

The Gambia

Integrated Framework for Trade-Related Technical Assistance Diagnostic Trade Integration Study (DTIS)

Main Mission, October 9-20, 2006

Aide-Memoire

1. A mission of the World Bank visited Banjul, The Gambia, October 9-20, 2006. It consisted of Philip English (World Bank: Trade Coordinator for West Africa), Badara Joof (World Bank Liaison officer for The Gambia) and a number of international consultants: Steve Golub, (Lead consultant, re-exports, investment climate), Jean-Jacques Pesquet (groundnuts, cotton), Peter Jaeger (non-traditional agricultural exports), Robert Cleverdon (tourism), Jean-Pierre Diehl (transport, trade facilitation), Andrew Singer (trade and investment institutions) and Aly Mbaye (re-exports). Mr. Pesquet continued his mission until Nov. 2. Gert Van Santen will come separately to examine the fisheries sector starting on Oct. 26, and Hoon Soh (World Bank country economist), will arrive shortly after to focus on trade policy. This international team was joined by public officials and local consultants who played a key role in the success of the mission: Lamin Dampha (DOSTIE, trade and investment), A.O. Camara (DOSWCI, transport), Mam Njie (consultant, tourism), Gabriel Gomez (consultant, agriculture), Abdou Njie (consultant, investment climate), and Matarr Touray (consultant, re-exports). Matarr Bah (DOSA) will participate on fisheries when Mr. van Santen arrives. The mission received invaluable support from the World Bank office staff (Yassin Njie and Mariama Saidykhan).
2. The purpose of the World Bank mission was (1) to gather information regarding the potential for trade and growth in The Gambia and the constraints inhibiting this potential, (2) to identify concrete actions that should be undertaken to overcome these constraints, (3) to support integration of trade into the PRSP, (4) to deepen understanding of the IF process and objectives among stakeholders, (5) to coordinate with other multilateral and bilateral agencies, and (6) to identify institutional options for implementation of the Integrated Framework (IF).
3. The mission wishes to thank the Government of The Gambia and notably the Permanent Secretary, DOSTIE, Sulayman Samba, for his exemplary support to the mission. The mission also wishes to thank the numerous public officials and local consultants who provided diligent and able support to the mission team. The team was unable to meet with the Secretary of State for DOSTIE due to a Cabinet reshuffle which took place during the mission. However, the PS assured the mission of the Government's full support for the IF program.
4. The IF is clearly a high priority for the Government of The Gambia, which has taken full ownership and all necessary measures to ensure its success. DOSTIE has established an IF Steering Committee encompassing all the key ministries as well as the private

sector and civil society. A proposal is also being prepared to establish an IF secretariat in DOSTIE to assist with implementation of the program. A lead donor facilitator has not yet been confirmed but a decision will soon be made following recent changes in key donor representation in Banjul. The IF Steering Committee met with members of the team at the beginning of the mission, and again at its completion to consider this Aide Memoire. The high-level and active involvement of the participants attests to the importance attributed to this exercise.

5. The PRSP is currently being revised and trade issues have been given increased attention in this version. However, DOSTIE is keen to further strengthen this dimension of the strategy with the help of the DTIS. While the PRSP has been approved by Cabinet, the donor community is being encouraged to provide feedback. It is the mission's understanding that there is still room for modification, particularly in the Action Matrix, and the team is committed to working with DOSTIE to ensure that the trade and export agenda is adequately reflected in the PRSP in a manner consistent with the DTIS. Some preliminary comments have been prepared and submitted to DOSTIE (see Annex A). The DTIS consultants will prepare further comments on the relevant sections of the PRSP and its Action Plan within the next few weeks.

6. The DTIS schedule is as follows. The consultants are expected to complete their draft reports by December 15. The Bank, with the help of the lead consultant, will seek clarifications and revisions of these reports from the authors, and then submit the drafts to the Government for comments. This is expected to take place by early February 2007. The IF Steering Committee will be invited to review the draft reports at this time. It is proposed that a technical review workshop be held in March to discuss the draft reports and the proposed recommendations in order to ensure that the information and analysis are accurate, and that the priority actions are well-founded. (This will be combined with the workshop proposed by DOSTIE on mainstreaming trade in development strategies.) The World Bank and the lead consultant will then prepare a summary report incorporating all the comments received. This full report will be distributed to IF agencies/donors and reviewed internally by the World Bank following its normal procedures. The draft final report is scheduled for delivery to the Government in mid-May. Further minor revisions are still possible afterward. A Validation Workshop should then be organized by the Government to obtain feedback from stakeholders and gain broad acceptance of the study's recommendations.

7. The following are some preliminary findings and suggestions of the mission:

Groundnuts and Cotton: The work on these two commodities continued after the end of the main mission, so only a preliminary report is possible here. *Groundnuts* are receiving a high priority in the study due to i) their traditional role as the most important source of rural incomes, ii) the continued comparative advantage enjoyed by The Gambia, and iii) the urgent need to attend to current problems. The report will recommend actions to i) reconstitute the seed stock, ii) restructure the APOs and CPMS, iii) introduce strategic investors to rehabilitate industrial assets and assist with crop finance, iv) rehabilitate the river transport fleet, and v) deal with excessive aflatoxin levels. The process of

privatizing GGC needs careful attention to ensure that quality investors are attracted. The neglect of groundnuts in the PRSP Action Plan remains a serious problem, to the extent that this Plan serves as road map for Government and donor programs.

Cotton production is very low and the prospects for the international market price are not very promising. The GAMCOT ginnery should be integrated into the sub-regional market in order to achieve acceptable levels of capacity utilization. Its privatization is critical for its own sake and for the entire privatization process. The mission is exploring the potential for The Gambia to specialize in the production of high-quality cotton seed for the sub-region, taking advantage of the availability of irrigated land and farmer experience with seed cultivation. This could be extended to groundnut seed production, for the internal market and for Senegal.

Non-traditional agricultural exports: The export trade in fresh *fruit and vegetables* is dominated by one large producer. Air freight capacity is a major constraint, but the arrival of a substantial Kuwaiti-Dutch investment is sufficiently large that extra cargo capacity will be brought in. This should open up opportunities for other smaller operators to begin exporting. The requirement of the tourist industry for Gambian produce has also been reviewed. It seems that this market is relatively well supplied by Gambian producers and this will further improve due to various initiatives, including the new Kuwaiti-Dutch project.

The development of *sesame* as a significant crop in Gambian agriculture is recent. The existence of stocks of previous season material remaining in Banjul and up-country is of immediate concern: the quality is likely to have deteriorated and it is imperative that this is not mixed in with the up-coming 2006 crop. The sesame from The Gambia has qualities which ensure a good market in the Far East, and the opportunity to expand output and move into higher grades is substantial.

Cashew is becoming an increasingly important crop, and its suitability on quite marginal land can be valuable for poverty reduction. The Gambia does not produce more than around 2,500 tonnes, but exports are expected to exceed 40,000 tonnes this year as product enters from Senegal and Guinea Bissau. The intrinsic quality of the nuts produced in The Gambia exceeds even that of Guinea Bissau and will place The Gambian nuts as the highest quality in the region if not the whole of Africa. Global consumption of cashew is growing quite strongly, and there is a good opportunity for a major expansion of cashew production and exports from the Gambia.

Tourism: The tourism sector is one of the most promising export sectors in The Gambia, as it continues to attract new investments in the context of a robust international market. It also seems to be well-studied and fairly well managed. The Gambian Tourism Authority has a good reputation for responsiveness to the industry's concerns, while the Tourism Master Plan contains many good ideas for future growth. However, current hotels operate at relatively low capacity, the new hotels do not have clearly defined marketing strategies, and The Gambia is dependent on a small number of international tour operators. There needs to be greater attention on marketing The Gambia in order to

expand tourist volume. It is suggested that this function be moved from GTA to a new public-private Gambia Tourism Marketing Organisation with its own dedicated funding. The report will propose practical next steps for implementing the Master Plan, modifying the work program of the GTA, and improving backward linkages to the local economy. It will also address the negative social and environmental dimensions of the industry.

Manufacturing: The mission was pleased to discover two garment exporters. There appears to be potential for a significant expansion of this labor-intensive export, notably of knitwear to Europe. The new business park established by GIPFZA should provide an attractive site for such activity providing an appropriate package is put in place. The mission would outline the next steps needed to kickstart this new opportunity.

Re-exports: Re-export and transit activities are the most important industry in The Gambia in terms of GDP, employment and government revenues. During the mission, we have sought to understand 1) the nature, 2) the determinants, and 3) the implications and prospects of this trade. Re-exports are surprisingly much larger than transit trade despite the higher duties they face. The advantages of The Gambia which explain this trade have eroded considerably in recent years. Customs duties and the sales tax have recently been increased, while other countries in the region have generally lowered taxes to similar levels. There are indications of increasing costs and inefficiencies at the port of Banjul, while in Senegal and elsewhere, efforts are being made to improve port efficiency. Border conflicts with Senegal are also a factor. As a result, re-exports have apparently dropped by about 30 percent in last few years, with most of that occurring in 2006. Some importers are very pessimistic about the future of the re-export trade.

The Gambia is at a crossroads. Can the country find a new and more durable basis for serving as a regional gateway? The Gambia retains important geographical and institutional advantages on which it must build, but time is running out. It is imperative that The Gambia pursue a multi-pronged strategy that includes

- a. a focused effort to improve all aspects of trade facilitation, including customs, the port, roads and river transport so that The Gambia is the unquestioned regional leader in transport efficiency;
- b. improvements in other trade-related aspects of the institutional environment, including financing, contract enforcement, etc,
- c. consideration of rolling back the sales tax increase and seeking revenues instead from widening the tax base;
- d. improved relations with Senegal so as to avoid further border-closing incidents.

Investment Climate: The mission has benefited from the recent Investment Climate Assessment survey to identify the top constraints faced by the private sector (exporters and non-exporters). Electricity was the clear priority, with 86% of hotels and 79% of manufactures identifying it as a major obstacle to growth. The next most important constraint for manufacturers was land access (61%), though this was less of a problem for hotels (28%). Taxes and finance are the other major obstacles. The mission relied on existing studies and local expertise to address these issues and came up with some of the following preliminary conclusions.

The current *power* situation can be considered precarious. There has been a lack of investment in electric power assets, system losses (35-45%) are far above industry norms, and private sector participation in NAWEC has so far failed. Restructuring and divesting NAWEC appears to be a top priority. Public investment in transmission and distribution is also critical.

Land tenure may be less of a problem than the process of acquiring and leasing land, except for women farmers where customary law inhibits inheritance. The new business park will help export-oriented firms avoid the land problem. Hotels have benefited from the Tourism Development Areas, though dealing with squatters poses problems. More generally, the process of leasing land and obtaining mortgages should be streamlined. The current plans to review the Mortgage Act should be a priority.

While it may be difficult to lower taxes, the *tax system* could be simplified. The number of taxes could be reduced, and any duplication between national and municipal taxes (e.g. for hotels) should be eliminated. Tax incentives to promote new trade-oriented investment will help exporters, but should not be overdone. The mission will provide input into the current review of the investment code.

Medium and long-term bank *financing* is expensive and scarce due to lack of competition, high domestic debt levels, and limited capacity to service SMEs. On-going initiatives should be encouraged, including creation of a public credit reference bureau, establishment of a proper commercial court, and reduction of the government deficit.

Transport and Trade Facilitation: The transport system – maritime, air, river and road – is the lifeblood of The Gambia. It is time to reassess the national transport policy and address a number of issues. The ferryboats represent a financial burden on the port; consideration should be given to separating the passenger and merchandise businesses. The port must proceed with reforms underway on the basis of the 2002 Master Plan, and a solution to silting must be found. However, the port will remain smaller than that of Dakar, and its role must be defined taking this into account. River transportation offers a valuable advantage to The Gambia, given its low cost as compared with trucking. But the infrastructure and equipment is in urgent need of rehabilitation. The possibility of a dry port at Yellitenda should be explored.

Road infrastructure cannot be maintained without a properly financed road fund. The current fund needs additional resources, and should cover rural roads. Road transport operators must be better organized so that their profession can be properly regulated. This may need investment and training. Domestic small size private aviation should be allowed to develop. The creation of one or two basic airstrips (Farafenni, Bassé) may be a first step in that direction. The National Transport Policy 1998-2006 remains the base document for the sector though it will be adjusted to cover the next period 2007-2015.

Trade Institutions: DOSTIE's lead role in trade policy is broadly accepted and its committee process for stakeholder consultation seems to be fairly effective. Nonetheless,

it is faced with a daunting array of negotiations and other trade policy issues, so prioritization and a clear work program will be important. The Department probably needs to spend more time conducting or commissioning analysis in order to determine its national development interests, at least one more professional trade economist is needed, staff should specialize in order to gain greater depth on key issues, and the committee structure could be rationalized to reduce the burden on all concerned.

The absence of a separate export promotion agency is probably appropriate for such a small country, especially since most of the constraints appear to lie on the supply side rather than in marketing. Attracting new investors with knowledge of and links to overseas markets is one of the key solutions, so GIPFZA's work in this regard is critical. A coordinating mechanism to respond to exporters' problems and implement the DTIS recommendations, as outlined below, is perhaps the next key priority.

The mission will have recommendations concerning the functions and activities of GIPFZA, customs procedures as they relate to clearance procedures for exporters, and quality and standards control. Metrology appears to be the top priority in the area of standards. Other problems tend to be product specific (aflatoxins in groundnuts, SPS in fish and horticulture) and should be tackled at the level of the sub-sector. Specific recommendations will be provided.

DTIS Follow-up

It is important to begin thinking about the institutional mechanisms necessary to facilitate implementation of the Integrated Framework, and more specifically, the DTIS Action Matrix. The mission proposes that a high-level committee be established involving key Secretaries of State and their Permanent Secretaries, together with the Chamber of Commerce, to oversee a new Export Development Agenda. Its role would be to implement the DTIS Action Matrix as an important component of the second pillar of the PRSP. It would be supported by a joint public-private secretariat staffed by DOSTIE and GCCI, and the existing IF steering committee. The work program would be approved and supervised by the high-level committee through submission of regular progress reports. The high-level committee would take decisions where possible, or submit joint papers to Cabinet for approval as necessary.

The Integrated Framework includes some funding for DTIS follow-up technical assistance under a Window 2, financing which is likely to increase under the new Enhanced IF currently being developed. This funding would provide a significant base for supporting the work of this secretariat and implementation of the DTIS Action Matrix. However, the expectation is that additional funding for larger projects would be sought from the regular development partners.

Banjul, October 20, 2006

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