrivals picked up again in 2006-07 with the start of scheduled charter service by Condor.

344. Data on package charter arrivals for 2005 cited in the ODI report[47] illustrate the dominance of just six European tour operators – three British, two Dutch and one active in both Scandinavian and UK markets. These operators’ combined carryings accounted for over 85 percent of the Gambian package tour market. Clearly, then corporate decisions made by European tour operators – or their business failures – dramatically affect tourist flows to The Gambia. This reflects the lack of regular, scheduled airlines serving The Gambia.

345. There is no significant tourist flow from North America despite the “Roots” connection. It was hoped that the June 2006 launch of a twice-weekly air service from Baltimore by North American Airlines would be the launch pad for The Gambia in the USA but the airline has announced it will suspend service on the route from January 2007.

[46] Ibid (p.27)

[47] Ibid (p.23)

Issues and Problems

Changing market expectations

346. For European tour operators, The Gambia is a relatively marginal destination with profitability focused on the winter season. In the summer, they prefer Mediterranean destinations that offer greater profit potential achieved through higher aircraft utilization on routes with shorter flying times than to/from The Gambia. The launch in March 2007 of a tour program to the Cape Verde Islands by the leading UK tour operator producer for The Gambia is an indication of the need to respond to market demand for new, quality destinations with a longer operating season.

347. The Gambia has lost share in the key UK market, a trend that has been accompanied by a general relative decline in package holidays as independent travel has grown. Tour operators are, thus, under increasing pressure – both from the growth of independent travel and a trend to later bookings, making them more cautious in forward planning and seeking cut backs in operating costs. On top of that, European travel industry growth has slowed and is expected to be less than 3 percent per year for the remainder of the decade.

348. The Gambia has failed to keep up with changing trends and tastes in travel. Beach resort market demand is moving up in terms of accommodation standard requirements: many of those who a decade ago would have stayed in a 3 star hotel now demand 3+/4 stars while a declining proportion of tourists will be satisfied with 1 and 2-star accommodation. There is some risk that The Gambia will have a surfeit of supply in middle standard accommodation with the lower end of the accommodation supply increasingly finding it difficult to attract profitable business.

349. Tour operators' margins on sun-sea-sand package tours to destinations like The Gambia are low – typically 2-to-3 percent - whereas they can realize margins of 5 percent or better on longer haul and special niche segments like adventure travel. Thus tour operators are concentrating on high volume destinations within the beach tourism market segment. A relatively small, non-specialist destination like The Gambia is under severe threat, both from the risk of operators dropping it from their programs and/or only being prepared to pay very low room rates. This results in little investment in product renewal on the part of Gambian hoteliers which in turn leads to the downward spiral with less and less hotels being of sufficient standard to be saleable by foreign tour operators.

350. For the lower echelon of room stock to survive, a refurbishment program to move in line with increased market requirements will be essential. There is as yet no comprehensive system in place of licensing standards, control and enforcement, so the majority of tourist operations are not licensed, with little fear of sanctions. This is an unsatisfactory situation: detailed regulations need to be established, a system of regular inspections developed, and licensing enforced. Progress is in sight in respect of hotel classification, with the expectation that a full scheme will be in place by July 2007. However, the proposed system still requires improvements if it is to meet international norms.

351. There is little quality self-catering accommodation and only limited luxury accommodation; there are few services for independent travelers (including only limited vehicle rental), and there is very limited access by scheduled flights – with no access by low cost airlines; and seat availability on charter flights is controlled by the tour operator principals. The range of

attractions offered is a primary area of criticism of tour operators: there is little access available to traditional attractions or cultural performance, evening entertainment is limited and day excursions do not have a high take up factor.

352. Tour operators recognize, however, that The Gambia has much more to offer than just sun-and-sand winter holidays. In particular, its African environment, history and culture provide the basis to develop a range of nature and culture-based holidays. The Makasuta Ecolodge development is a strong pioneering example of such diversification. Further broadening of product and market appeal is a realizable goal in the short-to-medium term. This can be achieved through a strategy of encouraging investment in a selected range of tourism developments and operations (i.e fixed facility developments related to natural and cultural resources, vehicles for excursion trips) allied to the tightening up of licensing regulations so that bona fide, professional operators are provided both stimulus and protection.

353. Upgrading accommodation alone without increased marketing and air capacity will not result in sufficient extra visitors coming to the country to increase occupancy levels significantly and recoup the costs of the refurbishment; on the other hand, while intensifying marketing and additional air services without improving the quality of room stock may result in a short term boost, it is likely to lead to visitor dissatisfaction and a greater problem in the mid-to-long terms. There is a pressing need, therefore, both to increase standards of lower grade accommodation and to boost access to, and demand for, The Gambia.

Poor airline access

354. A primary requirement for any tourism destination is that it should be readily accessible. In The Gambia's case, that entails a good air service connection to its main source markets. 'Good' in this context is defined as regular, frequent, reliable, a sufficient capacity and affordable for the primary target market segments. Present demand for flights to/from The Gambia is insufficient on any particular route to support a scheduled service operation. Flights between European countries and The Gambia are predominantly through charter operations, with only the twice-weekly Brussels Airlines service from Brussels and the twice-weekly scheduled 'charter' Astraeus Airlines service from London providing capacity for non-package travelers in 2006. As proposed in the Tourism Master Plan, similar tour operator/airline partnerships should be sought where those seats not utilized by the tour operator principal are sold on the open market. The initiation of such an arrangement with Condor serving the German market is a very positive step. Airlines will not operate unless demand is sufficient so this situation is likely to prevail for some period given the small size of traffic generated from The Gambia, and relatively low flows of business traffic, unless specific measures are taken to increase visitor demand for the country.

355. 22. While a package of airline subsidies may indicate the serious commitment of the Government of The Gambia to assist its tourism sector, it is unlikely to be a central determining factor in the launch of a new – or expansion of an existing – service and should therefore not constitute a central part of the air service support strategy. The key determinant will be the operator's assessment of growth in demand. This assessment will be based to a large extent on the scale and focus of destination marketing support. While The Gambia should present its attraction and potential as a tourism destination in the best possible light, the focus of its strategy should be on generating additional demand. The most effective strategy is likely to be a combination of increased marketing and promotional activities, partnerships between innovative new airlines and tour operators, and the exploitation of distribution channels targeting independent travelers (e.g. the World Hotel Link site) rather than airline subsidization. The GTA is working with SN Brussels on a joint program which targets the consumer directly.

356. All-inclusive tours are used to increase demand in virtually all other, comparable beach destinations in order to increase demand. Government prohibition of all-inclusive packages has held back The Gambia, in the German market in particular. The issue is a contentious one. On the one hand, the industry argues that the category of beach resort client attracted to The Gambia prefers this form of arrangement since it reduces uncertainty about the total cost of the holiday. It also has the advantage of reducing exposure to “bumsters”. On the other hand, it is felt that all-inclusives reduce the opportunities for local tourist businesses to benefit from tourism. There has been extensive experience of all-inclusive operations both in the Mediterranean and the Caribbean. There is no clear consensus from these experiences. Resolution of the pros and cons of all-inclusives needs to take account of the particular circumstances of a destination – making all-embracing conclusions based on experience in a Caribbean island or a North African country can be misleading. The ban on all-inclusive packages should be re-examined through a special comparative program of study.

Weak institutions

357. The Department of State for Tourism and Culture (DOSTC) is the main tourism policy and planning arm of government with the Gambia Tourism Authority (GTA) as the implementation and operational agency. The creation of the GTA, as a joint public-private institution, has been a positive step. However, it has not been unable to fulfill its role because of what the Master Plan calls ‘capacity weaknesses and legislative confusion. To achieve the directional changes necessary for The Gambia, both institutions need strengthening. Their respective roles also need clarification as there is often disagreement over which institution has primary responsibility. For example, the GTA Act stipulates that it shall “provide, encourage and ensure the provision of training for Gambian workers at all levels of the tourism industry”, but DOSTC considers that the Hotel School falls under its authority.

358. The GTA cannot fully or appropriately fulfill its obligation to market The Gambia. This is due both to budgetary constraints – the GTA has to date only been granted a proportion of the Development Levy on incoming passengers intended for marketing purposes – and shortage of personnel in the marketing section, particularly of trained and experience marketing practitioners. Some of the expensive initiatives which have been undertaken may not have been cost-effective.[48] However, the GTA does receive some significant revenues, notably from the private sector, which provides 86 percent of its annual income. Destination marketing does not appear to receive the necessary priority attention among the various GTA programs. An overhaul of the Marketing Department is needed, leading to a strategy to re-brand the destination, properly funded and fully supported by the private sector. The needed public-private sector partnership exists but is not strong principally because the private sector does not believe the GTA is carrying out its marketing role effectively.

359. To expand the country’s tourism sector and to attract the higher quality market segments targeted in the *Vision for Tourism,* a consistent supply of trained and qualified personnel will be needed. Upgrading The Gambia Hotel School into a National Tourism Training Institute (NTTI) is the key instrument for achieving this, providing courses up to diploma level and with links to the University of The Gambia thus enabling the country to provide the full range of professional and vocational skills needed to upgrade service standards and reduce the dependence on expatriate management. At present, the hotel school is seriously under-funded.

[48] GTA recently spent $220,000 on an 8-week run on CNN, which is probably not the best way to reach the travel industry or the clientele most likely to visit The Gambia.

Business environment

360. Transport infrastructure is hampering the development of tourism away from the coast and along the river. Until the road transport system is significantly upgraded – at least in respect of major routes north and south of the river - and the river itself is accessible for tourist craft along it, the extent to which any broadening of the tourist product can occur is limited. The two-tier system of taxis is also an obstacle creating confusion for tourists and failing to resolve the issues of fare clarity or acceptable quality.

361. The supply of electricity and water is an even more important problem for hotels than for the manufacturing sector. According to the Investment Climate Assessment, fully 87 percent of hotels cited electricity supply as a major or severe constraint – the next most important issue (taxes) was less then half as important! All hotel operators have to arrange their own back-up systems, and use them regularly, thereby creating a significant additional financial burden. NAWEC – the agency responsible for both electricity and water supply – is now under a management contract with Global Management Systems – and improvements have recently been achieved in the reliability of supply, but at the cost of further tariff increases.

362. The Gambia has high interest rates – averaging 18 to 19 percent - and suffers a lack of access to credit – a particular problem for local communities. The creation of a Social Fund to act as a single platform for interventions at the community level is outlined in the Poverty Reduction Strategy: 2007-2011 (PRS). The best current route for accessing finance for the small investor/local communities seeking to expand tourism facilities is via credit unions, village savings banks and other micro-finance institutions rather than through the commercial banking sector.

363. The future development of tourism in The Gambia will be within Tourism Development Areas (TDAs) that were designated in the 1970s, with all land in the prescribed areas leased to government. The length of period that has elapsed since the declaration of the TDAs has led to numerous illegal structures and activities on the TDA areas. The Master Plan identified several problems: inadequate powers of eviction, delays in the approval of subleases and an inability to enforce the conditions attached to subleases. There is a need for better coordination between the GTA and the Department of Physical Planning, and for resolution of inconsistencies between the GTA Act and the State Land Act.

Economic, Social and Environmental Impact

364. Because of the significant import content of tourism, and the prominent role of foreign companies, there are always questions about the extent to which tourism actually benefits the local economy. This, however, is the wrong question. As explained in Chapter 1, the total revenues generated by the tourism industry are so large that even under the conservative estimate of a 50 percent import content, the net earnings remaining in the country are far larger than those of any other export sector. Furthermore, the import content or ‘leakage’ is likely to be similar for any other modern sector industry in a small, undiversified economy like that of The Gambia. And fortunately The Gambia has an unusually good analysis of the impact on the poor, which should put to rest any doubts about the important role already played by this sector.

365. A better question is: how can this economic impact be enhanced? Fortunately, this question has also been addressed in The Gambia. Linkages between the accommodation sector and agricultural suppliers are being strengthened thanks to the Gambia is Good program, with one half of all fresh fruits and vegetable requirements being supplied locally. The Association of

Small Scale Enterprises in Tourism (ASSET) has a program to encourage handicraft and batik producers to develop new designs and otherwise vary their product offering in order to increase visitor spend on incidental purchases. Half of all retail expenditures are already captured by the informal sector, and further increasing this share may be difficult. These successful initiatives are potential models for other countries, though they still need further support to protect their successes, and extend their training and demonstration programs. It will be important to ensure minimum standards of food quality, cleanliness and service to ensure a positive experience for the tourist, without resorting to onerous regulations.

366. The biggest question relates more to social rather than economic impacts: notably prostitution and 'bumsterism'. The Master Plan Airport Survey[49] reported that 68 percent of visitors found 'bumster' activity the most *displeasing* part of their stay in the country. From a Gambian perspective, one has to believe that there are better ways for young men and women to gain their livelihood than by begging, conning or selling their bodies. On the other hand, it is clear that some tourists demand some of these services, and that their supply is a symptom of a wider societal problem related to underdevelopment and unemployment. Tourism may encourage certain manifestations of this problem, but without tourism it would appear in other forms. At least tourism offers some of the economic means necessary to address the problem.

367. Here too the response should not be to call into question the sector as a whole but rather to ask how to improve the situation. The approach probably needs to be three-fold: cracking down on the most exploitative practices such as child prostitution; sensitizing children from a relatively early age through inclusion of tourism in the schools curriculum; and providing alternative economic activities to persuade the youths that there are more rewarding ways to use their capabilities. The government has taken initial steps in all three areas. It has a clear and unequivocal policy against child prostitution, and a few cases of successful prosecution. An education program is being piloted in schools, in addition to sensitization on the radio. And it is promoting the creation of employment and small business opportunities through programs like Gambia is Good (GiG) and ASSET. The growth of small businesses along the beaches – juice pressing, hairdressing, postal stamp and card sales – is an encouraging development. Such ventures could be encouraged with start-up capital and training, targeting 'bumsters' to join the scheme.

368. The key environmental issues center around coastal erosion, hotel development standards, wastewater/sewage disposal, solid waste management, oil spills, deforestation and flooding in the wet season. Coastal erosion has required a major recent investment of some $20 million to protect the beaches, but its effectiveness appears limited. It may be necessary to require that new hotels be set back at least 150 meters from the water. The loss of bird and marine life on the river from oil spills from the generating station needs urgent resolution if the increased use of the river for tourism purposes is to be realized. These issues are recognized by the authorities and initiatives have been proposed to tackle each of them, but funding is lacking.

THE TOURISM DEVELOPMENT MASTER PLAN

369. 40. The Master Plan advocates what it calls a 'double tourism income' development policy, involving air service route development, the encouragement of all-inclusive packages, a major increase in tourism marketing spending and product diversification targeting 'luxury'

[49] The Gambia Tourism Development Master Plan, Technical Report No.3: Visitor Survey at Banjul Airport. Emerging Market Group Deloitte. July 2006. (pp.39-41)

market segments. The Tourism Master Plan sets a target of 150,000 tourist arrivals by 2015. This represents an average annual rate of increase of 5-6 percent over the 2005 figure of 90,000 arrivals. If the product, market access, infrastructural and institutional initiatives recommended here are effectively implemented, this target growth should be seen as a minimum.

370. The Master Plan's diagnosis of the tourism situation of the Gambia is generally accurate, the principal proposed strategies justified and many of the short- to mid-term actions proposed to be valid and needed. Broadening the appeal of the country through product diversification is essential, as is growing access for independent travelers – and, crucially, increased and better-focused marketing and promotion.

371. There are, however, two important provisos: first, establishing the Gambia as an up-market destination should not be seen as a priority in its own right - what is vital is that The Gambia is competitive i.e. that the facilities offered are of an adequate standard to attract clients paying commercially viable rates; and, second, product and market diversification will evolve over time – short term priorities need to be focused on bringing the existing product in line with the requirements of the beach resort market and competitive with other destinations.

372. 43. Authorization of all-inclusive resort operations will make The Gambia's offering more competitive and attractive to the beach resort market but will not assist in diversifying the market segments attracted to the country. All-inclusive tours are the preferred option of the type of passive beach resort vacationer traditionally attracted to the Gambia. Total dependence on this form of tourism would not be healthy, but a total ban on this option reduces the available market. The Gambia needs to offer a variety of options to cater to different types of tourist demand.

373. Indeed, for the mid-term, the key objective should be to broaden the visitor base, attracting those interested in Gambian nature and culture. These are active tourists who will wish to travel around the country rather than to remain for most of their visit within their resort. Planning for, and facilitation of, these forms of tourism product development need to be put in place now in order that new developments and operations will come on stream over the next five years. International hotel chains tend to support the development of new product lines, so the entry of Sheraton is a welcome addition. Other international chains are actively seeking opportunities in sub-Saharan Africa and should be encouraged to consider The Gambia. However, despite the success of up-market developments like the Coconut Residence, The Gambia is not judged to have the potential to establish itself as an exclusive resort destination in competition with places like Mauritius, the Maldives and the top Caribbean islands.

374. The future of tourism in The Gambia will remain firmly rooted in the various leisure/holiday visitor market segments. Business and MICE (meetings, incentives, conferences, exhibitions) tourism will grow broadly in line with the country's economic development, its inward investment policy and the provision of facilities to host regional events – as it did successfully in 2006 with the Union Heads of State summit. The relatively small size of the Gambian economy and the fact it is not a strategic gateway location will limit the country's ability to achieve strong growth in the business and MICE market segments.

375. The Gambia's tourism development needs clear guidance and direction, and government commitment. It is important, therefore, that the Master Plan should be amended (as found appropriate) and approved by Cabinet at the earliest possible time, a framework and calendar for implementation drawn up, and the appropriate mechanisms put in place for the achievement of its priority actions. It has taken too long to begin implementation, partly because of funding constraints and partly because the Master Plan recommendations were insufficiently prioritized.

We have drawn on this Plan to produce a realistic set of initial steps which are presented below and in the Action Matrix.

CONCLUSIONS AND RECOMMENDATIONS

376. Though small in international terms, the tourism sector is vitally important to the economy of The Gambia. Its economic linkages are already important and, while they could be further improved, they are not the critical issue at the moment. Rather it is the successful growth and evolution of the industry that is critical. It has not progressed in recent decades in terms of the product offered and market positioning; and in consequence the prevailing marketplace perception both among the travel trade and the travelling public is of a good value but somewhat dull destination limited to winter beach holidays. It faces a number of interlinked threats:

- it is locked into a form of holiday tourism – package tours – that is losing ground to independent travel;
- it is dependent on a small number of foreign tour operators who themselves are under increasing pressure, being positioned in a section of the holiday market that is being eroded; and
- it offers largely passive holiday experiences when the growth trends are in holidays that challenge the body and mind.

377. The Gambia, thus, needs to change. A strategy to increase visitor volume with the existing product range is unlikely to succeed in the long run. Existing accommodation, visitor attractions and facilities need to be improved to retain current markets. New tourist products, attractions and facilities based on the nature and culture of the country need to be developed to appeal to market segments not presently catered for – eco-tourists, adventure and culture. However, new tourism products will not appear overnight, nor will they attract large volumes of visitors for a number of years. The beach product will remain the Gambia's mainstay for the foreseeable future and priority should be accorded to making the necessary facility improvements and creating the operating environment for the coastal resorts to be increasingly competitive.

378. What should be the sequence and priorities for such change? Destination marketing can be wasteful without appropriate tourism products. In a start up situation, then, product development should precede marketing other than in respect of perception building. The Gambia's situation is different: it has tourism products that are not being effectively marketed or utilized. Therefore, it needs to work on both fronts. Improved destination marketing will raise occupancy rates and profitability, enabling hotels to invest in maintenance and upgrades. At the same time, product innovation is needed to broaden the appeal of the country. Marketing will incorporate these developments over coming years in its communications. The challenge is to identify and establish a branding and positioning and support it with appropriate public and private investment.

379. Twelve policy and strategic priority areas are identified for action - divided into seven for immediate attention and five for the medium term - and grouped under four broad headings: marketing communications, development, capacity building and poverty reduction.

Immediate

Marketing

1. GTA's marketing budget needs to be enhanced, probably through an increased share of the Development Levy on incoming passengers, and earmarked exclusively for marketing.

2. The recruitment of a short-term destination marketing expert to review the GTA's marketing organization, its strengths and weaknesses, devise a marketing strategy, and set up a training program for personnel. The objectives of a destination marketing strategy would be to:

   - consolidate and expand access, tour capacity and visitor flow from its primary markets of the UK, the Netherlands and Scandinavia;
   - re-establish the Gambia in the other major European markets of Germany, France & Italy – and the secondary markets of Austria/Switzerland, Spain/Portugal;
   - centre the branding and positioning of the Gambia as a '*beach plus' destination with ready access to the nature and culture of Africa;*
   - focus the marketing message on the warmth of welcome, the quality of the product offering, the range of things to see and do (but this can only be fully incorporated in the marketing message after the necessary improvements in standards and the development of a sufficient product range).

3. Expanded public-private sector 'road shows' to make presentations both to winter sun tour operators and to specialist operators in major European tourist generating markets, with priority to the largest, under-performing market – Germany. The purpose will be to heighten awareness of the improvements and new developments being undertaken in The Gambia and to explain the basis for the re-positioning of The Gambia (i.e. nature, adventure, culture).

Development

4. Recruit a resident destination management advisor (2 years) to develop and launch a program to improve and diversify the tourism product. The advisor would work with local and international tour operators and hotels to identify the most promising opportunities for new product lines and promote public-private collaboration to undertake the necessary investments. They would seek to attract new investors and tour operators with innovative product ideas, and would coordinate with the marketing strategy. Advice would also be provided on improving the institutional framework supporting tourism.

5. Concerted action to increase and improve visitor access to the country through initiatives to expand air service between main origin markets and The Gambia. A civil aviation delegation should be established supported by an international civil aviation expert to develop and present a package to target airlines on the potential and benefits of operations to the country. Emphasis should be on increasing demand rather than subsidizing costs.

6. A comparative study of all-inclusive policies drawing on the experiences of selected destinations leading to the formulation of policy recommendations to the Government of The Gambia. This study would cover:

   - the extent and application of all-inclusive resort pricing in different parts of the world and related to different European generating markets;

- the selection of two case studies – one form the Caribbean, the other from the broad Mediterranean region – to be subject to detailed examination;
- the degree of satisfaction with all-inclusive operation in these destinations among governments, resort operators, and the tourism private sector operators outside the resorts (both formal and informal);
- comparative assessment of the availability, range, and quality of food, drink, entertainment, and excursions between The Gambia and the case study destinations.

7. Acceleration in the program of hotel/resort upgrading to the level of 3+ stars through a carrot-and-stick approach: rigorous application of hotel classification and regulation standards, and destination marketing support to improve profitability.

Short to Medium-term

Development

8. Improvement of infrastructure and utility services so that supplies of power and water are guaranteed for tourist operations, sewage disposal systems are upgraded and a regular, reliable system of solid waste disposal is provided. A major program of road improvements and river access facilities as the basis for an expanded and improved range of points of tourist interest and tour excursions.

9. A broadened and upgraded product range (i.e. accommodation, attractions, facilities, performances/events) to meet the needs of a wider cross-section of travellers for holiday and other purposes. Specific recommendations are the cleaning up and improved presentation and interpretation at key sites such as the slave fort at Georgetown, James Island and the Cultural Museum. Music and dance troupes and individual performers should be registered and monitored through the National Council for Arts and Culture.

Capacity Building

10. Upgrading of service standards through the implementation of plans to transform the present Hotel School into the National Tourism Training Institute with a modern, tailor-made campus & facilities, and an extended program of professional and vocational skills courses. Strengthening existing tourism institutions through personnel training to enable them to organize and manage the vital process of change.

Poverty Reduction

11. Tackling ‘bumsterism’ both through tourism education in the schools curriculum and the development of alternative employment opportunities that provide both income and a sense of pride and self-worth.

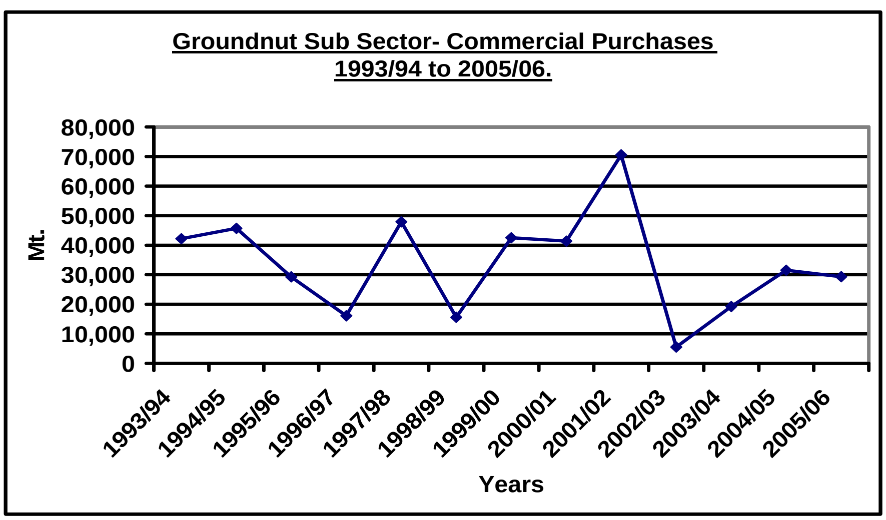
12. Stronger linkages between hotels/restaurants/local tour operators with Gambian producers, and suppliers. Both support to programs such as GiG and ASSET, and regulation to maintain acceptable standards will be important.

9 THE GROUNDNUT SUB-SECTOR

380. The Gambia is largely an agricultural country with over 60 percent of its population of 1.3 million deriving livelihood from agriculture. Groundnuts remain the country's main cash crop and it is estimated that groundnuts are grown by some 80 percent of rural households, occupying over 40 percent of the land under cultivation. They play a central role in rural life, providing food, fodder and income, while also creating jobs in transport and processing, as well as foreign exchange. Despite the sub-sector's importance, groundnut farmers are among the poorest members in Gambian society, with 76 percent classified as poor.[50]

381. In 1975, exports of groundnuts and its oil and cake reached a high of US$49 million. Declines in production, world prices and processing capacity, combined with rising domestic consumption, led to a fall in exports in the 1980s. Commercial purchases have demonstrated no clear trend over the last ten years (Figure 9.1). A peak was achieved in 2002 but this was partly due to exceptional imports from Senegal where domestic problems delayed the purchase of groundnuts. The trough experienced the following year was due to a severe drought. Total production in the early 2000s rose to levels last seen in the mid-1970s, and remained around 100,000 mt in 2004-05 and 2005-06, though now only 20-30 percent is sold commercially (see Table A9.1 in Annex 9.1. With low world prices, exports fell to just US$9.8 million in 2004, recovering to US$14.2 million in 2006 thanks to rising prices (Table A9.2 in Annex 9.1). Preliminary figures for 2006-07 indicate a disastrous year, with commercial purchases falling to only 7,000 mt. And this time poor weather was not to blame.

Figure 9.1: Groundnut Sub Sector-Commercial Purchases 1993/94 to 2005/06



382. Analysis of groundnut crop budgets suggests that, with current world market prices and crop quality, groundnut production remains a marginal activity, and the current approach to fertilizer use is value-subtracting. Under rain-fed conditions, there are significant risks of chemical fertilizer applications in drought years. Irrigation where possible and use of organic

[50] Muller, 2006, p. 68.

fertilizers are preferable. The use of fertilizer subsidies and price support as instruments of poverty alleviation needs to be reassessed with a view to moving to a more sustainable crop mix. Empirical research in Africa and elsewhere has shown that pro-poor growth is associated with improvements in agricultural productivity (particularly yields) rather than output[51]. A new strategy would encourage the poor who are active in the groundnut market to either "step up" i.e. increase their incomes from activities within the groundnut sector and embrace more value adding activities along the groundnut market chain, or to "step out" i.e. diversify their livelihoods and earn higher incomes. Raising productivity by some farmers (through improved quality, organic fertilizers and the use of irrigation) would increase non-farm opportunities for others in farm labor, processing or trading.

HISTORICAL OVERVIEW

The pre-privatization era: 1974-1991

383. The Gambia Produce Marketing Board (GPMB) replaced the Gambia Oil-Seeds Marketing Board or GOMB (1948-1974), which had the management of the groundnut industrial assets and by extension the groundnut sub sector, during the pre-independence era. GOMB as well as GPMB enjoyed lucrative commercial operations in the agricultural sector dealing in the following products: groundnuts, palm-kernels, cotton, rice, corn etc.

384. Up to the late seventies, groundnut production ranged between 145,000 metric tons and 131,000 metric tons. With the exception of drought years, commercial operations were profitable and the groundnut sector was the major foreign currency earner and highest contributor to GDP. GPMB assured the entire purchase of farmers' groundnuts and any agricultural produce within its business portfolio.

385. GPMB supported government in settling most of its liabilities and foreign exchange needs. In addition, GPMB embarked on a decentralization of its facilities by building eight depots along the river banks to act as reception and handling points for groundnuts delivered by producers through their producer co-operative, The Gambia Co-operative Union (GCU). All these expenses gradually eroded the finances of GPMB.

386. Similarly, the Gambia Co-operative Union, which was responsible for the organization of producers and the primary purchase of groundnuts for delivery to GPMB depots and processing plants, depended heavily on GPMB for crop finance and expenses for operational logistics. GPMB also ensured that GCU was adequately supported in providing pre-production agricultural services in terms of farm input credit for seed, fertilizers, small equipment etc.

387. During presidential elections, government usually waived farm-input credits contracted by farmers, as a political campaign strategy, without correspondingly crediting the books of the GCU or GPMB, the main financier. Furthermore, GPMB regularly subsidized the farm-gate producer price of groundnuts especially during these political campaign years. This gradually contributed to eroding its producer price stabilization fund. The eventual result was the failure of the GPMB to fulfill its strategic functions towards the groundnut sub-sector. Production declined from 145,000 Mt in the 1970s to around 70,000 Mt in the early 1990s. Faced with this crisis,

[51] See Datt, G. & Ravallion M, (1998) *"Farm Productivity and Rural Poverty in India"* IFRPI Food, Consumption and Nutrition Division Discussion Paper No. 42 and *"Operationalising Pro-Poor Growth Country Case Studies"* for Vietnam and Tunisia – 2004.

government embraced an Economic Recovery Program with the Bretton Woods Institutions and proceeded to the privatization of the GPMB.

The privatization era: 1993 – 1999

388. The core industrial assets in the groundnut sector were bought by Alimenta S A Geneva and the GCU and renamed *"Gambia Groundnut Corporation GGC"*. The capital share allocation provided 10 percent for the GCU and 90 percent for Alimenta. GCU however failed to pay its 10 percent share at the stipulated dates, so Alimenta paid for the remaining shares as allowed for in the agreement and thereby owned the GGC 100 percent.

389. GGC operated in a situation of monopoly. However, as stipulated in the privatization conditions, it assured the crop finance required for the purchase the entire commercial groundnut production of any given year. They brought about much-needed professionalism in terms of crop financing, processing and marketing, including the best HPS (Hand Picked and Selected) production plant in West Africa.

390. GGC/Alimenta, in consultation with government, fixed the yearly groundnut farm-gate prices. The determination of these prices was largely based on the spot market without the integration of market fluctuations (positive or otherwise). During the 1995 and 1996 trading seasons, government requested Alimenta to subsidize farm-gate prices, with a view to ensuring a smooth constitutional referendum and general elections. Government promised to reimburse these subsidies through Stabex transfers without prior notification to the EU. Government failed to make good on its promise and Alimenta unilaterally decided to deduct previous subsidies from the 1998/99 farm-gate price. Government was to either pay producers the difference or make the latter pay for the subsidies.

391. The European Union was amenable to helping government reimburse the subsidies to Alimenta, within the context of a program of revitalization and support to producers. The negotiations were favorably concluded. A calendar of payment adopted and submitted to government for signature. The European Union proposed to support government through the SAF the agreed Euro 2 million. Government however decided to take-over the assets in 1999.

Advantages

392. The advantages of the privatization of the groundnut industrial assets include the following:

- The yearly availability of adequate crop financing to purchase farmers' produce;
- Purchases at farm-gate level on a cash basis;
- The credibility to obtain a steady share of the international market;
- The establishment of a well-run private entity paying promptly for goods and services without delay or default (whereas GPMB and GOPMAC left huge liabilities from unpaid goods and services).
- The operation of the groundnut industrial assets with optimum performance parameters as dictated by international norms and standards.
- The regular maintenance and rehabilitation of the industrial assets;
- The payment of 0.3 percent of GGC's annual turnover to research;
- Initiating the development of its own HPS label.

Disadvantages.

393. The privatization process concerned only the privatization of the groundnut industrial assets. This was understandable as an attempt to relieve government of persistent losses incurred in the sector. However, the broader objective of reviving the key role of the sector was thwarted by numerous constraints.

- Stakeholders, especially producers were never prepared to shift from a subsidized production system driven by social objectives to a liberalized, privatized and purely commercial one. Producer organizations and co-operatives were not trained to manage their affairs within this new environment of commercial competition and financial autonomy. The GCU was unable to sustain farm-input credit provision to farmers who had become accustomed to political waivers on repayments. Consequently the GCU was eventually liquidated.
- Private stakeholders (transport owners, traders, suppliers & service centers), who up till then had dealt directly with government within pre-set tariffs and parameters, were at a loss in how to establish among themselves and with a private industrialist, service parameters and costs based purely on competition, quality of services, demand and supply, etc.
- Government departments were themselves unprepared for this new environment. There were no trade and investment policies befitting the proposed liberalization and privatization of the economy. The instruments, legal frameworks, strategies and policies to articulate harmoniously the entire mechanism were absent. Most of the agreements and commitments entered into were based on the "goodwill" of both parties. Government civil servants were not trained to create the "enabling environment" for the privatization process.

394. In short, the required attitudinal change expected from all stakeholders to reasonably bring about an effective private sector led economy was not nurtured. Hence, both government and the private sector were embroiled in defining functions, roles, responsibilities and liabilities, in the absence of policy, legal and regulatory frameworks. The lack of preparation also led to a sense that the benefits from privatization were unequally shared between stakeholders.

395. During this difficult period, the producers were the hardest hit since their produce was not regularly purchased and they lost motivation to expand production. Producers were forced to rely on the neighboring market (Senegal) to market their produce. Nor could their organizations provide the financial package necessary to address certain basic necessities such as certified seeds, fertilizers, seed dressing etc. A low point was reached in 1996/7 when production fell to 45,000 metric tons of which only 16,000 metric tons was marketed as commercial crop.

Post-Privatization 1999-2007

396. During this most recent period, the Groundnut industrial assets have gone through several types of management, with changes every year and a variety of problems, culminating in a crisis in 2007. But in other respects, some progress was made.

397. Although government could be said to have acted to avoid civil strife within the farming community, the re-nationalization of the industry would cost government hundreds of millions of Dalasis in compensation to Alimenta, cumulative losses in managing the groundnut industrial assets, and loss of foreign exchange and indirect taxes. The sector has suffered from an absence

of a credible crop financing mechanism resulting in government intervention as a financier for the purchase of the commercial groundnut crop with significant cumulative shortfalls on repayments.

398. Frequent and protracted credit buying has eroded producer confidence in the local marketing system. Most of the companies operating the industrial assets have not been involved for more than one season, leading to a lack of long-term commitment, and a neglect of regular maintenance and rehabilitation. Consequently, there has been a progressive deterioration in the groundnut industrial assets.

399. On the other hand, production recovered, with the exception of the drought year of 2002-03. There was increased local processing of groundnut produce (HPS/Birdfeed, crude groundnut oil and cakes) through the establishment of crushing, solvent extraction and detoxification plants and a consequent repositioning of Gambian groundnuts on the European market.

400. In 1999, government commissioned an EU-financed Groundnut Sub Sector Study to identify the reasons for the decline in groundnut production and exports and propose solutions for the revitalization of the sub-sector. The study highlighted the following critical constraints:

- The non availability of certified seed-nuts and fertilizer
- The absence of credible and sustainable systems for the provision of farm input credit for seed-nuts, fertilizer and small farm equipment
- The non-existence of a reliable commercial infrastructure and a policy framework to make groundnut production and marketing a viable entity within the new economic privatization and liberalization policy;
- The determination of yearly producer prices with little or no bearing to international market prices.

401. Subsequent to the adoption of the findings of the Groundnut Sub Sector Study, the European Union agreed to support a Groundnut Revitalization Program. This included the establishment of an Agribusiness Service Plan Association, or ASPA, which regrouped all stakeholders in the subsector, and signature of a Framework of Agreement conferring to ASPA the management of the groundnut sub-sector. ASPA was to be responsible for elaborating a producer price determination mechanism linked to international market trends and fixing the yearly producer price.

402. The Groundnut Revitalization Program represented an innovative approach to supporting production and productivity through the private sector. However, certain government departments still viewed the EU support to the sector as de facto government funds thereby giving government the right of intervention and implementation of activities of a commercial nature in an otherwise private environment. The notion that government should remain purely at the policy level and facilitate the creation of the enabling environment was yet to be fully embraced.

403. Prior to the onset of the 2004/2005 crop marketing season, government commissioned a Groundnut Sub Sector Marketing Study which recommended among others, the creation of a single marketing company to purchase, process and export the national groundnut crop. The Gambia Agricultural Marketing Company, GAMCO, was therefore created with a Nigerian Strategic Partner responsible for the provision of equity in the form of a 150 metric ton/day groundnut crushing plant. The Gambian strategic partners comprised government parastatals that were to provide the crop financing. Under these conditions, the ASPA operators were prevented from participating in the 2004/2005 crop marketing season.

404. At the onset of the 2005/6 crop marketing season, GAMCO was still struggling to market its 2004/5 crude groundnut oil and FAQ stocks. Its financiers were understandably reluctant to provide crop finance for the new season. This precarious situation prompted government to "re-liberalize" the sub sector by facilitating the Gambia Groundnut Corporation's intervention both as a service provider and an operator. ASPA operators were also encouraged to participate in the crop marketing season but most were unable to, owing to the short notice. Halfway through the season, GAMCO was unable to finance its contracted local purchases and the Gambia Groundnut Corporation was requested to take over the stranded stocks.

405. The 2006/7 marketing season was a disaster, with only 7000 tonnes purchased commercially by GGC. Whereas the normal starting date is December 1, the season only began on December 22, and cash only arrived at the depots in mid-January. Even then, there was sometimes a lack of funds and farmers withdrew their product. Also, GGC lost confidence in the cooperative societies and opted to restrict its buying to its own ten depots. As a result of all these factors, farmers sold much of their harvest to traders from Senegal. One buyer, having signed international contracts for HPS based on estimates of a much larger commercial crop, stood to lose significant amounts of money. Meanwhile, significant outstanding GGC debts to Trust Bank threatened the availability of crop financing for the next season.

PRODUCTION, MARKETING AND PROCESSING CONSTRAINTS

The cooperative movement

406. The cooperative movement has consistently shown poor financial and operational management over the past twenty-five years for the following reason:

- The absence of a structure ensuring ownership, responsibility and management of the movement by its very members; crucial decisions are taken by proxies or groups without the approval of the membership.
- The progressive erosion of the resource base of individual societies and the movement.
- The obsolescence of policy and regulatory instruments to govern the societies and their business operations, and the weak capacity for implementation.
- Engagement in non-viable business ventures, particularly operating non-viable seccos (farmer buying points).
- Lack of accountability and probity resulting in the mismanagement of funds with impunity (particularly crop finance).

407. Farmer-members have now lost faith in their institution. Operators and industrialists are clamoring for a more efficient and business oriented mechanism while persistently seeking alternatives outside the movement. Government and donor partners are reluctant to continue supporting farmers through a dysfunctional co-operative movement.

408. The crisis in the co-operative movement dictates an urgent restructuring which will:

- Organize groundnut farmers into producers' associations to better articulate the intervention principles and mechanisms to foster sustainable growth in production;
- Establish a coordinated participatory approach in the determination of the value of their produce (producer price determination mechanism)
- Ensure appropriate marketing structures for farmers' produce through viable business ventures

409. The current cooperative movement lacks capacity to restructure the institution and is most unlikely to be able to generate the required funds or attract donor funding for the purpose. Various non-state actors should be encouraged to assist in the strengthening of the cooperative movement. An NGO intervention may be the best approach to initiate the process within the shortest possible time, given their ability to:

- Coordinate a restructuring program through a participatory approach;
- Attract donor funding and implement proper financial management systems;
- Build the capacity of producers to manage their own affairs;
- Elaborate advocacy programs and materials for producer concerns.

Farm Inputs

410. Increases in yield, kernel quality, and thereby production and productivity are closely tied to the timely and adequate provision of appropriate farm inputs. Since the closure of the EC funded Autonomous Credit Project and the Seed Multiplication Program, fertilizer and seed-nut provision has been irregular and insufficient. Most farmers have been relying on supplies from the informal sector without any guarantees in terms of adequacy, appropriateness or quality norms. Donor partners have been providing farm inputs such as fertilizer and seed treatment products to be managed through a revolving mechanism. However, continued assistance in this direction has been waning due to lack of accountability and inappropriate usage. Government management of these farm input grants has discouraged the private sector from engaging in the provision of such commodities on a commercial basis.

411. Under rain-fed production and even with producer price support, fertilizer application is value subtracting for groundnut production. The removal of the fertilizer subsidy will induce farmers to identify crops that provide a better return on fertilizer use and would induce changes to the farming system. With the aid of targeted research, the use of manure and other cropping mixes will need to be tested and adopted to address the nutrient deficit within the soil in groundnut producing areas.

Quality Assurance

412. Poor quality is a major problem in the groundnut sector. Much of the non-oil groundnut product exported is destined for the bird seed market because permissible aflatoxin levels are considerably higher, but where prices are considerably lower. Gambian crude groundnut oil failed to meet the required MRLs (Minimum Residue Levels) in 2006 in the EU market and was rejected by European international buyers. The EC Quality Regulations on Contaminants and MRLs came into force in January 2006, but The Gambia failed to take action to meet these regulations in spite of EC proposals since 2002 to develop and fund a response strategy package.

413. The realized prices for Gambian shelled groundnuts CIF Rotterdam have been considerably lower than the internationally quoted prices. Average prices for shelled groundnuts hovered at around US$ 650 to US$ 670 per MT in 2004 and 2005, which equates to a discount of between 27 to 32 percent of the price received for US Runner groundnuts for the same period.

This discount reflects both lower groundnut quality and stricter EU quality and technical standards.[52]

414. At present there is a rather rudimentary system of product standards in The Gambia's groundnut market. At the level of traders, and processors, much of the quality inspection is visual and focused on moisture, insect infestation, and foreign matter through sampling a random number of bags within a consignment. The current government supported producer price system provides limited incentive to introduce quality standards that reward producers to grow higher quality groundnuts. The contamination of edible groundnuts by aflatoxin occurs mainly in the field, and with the current state of technology, there is no method of detoxifying edible groundnuts during processing at the factory. The agricultural practices that can prevent contamination are well known. However, the extension messages and producer incentives are currently lacking.

415. Formal institutions to enforce standards for seeds, fertilizer and agrochemicals are weak. Organizations, such as NARI, which have a key role in improving seed quality, have inadequate funding. International standards for edible groundnuts or groundnut oil are not widely known or enforced. The lack of standards increases the cost of co-ordination for those interested in producing higher quality groundnuts.

416. A groundnut value chain which is to benefit the poor must increase quality and value addition within the country to exploit higher value segments of the international market. The focus must be on the production of edibles (confectionery HPS) where are prices are strong and demand is rising in the lucrative European market, supported by the crushing of rejects for crude groundnut oil and cake for export. However, stringent EC and international quality regulations, are seriously impeding access to international markets. Even the birdfeed market is progressively lowering its acceptable levels of contaminants close to those of edibles for humans. Soon the Gambia will lose the birdfeed market if nothing is done to develop and implement a proactive strategy.

417. The Gambia needs to address these quality deficiencies with a particular focus on confectionary groundnuts. The overall objective is to establish an Integrated Quality Assurance System for the production of a Gambian Groundnut HPS Quality Label by:

- Supporting the various sub-sector stakeholders in developing and implementing appropriate Quality Assurance Systems;
- Creating the enabling environment: liberalization and privatization of the entire sub sector with appropriate policy, legal & regulatory frameworks
- Facilitating access to international market data and international organizations (WTO, WTC, Oil World, Public Ledger etc.) including the capacity building of stakeholders in managing international market information data etc.
- Directing research institutions and agricultural services towards production-oriented research and support to cropping and farming systems.
- Building the capacity of stakeholders in implementing "A Quality Assurance Production & Export-market Oriented Strategy".

418. The strategy must be based primarily on the implementation of a practical HACCP (Hazard Analysis – Critical Control Points) system in the following operations:

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[52] World Bank, 2006b.

- Production to harvesting, including threshing and pre-marketing handling,
- Marketing and evacuation,
- Processing: Depot reception – evacuation – processing – export
- Institutional: Policy, Legal & Regulatory Frameworks

Economic and Financial Instruments

419. The inter-professional Association ASPA comprises sub sector stakeholders who are capable of elaborating and negotiating crop marketing agreements to govern the operations of the trading season. The Association has managed an entire four-year Sub Sector Framework of Agreement (FOA) from December 1999 to December 2003 albeit through difficult and constraining circumstances. The association has therefore gathered a wealth of experience.

420. The Association's management of the Framework of Agreement (FOA) required the elaboration and management of the following.

- A producer price determination mechanism linked to international world market price trends for the determination of yearly reference producer prices and actual average producer prices; For the 2006/2007 crop marketing season, which is both particular and transitory in nature for several reasons, a specific mechanism was developed.
- Yearly crop marketing agreements to govern the entire operational activities of the trading season including reference costs, parameters, ratios etc.
- A Producer Price Stabilization Fund which although not utilized, still exists with its governing rules & regulations. The objective of this tool is to guarantee payment of the announced farm-gate price throughout the season, and the operation of a risk-benefit sharing mechanism, based on the calculated difference between the reference producer price and the actual producer price. It is designed to reduce annual fluctuations in producer prices, not to eliminate them, nor to modify the trend.

421. These economic & financial tools are important instruments in the management of any agricultural sub sector and could be significantly improved to play a crucial role in a private sector led economy. Unfortunately, periodic government intervention in the form of price subsidies in certain crop marketing years have distorted the mechanism, such that operators were not always able to sell their groundnut products at a profit in the international market.

422. ASPA should be entirely responsible for the management of the Producer Price Determination Mechanism. Additionally, the Mechanism needs to be further enhanced to provide a minimum reference producer price (oil and cake based) in order to permit the payment of a premium for the production of quality HPS; the establishment of a stabilization or smoothing fund; and potential margins for industrialists and exporters.

423. Commercial purchases are strongly influenced by the situation in neighboring Senegal. If purchasing begins late or is otherwise disrupted in Senegal, The Gambia stands to benefit from increased sales and exports. However, the opposite also holds true. In addition, the government of Senegal currently offers a subsidy of CFAF 40/kg on purchases of groundnuts, which can make it more attractive for Gambian farmers to sell across the border. These factors can make it difficult for Gambian groundnut processors and exporters to reliably predict their production levels, and therefore to commit to international buyers.

424. This problem can be partially addressed if ASPA announces the start of the groundnut purchasing season in advance of Senegal's season, preferably by November 15, and is ready to

pay cash. Farmers are prepared to sell 25-35 percent of their harvest immediately to meet financial needs postponed during the lean season. Complementary measures are needed to secure the remaining stocks, which farmers are prepared to hold while seeking the best price. The optimum approach is coordination of pricing policy between The Gambia and Senegal, with unsubsidized prices reflecting broad trends in international markets. However, in the short term, The Government of The Gambia may need to consider a subsidy on a transitional basis in order to assure private operators of the necessary minimum quantities of commercial purchases.

Raising Returns by Reducing Transaction Costs

425. For farmers to extract a greater return from the groundnut value chain, it will be necessary to increase efficiency and reduce costs at various points in the process. A number of market failures must be addressed including in finance and the transport infrastructure. In this respect, work has already begun on rehabilitation of the barges and river based storage depots, but additional work on rural feeder roads could have a significant impact. While a number of donors are planning to rehabilitate the arterial road system, there is little work planned for the very poor condition of secondary / feeder roads. Improvement of this road network would increase poor farmers' access to groundnut markets, reduce trading margins, and offer the potential for higher returns to both producers and exporters.

The Groundnut Industrial Assets

426. The consolidated Groundnut Industrial Assets now comprise: the Gambia Groundnut Corporation's facilities, the Premier Agro Oils Groundnut Industrial Complex, and the GAMCO Industrial Assets.

427. The GGC assets include:

- A 300 Mt/day shelling and grading plant with a 90,000 Series Electronic Sorting Machine;
- A river transportation fleet comprising 25 barges and three tugboats;
- Nine operational storage depots with depot handling equipment for the reception of groundnuts from CPMS and traders.

428. The Premier Agro-Oils industrial complex comprises:

- One 100 Mt/day crushing plant supported by a 1.25MW Diesel Generator;
- One 100 Mt/day Solvent Extraction Plant:
- One detoxification plant: Major plant, machinery and equipment in place but installation incomplete.
- One Fluidized Boiler Plant.
- The tank farm of the Industrial Complex was sold separately.

429. The GAMCO crushing facilities are situated in the transit premises of the GGC and have a 200 Mt/day capacity. The plant is new and has not crushed more than 15,000 metric tons of FAQ.

430. Government needs to provide the following services to supplement the maintenance efforts of the strategic partners:

- Rehabilitate the three tugboats to ensure that groundnuts purchased at depot level are speedily transported to Denton Bridge for immediate shelling to permit marketing of confectionery groundnuts to the European winter market.
- Rehabilitate depots and depot equipment (conveyors, bobcats, and generators etc.) to ensure efficient and speedy handling of the groundnut crop from depots to processing plants.
- Provide storage tanks for the crude groundnut oil. This will provide industrial independence and production flexibility to the Premier Agro Oils Complex.
- Expand GAMCO storage capacity by completing its two unfinished 1,000 metric tons tanks.

431. Privatization will not solve the problem by itself, but the active participation of experienced strategic investors will be critical to bring in their financing, expertise and marketing connections. The government recognizes this and is committed to the privatization of the groundnut industrial assets of the GGC. It has initiated the elaboration of a *Privatization Roadmap*, with the support of the European Commission. Government and its international donor partners are concerned that the privatization process needs to be coherently structured and implemented in order to avoid the pitfalls of early attempts as well as similar ventures within the sub region.

432. Government also needs to clarify the GAMCO situation (either by liquidation or otherwise) in order to regroup all the industrial assets for cost-effective management and increased output. It would be a disaster if strategic partners face competition from GAMCO for a commercial crop size of only about 40,000 metric tons.

THE WAY FORWARD

433. The groundnut sector can recapture some or all of its former economic importance and make a major contribution to rural welfare, poverty reduction, and foreign exchange, as well as smaller contributions to off-farm employment in such areas as transport, handling and processing. International prices for crude groundnut oil have recovered to nominal levels not seen for 25 years.[53] With better organization of the sector, commercial purchases could increase from current levels of 30,000 to 80,000, which is still less than the quantity attained in 1984. Improved quality control and an efficient purchasing system could raise the share of HPS groundnuts from 20 percent to 30 percent. If current prices are sustained, this combination of factors could raise total export earnings to US$38.1 million (see Table 9.1). The injection of cash into the rural economy would increase by 200 percent over today's level to roughly D558 million.

434. Such a result will depend on a combination of external factors, over which the government has no control, and internal factors, notably the organization and management of the sub-sector, over which the government has considerable influence. In particular, government must help recreate a climate of trust with a set of rules, regulations and responsibilities accepted and adhered to by all stakeholders.

[53] This is partly due to increasing domestic demand in India, which has been one of the largest producers and exporters of groundnut oil in the past, but which may soon stop exporting.

Table 9.1: Potential growth in Groundnut export earnings

Scenario	Price hypothesis	FAQ:HPS ratio	Value of purchases from farmers	Foreign exchange earnings (US$mil.)
2004 actual sales (20,000 mt.)	$900/mt for oil $700/mt. for HPS	80:20		$9.8
2006 production level (30,000 mt.)	Actual prices $1100/mt for oil $750/mt for HPS	80:20	D209 mil.	$14.2
Potential production (80,000 mt.)	Prices fall to 12 year average (= 2004)	80:20	D424 mil.	$28.2
Potential production (80,000 mt.)	Prices continue at 2006 levels	70:30*	D558 mil.	$38.1
Potential increase compared to 2006				**$23.9 mil.**

* This scenario assumes a slight improvement in the shelling ratio (70 percent) and oil content (49 percent).
Source: author's calculations

435. The previous privatization of the groundnut industrial assets failed in part because it neglected to:

- Build the capacity of the various stakeholder-groups to move from a social service oriented structure to a liberalized and private commercial marketing system;
- Create the enabling environment for a "private sector led management system" with the government's role focused on policy formulation and regulation.
- Constitute an inter-professional association to define the rules of the game including the roles and responsibilities of stakeholders.

436. But in addition the process was undermined by government's repeated intervention in the management of the groundnut sub-sector. This constrained the ability of the sub sector to establish itself in the international market as a credible and reliable supplier of quality groundnut products. It has impeded technical support from international donor partners and institutions to develop the requisite response strategies to international quality regulations. It has also discouraged world-class operators from participating in the marketing and eventual re-privatization of the groundnut industrial assets.

437. As a result, the Bretton Woods institutions and the Government of The Gambia identified the privatization of industrial assets in the groundnut sector as one of the key prior actions necessary for The Gambia to qualify for enhanced HIPC debt relief.[54] Unfortunately, this had yet to be achieved by July 2007, and has now become the main outstanding requirement. While the Bretton Woods institutions are prepared to be flexible, it is necessary to define interim measures which might be taken to restart the reform process and thereby demonstrate to the donor community the government's commitment to the principle of reduced public intervention in the sector.

[54] More specifically, it was required that the government "bring to the point of sale the two major publicly-owned groundnut processing plants", of which only one remains today.

438. A three-phased process is now proposed to re-launch the sector on a more sustainable footing:

- **Phase I:** The identification and implementation of priority actions necessary for the next crop season which will also be sufficient to ensure the approval of debt relief;
- **Phase II:** The elaboration and approval of a Roadmap for rehabilitation of the sector and divesture of GGC to professional strategic partners and/or buyers;
- **Phase III:** The implementation of the Roadmap and the privatization of the industrial assets.

439. The preparation of a *Roadmap* for the privatization of the groundnut industrial assets and the establishment of requisite complementary measures is currently under way. Its finalization and approval by all relevant stakeholders and Cabinet will certainly be one of the actions required for debt relief. However, it will also be important to identify some concrete initial actions which can be taken before the Boards of the Bretton Woods institutions are asked to approve debt relief for The Gambia. Some of the options which should be considered are: permission for the entry of private operators in groundnut river transport and up-country de-shelling, elaboration of a new inter-professional framework agreement which clearly defines the role of ASPA, and clarification of the financial status and future of GAMCO.

440. Given the current crisis in the organization of the groundnut sector and the bad state of the industrial assets, it will take some time to sell these assets to reliable and competent international operators. However, time is of the essence if The Gambia is not to lose all credibility among reputable international buyers. With concerted effort on all sides, it should be possible to transfer assets to private hands in time for the marketing of the 2008/09 crop. In addition, the process must include a variety of other measures to rebuild the sector. Detailed recommendations and a timetable are being developed in the Action Plan for the Roadmap, so no attempt has been made to outline them for this study. However, the key issues are:

- **Liberalization** of the groundnut sub-sector with the attendant pre-requisites in terms of sub-sector policies (production, farm input provision, marketing etc) and regulatory frameworks.
- **Capacity building of the cooperative movement** to recreate a constructive and trustworthy operating environment,
- **Clarification of GAMCO's** situation to enable the regrouping of the entire groundnut industrial assets for their cost-effective operational management;
- Adoption of a **Producer Price Determination Mechanism** with distinct rules and regulations based on objective parameters that are not manipulated or interfered with by any of the stakeholders including government.
- Adequate and **timely availability of crop financing** to guarantee the prompt purchase of farmers' produce without credit buying,
- The **functional rehabilitation of all sub sector facilities**, from Secco equipment (screens, scales etc.) to industrial facilities, in order to ensure an efficient, cost-effective and timely handling, evacuation, processing and exportation of the purchased commercial crop.

- Incorporate **Quality Assurance Modules** in the capacity building of all stakeholders with particular emphasis on producers, in order to better exploit Gambia's comparative advantage in the production and marketing of HPS (edibles) and Birdfeed.
- Develop and Implement a **Two-pronged Quality Assurance Framework**,
- The **strengthening of ASPA** for the management of the Groundnut sub sector to complement government's withdrawal to its key roles of public functions (Policy formulation, legal and regulatory systems).

ANNEX 9.1

Table A9.1

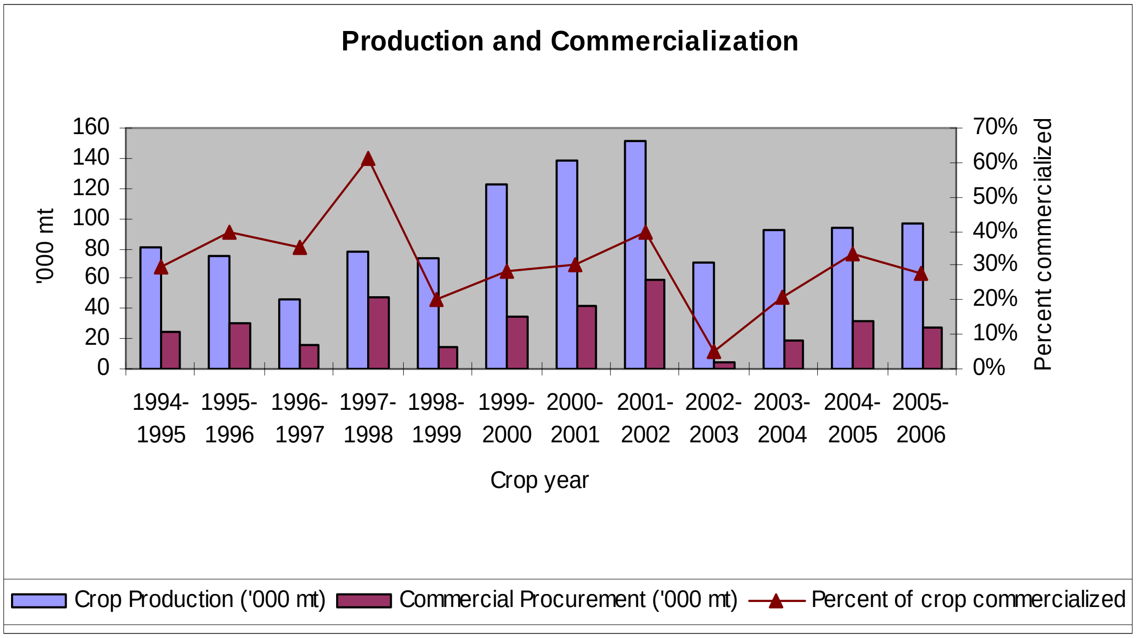
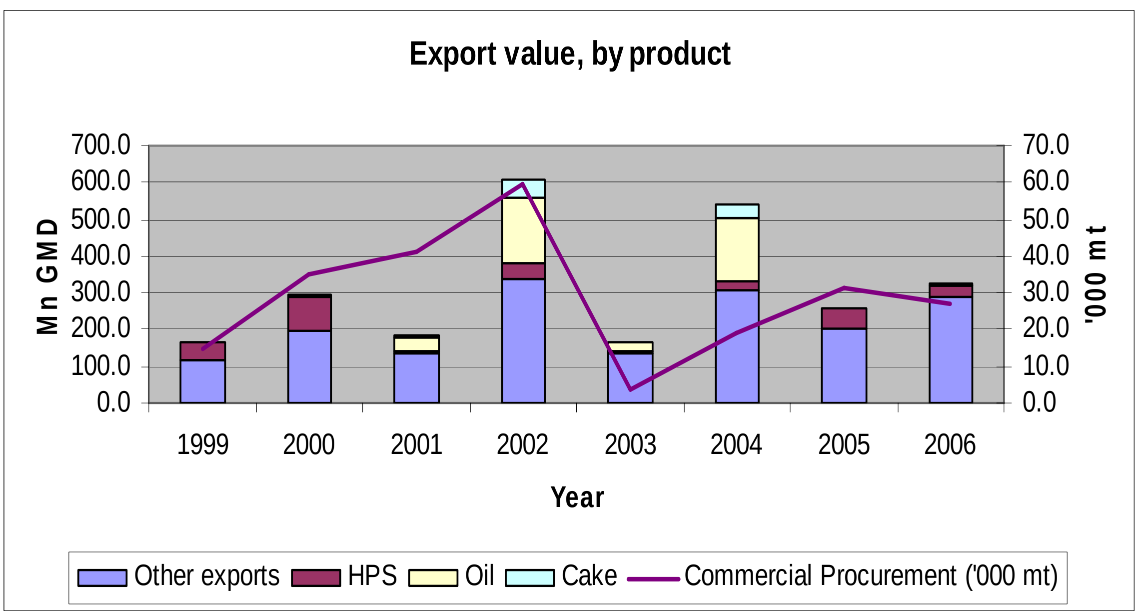


Table A9.2



10 AGRICULTURAL EXPORT ALTERNATIVES

441. Groundnuts continue to be the main cash crop for the rural population and the crop is well suited to Gambian conditions. But with few alternatives, farmers are extremely vulnerable to interference in the sector or fluctuations in yield or price. There are no significant mineral resources available in the country, and three quarters of the population are dependent on agriculture for their livelihood. There is an urgent need to reduce dependence on groundnuts and find other sources of revenue for the farming population. This chapter reviews the potential of The Gambia's agricultural sector, beyond groundnuts, to contribute to foreign trade.

442. Table 10.1 shows the exports of crops from The Gambia over the past three years. The narrow base of agricultural exports is readily apparent.

Table 10.1: Other Main Agricultural Exports from The Gambia (tonnes)

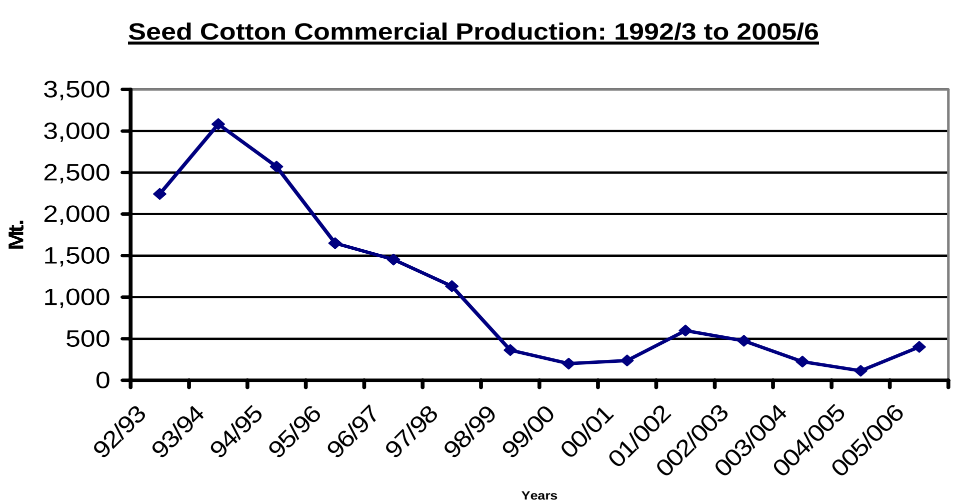
	Sesame	**Green Beans**	**Chili**	**Cotton**	**Cashew**	**Mango**
2004	1022	511	109	197	4253	477
2005	1001	369	74	530	4072	373
2006 (to August)	667	n.a.	0	402	3621	1281

Source: FAOStat, and Phytosanitary Inspection Service of The Gambia

RESTRUCTURING THE COTTON SECTOR

443. Cotton is the second traditional export crop after groundnuts. Its decline has been much more dramatic, as depicted in Figure 10.1. Since 1994, cotton production has progressively declined from 3,000 metric tons of seed-cotton to 200 metric tons: a 93 percent decline!

Figure 10.1: Seed Cotton Commercial Production: 1992/3 to 2005/6



444. The seat of the cotton sub sector is in the URD and the ginning factory (GAMCOT) is located in Basse, the divisional capital. In 1991/92, the Government of The Gambia entrusted to the French cotton company, CFDT, the management of the cotton sub-sector for one year as part of the program of privatization of state-owned industrial companies. International market prices were strong at the time and the cotton sub sector was quickly privatized. A new private company, GAMCOT, was created in 1992 with a registered capital of GMD 2 million. CFDT held 60 percent of the equity, and the government the remaining 40 percent. In accordance with the marketing agreement, CFDT markets the entire cotton production of GAMCOT and earns a 1 percent commission on the amount of the sales.

445. GAMCOT has a 10,000 metric tons ginning plant capacity but the plant is operating far below its potential capacity and at huge losses. Seed-cotton production has never reached 600 metric tons during the past eight years. There is urgent need therefore to critically assess the Cotton Sub sector and institute practical remedial measures to arrest the continuous decline in production and productivity.

446. Elaborate studies have been commissioned by government to identify the causes of the sector's decline and to propose remedial measures to redress the situation. By and large, the identified causes and constraints can be classified under three principal categories – natural, production-related, and institutional.

Natural Causes & Constraints

447. There has been a receding pattern of rainfall with frequent dry spells requiring the introduction and multiplication of adaptive varieties. This is aggravated by the lack of an "Early Warning System" as a response strategy to the erratic onset of rains in order to reduce the incidence of moisture stress especially during the germination stage. Severe pest infestations have drastically affected yields and lint quality as well.

Production Constraints

Cost of Farm Inputs

448. Compared to other crops, cotton production ranks amongst the highest in farm input requirement, necessitating significant investments from the producer both in terms of finance and time. The cost-trend of farm-inputs has not been compensated by the trend of world market prices for cotton. Similarly, the free-fall of the Gambian Dalasi vis-à-vis international currencies has exacerbated the cost of farm-inputs since all cotton input requirements are imported.

Farm Input Management

449. The progressive withdrawal of government from the management of the agricultural sector for the creation of a "private sector led economy" as enshrined in Vision 2020, has neglected to build the capacity of producers to operate effectively in a liberalized economic environment. Consequently, producers are yet to transit successfully transit from a input supply system with government subsidies and periodic relief from credit-loans, to a commercial system which renders them liable and accountable. With the meager revenue derived from cotton, due to low yields and the high cost of inputs, default has been a regular feature. The diversion of farm-input credit contracted for cotton production to other crops, particularly subsistence crops, has further reduced production and the capacity to reimburse loans.

Competition with alternative crops

450. Cotton production is highly labor-intensive, requiring continuous attention. The Gambian farmer clearly takes this into account when making production choices between cotton and other cash crops such as groundnuts and sesame. With poor support to ensure proper agronomic practices, and weak organization of the sector generally, the economic returns from cotton have fallen below that of alternative crops. Groundnuts in particular have greater appeal as both a food and fodder crop in addition to offering sales opportunities.

Cotton Producer Organizations and Sub-sector structure

451. During the past ten years, cotton producers have been loosely organized and have not been able to articulate their priorities, including the contracting and management of farm-input credit. Their organizations have never been able to participate independently and proactively in the elaboration of sub sector strategies and action plans. They have constantly been on the receiving end with little room to influence the operational structure and direction of the sub sector.

452. The privatization process of the cotton ginnery and the subsequent closure of the major cotton support project exposed the urgent need for the farmers to organize themselves to contract farm-input credit. The Cotton Growers' Association (COGA) was created but it is still in its juvenile stages and lacks the capacity to effectively play its role in cotton production and discharge its responsibilities towards its members and other actors (the industrialist) in the sub sector. Also lacking are the required economic and financial instruments to contract commercially and manage farm input credit in a sustainable manner.

453. It is now necessary to better define the roles and responsibilities of the different actors of the cotton sub sector (producer organizations, industrialist, agricultural service providers, government, and donor partners) and elaborate a sub sector framework for the management of farm-input credit, cotton production and marketing amongst others. At present, each actor operates independently with no recognition of their joint interests.

Identifying the strategic potentials of the cotton sub sector

454. The Gambian cotton sub sector has the following strategic advantages:

- A hardworking farmer population with experience in the demanding process of cotton cultivation. (Farmers need to adhere strictly to several operational activities that are critical and time bound during the entire plant life-cycle.)
- The GAMCOT Ginning factory is well positioned within the Gambian, Senegalese and Guinean cotton production belt.
- A world-class international industrial strategic partner, DAGRIS, is the majority shareholder of GAMCOT and intervenes in cotton production and marketing within the sub region, particularly the Senegal-Gambia-Guinean cotton production belt.
- The three cotton production divisions of The Gambia are bisected by the River Gambia which is fresh-water throughout this stretch.

Refocusing on seed production

455. Cotton production has fallen to such low levels that the sector is no longer viable. The efforts of the cotton growers should be redirected to seed production for the sub-region, to exploit

the availability of irrigation water. Similarly, GAMCOT must provide ginning services to the broader sub-region if it is to achieve profitable levels of capacity utilization. The concentration on seed production would go beyond cotton to encompass a range of crops:

- Cotton seeds (Screening & multiplication): Seed production for all the cotton varieties utilized within the Senegal-Gambia and Guinean cotton production belt.
- Groundnut seed-nuts: quality groundnut seed-nuts for all the varieties grown in the sub region: SN 28206, GH 119, 73-33, Fleur 11, 55437 etc.
- Sesame: Production of highly prized white sesame-seeds for sub regional utilization. The Senegal-Gambia-Guinea cotton belt is also the main sesame production zone.
- Various other seeds including for subsistence crops (millet, rice), ornamentals, red sorrel, sunflower (bio-fuel potential).

456. Technically seed production contracts would cover all seed generations required by clients: G_2 to G_4 & G_5 etc. Seed cotton would still be produced in The Gambia but particular emphasis would be given to cotton-seed production to be ginned by the factory to extract seed for distribution.

457. The GAMCOT ginning factory has, in the past, ginned seed cotton from Guinea Conakry. It is appropriate to extend this facility to ginning the seed cotton produced in the neighboring Senegal-Guinean vicinity, within a cost-effective distance from Basse. This approach will reduce transportation costs of seed-cotton grown far from the Senegalese and Guinean ginning factories but nearer to the Gambian GAMCOT ginnery, while improving the latter's cost-effectiveness.

458. This approach would require the agreement of DAGRIS, the majority shareholder of the Gambian GAMCOT Cotton Ginnery. It would need to redirect its ginning operations within the sub region since it owns practically all the ginning facilities in this region. It would also have to re-visit its approach to cotton-seed provision to producers within the Senegal-Guinean cotton belt.

Exploiting the irrigation potential

459. The river Gambia is one of the major advantages of the Upper River Division and the CRD North and South, but it is currently underutilized. The River Gambia is fresh water throughout the Gambian cotton production belt. The utilization of the river for seed production could ensure appropriate dry-season irrigated production where moisture supply and distribution could be controlled throughout the entire plant life-cycle. It can provide supplementary moisture during dry spells which frequently occur with rain-fed production.

460. The dry-season irrigated production of quality seeds ensures their availability for delivery to rain-fed commercial producers within the very same year without undue prolonged storage. Moreover, the possibility of producing seeds through dry-season irrigation and continuing production through the rainy season would mean that two to three seed generations could be produced within a twelve month calendar period, reducing therefore by a third, the seed production time-frame from $G_{1,}$ G_2 to G_4 and G_5 etc.

461. The irrigation technology need not be complex or expensive. A significant number of producers own animal drawn carts, which could be fitted with four inter-connected forty-four gallon drums with a longitudinally perforated T-bar connected with a valve at the tail end of the

cart to till smallholder plots ranging from one to five hectares. Pumping could be done with a small one-stroke engine pump, which is easily transported on the cart and operated by farmers.[55]

Defining the Complementary Measures

NGO support

462. The current Cotton Growers Association (COGA) lacks both the capacity and means to redirect the current core activities of growers to seed production. Support from an NGO is the best approach to initiate the process within the shortest possible time. An appropriate NGO would have the capacity to:

- Source the required expertise;
- Coordinate a comprehensive restructuring program through a participatory approach;
- Attract donor funding and implement professional financial management systems;
- Build the capacity of producers to manage their own affairs;
- Elaborate advocacy programs and educational materials for producers.
- Assist in managing farm-input revolving schemes.
- Set up marketing arrangements;

The Creation of an Inter-Professional Association

463. Capacity building of producers is an ongoing process, and somewhere along the line, the NGOs could support the creation of an *Inter Professional Association* regrouping representations from the structured Association of Seed Growers, Agricultural Service Providers, Research Institutions, Industrialists, and other stakeholders (Financial Institutions, Transporters, Insurers, etc.) This Inter-Professional Association will be the negotiation forum and interface for all the seed production, handling and marketing activities. It would require appropriate economic, financial and administrative management tools and instruments.

Research Support to Seed Production

464. Seed production is a demanding and delicate activity. It is important that appropriate support is given to seed producers in terms of training, field support and seed certification. Government and DAGRIS would need to bring in international cotton research institutions such as *ISRA* to provide research support, and assist the National Agricultural Research Institute (NARI) in designing, funding and implementing a practical and comprehensive strategy. The intervention of a reputable overseas university would also be helpful.

Public policy and infrastructure

465. Government needs to be supported to provide the requisite enabling environment for this transformation of the cotton sub sector. It will need to formulate the required policies for seed production, farm-input provision, marketing, etc. It will also have to elaborate the legal and regulatory frameworks, requiring studies and technical support in drafting the required laws and

[55] The above "cart-water-dowser" could be locally made and only the pump and the flexible PVC pipe need to be imported. The overall cost of this irrigation mechanism could be amortized over twenty-four months i.e. two crop seasons.

their application texts. The Seed Certification Authority will need attention. Government will also have a role in facilitating the movement of raw cotton from Senegal and the two Guineas to the Basse ginnery.

466. In addition there are certain financial issues that need to be resolved to avoid constraining the new strategy:

- The appropriate management of the outstanding DAGRIS debt.
- The government's 30 percent stake in GAMCOT: government may need to refrain from disposing off its shares for the time being until new shareholders can be found who are amenable to the new redirection of the cotton sub sector;
- Government may be requested to reserve its 30 percent shares or parts thereof for seed growers, and other emerging stakeholders (agricultural service providers, financial institutions, transporters)

Initiating the Redirection Process

467. The redirection process of the cotton sub-sector must be coherently initiated by bringing on board the concerns and commitments of all stakeholders. The elaboration of a *Roadmap* is therefore proposed as a first step in the redirection of the sub sector. The Roadmap will:

- Establish a technical blueprint for the redirection process,
- Put together a framework for the modalities of intervention by the various stakeholders,
- Define the commitments, roles and responsibilities of all stakeholders including DAGRIS, government and development partners;
- Map out the various joint implementation memoranda required.

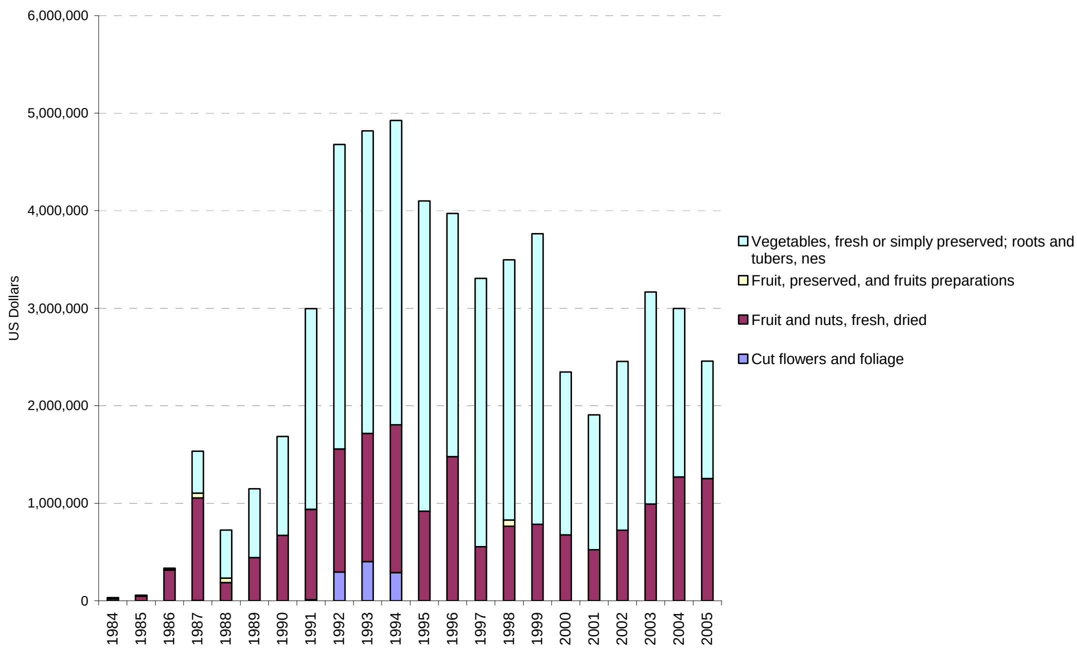
HORTICULTURE

468. Export horticulture in The Gambia began about 20 years ago. Figure 10.2 shows the progress of imports of horticultural products to northern Europe from The Gambia since 1984. There is no history of exports of fruit and vegetable preparations such as juices or conserves. The few existing small scale processors are not in a position to export: they have neither the quantity available nor the certified quality controls that would be demanded by the European trade. In the early 1990s, there were attempts to develop the export of cut flowers based on gladioli, chrysanthemums and summer flowers. However, the short growing season and the difficult operating environment combined with a shortage of freight space led to the failure of these investments.

469. In both fruit and vegetables, the progress and subsequent retreat of the export trade was also associated with the cost and availability of air freight space. Initially, space was provided both by tourist flights and by freighters that called on the return leg from delivery of cargo further down the West African coast. Lately, the air-freight trade in beans has come under pressure from developments in Morocco and Egypt where much cheaper surface freight options are available for moving cargo to market.

Figure 10.2 European Imports of Fresh Produce and Flowers from The Gambia*

(US$ millions)



* These figures reflect exports to the U.K., the Netherlands, and Belgium, but this covers essentially all such exports.
Source: COMTRADE

470. In 1991 there were an estimated 30 active horticultural enterprises[56] engaged directly or indirectly with exports of fresh produce to Europe, though two, Sifoe and Radville, dominated. In 2006 there are three extant horticultural export enterprises in The Gambia: Radville Farms, Kharafi and Gambia Horticultural Enterprises.

Radville Farms

471. In 1973 Mr Rati Dhanani established a fresh produce import and distribution company in the UK under the name of Wealmoor. The aim was to provide his family's farming and exporting operation in Kenya with a marketing arm. In 1985 Wealmoor established Radville Farms as a joint venture in The Gambia with local partners to grow and export produce between the Kenyan and Mediterranean supply seasons.

472. Radville Farms has over 20 years of experience in the production and export of horticultural products from The Gambia. Radville have remained in business because of the link with Wealmoor that has given them direct access to the customer and feedback on the ever changing demands of the market. Radville are one of very few operations in Africa to have certification for EUREP-GAP, BRC, LEAF and Nature's Choice; 50ha are also certified as organic.

[56] Exporters included Farato Farm, GHE, Citroproducts, Sinchu Farm, Tanji Farm, Faraba Farm, Makumba ya, Sifoe and Radville

473. Current, production is based on green beans, chillies, ravaya (baby aubergines) and mangoes. Beans have become uneconomic and the only real reason to continue is to fill-in occasional gaps in the UK distributor's supply pattern. As Moroccan production has penetrated the European market with substantially lower transport costs Gambian produce is less and less competitive. However, new management in 2006-07 appears to be bringing fresh ideas. An out-grower scheme for mangoes is expanding Radville's export capacity for this popular tropical fruit, and experiments are under way for the sea shipment of hardy vegetables such as butternut squash.

474. Nonetheless, management underline that The Gambia is a difficult place to operate: high costs, the need for power generation, difficult logistics with poorly maintained roads and insufficient air freight space reduce the viability of a competitive export business. Management also noted a shortage of skilled labor and a lack of support from the government (in terms of infrastructure and access to special investor status).[57]

M.A. Kharafi

475. M.A. Kharafi & Sons is the largest private foreign presence in The Gambia, active since 2002/03. Their primary focus is construction but they also have a Tourism Division and Agrimak, their Agriculture Division. The total investment in agriculture is US$6mn to include nurseries, full production facilities with plant and pack-houses and cold stores. The aim is to provide the local and Senegalese markets with 12,000T potatoes and 12,000T onions annually. There is also an intention to produce vegetables for the European market as part of the rotation, and air-freight with chartered freighters will be used if no outgoing space is available on scheduled flights. Potentially, this could provide important additional capacity for other exporters if Kharafi were willing to share.

476. Kharafi have formed a partnership with the major Dutch grower and processor of potatoes, Farmfrites. The first trial crops were planted in the 2006/07 season. The management of the farm referred to the difficulties to date of power generation, the shortage of skilled labor and the difficulty of repairing any plant in the country. Import formalities were reportedly straightforward though slow. However, they have had some trouble selling their first harvest locally due to the anti-competitive actions of importers of potatoes and onions. It is important that open competition be encouraged. Not only will successful local marketing generate jobs and save foreign exchange, it will also serve as an essential base on which to build the export business to the sub-region.

Gambia Horticultural Enterprises Ltd (GHE)

477. GHE was established in The Gambia in 1990 as a supplier of inputs for agriculture from garden tools to seeds and fertilizer. Subsequently, the company began to grow its own produce for the local market and for export too. Currently, exports are about 100T per year of chillies, Asian vegetables and mangoes based on own production and a network of allied out-growers.

478. Without EUREP-GAP certification the exports cannot be marketed through the UK supermarkets and all exports are handled by a partner selling through the London wholesale markets. The Managing Director reported that the availability of air-freight space was the major

[57] After a failure to get authorization from DOSA to import inputs duty free, it appeared that GIPFZA had responded to this request in early 2007.

constraint to developing horticultural exports. The Managing Director stated that it was the input business and the resulting need for foreign currency that kept the fresh produce exporting afloat.

Air Freight

479. The availability of air-freight space became an issue in The Gambia early on in the development of horticultural exports, and from 1989 Radville organised freighters (of 36 tonnes each) during the season. Costs were between US$0.50 and 0.60/kg. Costs began to rise as northbound freighters (notably DAS Air) used alternative airports for refuelling. The uncertainty of the export capacity made planning very difficult for the smaller export enterprises and the number participating in the trade diminished. Radville, with a clear supply program supported by their marketing operation in the UK, were able to plan and book space in a manner that no casual exporter could achieve. Radville no longer bring in freighters as the cost is not competitive.

480. By 2006 the shortage of freight space was acute. The space on aircraft leaving Banjul is about 30- 33 tonnes per week and during the main tourist season perhaps another 10 tonnes per week can be added on other charter craft. However, much of the space is on smaller aircraft lifting only one or two tonnes at a time. A minimum of two wide-bodied direct flights per week is required to keep a channel open for harvested produce and to keep a steady supply to the market. Almost all the available space during the season goes to Radville. Airport operations are said to be relatively efficient, with customs controls and security screening carried out in a timely manner. There is no cold storage available to the general exporter, but Radville have a modern pack-house in the airport area.

Sea Freight

481. Until recently sea-freight has not played a significant part in the export of horticultural products. However, the opportunities for mangoes into Europe appear to be more profitable than vegetables and, with proper handling, sea-freight is possible with a significant saving in costs. The export of mangoes is increasing and 1,280 tonnes were loaded in 2006. All consignments of mango are sent by refrigerated container, and any new exporter must be able to supply in container unit quantities of about 18 tonnes. Any less means that the container is not full and the unit transport cost rises.

Potential in the European Market

482. The European market for fresh fruit and vegetables is large and growing. In 2005 the EU imported 10.8mn tonnes of fruit and 1.75mn tonnes of vegetables from non-EU sources. A number of African countries have been able to exploit the EU demand for imported vegetables but the success stories are in countries such as Kenya, Tanzania, Zimbabwe and Zambia where climatic conditions allow the year-round production of temperate zone vegetables.

483. The latest, and most significant, development however is the penetration of Moroccan produce into the European market. Fresh legume imports into Europe from Morocco are now around 100,000 tonnes per year with a trade based on efficient trucking. The transport costs here are well below air-freight rates and margins are being squeezed.

484. Sea-freight for vegetables is a limited option from The Gambia to Europe because journey times on the current liner services are too long for many sensitive products. Senegal however is developing sea freight of green beans from Dakar based on a voyage time from as little as five days. This has saved the fresh legume (principally beans) exports from Senegal

which had gone into decline. Currently, 80 percent of bean exports from Senegal leave by sea and the remainder supplies a spot market and help to keep a steady level of supply in the European markets. Producers in The Gambia need to learn from this experience to see to what extent it is transferable.

485. Fresh fruit offers more opportunities. The EU market for mangoes is substantial and over 160,000 tonnes were imported in 2005. The mango market is however competitive, and requires low cost production of recognized varieties, with efficient handling and a short journey time.

486. Other tropical fruits such as papaya, pineapples and even some sub-tropical fruits such as melons and pomegranates may also offer an opportunity for sea-freighting exports. However, initially exports must be developed by larger operations capable of committing to booking space on container vessels and guaranteeing a volume of supply and a standard of production that matches the demands of the EU import trade. Opportunities for small scale producers will only emerge once an operating environment has been created by large scale investments.

Potential for Horticultural Exports in the Regional Markets

487. By 2005 the exports of potatoes and onions from the Netherlands to West Africa reached nearly 350,000 tonnes per year with a value in excess of US$60mn (fob). Senegal is the principle destination for the Dutch exports and imports to Senegal from the Netherlands reached 160,000 tonnes in 2005 with a value of US$27mn (fob). Exports to The Gambia have also been growing rapidly in recent years with exports from the Netherlands in 2005 of potatoes reaching 8,700 tonnes and onions almost 15,000 tonnes with a combined value of about US$4mn. These are industrial crops and the opportunity in The Gambia to supply the region competitively will require industrial scale planting, handling and storage in order to maintain low unit costs.

Potential of the Tourist Trade for Horticultural Marketing

488. Tourist arrivals in The Gambia reached 110,000 in 2006, and are expanding. Assuming 100,000 tourists arrive annually to stay an average of 10 days, a generous allowance of 400g per person per day[58] of fruit and vegetables would generate a market of 400 tonnes annually. As 50 percent is already sourced locally, the maximum potential for additional sales at present is only 200 tonnes per year. Airline catering has a total annual demand for both fruit and vegetables of not more than 8 tonnes per year.

489. A number of traders supply the hotel and catering trade with produce sourced locally, regionally and from European imports. The trade is competitive, but linkages between the traders and their suppliers, in terms of programming harvests locally to match the hotel requirements, are not strong. The Gambia is Good[59] (GIG) project is working on supply to the local markets, including the hotel and catering sector, with produce from local farmers. GIG are combining market research with adaptations to local agronomy and new varieties to develop the capacity of local farmers to supply through a longer period and in an organized manner.

490. The hotel and tourist trade is an important opportunity for small scale farmers with access to the market. The GIG project and others are assisting producers to grasp this opportunity and ensure backward linkages from the tourism industry that keep the tourist expenditure in-country.

[58] Typical European consumption is 250-300g per person per day

[59] http://www.concern-universal.org/gambia.html

A 2006 survey suggested that household income for the farmers involved has improved fivefold through this initiative. This is a dramatic and important achievement at the local level, but the opportunity is not going to expand rapidly: tourism does not have the potential to develop a more substantial national horticultural industry and expectations should not be exaggerated.

Conclusion: Future for Gambian Export Horticulture?

491. In the 20 years of its evolution, the Gambian horticultural export industry has made minimal progress. A number of entrepreneurs have tried, and all but two have failed or withdrawn so far. The remaining two companies rely on other activities to support the export operations. Neither Radville nor GHE look entirely secure despite their experience, their management and their supporting operations. It is likely that only large-scale enterprises can establish in the current state of affairs. Certainly, so long as Radville occupies almost all outbound air-freight space, there is no opportunity for small operator to develop vegetable exports to Europe. This may change. If Kharafi begin chartering their own freighters, and are willing to share with Radville and other smaller exporters, this would relieve a major bottleneck.

492. In the near term, mango exports may expand significantly if Radville's new out-grower program proves successful. Other enterprises are unlikely to succeed without substantial investment. The significant development in horticultural exports from The Gambia will come from the Kharafi group. Whether they can achieve competitive prices remains to be seen and the first pilot harvest will be early in 2007. However, with good management and minimal support from government to provide a conducive business environment, they should be competitive.

SESAME

493. Extensive cultivation of sesame was first promoted by the NGO, Catholic Relief Services, in the mid 1990s as part of a nutrition campaign. As cultivation of sesame expanded, CRS, working in conjunction with the National Women Farmers' Association (NAWFA), introduced small scale oil mills (diesel powered expellers) and the seed and the oil began to appear in the local markets. As sesame developed into a cash crop, men took up the cultivation too and they now lead the production.

494. The sesame crop in The Gambia is estimated to be about 1000 tonnes per year though this is probably conservative as much is never sold beyond the immediate growing area. Exports reached 1000 tonnes per year in 2005, though some will have come into the country from the Casamance region of Senegal. Some of the oil mills are still functioning but many have stopped through a shortage of spare parts. There are significant plantings of sesame on the Presidential farms at Kanilai, primarily with the aim of the multiplication of seed for distribution.

495. The sesame grown in The Gambia is of mixed color and relatively small seeds and is most suitable for crushing for oil. The oil content is said to be 51-52 percent. The oil is a specialty of oriental cuisine and therefore most exports are aimed at Japan. International trade houses demand laboratory testing of samples before agreeing to purchase, in particular to ensure that the Free Fatty Acid content is below maximum accepted levels.

496. Two companies export sesame: Royal Trading and Comafrique, buying from agents operating in the growing zones. The seed must be cleaned with about 6 percent losses. With port

charges the percentage of the fob value available to the farmer is probably no more than 60 percent.

497. There is a good potential for sesame as an export crop from The Gambia. There is a large market in Japan for the oil type of sesame. The oil market for sesame however is low priced compared to other opportunities. Sesame is also used around the Mediterranean as a confectionery ingredient and in northern Europe and North America as a condiment. A different grade of sesame is required for these alternative applications and for the most part these are based on premium white-seeded varieties rather than the mixed color type already grown. The Research Institute, NARI, and the Presidential farms are experimenting with imported white-seeded varieties. It remains to be seen whether The Gambia has any comparative advantage in this trade over the traditional African origins of Sudan and Ethiopia.

Future for Gambian Exports of Sesame?

498. There is good reason to suppose that The Gambia could develop the exports of sesame. It has appropriate soils and climate and there is sufficient land available. It is also a useful crop for domestic consumption. At a price of around US$750/tonne the sale of 10,000 tonnes of sesame into the oil seed market would generate US$7.5mn for The Gambia. Sesame is grown exclusively by smallholders, so an expansion of production could impact directly on poverty. It is also a suitable crop for larger scale farming and a mixture of farm types might benefit the trade by providing up-country storage and cleaning facilities located in the areas where production is concentrated.

499. However, a major obstacle to the expansion of sesame is the presence of NAWFA in the market which has discouraged independent traders from participating (see Box 10.1). If the external trade is not spoiled by the presence of old crop sesame mixed in with the new, and, if the exporters can be allowed to proceed, there is a good chance of the export restarting. From there, the quality of the production needs to be tackled, with better drying and cleaning up-country and proper storage facilities to reduce the costs incurred further along the chain. A certified quality control laboratory would be premature until exports are significantly greater.

Box 10.1: The 2006 Debacle

NAWFA started buying in the market and selling to exporters two years ago as a means of gaining revenue. In the following year, it raised the price on the basis that the farmer would always expect the price to rise. In the first two years the buying continued in conjunction with the other exporters, and the prices paid fell within international price levels allowing for marketing and cleaning costs. In 2005/06 NAWFA increased the price yet again but international prices fell back. NAWFA bought 300tonnes with financing borrowed from the Social Development Fund.

The exporters were unable to purchase from NAWFA at the 17.2GMD/kg price NAWFA wanted without losing money on the export sale and offered 11GMD/kg. The NAWFA management refused and NAWFA were unable to buy more without selling their stock. By October 2006 NAWFA still had all 300 tonnes in store and it is likely to have deteriorated. NAWFA has made no serious attempt at selling the product externally and had not even had samples tested by October 2006.

The implications for the future of sesame however are very serious: the exporters will have nothing to do with the crop while NAWFA is involved and there is a serious risk that the 2005/06 crop will be mixed in with the 2006/07 crop, at least by the farmers, with a consequent drop in quality and therefore reputation.

500. It may then be possible to diversify into the white-seed markets of Europe and North America. This will require the introduction of new varieties. Testing and field trials will be needed in advance, and this should be planned now.

CASHEW

501. Around the end of the 1990s, cashew traders, who had previously been based in Bissau, relocated to Banjul as the rebellion in Guinea Bissau intensified. This provided a local demand for cashew, and interest in cultivation of the trees began to grow. Much of the tree stock has yet to come to full production. Production estimates vary from 1,000 to 1,500 tonnes upwards, but export inspection data confirm a figure of about 3,600 tonnes. The crop is expected to grow quite rapidly as recent plantings come into production.

502. The cashew is harvested from March until late July. By the late harvest, the rains are an increasing problem as there is no up-country infrastructure of warehousing. As a new crop, the state agricultural services have not yet become involved with production. At the National Agriculture Research Institute cashew is a priority crop but the institute is so under-resourced that little work can be done. Fortunately the crop is relatively simple to cultivate and traders provide some seed, financing and advice.

503. Generally, the nuts of Guinea Bissau are considered to have the highest yield in West Africa although these nuts, and therefore the kernels, are small. The traders in The Gambia report that the yields are 52/54[60] with nut counts (measured in nuts per kg) of the order of 190-210/kg. This would imply a significantly higher intrinsic value than Guinea Bissau, due to the larger kernel size. Pricing however also takes into account risk and the reputation and reliability of the shipper and a new origin may suffer a discount if selling on the open market.

504. The cashew is cultivated close to Banjul and the cost of evacuation to the exporters' warehouses, as well as port costs, is relatively low. Further, there are no export taxes on cashew in The Gambia. It is estimated that the Gambian farmer receives about 73 percent of the fob value compared to less than 60 percent in Guinea Bissau.

505. Almost all the Gambian production of cashews is exported, essentially in the raw, unshelled state. There are some eight established exporters active in the cashew sector in Banjul. The exporters pre-finance the crop. Financing relies on an informal system of forward purchasing of local currency. Exports through the port are relatively efficient, though it is disappointing that a scanner has been installed – adding to the cost of export and delaying the loading process. The other services such as customs and phyto-sanitary clearance are not unduly burdensome.

506. The reason that there is a diversity of cashew exporters in Banjul is the availability of cashew from Senegal and from Guinea Bissau. The exporters, who are mostly expatriate Indians, find that Banjul is good place to base their operations: the port operates relatively well (though it is cramped), the banking system works for foreign and domestic transactions (if not so well for credit) and The Gambia is an agreeable place to live and operate. Re-exports, according to some in the trade, exceeded 40,000 tonnes in 2006. Exporters are not regulated through licenses. The freedom of the cashew market is a positive aspect and there is a consensus that, if allowed to grow independently, cashew exports could expand significantly.

[60] kernels in pounds weight from an 80kg bag of raw cashew nuts

Demand conditions

507. Cashew nuts are shelled in India, Brazil and Vietnam. There are new processing operations in Indonesia and attempts in other cashew growing countries, such as Mozambique, Tanzania and Côte d'Ivoire, to develop a processing capacity. Global import demand for raw cashew nuts (RCN) is focused on the Indian processing industry. India has a processing capacity of about 900,000 tonnes per year, approximately double its domestic production. The processing is largely labor-based and the capacity to process is therefore quite flexible. India imports raw cashew nuts from about 25 countries, but West Africa supplies over 60 percent of its requirements.

508. In recent years, imports of RCN in India have grown strongly, while exports of kernels have not grown at the same rate. This implies declining production in India, increasing domestic consumption, or a combination of both. Cashew planting and production is increasing in many countries, in particular Vietnam and Indonesia, and output from West Africa is growing.

509. The market for RCN will remain competitive but continued growth in kernel demand is expected in the EU and North American markets in line with demographic and economic expansion. A much greater rate of expansion is expected in South Asia and the Far East with consumption in India and China growing rapidly. It is likely that the annual growth in global RCN requirement will be about 50,000 tonnes per year. This represents a significant opportunity for The Gambia: capturing just 4 percent of this increment would provide a market for an additional 20,000 tonnes from The Gambia in ten years time. If production rose to 24,000 tonnes, at today's prices, the fob value would be at least US$11.4 million representing perhaps an additional US$8 million to rural incomes.

The Future for Cashew Exports?

510. There is a significant opportunity for cashew in The Gambia given the intrinsic quality of the nut, the cost structure of evacuation and export, and the likely growth in the global market. The Gambian advantages, however, are relative to neighboring areas and could be replicated. It is critical that the authorities work to maintain the advantage. This means working to provide the best environment in which the industry can develop without intervening in the trade. Cashew is an excellent smallholder crop and the impact of a successful development of cashew exports can have a positive effect on incomes in a producing area.

CHALLENGES AND CONSTRAINTS

511. The Gambia is not an ideal base from which to develop export agriculture. The soils are not rich, water resources are limited, and the climate offers only a short growing season except in the few areas where irrigation is possible. Nevertheless, there are opportunities in sesame, cashew and mango, and perhaps onions and potatoes if the pilot program succeeds. With these, there may at last be export income generating alternatives to groundnuts. Given the poverty of the natural resource base it is critical that competitive advantage for the export industry is improved wherever possible. Interviews at all levels in the export industry, from producers through to the shipping lines, highlighted the following constraints and challenges, many of

which will also apply to the domestic cash crops important for food security and import substitution.

Infrastructure

- Roads – the poor state of the roads in the interior adds to the cost of marketing and delays the evacuation of produce.
- Power – supplies are reportedly erratic and scarce. Processing of any kind is difficult to develop in these conditions.
- Port – the Port of Banjul works well in comparison to other regional alternatives but it is increasingly crowded.
- Air-freight - the capacity for air-freight is perhaps the critical binding constraint at present.
- Up-country storage – present facilities are inadequate with little provision for storing crops.

The Commercial Environment

- Interventionism – the government and its agencies must avoid intervention in commerce and marketing. The experience in 2006, with sesame in The Gambia and with cashew in Guinea Bissau, highlights the perils of intervention in the private sector.
- Finance – as agricultural exports grow the banks must be capable of financing the exports at competitive interest rates.
- Land tenure – a diversified production base needs to be developed that not only encourages the small-scale producer but also encourages investment in larger facilities. These can act as nuclei for further development but can also offer storage facilities and serve as a focal point for training.

Agricultural Support

- Research and extension – This is under funded and staff is demoralized. The sustainability of agricultural exports depends on the ability to remain competitive in production. This requires not only development of the crops considered here but also investigation of other potential exports.
- Seed development – The asset base of the agricultural producers needs to be supported through the introduction, testing and multiplication of new varieties. H.E. President Jammeh is supporting this effort through activities on the farms at Kanilai. However, a more structured approach, with appropriate quarantine facilities, is recommended for the longer term.
- Farmer training – The capabilities of the farmers themselves should be developed, to introduce alternatives to groundnuts, developing good agricultural practice as well as marketing skills.

POTENTIAL AND PRIORITIES

512. The dangers of single crop cultivation are clear from the history of groundnut cultivation in The Gambia. Diversity brings stability, and some alternatives have the potential for greater profitability. The Gambia will not become a major exporter of agricultural products, but there are opportunities to develop some interesting options. It is important to identify its position in the market and to seek a role as a specialist. In order to give a sense of priorities, Table 10.2 provides

some estimates of the realistic potential for increased exports of the most promising crops over the next ten years.

Table 10.2: Export return from production increases

Crop/Product	2005/06 Exports (tonnes)	Fob value	Potential Exports (tonnes) 2016	Fob Value (@2006 prices)	Gain in value (US $)
Cashew	4,000	1,900,000	30,000	14,250,000	12,350,000
Sesame	750	560,000	10,000	7,500,000	6,940,000
Mango	375	154,000	5,000	2,050,000	1,896,000
Potato	0	0	10,000	1,800,000	1,800,000
Onions	0	0	10,000	1,800,000	1,800,000
Total					**25,000,000**

513. The Action Matrix for this study lays out some of the key measures needed to realize this potential. Four areas of focus are identified to address the constraints and develop a competitive production base:

- **Production, post-harvest handling and export:** To develop the process of production, handling and export, attention is needed in the infrastructure of up-country storage, roads, power supply and port operations. Some crops are conducive to small holder production, while others will require large-scale operations so a diversity of investors should be encouraged.
- **Customers:** Cashew and sesame are relatively new crops. Mango has a longer history but its export is recent. The markets need to be understood and the products actively positioned within them. The onion and potato projects will be aiming for varieties and production costs that are suitable for the local and regional market. As the output grows, a diversity of buyers must be encouraged to ensure a competitive market.
- **Costs:** Costs must be managed, and returns to the farmer improved, through the introduction of high yielding varieties, efficient husbandry, and competitive overseas marketing.
- **Capabilities:** The technical skills and the asset base of planting material contribute to the long term competitive ability and sustainability of the sub-sector.

11 THE FISHING INDUSTRY

OVERVIEW

514. The fishery sector in The Gambia is unique in its geographical configuration. Fishing activities take place along 300 miles of the Gambia River, and particularly in its Exclusive Economic Zone (EEZ), a 200-mile long and 40-mile wide sea corridor located entirely within the Senegalese EEZ. As a result, its marine fishery, processing and exports are intertwined with the situation in the Senegalese fishing sector, and the crisis there has contributed to a crisis in The Gambia. Exports have fallen from US$4.0 million (1985) to US$0.4 million – although these data do not capture fish caught by industrial vessels in waters of The Gambia's Extended Economic Zone (EEZ) and landed directly abroad[61]. The number of licensed industrial vessels has dropped from over 100 (1991) to 16, and current receipts by the government are minimal. Only three industrial vessels were landing their catch for local processing, which is where much of the potential lies for local value-added. Processors are operating far below capacity as they depend almost totally on artisanal catches.

515. However, this fate is not inevitable; future growth of the sector does not depend solely on Senegalese policy and practice. Rebuilding of a modest industrial fishery and expansion of artisanal fisheries appear feasible, if certain conditions can be fulfilled. The most valuable part of the fishery, and the one which attracts industrial operations, concerns bottom-feeding demersal varieties, notably shrimp, which do not migrate over extended distances.[62] This is where most of the problem lies. Yet shrimp originate in the Gambia River, so The Gambia should have considerable control over its management. Hence, the key components of the future sector strategy need to focus on improving such control – by adjusting the bilateral fisheries agreement with Senegal, and by strengthening the Monitoring, Control and Surveillance (MCS) capacity in The Gambia.

516. The other main fishery is based on lower value small pelagic species which are the focus of artisanal fishermen and sold primarily on the local and regional markets.[63] Even though these species migrate more widely, their stocks are in good shape at present.[64] Stocks in the Gambia River also appear to be robust. Traditional fishery development requires a future sector strategy focusing on improving the infrastructure supporting these riverine and coastal fisheries and enhancing product quality.

517. Artisanal catches of demersal species have been affected by the decline of the resource base, but they have benefited from the ample resources of small pelagics. Total artisanal fish catches increased from 6,200 MT in 1982 to about 30,000 MT in 2003-5. Between half and two thirds of the catch consisted of shad, mostly processed in smoked and dried traditional products.

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[61] It is estimated that some 80% of the catch of the licensed industrial fleet and 100% of illicit catches were landed abroad.

[62] Also snappers, cuttlefish, octopus, croakers and bream.

[63] Sardinella, anchovy, mackerel, and shad.

[64] Large pelagics such as tuna and swordfish, are not a significant part of the Gambian fishery, though there is an agreement with Japan which allows a maximum of 5 Japanese tuna fishing vessels to operate in Gambian waters.

The number of canoes used in 2006 had increased to 1700, of which over 1000 were non-motorized canoes used only on the Gambia River. Mechanized canoes are concentrated along the Atlantic coast, and 60 percent are owned by non-Gambian fishermen (mostly Senegalese).

518. In the period 2004-2006, most of the official fish exports, in terms of volume, consisted of shipments of traditionally processed shad and sardinella to regional markets, followed by exports of fresh product to Senegal and frozen and traditionally processed products to the EU and USA. Each of these markets can absorb substantially larger quantities of product from The Gambia – global demand is no constraint for Gambian fish products.

519. Aquaculture is being explored in The Gambia at two locations, focusing on the freshwater culture of tilapia and catfish, and on brackish water shrimp culture. However, the lack of experience of smallholders, cultural attitudes and perceived high risks mean that the development of small-scale fish culture will entail a steep and long learning curve, including substantial public extension assistance. Industrial aquaculture faces other constraints. To be competitive in world markets, shrimp and tilapia farms need to be quite large, and require very substantial up-front investment. Since local bank funding of such ventures is currently too costly in The Gambia, external funding would be critical for any venture. Other countries offer an investment climate, local experience and a proven track record to outside investors in aquaculture that are not yet available in The Gambia. The Government's current strategy to focus on small-scale aquaculture for local food security is the most appropriate focus.

520. The declining economic performance of the industrial fishing sector is the result of four trends that have increased in importance over time: (i) declining maritime demersal fish resources due to over-fishing, (ii) declining international competitiveness, (iii) insufficient infrastructure and related sanitary standards, and (iv) ill-timed and inappropriate sector policies in both Senegal and The Gambia.

FOUR KEY PROBLEMS

Fish Resources

521. The Exclusive Economic Zones (EEZs) of The Gambia, Senegal and Mauritania are located in a region in which marine upwelling systems are mixing deeper, nutrient rich water originating from temperate zones with tropical surface water; the combination of nutrients and sun energy supports a fishery which has traditionally been one of the largest, richest and most bio-diverse in the world. Most marine demersal fish stocks in the Gambian EEZ are part of those in Senegal, and are substantially over-exploited. Their decline appears mostly the result of the lack of effective sector governance in Senegal, as well as poor coordination of vessel licensing and sector management policies between the two countries. However, other important factors - over which The Gambia had some control – are also responsible, notably the lopsided nature of the bilateral fishing agreement with Senegal (see Box 11.1), and The Gambia's inability to effectively protect its waters from intruding foreign fishing fleets, reflecting the limited effectiveness of its current MCS activities.

522. Although declining catches and higher license fees have virtually stopped licensed industrial fishing vessels, illegal fishing continues, secure in the knowledge that the risk of detection is very limited. The Department of Fisheries has responsibility for MCS; the Gambian Marine (navy) is responsible for surveillance activities; the police, customs, immigration and the Port Authority play minor roles. During the 1990s, Gambian MCS activities were modestly pursued at the working level in coordination with Senegal through the Sub-Regional Fisheries

Commission (CRSP). Local MCS activities currently suffer from lack of funding and poorly selected equipment. The navy currently has two small, river patrol vessels, which are far from suitable for effective surveillance at sea; there is no coastal radar, and no access to Vessel Monitoring System (VMS) data from either the EU or Senegal.

Box 11.1: The Crisis of Senegal's Fishery

The fishing sector in Senegal experienced rapid growth for extended periods during the 1970s and 1980s. While the sector strategy focusing largely on growth proved a successful formula for decades, it ultimately backfired. Since the early 1990s demersal catches and key fish stocks within Senegal's EEZ have declined substantially. Without an effective fisheries management regime, the decline has accelerated to the point where Senegal has severely over-exploited most of its demersal fish resources, and the potential capacity of its fishing fleets and shore facilities far exceeds levels needed to exploit sustainably its national fish resources. While the government and most stakeholders acknowledged the existence of a fisheries crisis around 2001, the political will to act effectively and fast has remained elusive.

Meanwhile, the official government strategy to address the resource crisis has been to formalize a trend that *de facto* had been taking place for two decades. It expanded bilateral cooperation with neighboring countries to enable the Senegalese artisanal and industrial fleets to fish in other's EEZs from Mauritania to Sierra Leone, thereby providing the necessary time for the political processes to support sector restructuring in Senegal. Senegalese pirogues can now be found all along the West African coast, officially supported by bilateral fisheries agreements. The gradual economic decline of the industrial trawler fleet was slowed by fuel subsidies, by targeting shrimp off the Gambia River and off of Guinea Bissau, and by higher fish prices. Senegal also negotiated fisheries agreements with a number of other countries, most notably with the European Union (EU) and Japan. However, in 2006, for the first time in two decades, Senegal did not extend the fisheries agreement protocol with the EU.

International Competitiveness

523. The competitiveness of fishing activities, and particularly fish processing operations, in The Gambia compared to those in neighboring countries has substantially declined on account of:

- *lack of affordable bank financing*; prevailing interest rates on commercial borrowing are well over 20 percent),
- *high energy prices*; The Gambia no longer waives taxes levied on petrol and diesel-fuel as Senegal and Mauritania still do – past attempts to provide duty-free petrol reportedly were widely abused. As a result, fishermen in The Gambia currently pay about 35 percent more for diesel fuel and petrol then their Senegalese counterparts,
- *very high electricity costs*; The Gambia has some of the highest electricity tariffs in the world for large power consumers (GMD 8.02/KWh, or US$ 0.31/KWh); this rate is scheduled to be increased by another 20 percent retroactively to November 1, 2006.
- *the weakness of the local currency*; the relative weakness of the Gambian Dalasi has had the perverse effect of Senegalese fishermen preferring payment in CFA for their catch, and hence providing another incentive to land and sell their catch in Senegal, and
- *difficulties in meeting EU sanitary standards*; EU standards have become increasingly stringent and several Gambian processors have failed to make the necessary investments.

Infrastructure

524. Fisheries require infrastructure to land the catch, protect fishing vessels from bad weather, furnish the fleet with basic supplies (fuel, ice, water, vessel maintenance) and transport the catch to processors and markets. The Gambia still lacks most of the necessary infrastructure to support the sector, and this has hampered the fish processing industry. Industrial vessels have

lacked dedicated port facilities for decades; smaller jetties that originally could handle such vessels have deteriorated and are no longer operational. The planned construction of a jetty for industrial fishing boats outside the commercial port at Banjul and the expansion of the number of artisanal fish landing places with basic infrastructure (funded by the African Development Bank, AfDB) will satisfy industrial requirements and interests but only modestly increase basic services at local artisanal fish-landing sites.

525. The addition of a shipyard would attract fishing vessels for regular maintenance and repair, and thereby encourage greater off-loading of their catch to the local processors. A private Malaysian investor had shown interest in this project but after years of delay, negotiations have finally been terminated. New investors should be sought out immediately.

526. Recent EU reviews of sanitary conditions and the application of HACCP principles in The Gambia put pressure on the local Competent Authority to rigorously enforce sanitary and quality control requirements by pushing local processors to upgrade their plants to prevailing standards. Otherwise they would lose the authorization to export fish to the EU under regular procedures. Some processors used their access to foreign capital to finance upgrades, others used internal funding, putting pressure on their cash flow. Some focused their exports on African countries with less rigorous sanitation standards. The export licenses of three processors were temporarily suspended by the Department of Fisheries. Diversification of markets to reduce dependence on the EU will be helpful, although all markets will have legitimate concerns about food safety with regard to fish products.

527. The Sanitary Control laboratory of the Department of Fisheries - the 'competent authority' designated by the EU – regularly monitors sanitary conditions and the application of HACCP principles in fish processing plants. Its laboratory is in the process of being equipped and staffed. Still, the capacity of the laboratory, its staffing, procedures, and its 'outreach' functions need further improvement.

528. The pressure of the EU reflects a more fundamental problem. Virtually all raw materials being processed in Gambian plants currently originates from artisanal fisheries. Most artisanal fish landing locations lack essential facilities such as ice, water and fish boxes, and do not yet apply rigorous sanitation standards, so the quality of raw material being processed locally is highly variable. Re-introducing industrial fishing vessels as a major source of raw material can only solve this fundamental problem in the short-term.

529. The infrastructure for small-scale fisheries must find a balance between the needs of local fishing communities to land fish, protecting the fishing fleet by maintaining sanitary conditions, and the availability of funding. The poor economic return of investments in small-scale fishery infrastructure reflects high investment and operating costs and modest benefits. The Gambia has some 134 landing sites for small-scale fisheries, of which only a few have basic facilities, such as a landing quay, fuel, ice and water supply, space to preserve the fish and easy road access. Four more landing places will receive infrastructure funded by the AfDB. In view of the high costs of coastal infrastructure, for the foreseeable future only a limited number of fish landing places can be upgraded. To maintain high sanitary standards at those upgraded landing places, it is equally important to demonstrate to fishermen how to maintain sanitary conditions on board and at the landing place. Despite recent efforts to sensitize artisanal fishermen of the importance of improving sanitary conditions, many landing sites remain unsuitable for high-quality export-oriented products, and a sustained program of selective landing site improvement and fishermen education is needed. It may also be necessary to consider some re-design of artisanal boats, drawing on experience in other countries, to better accommodate ice and improve hygiene.

Sector Policies

530. Ill-timed sector policy design and weak sector governance in Senegal have over time eliminated many policy options for the The Gambia. Probably the most important policy factor that contributed to the decline of Gambian fisheries was the bilateral fisheries agreement between the two countries.

531. The bilateral agreement provided major benefits to Senegal but very few to The Gambia. Many more Senegalese vessels sought licenses to fish in Gambian waters, than did Gambian vessels seeking to fish in the Senegalese EEZ. Foreign vessels were only required to land 10 percent of their catch for local processing. The value of the legal catch which returned to Senegal can be estimated at US$5-10 million annually over the last ten years, to which can probably be added another 25 percent for illegally caught fish. This can be compared to Gambian exports – from local as well as Senegalese waters – of US$0.4-1.9 million, and license fees of a mere US$120,000 per year. Most seriously, the agreement has left The Gambia with a critically depleted natural resource. It is safe to conclude that The Gambia's net benefits from this agreement have been negative. The unbalanced nature of this bilateral agreement should be addressed as part of any future sector strategy.

PROPOSED STRATEGY

532. The need for action to address the marine resource crisis and structural sector issues has become increasingly apparent to the Department of Fisheries. It is formulating a new sector strategy that gives priority to addressing three of the key questions:

- How to deal with the weak sector governance in Senegal, and its effect on Gambian waters and fisheries,
- How to better manage and protect those stocks and fisheries – in the Gambia River and in the EEZ - over which The Gambia could exercise relatively more control, and enable local fish processing and marketing activities to remain viable,
- How to support accelerating development of artisanal fisheries on small-pelagics and improve processing and marketing of traditional products

533. Our proposed strategy is based on two core assumptions:

- The continuing inability of the Senegalese authorities to effectively manage demersal stocks and control fishing efforts in the Senegalese EEZ.
- Little change in factors that determine local competitiveness: energy and electricity prices, interest and foreign exchange rates, the cost of satisfying increasingly standards.

534. Consequently, the competitiveness of the Gambian fishing industry can only be substantially improved by increasing the amount of raw material available, reducing local raw material prices, and improving quality. Increasing local supplies of fish can be achieved in three ways: (i) forcing all licensed vessels fishing in the Gambian EEZ to land most if not all of their catches in The Gambia, (ii) better managing and protecting fish resources inside the Gambian EEZ, and (iii) focusing local fisheries on those species over which Gambia can exert most control (shrimp, octopus, cuttlefish, selected other demersals) or that are abundantly available (small-pelagics, riverine fish). The quality of traditional and high-value fish products that are targeted for export needs to be enhanced to improve product competitiveness.

535. The Gambia can improve management of selected fish stocks over which it has most control. But in order to be able to perform effective governance of fish resources within its EEZ the country needs to: (i) change the conditions of the bilateral fisheries agreement with Senegal, (ii) alter national policies for issuing fishing licenses, (iii) improve the effectiveness of its MCS, including regional MCS efforts, and (iv) enhance the quality and timeliness of basic research on selected demersal stocks.

536. Five critical aspects of the **bilateral agreement with Senegal** should be renegotiated:

- The area covered by the agreement could be adjusted to include only the Gambian EEZ and a zone of some 50 miles on either side;
- Jurisdiction over industrial fishing vessel licensing and control could be changed, giving sole authority to a newly created Joint Management Commission (JMC). The agreement would leave it to national authorities to regulate, register, license and control artisanal fisheries within their respective EEZ.
- Research and management plans could become fundamental components of the agreement. The JMC would define future research requirements, and – in coordination with the Senegalese research institute CRODT and the Department of Fisheries in The Gambia – monitor implementation of the plan using local and/or foreign researchers, possibly linked to a reputable research institute in Europe.
- Effective MCS could be the basis for implementation, with the respective roles of Senegalese, Gambian and CSRP (regional) MCS clearly defined;
- Vessel licensing, catch reporting, fish landing requirements could be defined in more detail. The agreement should define what share of the catch a) in the 50-mile zones and b) in the Gambian EEZ would need to be landed in The Gambia.

537. Successful renegotiation of the bilateral fisheries agreement - in parallel with improvement of the MCS capacity – will enable The Gambia to contemplate an increase in the number of locally licensed industrial vessels, supplying local processing plants with needed high quality raw material. Improved MCS will also enable the traditional fishing fleet to expand coastal fisheries on high value and small-pelagic species. Renegotiation of the fishing agreement could be part of a new "grand bargain" with Senegal covering transit trade, transport, groundnuts and cotton. These negotiations must be carefully prepared, drawing lessons from the experience of other countries.[65]

538. Current **vessel licensing policies** lack a biological and economic rationale, lack effective enforcement and hardly support the Gambian fishing industry. They should be revised to reflect biological and economic objectives, ultimately ensuring that on average the licensed fishing fleet is able to operate profitably while paying license fees. Meanwhile, as long as research data are not yet available, and the fisheries agreement not yet renegotiated, the country may pursue a short-term strategy to limit local and foreign fishing licenses to the minimum necessary to keep local processing facilities operating.

539. To enhance its **MCS effectiveness**, the Gambia may develop a list of priority actions to ensure that future donor programs, and the national budget, support all aspects that bear on its own MCS effectiveness. Future support should concentrate on the following areas:

[65] For an evaluation of EU fisheries agreements, see: http://europa.eu.int/comm/fisheries/doc_et_publ/cfp_cn.htm

- Joint development and implementation of annual fisheries management plans for key *demersal* stocks through the JMC;
- Coordinated surveillance programs to enforce such management plans;
- Integration and intensification of surface and air surveillance, including more frequent air surveillance and use of coastal radar, and joint access to VMS data from the EU and particularly Senegal;
- Coastal radar to cover movements of artisanal and industrial vessels in the border areas;
- Introduction of a special program for fishing vessels to cross the Gambian EEZ;
- Creation of a formal protocol for cooperation between the navy and the Department of Fisheries, and strengthening of the Joint Commission on Surveillance with Senegal – as part of a renegotiation of the bilateral fisheries agreement;
- Use of regionally available surveillance vessels, including the introduction of at least one appropriate vessel in The Gambia;
- Strengthening the role of CSRP in verification of management and surveillance plans;
- Communication equipment, staff training and equipment, and transport.

540. The Gambia may start registering motorized pirogues, and once the registration/licensing system has been set-up and is functioning, it may be expanded to non-mechanized craft. In addition, The Gambia should consider more realistic arrangements for funding of more intensive surveillance and control activities for the next five years, with a larger Defense Ministry budget for actual surveillance activities, and a larger share of fines and license fees supporting MCS – and possibly research - activities of the Department of Fisheries.

541. To ensure necessary **fisheries research** activities will be implemented in the future, any future research program should be based on a combination of support from the EU- funded regional research program that is in the pipeline, and additional bilateral donor support. The Gambia should prepare a request for external funding of a five-year research program focusing on biological and economic aspects of shrimp, selected demersals and riverine fisheries.

542. In defining the future sector development strategy, The Gambia will need to carefully evaluate its future **infrastructure** needs, training requirements of fishermen and processors, sanitation and quality requirements, and other incentives to enable the local artisanal fleet and local processors to produce competitively: (i) traditionally smoked and dried products for local and regional markets, (ii) high quality smoked and dried traditional products for niche markets in developed countries, and (iii) high value products for global exports. The AfDB funded project is constructing a new industrial-sized landing jetty in Banjul to support future industrial and small-scale fishing operations, expected to be completed in 2009. This will give the country the basic facilities to effectively enforce regulations to oblige licensed industrial vessels to land their catches locally. Private investment in a shipyard should also be encouraged.

543. Further improvement of small-scale fisheries infrastructure should be based on a cost-benefit analysis of investment in additional locations; as in most other countries, diminishing returns mean that not all current landing sites can be equipped with proper facilities. A socio-economic review of current landing patterns and future sanitation and quality requirements should define which sites and facilities should receive priority, and how fish landing patterns may have to be adjusted to ensure exported products satisfy sanitation standards. Even in those locations that may not receive improved landing facilities, it will be possible to expand production of riverine fisheries, by improving smoking kilns and access roads.

544. **Sanitation and quality control.** If the country is serious about maintaining and improving fish exports it will need to maintain a long-term program of improvement of fish handling practices, sanitary conditions on-board and at landing sites, during transport and in processing plants. In the longer term, more artisanal landing sites, notably along the coast and mouth of the Gambia River, should be provided with basic facilities and rigorously enforced sanitation procedures; only fish landed at these well-equipped landing sites should be qualified for local processing and export.

545. **Attracting foreign investment** in West African fisheries has a mixed record, bringing needed capital and expertise, but often associated with illicit fishing. The current situation in The Gambia requires external investors with knowledge of the local situation that are able to tolerate fairly high levels of insecurity – notably as long as the bilateral agreement with Senegal has not been adjusted. Once The Gambia has strengthened its MCS functions, it may initially focus on attracting investors, notably vessel owners, from Europe, to fish in better-protected waters of the Gambian EEZ. Once a new bilateral agreement has been negotiated, it may also attract investors from Senegal, or other African countries. In all cases, The Gambia should provide clear investment guidelines, and have a single contact point where foreign investors would be able to handle all licensing and other administrative requirements.

546. Several **technical measures** could support the sector and its future export performance. Many practical improvements to traditional fish smoking kilns are available. Some processors have practical experience in improving traditional smoking processes for niche markets. Market forces may not provide sufficient incentives to many traditional processors to improve their smoking methods and the quality of their raw material. Hence the Department of Fisheries might invite donors to support a program of expanding the past efforts of introducing improved kilns in all major fish landing places along the Gambia River.

547. To address the **high costs of energy**, the Department of Fisheries may develop a licensing policy for fish processing plants that includes a voluntary energy audit. In addition, existing plants may also request such audit. The audit may be performed by a trained Gambian specialist, or an experienced foreign consultant, who could train a Gambian auditor.

548. Given the very high costs of energy in the country, fishermen should be encouraged to use different engines if such engines have a demonstrated reliability and over time provide substantial cost savings. The current importers of outboard engines in The Gambia may be asked to initiate a pilot program to demonstrate kerosene and possibly diesel outboard engines. Initial capital costs of such engines are higher than regular petrol engines, but they are sturdier, last longer, and cost less in operations.

549. **Poverty reduction.** Sectoral policy could have an immediate, positive impact on reducing poverty if it focuses on traditionally processed products of species, caught by artisanal fishermen, that are not over-exploited – the river and small-pelagics fisheries, including on-shore processing, supplying the local market and potential export markets.

550. Expansion of catches of high-value species for export – shrimp, octopus, cuttlefish, and other selected demersals – would also have a positive impact on poverty reduction, but may mostly benefit foreign artisanal and industrial fishermen, and local workers in processing plants. Increasing such exports would depend particularly on the effectiveness of negotiations of a new bilateral fishing agreement, and improvement of MCS activities.

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