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The Gambia:
A Gateway to West Africa?

DIAGNOSTIC TRADE INTEGRATION STUDY
DRAFT CONCEPT PAPER

I. Introduction

1. The Integrated Framework (IF) was established under the World Trade Organization (WTO) in October 1997 to facilitate the coordination of trade-related technical assistance to least developed countries (LDCs), and to promote an integrated approach to assist these countries in enhancing their trade opportunities. The IF is a joint effort of six international institutions.[1] The premise of the IF is that fruitful integration into the global economy is essential for economic growth and poverty reduction. The IF objective is integration between the trade strategy and overall development strategies for the country, as well as closer coordination of the donor community, including the six IF partner institutions, in the provision of technical assistance to LDCs and encouragement of policy reforms. The starting point of the IF is the Diagnostic Trade Integration Study (DTIS) which analyzes constraints to LDC integration into the global economy, identifies the trade-related technical assistance needs to enhance the country's prospects for increased integration into world trade and to integrate trade issues into the country's national development strategies including its poverty reduction strategy. The IF has recently been reviewed with the recommendation to enhance the program with additional funding.[2]

2. 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. 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), 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 Europe, social harmony, improving political stability, progress in macroeconomic stabilization, and an unusually efficient port. The latest World Competitiveness Report in 2004 rated The Gambia as the 6th most competitive country in Africa (out of 25 countries and ahead, among others, of Ghana, Tanzania and Senegal), and the government professes a strong commitment to economic development.[3]

3. The Gambia's well-functioning customs and port services, along with a relatively liberal trade regime, have enabled the country to serve as a trading gateway to West Africa, with re-exports accounting for some 80 percent of exports. This entrepot position has the potential for spilling over into broader-based economic development, exemplified by the way Hong Kong and Singapore built the foundations of their growth around their status as trading hubs.[4] With regional integration in West Africa largely eradicating the differences in trade policies, the effectiveness of trade facilitation, transport infrastructure, and the quality of the overall business climate are increasingly decisive in the competition to serve as regional trading hubs. This competition provides an additional rationale for The Gambia to confront the deficiencies in its infrastructure and business climate.

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[1] These are the International Monetary Fund (IMF), the International Trade Center (ITC), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Program (UNDP), the World Trade Organization (WTO) and the World Bank.

[2] WTO (2006).

[3] In the Heritage Foundation's Economic Freedom Index, the Gambia's score was equal to the Sub-Saharan average.

[4] These two city states did enjoy location in a much faster growing neighbourhood.

4. At the time of the DTIS preliminary mission, the Gambian government was in the process of finalizing its Poverty Reduction Strategy Paper (PRSP) for 2007-2011. The new PRSP is focused around five objectives:

1. Improving the enabling policy environment to promote growth and poverty reduction (including macroeconomic stability)
2. Improving the capacity and output of the productive sectors (agriculture, fisheries, industry, trade and tourism).
3. Improving coverage of unmet basic needs and social protection.
4. Building capacity at the local level through decentralization.
5. Mainstreaming social issues such as gender, youth, population HIV/AIDS into the development process.

For the purpose of the DTIS, it is noteworthy that objective 2 of the new PRSP has considerably increased attention to economic growth and trade relative to the previous PRSP, with rather specific discussions of key export sectors in the new PRSP.[5]

5. The main objective of the DTIS is to analyze The Gambia's trade and especially the constraints and opportunities for the country as it seeks to promote economic development through deeper integration into the world economy. In line with IF terms of reference, the proposed DTIS for The Gambia will provide: *(i)* an assessment of the country's macroeconomic environment; *(ii)* an analysis of the country's trade performance and a review of the formulation and implementation of its trade policy, with particular emphasis on its integration with the national poverty-reduction strategy ; *(iii)* an assessment of the country's internal investment climate; *(iv)* the identification of key sectors for the expansion of output, exports and employment and of the specific constraints that they face at both domestic and international levels; and *(v)* concluding recommendations for policy reforms, institutional capacity implications, and action plans to remove bottlenecks and seize opportunities identified in the diagnostic study. The study's conclusions and recommendations are to be endorsed by the Government of The Gambia, following broad-based consultations with all stakeholders in the context of a Trade National workshop. The DTIS will subsequently be mainstreamed into the country's development strategy as well as donors' support instruments including World Bank CAS.

II. Overall Economic Situation of The Gambia

II.1. Political and Social Setting[6]

6. 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.[7] The Gambia has a population of 1.4 million, of which an estimated 400,00 are Senegalese. Another half million Gambians reside abroad.

7. For 3 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

[5] At the time of the preliminary mission the PRSP unaccountably omitted a substantial discussion of the crucial groundnut sector. The IF mission was told, however, that this omission would be remedied.

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

[7] The British took control of a sliver of territory running along the Gambia River at the end of the 19th century in a move to reduce France's control of West Africa. (EIU 2002)

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. Presidential elections are scheduled for September 2006 and legislative elections in 2007.

Relations with its larger and more populated neighbor Senegal have not always been smooth. In an attempt at unification, the two countries formed the federation of Senegambia between 1982 and 1989. In 1991, they agreed to a less binding friendship and cooperation treaty. Although co-operation takes place on a number of fronts, the relationship has long been complex, 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 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. 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 has now eased considerably, simmering tensions in relations between The Gambia and Senegal remain a threat to The Gambia's important re-export trade.

Key Socio-Economic Policy Issues for the DTIS

8. 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 ethnicities and economic structures.

- The Gambian authorities should take steps to reduce border tensions and explore new avenues of cooperation with Senegal, e.g., in agricultural research and laboratories for fish inspection.

II.2. Macroeconomic Policies and Performance

9. The Gambia is among the poorest countries of the world, ranking 156th out of 177 countries in the 2005 UNDP Human Development Index (HDI). According to the new draft PRSP the overall poverty rate in 2003 is estimated at 61 percent, with rural poverty slightly exceeding urban poverty rates, except in Banjul where the rate is much lower at 10.6 percent. Table 1 compares selected economic and social indicators in The Gambia to those of a few other coastal small countries in West Africa.[8] The Gambia's per capita GDP measured at PPP is higher than most of the others shown in Table 1, but literacy is low by regional standards. 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 manufacturing sector is undeveloped even by West African standards, providing only 5 percent of GDP and displaying little dynamism.

[8] 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).

10. The Gambia has a highly open economy as measured by export and import ratios to GDP, but as much as 80 percent of exports consist of re-exports. The main domestically-originating exports are groundnuts and tourism. The Gambia has recently run substantial trade and current-account deficits financed largely by official grants and loans, and increasingly foreign direct investment inflows. Foreign direct investment in 2003-2005 averaged more than 10 percent of GDP.

11. Following the 1994 political and economic shocks, The Gambia's growth has recovered and has averaged close to 5 percent since 1997, a respectable rate similar to that of the best performers of the region. Per capita GDP has grown slowly, however, due to high population growth.

Table 1. Selected Economic Indicators for The Gambia and Selected 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

12. Fiscal and monetary policies have been somewhat erratic in recent years, but have strengthened since 2003.[9] The 2002 IMF Poverty Reduction and Growth Facility (PRGF) loan was cut off in 2002 following spending overruns and irregularities at the Central Bank of Gambia (CBG). The Gambian government has sought to re-establish a program with the Fund through a Staff-Monitored Program (SMP) as an interim step towards re-establishing a PRGF. The IMF notes that fiscal and monetary policies have been tightened lately, contributing the sharp decline in inflation, from double digits in 2003-2004 to 4.5 percent in 2005. Nevertheless, the IMF expresses continued concerns about slippages in fiscal discipline, extra-budgetary expenditures, and inadequate auditing of both fiscal and monetary accounts. The Gambia's fiscal policy is also constrained by a large domestic debt and high real interest rates, such that a substantial primary surplus is required to cover interest payments. Recent open market CBG sales of domestic debt in an effort to absorb liquidity have also added to the debt-servicing burden.

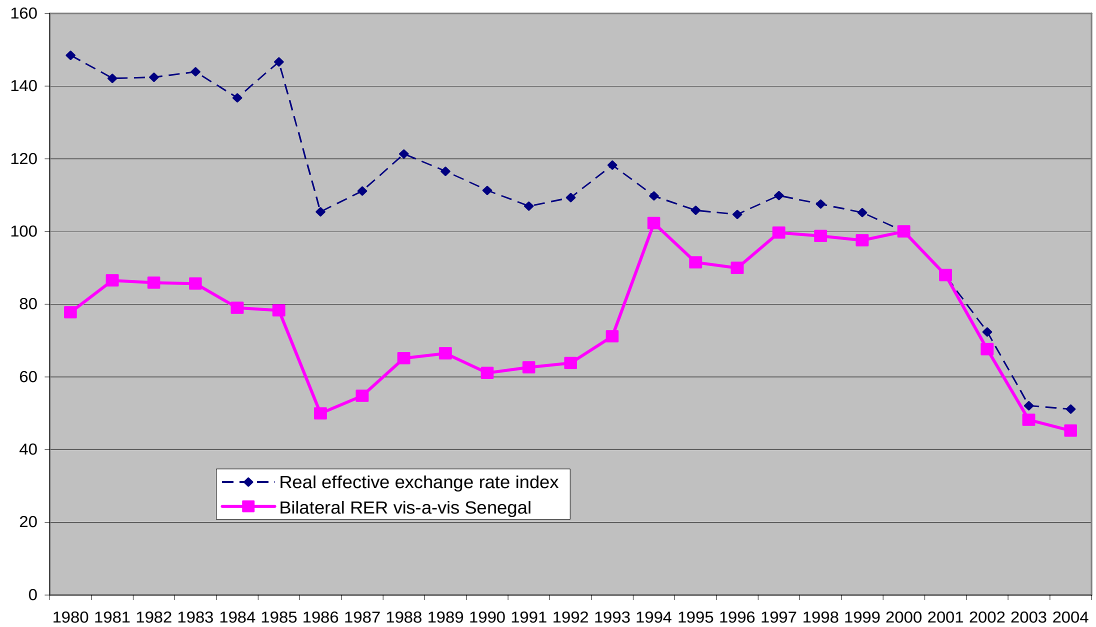
13. Another important macroeconomic issue concerns the value of the Gambian dalasi, especially vis-à-vis the CFA franc, Senegal's currency. The dalasi floats, unlike the CFA franc, which is pegged to the Euro. Figure 1 shows the real effective exchange rate and the bilateral real exchange rate vis-à-vis Senegal. Recent years have seen a large real depreciation of the dalasi

[9] This is based on IMF (2006a).

both vis-à-vis Senegal and in the effective exchange rate, reflecting the appreciation of the Euro against the dollar, and thus the CFA franc relative to the dalasi.

Figure 1

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



Source: World Development Indicators and author's calculations.

14. Gambia's longer term policy objectives are sketched in the ambitious Vision 2020 document which aims to turn Gambia into a diversified middle income economy with the private sector as "a serious partner in national development and the very engine of growth."

Key Macroeconomic Policy Issues for the DTIS

15. Although the focus of the IF is mostly microeconomic, the DTIS will review key macroeconomic policy issues to provide background. These include

- Monetary and fiscal policies, especially in terms of expenditure control, monitoring and auditing, and in this regard, relations with the IMF.
- Developments in the balance of payments and foreign debt.
- Real exchange rate developments.

II.3. Trade Patterns, Policies and Institutions

16. As noted in IMF (2004) and Enterplan (2005), data deficiencies hamper understanding and analysis of The Gambia's trade patterns. The situation is made more complex by the very large share of re-exports, about which little seems to be known. An estimated breakdown of Gambia's foreign exchange earnings on current account over 1997-2003 is shown in Table 2. The importance of services is striking. Tourism is the Gambia's largest foreign exchange earner at 33

percent. Transit hub activities (re-exports and transport) together also account for another some 30 percent. Merchandise exports represent less than 20 percent, of which groundnuts are the most significant. Fishing has recently been overtaken by fruits and vegetables as the second most significant merchandise export (Table 3). Focus on merchandise exports alone, however, provides a misleading picture of the Gambia's trade, given the importance of services and re-exports. Remittances are also as large as merchandise exports.

Table 2
The Gambia's Foreign Exchange Earnings by Category (Percentage Share of Total)
1997-2003 Average

Merchandise	17.3
Groundnuts	10.6
Fisheries	2.4
Other Merchandise	4.3
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).

Table 3
Composition of Merchandise Exports (Millions of US dollars)

	1998	2004
Groundnuts	12.5	16.9
Fish and fish products	3.1	0.3
Fruits and Vegetables	1.7	5.2
Cotton	1.4	0.2
Other Domestic Products	2.3	3.1
Re-exports	109.3	101.1
Total	130.3	127.0

Source: IMF (2006b, Table 34).

17. Domestically produced goods are a very small part of The Gambia's exports. Official re-exports consistently account for about 80 percent of Gambia's merchandise exports. In addition, there may be sizeable informal re-exports not included in these estimates. Evidently, the Gambia serves as a major regional entrepôt.

18. 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).[10]

19. For some time, the Gambia has had a relatively liberal trade regime, consistent with its large re-export trade. In 2000, as part of a move to harmonize tariffs within ECOWAS, the tariff structure was further simplified with 6 rates between 0 and 18 percent. The simple average applied tariff rate declined slightly from an already relatively low 13.6 percent to 12.7 percent. ECOWAS has now agreed to the adoption of a common external tariff 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, though with some room for changes in the assignment of products by tariff band. Overall, The Gambia is likely to experience a slight rise in its average tariff as a result. Some re-exports may have their tariffs increased by 5% or even 10% in the process. Perhaps more significant is the difference in sales taxes between The Gambia (10%) and its WAEMU neighbors (VAT = 18%). The importance of these differences for re-exports and the ECOWAS policy on harmonization need to be examined.

20. Various incentives 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). GIPFZA was established in 2001 with support from the World Bank Gateway project, which seeks to help The Gambia expand and diversify exports. The Gateway project aimed to create at least 20 new firms and 4000 jobs by 2006 in export-oriented processing.[11] These objectives have not been met and the free zone near the airport, now converted to a business park, is still not fully operational. However, the Director of GIPFZA points to some success in increasing FDI outside the park. There is no separate export promotion agency, nor is DOSTIE actively involved in such efforts. The Gambia actually has a 10 percent export tax, but almost all domestically-produced products are exempted in practice.

21. Trade negotiations pose a genuine challenge for The Gambia given its very limited human and financial resources. It is currently confronted with regional negotiations on the exact definition of the ECOWAS common external tariff, a new free trade agreement with the EU, and multilateral negotiations at the WTO (the latter being on hold at the moment). The negotiations with the EU to replace its non-reciprocal preferential agreements under the Lome and Cotonou conventions with Economic Partnership Agreements (EPAs) is particularly important for The Gambia. EPAs are based on reciprocal liberalization and as such require significant opening by The Gambia. There is cause for concern that the EPAs could involve significant costs to The Gambia in terms of forgone tariff revenue, reduced re-exports and intra-regional trade, and increased pressure on local industry. At the same time, little or no additional access to the EU market will be forthcoming, given that EU customs duties have already been eliminated for Gambian products under the Cotonou and Everything But Arms agreements. 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 adjustment assistance from the EU.[12]

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10 This section based on WTO (2004 Ch. III), Secka et al (2003), Enterplan (2005), and Zvogy, Mendy and Milner (2004).

11 World Bank (2001).

12 See Enterplan (2005), and Zvogy, Mendy and Milner (2004) for detailed analysis of an EPA for The Gambia.

22. A number of institutional issues arise, in addition to the usual policy questions. DOSTIE must determine how to use its resources to best advantage, and how to coordinate with the many other Departments and Agencies which also play a role in trade policy. The Department is currently reflecting on a new trade strategy, which must not only identify priority issues but also consider how best to ensure implementation. This Diagnostic Trade Integration Study will provide input on both fronts, drawing on experience from other African countries.

Key Trade Policy and Institutional Issues for the DTIS

23. The DTIS will further address the following issues

- The deficiencies in trade and balance-of-payments statistics. More up to date, accurate and complete data are needed.
- Review The Gambia's export policies. For example, should the export tax be eliminated? Are the incentives to spur exports effective? Does it need a stronger export promotion function?
- The link between trade and investment. How can GIPFZA be used more effectively to support an export strategy.
- Progress and prospects in regional integration. What should the priorities be in negotiating the ECOWAS common external tariff?
- Design of a welfare-enhancing EPA with the EU.
- What is the best institutional arrangement to handle export-related standards

III. Key Export Sectors

24. As noted earlier, as in a number of smaller African economies, The Gambia's exports are highly concentrated in a few industries, and the areas of potential diversification are somewhat limited. The DTIS will therefore feature a close examination of these key sectors in order to understand the obstacles confronting these industries as well as the economy as a whole. For each of the sectors identified below, international and local specialists will provide a comprehensive review of constraints and opportunities.

III.1. Groundnuts[13]

25. Groundnuts are the dominant cash crop, typically representing about 70 percent of merchandise exports, although production and exports have been quite volatile for reasons discussed below. Approximately half of cultivable land is normally planted with groundnuts, and almost all farmers are engaged in some groundnut cultivation, on small-scale plots averaging 1.5 to 2 hectares using simple labor-intensive methods. There are two main categories of groundnuts: fair and average quality (FAS), used for processing into groundnut oil and cake, and hand-picked

[13] This section draws on WTO (2004section IV.iii.a), World Bank (2006), Ecorys (2006), DOSTIE/ITC (2002a), and interviews with representatives of the Department of State for Agriculture and the Gambia Groundnut Corporation.

select (HPS) used for consumption or processed as confectionary. Most of The Gambia's production is the lower-grade FAS type. One of the main challenges for the country is to raise the quality of its production. The Gambia's production has recently averaged roughly 100,000 tons per year; with local demand of a little above 30,000 tons and 10,000 tons retained as seed, this leaves about 50,000 tons for export (Ecorys 2000).

26. Soil and climatic conditions are favorable for groundnut cultivation in The Gambia, farmers have substantial experience and expertise in growing the crop, and the country has well-established if imperfect market infrastructure and institutions, but the sector confronts severe domestic and international challenges which are reaching a crisis point. At the international level, high levels of protection and subsidies in some producing developed and developing countries depress international prices (Diop, Begin and Sawadeh 2003). Even more threateningly, increasingly stringent quality norms on aflatoxin content in the European Union threaten to shut out Gambian groundnuts from their most important market. High levels of aflatoxin have increasingly limited Gambian groundnuts to the European birdseed market, with resulting significant price discounts. Even the birdseed market is now threatened as animal rights activists lobby against use of groundnuts with high aflatoxin levels for animal use. It is therefore imperative that Gambian producers raise quality levels to retain markets and obtain better prices. At the domestic level, however, the sector also suffers from serious organizational problems as well as dependence on erratic rainfall and vulnerability to pests.

27. As for cash crops in other African countries, all stages of Gambian groundnut production and marketing were long controlled by the government. The Gambia Produce and Marketing Board (GPMB) was responsible for input supplies, credit, processing, and commercialization. Inefficiencies in input supplies and crop handling as well as loan defaults led to large losses for the GPMB and spurred efforts to reform the sector. Gradual liberalization began in the late 1980s with the GPMB privatized in 1993, becoming the Gambia Groundnut Corporation (GCC). Private participation was allowed in all stages of the sector. Nevertheless, the government remains a substantial player, in particular in price setting. The GCC was renationalized following the Alimenta dispute[14]. Domestic processing facilities are limited to two shelling plants, the largest of which is Denton Bridge, operated by the GCC, and one oil expeller.

28. At present, the government's policies are governed by the Groundnut Sector Revitalization Strategy (GSRS) which provides for a central role for the inter-professional Agri-Business Service Plan Association (ASPA), which brings together all players in the market. Farmers can sell their produce to a network of cooperatives or to private buyers. The GSRS stipulates a "reference" producer price for FAQ and HPS groundnuts, intended to provide a stable price to producers, and determined using a rather complicated formula. The GSRS also establishes a stabilization fund that provides implicit subsidies when the reference price is above the market price, with the fund to be replenished when market prices are above reference prices. The government also heavily subsidizes fertilizer supplies with donor funding. The GSRS also establishes a seed provision program.

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[14] The Swiss-based company Alimenta had purchased GGC but in 1999 the government seized the assets, accusing the company of money-laundering, a charge denied by Alimenta. Following nearly two years of litigation and chaos in the market, an out-of-court settlement was reached in October 2000 with help from the EU. The EU provided the government with $11.4 million to reimburse Alimenta, with the agreement that the privatization process would resume. The privatization of GCC remains stalled, however (EIU 2002).

29. While the GSRS led to some improvements in groundnut output, the system remains unsatisfactory in important respects. The problems are multiple:

- Production remains erratic, peaking in 2001 at 150,000 tons, plummeting to 73,000 tons in 2002, and then rising back to 135,000 tons in 2004.

- Yields remain low, reflecting primitive production techniques, low-quality seeds, declining soil fertility, pest damage, and lack of extension services.

- Local processing is minimal and inefficient. The Denton Bridge shelling plant is hampered by inadequate maintenance and investment. The oil and cake processing facilities of the Gambia Agricultural Marketing Company (GAMCO), partially state owned, also at Denton Bridge, and the private Premier Agco have substantial excess capacity, and Premier Agco is currently in bankruptcy.

- Transportation infrastructure is poor, for both river and road transport. Water transport along the Gambia River, potentially the most efficient mode of moving the crop, is organized by GCC, but is slow due to the poor state of barges and river transport infrastructure. Roads are also in bad condition.

- Informal trading of groundnuts, including with Senegal, remains substantial. Senegalese producer prices are generally higher than Gambian prices, leading to smuggling.

- Farmers overuse subsidized artificial fertilizer instead of more economical and environmentally sustainable organic fertilizers. Moreover, distribution of fertilizer is uneven.

- Most importantly, quality is poor, with high aflatoxin content, which combined with increasingly strict standards in developed country markets, results in Gambian groundnuts trading at discounts of about 30 percent.

- Disruptions and instability in marketing add to the high aflatoxin levels, as the level of contamination depends on the speed and nature of handling after harvest.

30. Overall, despite the reform efforts, government policies remain deficient and contribute to the distortions of the groundnut sector. In particular the uniform producer prices provide no incentive to improve quality, as farmers receive a guaranteed price irrespective of product quality and transport costs. This is critical since one of the Gambia's main challenges is to raise quality, notably in reducing aflotoxin levels. Government loan guarantees and fertilizer subsidies also lead to distortions and substantial overt and contingent government expenditures. At the same time, the government is failing to provide adequate extension services and information on markets. The latest policy change has been to hand off responsibility for oversight of marketing to the Department of State for Trade, Industry and Employment (DOSTIE) while the Department of State for Agriculture (DOSA) retains oversight of production. This divided responsibility risks further confusion, however, as witnessed in the failure of the draft PRSP to adequately cover groundnuts.

Key Groundnut Issues for the DTIS

31. The DTIS is an opportunity to reconsider reforms of the crucial groundnut sector in the context of the overall development strategy for the country. The objective must be to improve productivity and quality. In particular, the DTIS will analyze and make recommendations in the following areas:

- The possible strategies regarding price liberalization.
- Consideration of elimination of implicit guarantees and fertilizer subsidies.
- Privatization of GCC and the scope for competition in input delivery, seed provision, storage, transport and processing.
- The nature of government regulation in a more privatized, deregulated system, and the respective roles of DOSTIE and DOSA.
- Prioritization of infrastructure improvements.
- Improved extension services, notably for quality control regarding aflotoxin levels, inputs, and market information.
- Strengthening of the inter-professional association ASPA.

III.2. Fishing[15]

32. Fishing was until recently the third most important export, after tourism and groundnuts. It is also a major source of employment, although most fishermen are Senegalese nationals. The fishing industry can be classified by the type of species (pelagic versus demersal) and the type of fishing enterprise (artisanal versus commercial). The Gambia has both artisanal and commercial fishing, with the artisanal sector accounting for the bulk of the catch (nearly all the pelagic and about 80 percent of the demersal supplies to local processing plants). The coastal and river pelagic stock (bonga, sardinellas, carangids) is abundant and mainly used locally or exported to other countries of the region, often after smoking or drying. Demersal (especially sole and shrimp) catches are mostly exported to Europe. While hard evidence is lacking, it appears that demersal stocks are dwindling due to overfishing, due to foreign trawlers operating in Gambian waters.

33. The artisanal sector is booming, but is hampered by inadequate infrastructure, as emphasized in the draft PRSP. Due to the absence of storage and cooling facilities, post-harvest losses are close to 20 percent. Most importantly, artisanal fishing largely escapes regulation and its practices contribute to the EU's recent threats to ban fish from The Gambia due to failure to adhere to EU hygiene norms.

34. The local industrial fishing sector consists of 16 enterprises, 9 of which have factories processing fish for exports. It suffers from limited equipment, notably a paucity of trawlers. Foreign owners have a 35 percent stake in industrial fishing firms on average. The local industrial fishing industry has only one trawler at present, and thus must rely on artisanal fisherman to

[15] This section is based on WTO (2004, section IV.iii.c), EU (2006), DOSTIE/ITC (2002b) and interviews with the Department of Fisheries.

provide much of their supplies. Foreign trawlers account for almost all the industrial boats operating in Gambian waters. Although they are required to land 10 percent of their catches in The Gambia or pay 10 percent of its value to the government, foreign trawlers usually deliver the bulk of their fish to other destinations.

35. A recent EU report alleges serious deficiencies in hygiene in many of the industrial fishing operations. For example, the EU inspections found numerous violations of EU norms such as: fish were unloaded without ice; chillers were not sufficiently cold and contained flies; and fish were stored in dirty crates. The EU also claims that the Gambian authorities do not adequately inspect and analyze fish products to certify freshness and cleanliness, and that laboratories are poorly maintained. The Gambian government has acknowledged some of the problems and unofficially de-listed three of the firms. It has resisted official delisting, on the grounds that the EU would take too long in restoring their authorization to export, given its bureaucratic rigidities.

36. Both industrial and artisanal fishing suffer from infrastructure deficiencies. In addition to the storage problem noted above, The Gambia does not have a dedicated fishing port. Given the perishability of the product, the frequent power cuts and inadequate transportation facilities are important constraints on the fishing industry, as noted by the new PRSP. The PRSP also cites lack of access to credit as a major barrier to increasing investment by both artisanal and industrial fishing.

37. These difficulties have entailed a substantial decline in fish exports in recent years, according to data supplied by the Gambian Department of Fisheries. After peaking at about 2000 metric tons (MT) in 1997, fish exports dropped steadily to 405 thousand MT in 2004, recovering somewhat to 751 MT in 2005. The value of fish exports has correspondingly also plummeted in 2005 to one quarter of its value in 1997.

38. The Fisheries Department oversees the sector but its budget is inadequate for carrying out research on fish stocks and it has limited capacity to monitor and promote quality control. Professional associations are also undeveloped and ineffective.

Key Fishing Issues for the DTIS.

39. The fishing sector faces serious problems, as shown by the precipitous decline in exports in recent years. The following issues regarding the fishing sector will require further analysis in the DTIS.

- Information about the size and sustainability of demersal and pelagic fish stocks is inadequate.

- Infrastructure appears to be a major constraint. The requisite investments are partially specific to the sector, such as a dedicated fishing port and cold-storage facilities. More generalized infrastructure, such as electricity supply, is also important. The DTIS should determine the priorities for public investments.

- Increased private investment, especially in trawlers and purse seiners would favor increased landing of demersal and pelagic fish for local processing. The DTIS should revisit the constraints on such investment, notably financing.

- The DTIS should determine what types of capacity building are most important for artisanal fishing. The areas of concern include lack of local skippers and engineers, repair and maintenance, and quality control practices. The role of professional associations and the Fisheries Department should be analyzed.

- The EU threat to ban Gambian fish products requires prompt attention. The DTIS should examine what steps are necessary to satisfy the EU's concerns. Perhaps the EU can be enlisted as a partner in providing financing and technical assistance.

III.3. Horticulture[16]

40. With substantially more rainfall than the northern parts of Senegal, the possibility of irrigation from the Gambia River, and the limited scope for industrialization in the near term, The Gambia appears to have a comparative advantage for the foreseeable future in agriculture. Horticulture has for some time been envisaged as a promising avenue of diversification in agriculture to reduce dependence on groundnuts. The main growing season for vegetables in The Gambia, from October to July, is well suited to meeting European off-season demand. Some other African countries, including Senegal to a limited extent, have succeeded in boosting exports to European markets. Horticulture can contribute to economic development over and above the foreign exchange earnings it provides: it is labor intensive, especially for vegetable cultivation largely performed by women, and it also provides a possible source of technological learning.

41. In The Gambia horticulture consists of vegetables (e.g., onions, cabbage, tomatoes), tropical fruits (e.g., mangoes, papayas, and bananas) and flowers. There are small-, medium-, and large-scale producers. Small-scale producers serve the local markets almost exclusively as they do not have the wherewithal to satisfy export-market quality norms. There are two firms, Radville Farms and Gambia Horticultural Enterprises (GHE) that are geared to the European export market, overwhelmingly the United Kingdom. Radville, by far the largest farm, accounts for 75 percent of exports and GHE the remaining 25 percent. Most farmers in the Gambia engage in some horticultural production. Roughly 65 percent of horticultural output is for the local market, of which 10 percent is for tourism, and the remaining 35 percent is exported. Local hotels often import produce from Senegal due to the unreliability and erratic quality of local producers. This is puzzling given that Gambian growing conditions are more propitious than those in most of Senegal.

42. Small scale production is the dominant mode of operation, conducted by women in the dry season, using rudimentary techniques, minimal infrastructure, and with little support from government or producer organizations. This production is consequently characterized by low yields, irregular quality, and high wastage rates. Most of this small-scale production is for home use and the domestic market, but some contract farming for export or the tourism industry is starting.

43. There are substantial advantages to exporting as a way of raising farmers' incomes. Production is concentrated during certain time periods, and is therefore subject to gluts, depressing prices, if local demand is the only option. Moreover, production for export requires learning and technological advances, with possible spillovers. It is therefore worthwhile to closely examine the experience of the large firms to see how these exports can be expanded.

44. Radville Farms is a subsidiary of U.K. based Wilmoor, to which it supplies all its produce. It grows most of the latter itself, but also sometimes sub-contracts. Radville has its own

[16] This section is based mainly on DOSTIE/ITC (2002c) and Universal Concern (2000). Information needs to be updated during the main mission.

cold storage and processing facilities at the airport, where produce is packed and inspected before shipment. According to Universal Concern (2000), Radville is largely able to resolve problems of freight space, in part by chartering its own cargo plane through Wilmoor's subsidiary freight company, and through scheduled and chartered passenger flights. Radville also obtains its financing from abroad and is therefore not subject to the deficiencies of the local credit market. GHE is an independent company that relies on contracts from U.K. and other European supermarkets through an export agent based in Europe, and like Radville, GHE has its own farms as well as farms from which it purchases. It has not, however, invested in cold storage at the airport. Radville and GHE use much more sophisticated methods and equipment than the other horticultural growers in The Gambia, such as sprinklers, specialized fertilizers and pesticides. A number of other medium-sized firms have sought to enter the market, but these have failed in the face of high start-up costs (irrigation, storage, lack of trained technicians) and high interest rates on loans from local commercial banks.

45. There is at present no industrial processing of fruits and vegetables in The Gambia. A number of previous ventures, notably Edgar Masri Company and Citroproducts Gambia Limited failed. The reasons for the failures should be ascertained.

Key Horticulture Issues for the DTIS.

46. Horticulture is a highly promising avenue of export diversification and poverty reduction through increased employment in rural areas. The DTIS should examine:

- The constraints facing the existing commercial farms so as to determine how to expand the number and scale of such enterprises. The success of Radville Farms is an encouraging example in a number of respects, and its experience should be studied closely. Conversely, the reasons for failure of many local entrants should also be examined.

- The scope for expanding supplies to the local hotels and restaurants should be examined. There is no reason why the local tourist industry should have to obtain produce from Senegal, as they often apparently do.

- The extent and scope for expansion of contract farming should be examined,

- Extension services to smaller farmers to improve quality, productivity, and market information.

- The key infrastructure constraints, such as transport and storage, and the prospects for ameliorating them.

- Promotion and assistance to producer associations, for small- and medium-scale growers.

- The adequacy and scope for expansion of air cargo space.

- The scope for further processing of fruits and vegetables, particularly in connection with the newly created free zones. Drawing lessons of previous failed efforts should be the first step.

III.4. Tourism[17]

47. Tourism is the largest foreign exchange earner, a major contributor to employment, and accounts for 12-18 percent of GDP. The tourism sector has been growing strongly, with 6 new hotels established this year. The Gambia has become a popular destination for "sea-sun-sand"-seeking European vacationers during the winter. In addition to its warm, dry climate in winter, The Gambia has advantages in the competitive tourism market as the closest English-speaking African country to Europe, a rich cultural heritage, abundant wildlife and birds, a relatively unspoiled and clean environment by African standards, and relative social calm and political stability. The Gambia is featured by a number of European travel agencies and tour operators.

48. The government has developed a Master Plan for tourism development, with the goal of moving up-market into eco-tourism, cultural tourism, sports, etc., while reducing reliance on package-tours. The successful and expanding eco-tourism lodge at Macasutu bodes well for this strategy.

49. Nevertheless, the tourism industry faces serious constraints and substantial room for improvements in policies, as acknowledged by officials in the Department of State for Tourism and Culture (DSTC), and emphasized by the Chairman of the Gambia Hotel Association (GHA). The GHA stressed general problems in the institutional environment, most notably the deficient supply and high cost of public services, especially electric power; high, complex and variable taxation; high interest rates and lack of access to credit; unreliable supply of local produce; and inadequate marketing of The Gambia in foreign markets. The GHA acknowledges the government's efforts to improve the situation, but notes the lack of capacity of the government and the slow pace of implementation. The Tourism Master Plan was validated a year ago, yet execution has not started. The hotel classification system has also lagged. The problem of capacity is generalized: there is a shortage of local hotel management staff, despite a hotel school; the lack of capacity within horticulture accounts for the inadequate supply of Gambian produce to hotels and restaurants. On the positive side, rigidities in labor regulations have been eased, there are no restrictions on use of expatriate managers, and the GIPFZA is showing some promise in its efforts to streamline regulations. The adequacy of air flights to The Gambia is subject to some disagreement. The DSTC emphasizes this constraint, but the GHA is less worried, arguing that more flights will be scheduled as the other problems are resolved, and demand for The Gambia as a destination increases.

Key Tourism Issues for the DTIS

50. The tourism industry is expanding briskly in The Gambia, reflecting the country's competitive advantages in this sector. Nevertheless, much can be done to further harness this important industry in the service of the country's development. The measures include:

- Addressing the cross-cutting issues in the business climate, most notably improved infrastructure, especially electricity; streamlining the tax system; addressing the unavailability of long-term credit.

- Capacity building at all levels, including in government, hotel management and ancillary activities such as produce supply. Upgrading the hotel school is one area of intervention.

[17] This section draws on DOSTIE/ITC (2002d), Enterplan (2005, pp. 32-33) and WTO (2004, section IV.iv).

- Improved cooperation between the private sector and the government, including implementation of the Master Plan and collaborative marketing efforts.

- Enhancing backward linkages to the local economy, notably in horticulture.

- Reviewing the appropriate balance between mass and high-end tourism.

III.5. Re-Exports[18]

51. Re-export activities are one of the most important industries in The Gambia in terms of GDP and employment, as illustrated by the figures on trade and foreign-exchange earnings noted in Tables 2 and 3 above. The re-export trade also contributes significantly to government revenue as goods are subject to tariffs when imported even if intended for re-export; consequently 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. Yet re-exports are largely ignored in the available documentation on The Gambia and remarkably little seems to be known about it. 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 The Gambia's attractiveness as a trading hub.[19]

52. The re-export trade involves both global and regional dimensions. Diamonds originating from Sierra Leone, Guinea and Liberia are re-exported to Europe, manufactured products from Asia to the West African sub-region and even East Africa, and rice mainly to Senegal. Little detail on the composition of re-exports by product and destination is available, however. Quite evidently, Senegal looms large in this business, given The Gambia's near-total enclosure within Senegal. For the same reason, economic relations with Senegal are critical in this regards. Yet relations with Senegal have not always been smooth, as noted above. Border disputes with Senegal can severely disrupt re-export trade.

53. The Gambia's relatively liberal trade policies have undoubtedly contributed to its special role as a regional trading hub. Since the implementation of the West African Economic and Monetary Union (WAEMU) Common External Tariff (CET) in 2000, however, The Gambia's tariffs differ little from those of WAEMU, which includes Senegal. What then accounts for the continued high level of re-export trade? One factor is the unusually efficient port of Banjul. Unlike other African countries, including Senegal, the port of Banjul is known for its rapid and efficient clearance of goods. While merchandise can languish for days or even weeks in most African ports, in Banjul clearance usually occurs within 24 hours. Also, the actual extent of implementation of the CET in Senegal, as well as the existence of other taxes and charges at the port of Dakar, is open to question. Exchange rate movements are also a potential explanatory factor.

54. Officials in The Gambia understandably express concerns about the sustainability of the re-export trade as other countries liberalize trade and seek to improve port efficiency. The speed

[18] This section is based on WTO (2004, p. 5) and conversations with various officials in The Gambia.

[19] In all of these respects, The Gambia is strikingly similar to Benin, which serves as a re-export entrepot, especially vis-à-vis Nigeria. See the DTIS for Benin, section 4.4 (available at http://www.integratedframework.org/countries/benin.htm). One difference seems to be that more of Benin's re-exports are unofficial.

and diligence with which other countries' carry out these reforms, however, is subject to considerable doubt, and it seems possible that The Gambia could retain its role as an important gateway to the region for some time by building on its advantages, in particular by addressing the deficiencies of the country's physical infrastructure, at the level of the port itself and also the road network and river transport facilities (see below).

Key Re-Export Issues for the DTIS

55. The re-export trade is a vital part of The Gambia's economy, yet little is known about it.

- A major priority of the DTIS is to fill the gap in knowledge about the nature, magnitude, causes, and consequences of the re-export business. The DTIS team will include Gambian and Senegalese local consultants to gather information on both sides of the border.
- Once a better understanding of this trade is available, the sustainability and policy implications can be analyzed.
- While the re-export trade is likely to remain important, the level of dependence on re-exports for employment, income, and fiscal revenues should be reduced, given the vulnerability of this trade to political and economic developments in other countries.

III.6. Other Industries

56. Other sectors within agriculture (rice, cotton), manufacturing, higher technology services (information and communications technology), are sometimes identified as possible areas of comparative advantage. The DTIS groundnut specialist will also examine cotton while the horticulture expert can review the prospects in other non-traditional crops such as cashews and sesame as well as in agro-processing. More generally, improvements in cross-cutting constraints, however, as discussed below, could lead to unexpected new success stories. The government must therefore aspire to improving the institutional environment more generally.

IV. Cross-Cutting Constraints

57. The analysis of particular sectors has highlighted a number of cross-cutting issues. Indeed the approach of the DTIS is largely to ascertain the importance of these constraints through these case studies of particular sectors. In addition, other experts will be responsible for assessment and prioritization of these economy-wide constraints. It is beyond the scope of the DTIS, however, to provide detailed recommendations on all aspects of domestic policies and institutions. Here we briefly review the most important of these constraints.

IV.1. Infrastructure

58. Reliable and reasonably-priced infrastructure is one of the main requirements for export diversification and growth.[20] Infrastructure includes transport (land, air, and maritime),

[20] 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.

electricity and water, and telecommunications. There is some variation in the quality of infrastructure in The Gambia, but most of it is rather poor.

59. **Electricity**. By all accounts, including the draft PRSP, the high cost and unreliability of electric power is one of the most severe problems confronting all industries in The Gambia. Electricity is supplied by the state monopoly National Water and Electricity Company (NAWEC) using oil-fired generating plants. Supply is inadequate and power cuts are an almost daily occurrence. Along with much of the privatization program, efforts to advance outside participation in electricity supply have stalled. A partnership with South Africa's Eskom collapsed three months after signing in 2000. The World Bank 2003 Country Assistance Strategy (CAS) document states that its assistance has been on hold given the "limited response from the Government on plans for the future of NAWEC." (World Bank 2003, p. 16).

60. **Telecommunications**. The parastatal Gambia Telecommunications (GAMTEL) retains a monopoly on fixed line telecommunications services which, like electricity, are costly and unreliable, although teledensity is higher in The Gambia than the Sub-Saharan African average. GAMTEL also provides a GSM mobile telecoms service through its subsidiary GAMCEL, along with a private competitor, AFRICELL. As for NAWEC, the government's plans to unbundle GAMTEL and expand private sector participation are stalled. The dominance of GAMTEL calls into question the extent to which competition can occur in mobile telephony, although prices have declined with the entry of AFRICELL (EIU, 2002).

61. **Transport**. Transport infrastructure is particularly important in the case of The Gambia, given its ambition to serve as a regional trading hub. In this regard, the port is obviously crucial; but so too are the roads and river transport facilities linking the port to the rest of country and the region. The sectoral analyses above highlighted some strengths as well as deficiencies of The Gambia's transport systems.

62. ***Banjul Port***. As noted in the discussion of re-export trade above, the port of Banjul is unusually efficient in terms of speed and cost of clearance of goods. The cost of handling a container in Banjul is as low as 10-20 percent of that in other regional ports. (Enterplan, p. 51). The port's water depth and cargo handling capacity, however, compare unfavorably to other ports, limiting its growth potential. The government retains a monopoly on port services.

63. ***River Transport***. The Gambia River is a potentially very efficient mode of transport for the country, notably for groundnut shipping, but the river is underutilized at present due to degradation of the boats, docks, loading equipment, etc. Increasing use of river transport is cited as an objective by the draft PRSP (p. 85).

64. ***Roads***. Roads also are in poor condition, although they have become the preferred mode of transferring goods, given the even greater degradation of river transport. Although private sector participation in road and river transport is allowed, there is a critical need for increased public investment and maintenance. An improved road and river transport system would greatly enhance The Gambia's competitiveness in all products, including groundnuts, horticulture, and re-exports.

65. ***Airport and Airline Travel***. The airport benefited from a major overhaul in 1997 and is in good shape. There are a limited but growing number of direct flights from Europe and the United States but many passengers must transit through Dakar. The airport has the capacity to expand flights considerably. The national state-owned carrier Gambia International Airlines, is largely inoperative.

Key Infrastructure Issues for the DTIS

- Electricity is the most serious infrastructure constraint on economic activity, including exports. Restructuring of NAWEC and attracting new investment should be a priority.

- Fixed-line telecommunications are also poor. Restructuring of GAMTEL and establishment of a regulatory system should be examined.

- The port is highly efficient but requires investments to expand capacity and water depth to maintain and increase the role of Banjul as a transit hub.

- Roads and river transport are in need of substantial upgrading and better maintenance.

- The airport infrastructure is generally good. Questions concern how to increase the number of direct flights linking The Gambia to major tourist and horticulture markets. The adequacy of air cargo space and storage for horticulture is also uncertain.

IV.2. The Investment Climate[21]

66. There is an increasing consensus in the literature on economic development that the quality of institutions and policies are decisive in determining whether countries can benefit from globablization.[22] It is beyond the scope of the DTIS to analyze all facets of institutions and the business climate in depth, however. Rather, the DTIS will seek to provide some general background on those constraints most relevant to international trade and investment for The Gambia, as they emerge from the studies of key sectors described earlier. The DTIS will also take advantage of the World Bank's Investment Climate Survey of The Gambia conducted in July-August 2006 for this purpose.

67. **Legal Framework**. On paper, the legal system, based on the English system and as refined in several recent laws, is sound. In practice, however, implementation of laws is often slow or even non-existent. This is partly due to the lack of easily available information, as the latest consolidation of laws dates to 1990. Knowledge about more recent laws is difficult to obtain. Investors also claim that the legislative process lacks transparency and openness, and they are not consulted about statutes of concern to them.

68. **Judiciary**. The poorly-functioning judiciary is a major barrier to investment. Court cases advance slowly if at all. There is a shortage of properly trained lawyers and judges, due to the absence of a law school in The Gambia as well as the low pay of judges. The process of appointing judges is alleged to be faulty and the courts are not equipped with adequate materials, especially computers.

69. **Finance**.[23] The Gambian financial system suffers from the familiar weaknesses observed throughout West Africa, although perhaps even more so than many countries: domination by an

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[21] This section is based mostly on FIAS (2004).

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

[23] Based on WTO (2004, section IV.5.i, p. 77) and conversations with Central Bank of Gambia officials.

oligopolistic banking system that fails to provide any significant long-term credit to the local private sector; high real interest rates to borrowers; large spreads between deposit and loan rates; and all this occurs in the context of a highly liquid money market. At the margins of the banking system, microcredit institutions provide loans at a very small scale. Local medium and small enterprises are largely shut out from access to reasonably-priced credit. In the case of The Gambia, the banking system is particularly concentrated, with Standard Chartered Bank of the Gambia (SCBG) accounting for more than half of deposits and loans. The usual suspects are responsible for this standoff between borrowers and lenders and the failure of the financial system to perform its function of financing private-sector-led development: the poorly-functioning judiciary, the tendency of small operators to default, the inability of banks to accurately screen credit risk. In addition, the high level of domestic debt also contributes to elevated real interest rates

70. **Land tenure**. Land use regulations are very convoluted and opaque, such that FIAS (2004, p. 12) claims that for obtaining approvals for leasing and construction "it is important to have good connections to the government."

71. **Taxation**. As noted earlier, The Gambia has a high dependence on trade taxes. While a 2003 law has made major improvements to the statutory tax regime, there remain a proliferation of local and sectoral taxes and levies that are burdensome and a nuisance to business. Municipal levies are highly variable both between regions and over time. The 2003 law established a Tax Tribunal to adjudicate disputes, but implementation has lagged.

72. **Investment procedures**. While registration is straightforward, licensing, especially at the local level, is complex and subject to numerous fees.

73. **Labor regulations**. Although the head of the Hotel Association did not cite labor regulations as a significant problem, the FIAS study claims that the 1990 Labor Act inhibits labor market flexibility by making it very difficult to dismiss workers. Moreover, the Industrial Tribunal mandated by the 1990 Act has never been established.

74. **Customs Procedures**. Consistent with the port's unusual efficacy, customs clearance procedures are not cited as a severe problem by investors, unlike in many if not almost all other African countries. As noted earlier, this is a crucial ingredient in The Gambia's re-export trade. Preliminary results from the recent Investment Climate Survey confirm that import and export procedures are among the best in Africa, similar to those of Mauritius. Nevertheless, improvements in customs and trade facilitation more generally are still possible. A recent study of Gambian customs procedures noted a number of possible improvements (International Business Initiatives 2006). Import procedures, while functional, are rather complex; the reliance on manual procedures is excessive; relationships with traders are unduly antagonistic; import valuation is an awkward mixture of the Brussels "normal" valuation method and WTO transactions-based method. Greater use of the computerized ASCUDA system could alleviate many of these problems. The capable and serious customs personnel enhance the prospects for successful reform.

75. **Investment Promotion**. The Investment Promotion Act of 2000 is judged by FIAS to fall short of international best practices in several areas. The Act provides for substantial Presidential discretion in awarding incentives to investors, and more generally is vague about the criteria for providing such incentives. Also, regulations concerning expropriation and compensation are not clear, and recourse to international arbitration is not provided for. More transparent and objective incentive mechanisms are generally preferred.

76. The Gambia Investment Promotion and Free Zone Agency (GIPFZA) aims to provide a one-stop-shop for potential investors, but falls well short of this goal, as do such agencies in many other countries. GIPFZA is also responsible for administering the free zones. According to FIAS (2004) GIPFZA is underfunded.

Key Institutional Issues for the DTIS

77. The DTIS will attempt to prioritize among this rather long list of possible issues. It appears that the most severe constraints concern the mushrooming of local taxes and the problems of the judiciary. Improving the judicial system is in turn one of the main conditions for increasing access to credit for borrowers with limited collateral, another of the key constraints.

78. Customs reform is already the topic of the Bank's Capacity Building in Economic Management Project, which has produced several reports. Furthermore, customs appears to function better than in many other LDCs. Consequently, a customs specialist will not be hired for the DTIS. The private sector development specialist will draw on existing information and examine a few issues specifically related to export procedures.

79. The Investment Climate Assessment (ICA) survey was just completed in August 2006 and raw data on import and export issues should be available by the time of the main DTIS mission. This data will be analyzed by the mission and supplemented by additional interviews as necessary. Once the full ICA report is ready, relevant issues will be incorporated into the DTIS. FIAS is also planning follow-up work on its business climate study of 2003, in the context of the Gambia Gateway project. This too will be factored into our analysis.

80. The Government of The Gambia is interested in the potential for trade in services beyond tourism and transport. In particular, the growth in outsourcing and financial service trade in the global economy has been noted. The mission will examine to what extent such opportunities may exist in the Gambia in light of the current status of the telecommunications and financial sectors.

IV. Conclusion: Trade and Poverty Reduction

81. The DTIS will analyze the implications of increased international trade for poverty reduction. Economic theory and empirical evidence suggest that greater trade integration promotes economic growth which in turn is strongly associated with poverty reduction.[24] International trade can have both direct and indirect effects on poverty. The direct effects involve greater market opportunities resulting in higher demand and employment, more favorable prices, and technological upgrading, all of which contribute to higher incomes. Indirect effects include multiplier effects throughout the economy, forward and backward linkages, and higher government revenues. In the case of The Gambia, the direct effects on poverty of expanding groundnut, horticulture, fishing and tourism exports seem substantial, since these are all labor-intensive sectors employing the poor. Re-exports is also a major source of earnings and employment. Given their macroeconomic importance, development of these key sectors will have major spillover effects to the economy as a whole. The DTIS will provide quantitative estimates of the effects of trade expansion on incomes and employment based on the detailed industry-level analyses described above and information on the distribution of income and poverty by occupation and region.

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[24] See Winters (2000), McCulloch (2003), Dollar and Kraay (2001), Berg and Krueger (2002) for analyses of the links between trade, growth, and poverty reduction.

82. The DTIS will provide a matrix of policy recommendations with an analysis of how these interventions will lead to increased trade and poverty reduction. Recommendations will be prioritized and refined in consultation with all relevant stakeholders in The Gambia.

Team Composition

Team Leadership
Task manager: Philip English, trade coordinator, West Africa, World Bank
Lead Consultant: Stephen Golub, Swarthmore College

Team members
Groundnuts, and cotton: Jean-Jacques Pesquet, consultant
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Tourism: Robert Cleverdon, consultant
Fisheries: Gert van Santen, consultant
Transport: Jean-Pierre Diehl, consultant
Trade institutions and private sector development: Andrew Singer, consultant
Trade policy: Hoon Soh, country economist, World Bank
Investment climate: Jean-Michel Marchat and colleagues, World Bank

Local Consultants/counterparts
Re-exports to Senegal: Aly Mbaye, Univ. of Dakar, consultant
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Investment climate: Abdoulie Touray, consultant
Tourism, transport, trade policy and institutions: to be determined

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Calendar

The following calendar is proposed for the DTIS:

Pre-DTIS Mission	July 24-28, 2006
Concept Note Bank review	September 8
Concept Note submitted to GoTG and IF agencies	September 15
Main DTIS Mission	October 9-Nov.3
First draft of chapters completed	December 15
Comments provided to authors	January 15, 2007
Second draft of chapters completed	February 15
National technical review workshop	March 15
Summary report completed	April 15
Distribution to IF agencies/donors	April 20
Internal Bank review	April 25
Revised report completed and delivered to GoTG	May 15
Validation Workshop	July 2007
Final DTIS Report and Action Plan completed	August, 2007

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