Government of Gambia

Capacity Building in Support of Preparation of Economic Partnership Agreement (8 ACP TPS 110)

#103 - Gambia

Impact Assessment Final Report©

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ADDRESS	TELEPHONE	FACSIMILE	EMAIL	WEBSITE
Enterplan Limited 1 Northfield Road Reading RG1 8AH, UK	+44 (0) 118 956 6066	+44 (0) 118 957 6066	enterplan@enterplan.co.uk	www.enterplan.co.uk

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Currency Equivalents
(as at November 30 2004)

Currency: Dalasi
US Dollar 1.00 = Dalasi 29.50
Euro 1.00 = US Dollar 0. 97
Euro 1.00 = Dalasi 37.50

Abbreviations

ACP	Africa Caribbean Pacific
ADB	African Development Bank
AGOA	African Growth Opportunity Act
ASPA	Agric Business Service Plan Association
ASYCUDA	Automated System for Customs Data and Management
BADEA	Arab Bank for Economic Development in Africa
BIA	Banjul International Airport
CAP	Common Agricultural Policy
CBEMP	Capacity Building for Economic Management Project
CET	Common External Tariff
CPMS	Cooperative Produce and Marketing Societies
CSO	Civil Society Organisations
DFID	Department for International Development
DoSFEA	Department of State for Finance and Economic Affairs
DoSTIE	Department of State for Trade, Industry and Employment
DoSJ	Department of State for Justice
DoSE	Department of State for Education
DWC	Department of State for Works and Communications
EBA	Everything But Arms
EC/EU	European Community/European Union
ECOWAS	Economic Community of West African States
EPA	Economic Partnership Agreement
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FTA	Free Trade Agreement
GAMCELL	Gambia Cellular
GAMTEL	Gambia Telecommunications Corporation
GATT	General Agreement on Tariffs and trade
GATS	General Agreement on Trade in Services
GCAA	Gambia Civil Aviation Authority
GDP	Gross Domestic Product
GGC	Gambia Groundnut Corporation
GIA	Gambia International Airlines
GIPFZA	Gambia Investment Promotion and Free Zone Authority
GoG	Government of The Gambia
GRP	Groundnut Revitalisation Programme
GSP	Generalised System of Preferences
HIPC	Highly Indebted Poor Countries
HLEC	High Level Economic Committee
HPS	Hand Picked Select

HS	Harmonised System
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
ITC	International Trade Center
LDC	Least Developed Country
MDG	Millennium Development Goal
MFA	Multi-Fibre Agreement
MFN	Most Favoured Nations
MIS	Management Information System
MOU	Memorandum of Understanding
NAO	National Authorising Officer
NARI	National Agriculture Research Institute
NAWEC	National Water and Electricity Corporation
NEPAD	New Economic Partnership for Africa Development
NPE	National Partnership Enterprise
NTB	Non-Tariff Barriers
NTNC	National Trade Negotiations Committee
OAU	Organisation of African Unity
PEM	Public Expenditure Management
PRSP	Poverty Reduction Strategy Paper
SME	Small and medium Enterprise
SMP	Seed Multiplication Project
SPS	Sanitary and Phyto-Sanitary Measures
STABEX	Fund for the Stabilisation of Exports
STU	Seed Technology Unit
TBT	Technical Barriers to Trade
TC	Trade Creation
TD	Trade Diversion
TGI	Trade Gateway Initiative
UNCTAD	United Nations Commission for Trade and Development
UNDP	United Nations Development Programme
WAEMU	West Africa Economic and Monetary Union
WAMI	West Africa Monetary Institute
WAMZ	West African Monetary Zone
WTO	World Trade Organisation

Waiver

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Executive Summary

Background

1 Past trade cooperation between the European Union (EU) and the Africa Caribbean Pacific (ACP) countries, which has by and large not delivered the expected results. Under this agreement, although duty free access was granted to nearly all products, it has not prevented the increasing marginalisation of the ACP in terms of world trade, total EU imports and foreign direct investments.

2 Lessons learned to date indicate, foremost, that the trade cooperation in particular has been too limited in its ambition. Secondly, tariffs are progressively losing their importance in international trade whereas non-tariffs measures such as standards, veterinary, sanitary and phyto-sanitary rules or measures to protect the environment are of growing importance. Thirdly, the EU-ACP cooperation to date has not resulted in the reduction of the dependence of the ACP on a few commodities and markets. A more comprehensive cooperation approach is therefore needed to address the supply-side constraints, and foster product and market diversification in the ACP countries.

3 In the context of the Cotonou Agreement, which was signed in June 2003, the intention is that Economic Partnership Agreements (EPAs) that are compatible with the World Trade Organisation (WTO) will be negotiated and established between the EU and ACP countries. These EPAs will assist the integration of the ACP countries into the global economy, taking into account on a case-by-case basis their development priorities, and thereby paving the way for sustainable development and contributing to poverty eradication. The EPA negotiations are to be concluded by the end of 2007, and then the agreements will be gradually implemented between 2008 and 2020.

4 In general, trade related areas to be covered in the negotiations include liberalisation of capital movements, non-discrimination in investment, opening up of public procurement at all levels and the mutual recognition agreements for various standards. The introduction of reciprocity that the EPAs provide for will lay the basis for the establishment of a free trade area (FTA) with the EU. By allowing the duty free import of substantially all EU goods by the year 2020, EPAs with ACP countries would, amongst other things, reduce the cost of imports from the EU, stimulate more competitive patterns of production within ACP countries, and lead to improved market access in areas where residual restrictions remain in place.

5 The first phase of the EPA negotiations, which was conducted at the all-ACP level, addressed horizontal issues of interest to both parties. On 2 October 2003, the ACP Council of Ministers and the EC Commissioners for Trade and Development declared the results of the first phase satisfactory in view of the high degree of convergence achieved. The second phase of negotiations concerning West Africa in

particular (that is, ECOWAS including The Gambia plus Mauritania) was launched in Cotonou on 6 October 2003.

6 Whilst the EPA is intended to benefit all of the ECOWAS countries, the conditionality inherent to and the phasing associated with its implementation can have a detrimental impact in terms of the incurrence of "adjustment costs", both at the regional level and within The Gambia. Therefore, a critical element of the introduction of any EPA will be the identification of adverse impacts and the measures that will need to be taken to mitigate these so that the envisaged benefits of the EPA are not undermined.

7 The overall objective of this Impact Study is to facilitate the preparations of The Gambia for its effective participation in the EPA negotiations. The specific aims of the assignment are to:

- gain a deeper insight into and better understanding of the contents of the EPA;
- determine the economic impact of the EPA for the country, both in terms of opportunities and challenges, and to analyse the potential trade-offs between these costs and the economic and social gains that could be generated by the EPA;
- map out the fiscal impact of the EPA in general and on The Gambia in particular;
- investigate the adjustment costs of the EPA and identify appropriate flanking measures to address these;
- address specific national needs and concerns that may not be a major preoccupation of other ECOWAS member countries (for instance, groundnut exports to the EU, and the afflotoxin content issue); and
- define and develop tactical issues for the Gambia including negotiation strategies and policy briefings.

Methodology of the EPA Impact Study

8 The methodology employed to undertake the impact study included the following.

- In-depth interviews with stakeholders from the public and private sectors and civil society.
- A desk-review of studies and reports already completed.
- The collection and analysis of socio economic data at the sectoral and national levels.
- A detailed analysis of trade and tariff data to identify products in which market access may change as a result of the EPA, including consideration of currently traded goods and those that start to be traded as the result of the

tariff cuts. The analysis involved the use of a partial equilibrium model – the model of Verdoorn (1960) - to estimate the fiscal impact, and the trade creation and diversion effects. In this model, the estimation of the trade creation and trade diversion requires estimates of import demand and substitution elasticities for which three scenarios (that is, a low, middle and high scenario) have been considered that differentiate between agricultural products, raw material and manufactured goods.

- A survey of a sample of firms that might be affected by the EPA in order to identify their expectations of the likely impact.

Economic Environment and Outlook

9 After steadily growing at an average rate of 5.7 percent from 1998 to 2001, The Gambian economy shrank by 3.2 percent in 2002 reflecting reduced agricultural output due mainly to low rainfall. The economy partially recovered in 2003 with an estimated growth rate of 6.7 percent that was largely due to improved weather and increased agricultural production.

10 In spite of the stabilisation of the exchange rate in the last quarter of 2003, inflationary pressures continue to be strong as a result of high rates of monetary growth. The fiscal deficit is projected to increase and its financing, which relied entirely on the Central Bank in 2003, will be made more difficult because of the current withholding of donor support. Thus, the economy is at a critical juncture. The outlook of the public debt is expected to worsen and as a result improvements in infrastructure will be delayed. A significant turn-around will require sustained commitment to structural reforms, stimulation of the private sector and adherence to good governance at all levels.

Trade Policy Institutional Framework

11 The Department of State for Trade, Industry and Employment (DOSTIE) has overall responsibility for the formulation, coordination and implementation of trade, investment, industrial and competition policies. DOSTIE takes the lead role in trade negotiations, which are conducted in collaboration with the Department of State for Foreign Affairs. Tariffs are set by the Department of State for Finance and Economic Affairs (DOSFEA), and administered directly by the Customs and Excise Department.

12 Other departments whose functions have a bearing on trade policy include: the Department of State for Local Government and Lands, which is responsible for, *inter alia*, the allocation of commercial land for industrial development; the Department of State for Justice, which is responsible for, *inter alia*, the registration of businesses and companies; the Department of State for Health, which is responsible for, *inter alia*, the establishment of regulations on quality-control requirements for imports and exports of processed foods; and the Department of State for Agriculture, which is partly responsible for, *inter alia*, policy related to agriculture and the establishment of technical regulations and controls governing the importation and exportation of plants, plant material and livestock, and for the protection of food.

The Gambia's International Trade Flows

13 The level of international trade in The Gambia is one-and-a-half times that of any of the other four countries in the sub-region. This is due to the fact that a substantial portion of The Gambia external trade is composed of commodities that are imported from overseas for re-export to the neighbouring countries. Most of the cross-border transactions are however un-recorded, and thus the level of international trade certainly exceeds the official figures.

14 The general pattern of Gambian trade comprises an inflow of foodstuffs including sugar, rice, flour and vegetable oils; industrial raw materials, mainly fuels and cement; and manufactured goods, such as machinery, textiles and chemicals. The outflow consists of primary and semi-processed products such as groundnut products, fish and fish preparations, cotton and horticultural products.

15 Imports from the EU are substantial and their proportion of the total has grown steadily from 48 percent in 1999 to 65 percent in 2003. Imports from Asia (mainly China but also Japan) are the second largest followed by those from North America and ECOWAS. As is the case with imports, exports (excluding re-exports) to the EU dominate trade flows in The Gambia. Over the period 1999 to 2003, the share of exports to the EU increased markedly from 39.5 percent of the total to 66.7 percent largely due to the fluctuations in the export of groundnut products. Exports of manufactures made in The Gambia are negligible. The success of the tourism industry has enabled the country to be an overall net services exporter. The trade structure between the EU and The Gambia is fairly typical of trade relations between developed and developing countries. In 2003, the EU had an overall trade surplus vis-à-vis The Gambia of some D 2.7 billion in spite of the preferential market access the country enjoys in the EU.

The Evolving EU Policy and Context

16 As The Gambia and ECOWAS prepare to negotiate its EPA, it is essential that the country's negotiators are aware of the evolving situation in the EU in areas of relevance to the EPA. These include the enlargement of the community and its potential implications for the agricultural sector, the common agricultural policy and the EU's stance on sanitary and phyto-sanitary standards. Similarly, it is important that there is awareness of the EU's approach to trade negotiations in agriculture in particular, which is guided by the following considerations:

- high domestic protection implies low willingness to implement tariff cuts as these could undermine high domestic prices;
- high domestic protection coupled with risks of internal surpluses implies additional restriction on imports; and
- existing high surpluses lead to the EU's interest in seeking to expand access to the partner's market.

17 In line with the above guidelines it appears that, in the FTAs concluded by the EU with developing countries in recent years, national interests invariably set a limit

to the extent of trade liberalisation in agriculture as some important corresponding products have been excluded from free trade.

Assessment of EPA Impact on FDI

18 Not surprisingly, this study has not been able to provide quantified data on the likely impact of the EPA on investments in The Gambia. This is because tariff policies only play a small role in the decisions of private and - in particular - foreign investors. Tariffs are also much less important as a determinant of investment particularly for FDI than, for instance, tax concessions, political stability, investment subsidies, market size and the overall cost of doing business.

19 In view of The Gambia's open trading environment and recent improvements in external competitiveness mainly brought about by the depreciation of the exchange rate, there are potential opportunities for diversifying the economy particularly in horticulture, fishing, upscale tourism and so forth. Correspondingly, this would require that infrastructure deficiencies, especially those relating to the provision of water and electricity, be addressed as a matter of urgency. Likewise, The Gambia could increase foreign and domestic investor interests in the context of the EPA by emphasising its comparative advantages, which include various financial incentives, lower wage costs (that is, lower wages not offset by lower productivity), an efficient port and a free zone.

Impact of the EPA on Trade Flows

20 The analysis of the trade effects of the EPA assumed a complete tariff liberalisation using 2003 as the base year and focused on the final phase of trade barrier elimination instead of calculating the effects at each stage. The results obtained are likely to be upper bound estimates of the static trade effects given that the model has assumed a full liberalisation. In this scenario of a complete tariff liberalisation vis-à-vis EU imports in The Gambia, total imports from the EU are expected to increase in the middle scenario by 6.6 percent and trade creation would exceed trade diversion in absolute terms in all scenarios. The reasons for this relatively low trade effect are mainly the lower tariff rates for EU imports and the high import-duty collection-efficiency ratios. As there is no production in The Gambia for the majority of EU imports, the production effect is nearly zero for most of these. However, domestic production of poultry, tomatoes, onions and soap could come under threat. Likewise, increased import of cheap wheat could dampen the cultivation of local cereals and hence impact negatively on food security whereas the EPA in itself would not significantly boost traditional exports.

Fiscal Impact of the EPA

21 Apart from the impact on trade flows, the tariff elimination will lead to a decline in import duties and, hence, total government revenue. In absolute terms, the decline in import duties ranges from D 233 million in the low scenario to D 249 million in the high scenario. As a share of total import duties, the decrease will range from 32 to 34 percent, respectively. Given that import duties are a significant source of total government revenue, a sharp decline is bound to affect the financial positions of the Government and its ability to provide public goods and services. From this perspective, The Gambia will be particularly affected with an estimated decline in

total government revenue expected to be in the range of 14.9 and 15.9 percent, respectively for the low and the high scenarios. As a share of GDP, the percentage figures range from 2.7 to 2.9 percent, both of which are substantial amounts. Based on these calculations, the country would face a severe economic impact.

22 Notwithstanding the fiscal impact of the EPA, it has to be taken into account that any change in the medium or long-term growth rate of The Gambia would naturally change trade flows and budget revenue. Higher growth rates would lead to increased imports from EU and non-EU sources and enhance import duties collected by the Government on the latter. The analysis thus to a certain extent underestimates the impact on trade flows and overestimates the effects on budget revenues. The positive effects on the latter depend, in turn, on the size and growth rate of non-EU imports, since European products will be duty free as a result of the coming into force of the EPA but it is impossible to provide any estimate of the magnitude of the growth effects even though these would normally impact on the fiscal impact of the EPA.

Adjustment Costs and Flanking Measures

Adjustments Required in Public Sector Management

23 Irrespective of its degree of success in influencing the details of the EPA, The Gambia will need to consider its policy response to the shocks that are likely to occur from the EPA and other trade liberalisation schemes in the context of ECOWAS, OIC, WTO, and so forth.

24 The adjustment to the decline in trade taxes is likely to be sufficiently severe to require action on the expenditures as well as on the revenue side. Alongside the review of the taxation system it is recommended that the Government rationalise public expenditures in order to increase their efficiency and effectiveness.

25 With the trend of global liberalisation, the era in which governments could rely heavily on trade taxes as a source of revenue is coming to an end. This trend presents The Gambia with significant adjustment problems. Trade taxes have indeed been favoured by many developing countries because of their relative simplicity in collection. A shift to an alternative taxation system is likely to be administratively difficult and could also be politically costly. It is of high priority that the Government undertakes a fundamental review of the tax system. Ensuring the effectiveness of the already planned establishment of a revenue authority should be a prime consideration. The revenue authority should have a salary structure and incentive system designed to sharply increase the efficiency of revenue collection. Attempting to replace lost customs revenues by imposing higher rates for existing taxes would be much less effective.

26 DOSFEA has recently become aware of the above challenges. In addition to the reforms already being undertaken in the areas of taxation and public expenditures control, considerations should be given to the:

- introduction of a comprehensive VAT system to replace the current sales tax;

- review of the tax exemption list and the reduction of the number of discretionary exemptions;
- strengthening of the border control system; and
- acceleration of the public enterprises divestiture programme.

Competitive Adjustments

27 In The Gambia most local companies are faced with serious obstacles to producing goods competitively. This is as a result of supply side constraints, which inhibit competitive forms of production, which in turn contribute to the country's status as a "least developed" country. These include: the unreliable provision of public utilities (electricity and water supply); the poor public infrastructure including an inadequate road network; the small size of the economy; the weak institutional and policy frameworks (which led to fluctuating exchange rates and high inflation and interest rates in recent years); and low labour productivity (arising from inadequate education and health provisions).

28 It has to be recognised that addressing these supply side constraints on production is one of the main prerequisites to the economic development of The Gambia. It could be argued that the EPA will promote more effective action in addressing supply side constraints by opening up the Gambian economy to competition. This would in turn lead to the development of more competitive forms of production, capable of promoting sustainable, poverty-focussed development. However, it is highly questionable that a policy shift in one area - external trade policy - will have such a profound effect on the underlying causes of the supply side constraints that confront local producers. Trade reform will address some policy driven constraints but it will leave largely unaffected those constraints derived from low labour productivity, remoteness from major markets, unreliable public utilities and poor public infrastructure. These will have to be addressed in the context of appropriate national policies supported by external assistance where necessary but with the Government taking the lead. A first step in this direction could be the mainstreaming of trade into the poverty reduction strategy. Other areas where adjustments and or restructuring are required include the groundnut and the fishery sectors.

National Consensus Building

29 In order for The Gambia to negotiate effectively it needs strong political leadership in the form of a dedicated inter-departmental committee on trade matters. This committee could improve on the lack of coordination and commitment among the concerned departments of states and ultimately raise the importance of the trade portfolio. The National Trade Negotiations Committee (NTNC) that has been set up (during the course of this project) with representation from public and private sectors and civil society should be the focal point for national consensus building. It would normally report to the inter-departmental committee on all matters related to trade during each one of its regular meetings. The successful initial training of the members of this committee as part of this EPA capacity building project has set a momentum that should now be nurtured.

Trade Related Training Needs

30 In view of the heavy load of trade negotiations in which The Gambia is currently involved, technical assistance should first and foremost focus on imparting and/or consolidating skills in trade negotiations and trade policy formulation for the officials concerned. In addition to this, on-going assistance over the next few years will be needed for the identification of The Gambia's negotiating priorities given that these are by no means static.

31 In addition to training in negotiations skills and trade policy formulation there are several areas where institutional capacity enhancement is required. Some of the priority needs relate to the development of:

- a focal point for national standards;
- dedicated structures for certification and implementation of sanitary and phyto-sanitary regulations; and
- legislation for contingency trade remedies to address cases of unfair competition, which is likely to increase as a result of trade liberalisation.

Capacity Building Requirements

32 In preparation for the EPA and the new business environment that is likely to evolve from it, a series of institution building and human resource development initiatives should be carefully designed, with EU technical and financial assistance where relevant. These will include:

- in relation to Institution Building:
    - restructuring of the DOSTIE and the development of a Management Information System within the department,
    - improving the provision of economic data - including those on employment - for planning purposes, and the establishment of a bureau of standards; and
- in relation to Human Resource Capacity Building, training in:
    - trade policy formulation and negations of trade agreements for all the officials involved in the preparation of the EPA, and
    - SPS and standards (TBT).

Recommendations for the EPA Negotiations

33 Before embarking on trade negotiations, Gambian officials will have to prepare position briefs, which must be based on: (i) the EPA principles; and (ii) the objectives pursued by The Gambia in each of the areas of negotiations.

EPA Negotiation Principles

34 The following principles should guide The Gambia and ECOWAS EPA negotiations.

Instruments for Development

35 For the ECOWAS EPA to be an instrument of development for The Gambia, account must be taken of the specific economic, social, environmental and structural constraints and development policies of the country as well as of its capacity to adapt to a rapidly changing global economic environment.

Regional Integration Processes

36 In order to avoid the EPA taking precedence over or undermining the ECOWAS integration scheme, the EPA must be based on and reinforce ECOWAS' own integration programme in areas such as harmonisation of rules and consolidation of the regional market.

WTO Compatibility

37 The ECOWAS EPA must be compatible with WTO evolving rules and principles in particular in the context of the Doha Development Agenda.

Preservation of the Lomé and Cotonou Acquis

38 By building on the preferences granted to The Gambia under the EBA, the negotiations are more likely to ensure that The Gambia is not made worse off by the new trade regime.

Special and Differential Treatment

39 In line with the agreement that special and differential treatment should be provided to all ACP states under EPAs, the rights of The Gambia and other LDCs, and the need to take into account their specific circumstances and vulnerabilities should be mainstreamed into the negotiations.

Sustainability and Legitimacy

40 To prevent issues of legitimacy becoming a major stumbling block, from the onset it should be made clear to all stakeholders that the EPA will contribute to the sustainable development of The Gambia. All parties to the EPA negotiations (that is, The Gambia, the ECOWAS Secretariat and the EU) should endeavour to ensure that this is achieved.

The Gambian Objectives for Negotiating an ECOWAS-EU EPA

41 Over the next three years of negotiations, The Gambia's negotiating briefs should be premised on the overarching objectives of the EPA which are to: (i) contribute to poverty reduction; (ii) facilitate a smooth and gradual integration of the national economy into global markets; (iii) expedite regional integration process within ECOWAS region; (iv) improve EBA market access by addressing related TBT

and NTBT issues; and (v) increase productivity and competitiveness of Gambian producers.

Proposed Areas and Approach to Negotiation

Market Access

42 In order to ensure that market access for exports from The Gambia is improved, remaining tariffs and quantitative restrictions currently protecting European producers must be removed. In addition, the rules of origin applied by the EU on exports of interest to The Gambia must be simplified and reviewed to ensure that they are development-oriented. In this regard, it is of paramount importance that ECOWAS should seek to obtain full cumulation with the rest of the ACP group. Similarly, the use and application of EU standards, in particular sanitary and phyto-sanitary measures, must be rationalised.

Agriculture

43 The extensive support to EU farmers and their products in the form of export subsidies within the Common Agricultural Policy (CAP) of the EU should form part of the negotiations in so far as they have the greatest bearing on the market-access arrangements established for ACP agricultural exports. Within the negotiations, a strong case should be made for establishing a structured dialogue mechanism aimed at addressing the challenges posed by the stricter EU SPS standards in particular. The economic costs associated with meeting higher hygiene standards given The Gambia's limited volume of production could, if not appropriately and quickly attended to, constitute an important trade barrier.

44 It should be recognised that The Gambia has the right to declare specific agricultural products vital for its food security, livelihood and rural development as "special products". Such products should be exempted from any obligation in future EPAs.

Non-Agricultural Products

45 In view of the importance of tariffs as an industrial and trade policy tool, the country's position in this area should be to put forth the issues of tariff peaks and escalation for processed products in EU markets since these effectively impede value addition in LDCs.

46 The case will have to be made that without industrial structure and export diversification and value addition across the key economic sectors of the country, the EPA will not live up to its goal of supporting the sustainable development of the partner countries. Thus, the negotiations should be approached with the aim of obtaining less rather than full reciprocity in favour of The Gambia. The ultimate goal is the provision by the EU of duty and quota free market access for all manufactured products not less favourable than those already granted by the EBA. For these benefits to be effectively enjoyed by Gambian producers, harmonised, flexible and simplified rules of origin need to be granted by the EU.

Fisheries

47 Ideally, a single fishery agreement should be negotiated between the EU and the cluster of ECOWAS countries such as The Gambia that have an interest in fisheries. In order to ensure that both industrial and artisanal fisheries contribute to the development of those countries in a sustainable way, the agreement developed for this sector as part of the EPA should be based on the principles of: environmental sustainability; meaningful financial compensation; technical and financial support for the processing/canning industry; and the commitment by the EU to phase out subsidies to European vessels.

Trade in Services

48 The negotiations in this area should specifically build on the on-going discussions and the commitments made at the WTO level, whilst ensuring that the objectives and principles of the Cotonou Agreement - and in particular the development needs of The Gambia as an LDC - be taken into consideration. The negotiation brief in this area should seek to arrive at an EPA on Trade in Services that supports growth in agriculture, mining, manufacturing and tourism. Taking into account special and differential treatment, the EPA negotiations should recognise the right of The Gambia to regulate trade in services.

Other Trade-related Issues

It has already been acknowledged in the Cotonou Agreement that the capacity of ACP countries to handle most of these issues (that is, investment promotion, competition policy, trade facilitation and government procurement) during the negotiations and at the implementation stage is very limited. The Gambia should therefore seek to commit the EU to the development component (specifically the establishment of the required regional regulations and laws) ahead of the negotiations of these issues.

Recommendations Concerning Third Parties

49 The EPA would pose several adjustment problems to The Gambia that the Government should raise with foreign aid donors. Since these are additional to the economic and development challenges addressed by current aid programmes, it is appropriate for any support to be additional to currently agreed levels. Potential areas for future assistance include:

- a detailed survey of the revenue options available to The Gambia in view of the likely decline in trade taxes;
- the re-design and implementation of new tax systems;
- technical assistance for the implementation of any new system and the associated training;
- capital assistance (for example to establish information systems) in order to make the new system operational; and

- detailed technical assistance for the acceleration of the divestiture of public enterprises.

50 Other areas in which technical or capital assistance would be appropriate include adjustment to the new competitive environment for the Gambian companies. Moreover, it is also recommended that foreign assistance be considered for the following.

- An extensive survey of firms to identify the impact at the company level leading to the formulation of support programmes targeted at those that have the potential of becoming competitive.

- Technical assistance to design economically and socially desirable support packages to mitigate the adverse consequences of the EPA on the level of employment in The Gambia. The caveat is that the Government should first undertake an employment census in order to address the present lack of data on labour conditions in the country.

- Capacity building in trade policy analysis.

- The establishment of SPS regional certification agencies and assistance to Gambian producers for compliance purposes with present and future standards.

Although these areas of technical and capital assistance would be relevant for many of The Gambia's development partners it may be considered particularly appropriate to direct some of them towards the EU.

Policy Options

51 In conclusion, an EPA would pose a major challenge to the Government of The Gambia. While the economy may benefit from improved or more secure access to EU markets, it is less clear whether the country will be in a position to effectively manage the gradual opening up of its domestic market. The main threat associated with the EPA is that the elimination of customs duties on essentially all products from the EU will lead to a significant decline in government revenue and to an eventual increase in unemployment with the associated risk of heightened economic insecurity and political instability.

52 In terms of policy options, The Gambia can accept the EU's EPA offer or decline it and make use of unilateral, non-reciprocal trade preferences which the EU is already granting. Otherwise, the Government can either continue to manage the gradual liberalisation of its trade regime in the framework of ECOWAS or it can liberalise unilaterally or in the course of current multilateral trade negotiations.

53 Given that the Cotonou preferences will not be available after 2007 due to their incompatibility with WTO rules and the phasing out of the final waver, The Gambia could opt for EBA preferences. The issue is that The Gambia has yet to make any use of the EBA for reasons that include the rules of origin of the latter being more stringent than those under the Cotonou Agreement. Provided that the EU

is prepared to improve the EBA's initiative this has to be considered as a fall back position in case the national authorities were to decide against the EPA.

54 It remains an open question whether an EPA will entail an actual increase in market-access beyond that currently enjoyed by The Gambia. What is sure though is that unless the supply-side constraints are addressed, economic growth would remain below potential irrespective of whether an EPA is in place or not.

55 The EU could play a major advocacy role by making its pledges of assistance in the context of the EPA more specific and convincing, and in the spirit of partnership rather than that of pure commercial negotiations. Moreover, considering the low level of development and the related vulnerability to fundamental policy changes and external shocks, The Gambia certainly need a transitional phase with a proper timing and sequencing of tariff reductions, and phasing in of the required complementary reforms and adjustments. It is of note worthy that the Africa Commission (Blair's initiative) has suggested a transitional period of 20 years.

56 Explicit commitments from the EU in respect of technical as well as financial support could encourage The Gambia in its decision-making, and facilitate the implementation of the agenda for trade liberalisation. Financial support in particular is needed to offset customs revenue losses, which could be sizeable in the case of The Gambia, as the empirical analyses in the impact study have shown. Opting for EBA preferences will certainly reduce the prospects for such assistance as compared to an EPA, which would explicitly include EU related commitments. However, it may well be that, in the EPA negotiations, the EU will not agree on a transitional fiscal compensation that exceeds current levels of aid flows.

57 There are basic pre-requisites that should be considered and acted upon in preparation of the EPA. First of all, it is necessary that trade is mainstreamed in the Poverty Reduction Strategy as part of the integration of trade-related policy issues into the overall framework of the country's development strategy. Indeed, for trade reform to be successful it must be accompanied by complementary policies. Accordingly, trade liberalisation should be implemented in conjunction with other reforms given that its impact, particularly on poverty, depends on the environment in which it is carried out. The opening up of domestic markets needs to be well designed, with special attention to the country's specifics and capabilities. Secondly, complementary policies and institutions have to be tailored to both domestic needs and objectives as well as to the trade liberalisation agenda.

58 Given that the negotiations are taking place at the ECOWAS level, it is not too early for The Gambia to start identifying the areas of convergence and potential divergence with the other member states as regards a common timetable and the final product coverage. In a context where it should be expected that member states might wish to follow different strategies depending on their particular interests, it is critical that The Gambia identify member states that have similar interests on specific issues or sectors. Senegal, for instance, would be a good example for the fishery and groundnut sectors.

59 The Gambia is facing an enormous challenge in its assessment of an EPA with the EU and its consideration of alternative policy options. A final decision has to be taken under a high degree of uncertainty. However, it does remain that an EPA

could be considered as a historic chance to lock in economic reforms that are definitely required given the high degree of openness of the Gambian economy. The EPA would provide an impetus to implement the much-awaited package of reforms that are needed to improve the competitiveness of the country's economy without which sustainable development in The Gambia might not be achieved.

60 Finally, because the decision to negotiate an EPA with the EU has to be taken under a high degree of uncertainty as to its outcome, The Gambia should aim to keep its options open as long as possible – that is, negotiate an EPA without committing the country to the final agreement ***a priori***.

1 Purpose and Approach of the Study

Background

1 The Cotonou Agreement provides for transitory trade agreements, which entail continuation until January 2008 of the non-reciprocal preferences accorded under the 4th ACP-EU Convention. During the period September 2002 to December 2007 the ACP Group of States and the EU have agreed to negotiate new WTO-compatible Economic Partnership Agreements (EPAs) providing for the progressive removal of barriers to trade between them and enhancing cooperation in all areas relevant to trade.

2 In order to enhance trade cooperation between the EU and ACP countries a new approach was needed, in particular because of the following.

- The longstanding system of non-reciprocal trade preferences under successive Lomé conventions since 1975 has failed to halt the decline in the ACP countries' share of world trade, which has seen them becoming more marginalised.

- WTO rules did not allow the indefinite continuation of non-reciprocal trade agreements.

- ACP-EU trade cooperation had neglected the potential offered by national, regional and non-EU international markets. There is therefore a need to broaden the ambitions of the agreement "to foster the smooth and gradual integration of the ACP states into the world economy".

- It is becoming necessary to broaden the scope of cooperation as tariffs are losing their significance for trade while non-tariff measures such as standards, veterinary, sanitary and phyto-sanitary rules or environmental protection measures are becoming more prominent.

- Economic and trade cooperation should not be an end in itself but must be designed as a tool to create sustainable development.

3 The EPA, which is the instrument developed to deliver the new approach to EU-ACP economic and trade co-operation, is based upon four principles.

- **Partnership.** The Agreement is for bilateral free trade with rights and obligations on both sides, including the need for ACP states to implement appropriate policies to strengthen their supply side capacity and to reduce transaction costs.

- **Regional Integration.** This approach is seen as a powerful means to foster integration into the world economy and therefore EPAs in general will be concluded with existing regional free trade areas.

- **Development.** EPAs are above all a tool for development and will be designed with the flexibility to take account of the economic, social and environmental constraints of the ACP countries as well as their capacity to adapt to the new trading environment.

- **Link to WTO.** EPAs are intended to act as stepping-stones that facilitate integration into the world economy and as such they must be compatible with the rules of WTO.

4 It has been assumed that The Gambia along with other ACP countries will negotiate an EPA as part of a regional free trade area to come into force by 1st January 2008 (or earlier if agreed by all parties). As stated in Article 37.3 of the Cotonou Agreement:

> "The preparatory period shall also be used for capacity-building in the public and private sectors of ACP countries, including measures to enhance competitiveness, for strengthening of regional organisations and for support to regional trade integration initiatives, where appropriate with assistance to budgetary adjustment and fiscal reform, as well as for infrastructure upgrading and development, and for investment promotion."

5 The first phase of the EPA negotiations was conducted at the all-ACP level and addressed horizontal issues of interest to both parties. On 2 October 2003 the ACP Council of Ministers and the EC Commissioners for Trade and Development declared the results of the first phase satisfactory in view of the high degree of convergence achieved. The second phase of negotiations concerning West Africa (that is, ECOWAS plus Mauritania) was launched in Cotonou on 6 October 2003.

The Gambia's EPA Project

6 The overall objective of this project is to facilitate the preparations of The Gambia for its effective participation in the EPA negotiations and to build capacity at the level of the Government, the private sector and civil society through the following combined activities: (i) the conduct of an impact assessment study, (ii) a training programme, and (iii) a validation seminar.

(i) The objectives of the **impact study** are the following:

- to gain a deeper insight into and better understanding of the contents of the EPAs;

- to determine the economic impact of EPAs for the country, both in terms of opportunities and challenges, and to analyse the potential trade-offs between these costs and the economic and social gains that could be generated by the EPAs;

- to map out the fiscal impact of the EPAs in general, and on the country of Gambia in particular;
- to investigate the adjustment costs of EPAs and identify appropriate flanking measures to address these;
- to address specific national needs and concerns, which may not be a major preoccupation of other ECOWAS member countries (for instance, groundnut exports to the EU, and the aflotoxin content issue); and
- to define and develop strategic issues, including negotiation strategies and policy briefings.

(ii) The objectives of the **training programme** are to contribute to enhancing:

- trade policy formulation skills of government officials and other stakeholders, including those from the private sector and civil society organisations involved in the ACP-EU negotiations process; and
- negotiation skills and techniques for target institutions and individuals involved in the process of ACP-EU trade negotiations.

(iii) The objectives of the **validation seminar** are to:

- present the report and key recommendations resulting from the impact study; and
- obtain feedback from stakeholders for incorporation in the final report.

7 The methodology of the study included the following.

- In-depth interviews with stakeholders from the Public and Private Sectors and Civil Society[1/].
- A desk-review of studies and reports already completed[2/].
- Collection and analysis of socio economic data at the sectoral and national levels.
- A detailed analysis of trade and tariff data to identify products in which market access may change as a result of the EPA. These included currently traded goods and those that might start to be traded as a result of the tariff cuts. The consultants have used a partial equilibrium model to estimate the fiscal impact, the trade creation and diversion effects.
- A survey of a sample of firms that might be affected by the EPA in order to identify their expectations of the likely impact.

1/ A list of the people consulted during the study has been included in Appendix A1.
2/ A bibliography has been provided in Appendix A2.

8 The Terms of Reference of the study have been included in this report[3/].

[3/] See Appendix A3.

2 Economic Environment and Outlook

Introduction

9 The Gambia is entirely surrounded by the Republic of Senegal, with the exception of the Western Coast on the Atlantic Ocean. It has an estimated population of 1.4 million (based on the Census Report of 2003), of which almost 70 percent is rural. The total fertility rate is high, estimated at 5.2 per woman, partly resulting in an average annual growth of 2.5 percent over the past five years. The Gambia is one of the poorest countries in the world with a GDP per capita of US$370 in 2003 (compared to US$510 for sub-Saharan Africa). As a result of low levels of average income, adult literacy, school enrolment and life expectancy at birth (51 for men and 55 for women) the country is ranked at number 151 out of 175 countries according to the UNDP Human Development Indicator (2003). The percentage of households subsisting on less than US$1 per day has been estimated at 53.7 percent (see Table 2.1)

Table 2.1: Key Economic and Social Indicators

Human Development Index rank:	155th/177 countries (2004)
GDP per capita:	US$ 370 (2003)
GDP per capita annual growth rate	-0.2% (1975-2002)
Population:	1.4 million (2003)
Annual population growth rate:	3.4% (1975-2002), 2.2% (2002-2015)
Population density:	133 persons/sq.km.
Life expectancy at birth	54.1 (2000-2005)
Infant mortality rate:	84 (per 1,000 live births, 2001)
Under five mortality rate:	135 (per 1,000 live births, 2001)
Maternal mortality rates:	730 (per 100,000 live births, 2001)
Adult literacy rate:	25.6% (ages 15 and older)
Net primary enrolment ratio:	73% (2001/2002)
Net secondary enrolment ratio:	28% (2001/2002)

Source: 2004 Human Development Report, and Gambian government sources

Structure and Main Features of the Economy

10 The Gambia is primarily an agrarian economy and hence agriculture employs about 75 percent of the labour force, and is the main source of food production and export earnings. Groundnuts are the single most important cash crop and (excluding re-exports) constitute the country's main merchandise export. The economy is highly dependent on the re-export trade, groundnut exports, tourism and foreign aid. On average, in recent years, the re-export sector is estimated to have accounted for about 15 percent of GDP, 20 percent of fiscal revenue and 87 percent of all exports. The Gambia's traditional role as a hub for re-exports and transit trade activities to countries in the sub-region has been encouraged by geographical factors, permeable

borders, and flexible exchange rate policies and lower tariff levels. (Table II-2 summarises the country's basic macro-economic indicators.)

Table 2.2: Basic Macro-economic Indicators

Indicator	1998	1999	2000	2001	2002	2003
Real GDP growth (annual percentage)	4.9	6.4	5.5	5.8	-3.2	6.7
Fiscal balance, excl. grants (% GDP)	-7.8	-4.8	-3.7	-14.9	-8.1	-6.0
Export growth (annual percentage)	-0.5	-8.3	-5.3	-19.7	-9.2	-8.1
Current account balance, excl. grants (% of GDP)	-10.6	-11.7	-10.6	-10.8	-12.8	-13.8
Current account balance, incl. grants (% of GDP)	-3.7	-4.4	-3.1	-3.5	-2.2	-5.1
Gross off. reserves (months imports)	5.6	5.8	7.0	5.3	4.8	4.6
Broad money growth	22.3	12.1	34.8	19.4	35.3	43.4
Inflation rate, avg. (annual percent)	2.8	3.8	0.9	4.5	8.6	17.0

Source: World Bank-DFID-UNDP Public Expenditure Review, June 2004 and Gambian Government

Recent Economic Performance

11 After steadily growing at an average rate of 5.7 percent from 1998 to 2001, the economy shrank by 3.2 percent in 2002, reflecting reduced agricultural output due mainly to low rainfall. The economy partially recovered in 2003 with an estimated growth rate of 6.7 percent that was largely due to improved weather and increased agricultural production.

12 In addition to the partial recovery of the agricultural sector, tourism (the fastest growing sector of the economy) expanded in 2003 as tourist arrivals increased by 13 percent. Tourist arrivals reached a peak of 122,000 in 1999 but subsequently fell to 77,000 in 2000 and remained broadly constant until it increased to 89,000 in 2003. The sector contributes approximately 16 percent of GDP, provides direct employment to almost 15,000 people and indirect employment to about 100,000, and generates between US$3.6 and 5.4 million annually.

Fiscal Management

13 After a reduction in the fiscal deficit as a percentage of GDP (excluding grants) between 1999 and 2000 (5.1 percent to 3.5 percent), the figure rose sharply to 16.0 percent in 2001. The deficit then dropped to 9.1 percent and 7.2 percent in 2002 and 2003, respectively. In 2004 however, the deficit rose to 10.2 per cent.

14 Correspondingly, the basic primary balance[4/] (domestic revenue minus total expenditure and net lending excluding interest payments and externally funded capital expenditure) as a percentage of GDP improved gradually from a figure of minus three percent in 2001 to one percent in 2003, but then declined to minus one percent in 2004, thus signaling a case of potential unsustainable rising indebtedness by the government.

15 This uneven result in the fiscal balance reflects uneven performance in both Revenues and Grants, on the one hand, and Expenditures and Net Lending, on the

[4/] The primary balance indicates how the current fiscal actions of the government affect the government's net debt and is therefore important in assessing the sustainability of government deficits. If the basic primary balance is in deficit, it signals a case of potential unsustainable rising indebtedness. This is because maturing loans and interest payments may have to be retired with additional loans.

other. Whilst total Revenues and Grants increased between 1999 and 2000, their total remained almost at the same level for 2000 and 2001. Expenditures and Net Lending, on the other hand, increased substantially over the same period. Then, between 2001 and 2004, the situation was reversed with Revenues and Grants growing faster than Expenditures and Net Lending, thus reducing the deficit to a figure of 5.7 in 2004 (representing a slight deterioration from 4.6 percent and 4.7 percent in 2002 and 2003).

16 The growth in Revenues and Grants is highly dependent on the performance of Tax Revenues, which constitute a substantial proportion of the total (ranging from a high of 82 percent in 1999 to a low of 68 percent in 2002, and 73 percent in 2004). Tax revenues are in turn supported mainly by Indirect Taxes, comprising mainly of Tax on International Trade (Customs Duties and Sales Tax). The figure for 1999 was 16 percent higher than that for 2000, which was higher than the figure for 2001 by eight percent. The decline has since been reversed, with annual percentage increases of 13, 23 and 76 between the years 2002 and 2004. Thus, there is a high dependence on taxes on international trade to support government expenditures in The Gambia.

Inflation and Exchange Rates

17 In 2002 the average annual inflation rate increased to 8.6 percent (from 4.5 percent in 2001) and in 2003 it further escalated to 17 percent. The average nominal exchange rate of the Dalasi to the US dollar increased from 15.7 in 2001 to 19.9 in 2002 and 28.5 in 2003.

Major Developmental Challenges

Domestic Debt Expansion

18 One of the most disturbing macro-economic trends is the large increase of debt service since 2001, particularly domestic interest payments, arising mainly from the expansion of the Treasury Bill stock and a rise in domestic interest rates. In 2001 total debt service increased to 45 percent of domestic revenues. As a percentage of total recurrent expenditure, debt interest payments (domestic and foreign) increased from 23.7 percent in 2001 to 28.1 percent in 2002, and then to 36.4 percent in 2003. The projected increase in 2004 is estimated at between 40 percent and 45 percent. The increase in domestic debt servicing is restricting Government's spending in priority sectors including the implementation of PRSP targets. If the current phenomenon persists, it will nullify the gains associated with the Highly Indebted Country Initiative.

Development of the Country's Human Capital

19 Many of the country's public institutions are characterised by low institutional delivery capability, low absorptive capacity, and general lack of trained manpower and expertise. In the tourism sector, for example "many of the workers are semi-skilled, with only a few having had any professional training in their field of operation:

the insufficient amount of skilled and professional staff in the hotels and restaurants is reflected in the standard of service in these establishments"[5/].

20 In the civil service, high levels of staff attrition have hampered development of in-house capacity in Departments that play a major role in the administration and management of EPA-related activities. A report on "Strategy for improvement of Recruitment and Reducing Attrition in The Gambia Civil Service"[6/] reached the conclusion that: "The attrition issue is looming and, based on interviews, a perception exists that a significant number of employees are actively searching for employment outside of the civil service". Between 1998 and 2001 the level of attrition rose by almost 48 percent and was most acute in the Departments of Health, Education, Finance and Economic Affairs, Trade and Industry, Defence and Interior.

Economic Outlook and Prospects

21 In spite of the stabilisation of the exchange rate in the last quarter of 2003, inflationary pressures continue to be strong as a result of high rates of monetary growth. The fiscal deficit is projected to increase and its financing, which relied entirely on the Central Bank in 2003, will be made more difficult because of the current withholding of donor support. Thus, the debt outlook is expected to worsen and this will delay improvements in infrastructure.

22 Overall, the immediate economic outlook is deemed poor. The economy is currently at a critical juncture and significant turn-around demands sustained commitment to structural reforms, stimulation of the private sector and adherence to good governance at all levels of government.

23 The IMF 2003 Article IV Consultation Staff Report presents two scenarios of possible future macro-economic development based on two different assumptions. The first scenario (Scenario A) assumes maintenance of the status quo or continuation of on-going policy measures. Under this scenario external budgetary support will not be available, and domestic financing is projected to increase to 9.6 percent of GDP in 2004 and will remain elevated in the future years. As a result, inflation will remain high and the Dalasi will continue to rapidly depreciate. Structural reforms will be delayed and domestic savings discouraged. The HIPC Completion Point will not be reached. Foreign exchange reserves will gradually be depleted by capital outflows and high external debt services. This adverse macro-economic scenario would discourage domestic savings and the development of productive capacity.

24 In the status quo scenario (Scenario A) the fiscal deficit remains large as the overall balance excluding grants, is projected to substantially increase. The excessively expansive fiscal policy leads to escalating domestic debt, higher real interest rates, which have adverse impact on private sector development and investment flows.

25 The second scenario (Scenario B) considers a more positive policy stance. It assumes implementation of additional fiscal measures, tightening of monetary policy, enhanced fiscal discipline, greater adherence to improved governance practices,

5/ The Gambian Vision 2020.
6/ Conducted by GLOCOMS Inc. in September, 2004.

improvement in data provision, a resumption of donor budgetary support and achievement of the HIPC Completion Point. Reduced reliance on domestic financing will reduce the interest rates and exchange rate depreciation, thus lowering public debt service.

Table 2.3: Selected Economic Indicators, 2004-2006

Indicator	**(Average percentage change, unless otherwise noted)**	
	Scenario A	**Scenario B**
Real GDP	4.4	5.0
Fiscal balance, excl. grants (% GDP)	-7.7	-1.4
Inflation rate	21.2	8.2
Broad money, end of period	23.5	12.8
Exports, f.o.b.	14.3	14.4
Imports, c.i.f.	8.3	11.4
Current account bal., incl. off. Transfers (% GDP)	-2.4	-0.3

Source: IMF, 2003 Article IV Consultation Staff Report

26 Under the structural policy reform scenario (Scenario B) there would be improved governance at all levels of government and a favourable business environment would be created. Public Expenditure Management (PEM) would be significantly improved, with meaningful reforms in the budget process focussing on comprehensiveness, transparency, and checks and balances. Fiscal imbalances would be reduced and Government’s ability to fund the PRSP would improve markedly. The Gambia would be on track to reach the ambitious MDG objective of reducing poverty by half in 2015. Implementation of Scenario B provides fertile ground for the exploitation of the benefits and advantages of the EPA.

27 Projections for 2005 to 2008 computed by the IMF more recently (in its 2005 Article IV Consultation Staff Report) present a much more positive picture for the fiscal deficit, which is projected to decline progressively from 6.4 percent of GDP in 2005 to 4.5 percent in 2008. Correspondingly, the basic primary balance is projected to improve over the medium-term from two percent in 2005 to three percent in 2006 and thereafter. These projections are based on a higher growth of revenues and grants compared to expenditure and net lending over the period. However, revenues are expected to grow much faster than grants over the period (as the government continues to be challenged by issues of poor governance and weak institutions that in turn limit the country’s access to concessional external funding sources).

28 The growth in domestic revenue is expected to arise from increases in both tax and non-tax revenues, but with a very strong annual growth in indirect taxes of between seven percent and nine percent over the period 2005 – 2008. A breakdown of the figures for indirect taxes is not available, but international trade taxes have always comprised greater than 78 percent of the total.

Table 2.4: Central Government Budget Indicators (in percent of GDP)

Indicator	2001	2002	2003	2004	2005	2006	2007	2008
Balance, excluding grants[7/]	-16.0	-9.1	-7.2	-10.2	-7.4	-5.7	-5.4	-4.5
Balance, including grants	-13.9	-4.6	-4.7	-5.7	-5.6	-4.3	-2.1	-1.5
Basic primary balance	-8.1	2.7	3.6	9.6	10.2	9.5	7.1	6.9
Total expenditure and net lending	31.1	25.4	22.9	31.2	28.3	26.1	25.7	25.5
Domestic revenue	15.1	16.3	15.7	20.9	16.1	20.4	20.4	21.0
Tax revenue	13.0	14.1	13.8	18.6	13.8	17.8	17.8	17.8
Direct tax	3.8	4.3	4.4	5.0	3.9	5.1	5.0	5.0
Indirect tax	9.2	9.8	9.4	13.6	9.8	12.8	12.8	12.8
Non tax revenue	2.1	2.2	1.9	2.3	3.0	2.6	2.6	3.2
Grants	2.1	4.4	2.5	4.5	1.9	1.4	3.3	3.0
Net foreign financing	-0.4	1.9	0.6	5.7	2.7	3.1	3.3	3.2
Net domestic financing	14.8	2.5	5.4	0.5	2.9	1.2	-1.2	-1.7
Stock of domestic debt	38.1	36.6	25.2	30.7	28.9	27.7	24.2	20.8

Source: IMF Article IV Consultation Staff Report, May 2005; and Gambian Authorities.

7/ Excluding HIPC Initiative and PRSP expenditure.

3 Current Trade and Investment Regime

The Institutional Framework

29 The Gambia is a multi-party democracy with the constitution providing for the separation of executive, legislative, and judiciary power. Executive power is exercised either directly by the President, or indirectly through Cabinet. The Cabinet is appointed by the President, and consists of the Vice-President, not more than fifteen Secretaries of State and the Attorney General.

30 Legislative power is vested in a unicameral National Assembly, comprising 49 members, of which 45 are elected for a five-year term by direct universal suffrage and four are appointed by the President. The Speaker and Deputy Speaker of the National Assembly are elected by the National Assembly, from among its members. The National Assembly has the power to summon the President to answer to a vote of no confidence tabled against him by a member of Parliament.

31 The Gambia's judicial system is based on a combination of: English Common Law and the rules of equity derived there from; Sharia law as it relates specifically to marriage, inheritance and divorce; and treaties and international conventions. The Supreme Court is the final court of appeal for The Gambia. A Commercial Court was established in 1998 to handle cases relating to the Company Act and loan recovery, but most commercial litigation is handled through the High Court as the Commercial Court has a severe backlog of cases.

32 Local government is based on a system of democratically elected councils, which have competencies in, *inter alia*, infrastructure development, encouragement of commercial enterprises, provision of essential and other services, and raising of local revenue**,** as provided for in the 2002 Local Government Act. The decentralisation process is one part of an overall national programme addressing The Gambia's administrative and institutional structures, known as the Governance Policy Framework.

Trade Policy Formulation and Implementation

33 The Department of State for Trade, Industry and Employment (DOSTIE) has overall responsibility for the formulation, coordination and implementation of trade, investment, industrial and competition policies. Acting on the authority of the President, it takes the lead role in trade negotiations, which are conducted in collaboration with the Department of State for Foreign Affairs. Tariffs are set by the Department of State for Finance and Economic Affairs (DOSFEA) and administered directly by the Customs and Excise Department[8/].

8/ The Government intends to establish an independent revenue authority, which would, *inter alia*, be responsible for customs duty collections.

34 In the area of customs, first steps are being taken to harmonise the customs valuation system with World Trade Organisation (WTO) standards, in line with The Gambia's obligations under WTO membership, while progress is being made in the creation of a training centre for customs officers. However, maintaining an advantage as a regional entrepôt would require more efforts toward streamlining customs procedures and formulating a transparent, economically efficient and administratively friendly framework for providing duty exemptions. In this latter context, there is a need for increased coordination between the Ministries responsible for Finance and Trade in the setting of investment-related incentives and better communication with the Customs and Excise Department regarding implementation. Coordination would also encourage better analysis of the cost effectiveness of incentives against the background of The Gambia's poor revenue-raising capacity.

35 Other departments whose functions have a bearing on trade policy include: the Department of State for Local Government and Lands, which is responsible for, *inter alia*, the allocation of commercial land for industrial development; the Department of State for Justice, which is responsible for the registration of businesses and companies; the Department of State for Health, which is responsible for, among others, the establishment of regulations on quality-control requirements both for imports and exports of processed foods; and the Department of State for Agriculture, which is partly responsible for policy related to agriculture and the establishment of technical regulations and controls governing imports and exports of plants, plant material and livestock, and protection of food.

36 A High-Level Economic Committee (HLEC), consisting of government officials, was established in 1990 to consider policy issues and make recommendations to Cabinet, for example, on the implementation of the privatisation process. An inter-departmental task force on trade policy has been established to coordinate trade-related technical assistance. Nevertheless, trade policy still suffers from a lack of coordination, and this has affected the implementation of commitments undertaken in the WTO. The lack of coordination has also limited the integration of The Gambia's trade policy into its overall development strategies. Enhanced cooperation among the ministries would therefore assist in making trade policy more supportive of the government's overall macroeconomic and development strategy. Consultations between Government and the private sector tend to be sporadic and ad hoc.

Trade Agreements and Arrangements

Multilateral Agreements

37 The Gambia has been a Member of the WTO since 23 October 1996 and a contracting party to the GATT since 22 February 1965. The Gambia is neither a signatory nor an observer to any of the WTO's multilateral agreements. Mainly owing to a lack of capacity, The Gambia's notifications to the WTO are few and are made sporadically. The Gambia has not been involved in any dispute under the WTO Dispute Settlement Mechanism, either directly or as a third party.

38 The Gambia is an UN-designated Least Developed Country (LDC), and as such may avail itself of the special and differential treatment provisions applicable to least developed countries under WTO Agreements. The implementation of WTO

Agreements by The Gambia and its ability to derive benefits from its participation in the multilateral trading system will require significant investment in developing trade-related capacity.

39 The Gambia's participation in multilateral trade negotiations has also been restricted by its lack of representation in Geneva. Its main areas of interest are special and differential treatment, market access and the extension of protection afforded through geographical indications to products of regional interest. A WTO study showed that Gambian exports of agricultural products have tended to face high tariff barriers, with average tariffs of 26 percent, even when trade preferences are taken into account[9/]. Exports of fish and fisheries products from The Gambia face low rates of duty in developed markets (a simple average of less than 1 percent when preferences are taken into account) and relatively high tariff barriers in developing countries and transition economy markets (a simple average of 25 percent)[10/]. The Gambia believes that implementation-related issues under existing Agreements should be tackled expeditiously, and that WTO Members should consider ways of alleviating the supply-side constraints of LDCs.

Regional Agreements

The African Union and African Economic Community

40 The Gambia is a founding member of the African Union, which succeeded the Organisation of African Unity (OAU) in 2001. Its main aim is to promote integration and harmonisation within Africa. The treaty provides for the creation of a pan-African economic and monetary union and a parliament in six stages, over a period of 34 years.

41 At the 2001 Lusaka Summit, African heads of state adopted the New Partnership for African Development (NEPAD), which calls for a new relationship between Africa and the international community, in particular industrialised countries. The NEPAD seeks to encourage internal reform within African countries through a peer review system, and to mobilise additional debt relief and donor support to fund poverty alleviation programmes.

The Economic Community of West African States (ECOWAS)

42 ECOWAS is the main regional economic grouping of which The Gambia is a member. It was established in 1975 and, in addition to The Gambia, its 15-country membership consists of Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo[11/]. The revision to the treaty founding ECOWAS, adopted in 1993, reset the date of the creation of a free-trade area to 2000, and an economic and monetary union by 2005[12/]. In 1994, the Francophone member countries, which already shared a common currency (the CFA franc), formed the West African Economic and Monetary Union (WAEMU). Six non-WAEMU ECOWAS members, including The

9/ See WT/COMTD/LDC/W/17.

10/ As discussed in Chapter 4, The Gambia's exports of groundnuts, its chief cash-crop, are particularly affected by tariffs and subsidies used by large developing-country producers.

11/ Mauritania withdrew in 2000.

12/ The ECOWAS treaty has not been notified to the WTO.

Gambia[13/], signed an agreement in April 2000, aimed at establishing their own monetary union the West African Monetary Zone (WAMZ) by December 2005. This would merge with WAEMU thereafter ushering in an ECOWAS-wide monetary union.

43 Excluding developments within the WAEMU, the pace of integration at the ECOWAS level has been slow. Already several deadlines for intra-regional trade liberalisation have had to be re-scheduled. The Tariff Liberalisation Scheme (TLS) had identified three groups of countries based on a number of criteria, including the level of industrial development and transportation problems, and the speed of liberalisation required varied across each group. The Gambia, along with Cape Verde, Guinea-Bissau, Burkina Faso, Mali, Mauritania, and the Niger, were to have eliminated tariffs by 2000, by annual reductions of 10 percent[14/]. This timetable has not been fully adhered to, and the first stage of liberalisation, largely limited to unprocessed products, has in general not been implemented. All tariff preferences are subject to rules of origin requirements. A finished product has community origin if at least 60 percent of the raw materials used in its manufacture come from member states or if the value-added is at least 35 percent of the ex-works cost price, excluding taxes. Products must be approved according to the scheme adopted by the ECOWAS Council of Ministers.

44 A community levy (of 1.5 percent on c.i.f. and sales tax) should be collected on imports originating from non-ECOWAS countries to finance the common budget and compensation for customs revenue lost through liberalisation. However, this system has proved to be largely ineffectual. Discussions are under way concerning the development of a common external tariff.

45 A West African Monetary Institute (WAMI) was established in December 2000, as a precursor to a common central bank for the WAMZ. The WAMI was to develop an exchange rate mechanism for the six countries, with specified parities, as an interim mechanism prior to the establishment of the common currency. Present arrangements, which were introduced in March 2002 provide for a 15 percent fluctuation band around parities established on the basis of the currencies' value against the US dollar[15/]. Members also agreed to the following primary convergence criteria, which they were required to meet by the end of 2003 as a precondition for monetary union: inflation at five percent or lower; gross foreign exchange reserves of at least six months of import cover; central bank financing of the budget deficit not to exceed 10 percent of the previous year's tax revenue; and a ratio of the budget deficit, excluding foreign grants, to GDP not in excess of four percent[16/]. While The Gambia would have met all four criteria in 2000, slippages in economic policy elements and adverse exogenous developments in 2001, 2002 and 2003 meant that it was in breach of the first two criteria in those years. Six secondary convergence criteria were also agreed to: the prohibition of new domestic arrears and the

13/ The others are Ghana, Guinea, Liberia, Nigeria and Sierra Leone.

14/ Ghana, along with Côte d'Ivoire, Nigeria and Senegal were to have eliminated tariffs by 1996 by reductions of 16.6 percent per year over six years. Benin, Guinea, Liberia, Sierra Leone, and Togo were to have removed tariffs over eight years, by 1998, by reducing duty rates annually by 12.5 percent.

15/ At end March 2003, the Dalasi was trading at 25.8 against the U.S. dollar. As a result of the sustained depreciation of the dalasi through the first half of 2003, The Gambia is considering invoking a clause that would allow it to renegotiate its parity.

16/ At end 2000, performance was within the limits set by the four criteria; slippages in macroeconomic policy management in 2001 meant that the criteria for inflation and the ratio of the budget deficit to GDP were exceeded.

liquidation of previous ones; a tax revenue to GDP ratio of at least 20 percent; a wage bill to tax revenue ratio not exceeding 35 percent; domestically financed capital expenditure to tax revenue ratio of at least 20 percent; stability of the exchange rate; and positive real interest rates.

46 ECOWAS has launched donor-supported projects to extend and make compatible the communication, transport and energy networks within the community. These include the West African Transnational Highway, West African Power Pool, West African Gas Pipeline and INTELCOM 1&2.

Bilateral Agreements

47 The Gambia has signed bilateral trade agreements with Cuba, Iran, Nigeria, Senegal and Tunisia. These agreements mainly cover cooperation in trade promotion activities, and do not entail any preferential market access. Recently The Gambia entered into an agreement with Mali, whereby the port of Banjul would be used as a transit point for goods imported to Mali.

The Effects of Preferences and Lessons Learned

48 The Gambia benefits from non-reciprocal preferential treatment from many industrialised countries[17/]. In particular, as a signatory of the Cotonou Agreement and an LDC, The Gambia is eligible to preferences into the EU market for all ACP countries and those afforded under the Everything But Arms (EBA) initiative respectively[18/].

49 The Gambia exports to the EU, its largest market, under preferences available through the arrangements generally available to ACP countries, rather than those available to LDCs under the EU's Generalised System of Preferences (GSP). The latter's use has been marginal as it has been perceived as less generous in terms of the level of preferences and product coverage, and as having more onerous rules of origin and documentation requirements.

50 As illustrated in Table 3.1, Gambian exports under the EU's LDC-specific preferences have remained low. The introduction of the EBA initiative, which nominally has more extensive preferences than ACP preferences, did not change this pattern. This is possibly because the EBA does not appear to generate additional access to traditional Gambian exports. Rules of origin for instance are less flexible under the EBA than under ACP preferences, and could therefore constitute a real hurdle to exports. Regarding trade with Canada, the USA and Japan, The Gambia again appears to have made low usage of available preferences, the only exception being in respect of exports to Japan in the year 1999.

17/ Trade preferences allow products of developing countries such as The Gambia to enter industrial-country markets with lower import duties than are applied to other countries' products under the importing country's most-favoured-nation (MFN) tariffs.

18/ The EU's EBA Initiative, implemented from March 2001, has extended duty-free and quota-free access to imports of all products from least developed countries, except for arms. Extension of this preferential treatment to sugar, rice and fresh bananas will follow specified schedules. (WTO, 2002; and Europa online information. Available at: http//europa.eu.int/comm/trade/miti/ devel/eba4.htm).

Table 3.1: Rates of Utilisation by The Gambia of Trade Preferences

Preference scheme/year	Exports from the Gambia (US$ '000)	Exports MFN dutiable (b) (US$ '000) (1)	Exports GSP covered (c) (US$ '000) (2)	Exports GSP received (d) (US$ '000) (3)	Potential cover rate (2/1)	Utilisation rate (3/2)	Utility rate (3/1)
EU 1999	66,503	10,576	10,556	247	99.8	2.3	2.3
EU 2000	28,822	6,701	6,576	74	98.1	1.1	1.1
EU 2001 [a]	18,387	8,526	8,499	35	99.7	0.4	0.4
Japan 1999	19,119	18,655	15,801	15,700	84.7	99.4	84.2
Japan 2000	3,597	2,877	1,758	1,428	61.1	81.3	49.6
Japan 2001	597	565	565	241	100.0	42.6	42.6
USA 1999	186	55	27	12	48.6	43.8	21.3
USA 2000	342	139	47	24	33.9	51.8	17.6
USA 2001	229	115	51	1	44.5	1.6	0.7
Canada 1999	83	42	27	0	64.3	0.0	0.0
Canada 2000	283	52	47	0	90.4	0.0	0.0
Canada 2001	2,122	10	10	0	100.0	0.0	0.0
EU-ACP preferences, 2001 [e]	18,274	8,449	9,981	6,620	100.0	66.3	78.4

a As of March 2001: Everything But Arms Initiative.
b That is, the value of imports from The Gambia under tariff lines where the MFN applied rate is strictly positive.
c That is, the value of imports from The Gambia under tariff lines eligible for LDC-specific preferential treatment.
d That is, the value of imports from The Gambia which actually enter the reporting country's market under preferential duties.
e Transitional trade preferences provided under the Cotonou Agreement.

Source: UNCTAD Secretariat 2003.

51 Drawing from the experience of other LDCs, The Gambia can make effective use of the EBA only if it is able to develop non-traditional products (such as horticultural) for which the EBA provides additional access over existing EU-ACP preferences, and meet the EBA's stricter rules of origin and specific requirements, relating to procedures and SPS measures.

52 In the case of the few LDCs who have exported under the EBA, information dissemination on the new regime has facilitated the assessment by the exporters of the benefits they could derive from the EBA. At present in The Gambia, there is almost no knowledge of the EBA outside of the DOSTIE. Indeed very little if any dissemination work has been undertaken to inform Gambian exporters about preferences available under this initiative.

The Cotonou Agreement

53 The Cotonou Agreement maintains most non-reciprocal trade preferences granted by the EU to ACP States under the Lome Convention. At the Doha Ministerial Conference, WTO Members granted a waiver from the obligations under Article I: 1 of GATT 1994 (MFN treatment). By December 2007, new trading arrangements, which are WTO-compatible, are to be concluded that will remove barriers progressively between the parties and enhance cooperation in all areas

relevant to trade, including the formation of free-trade areas within a transitional period. The implementation of the tariffs liberalisation is expected to commence by January 2008 at the latest.

54 Under the Cotonou Agreement, the EU grants non-reciprocal trade preferences to most imports originating in ACP states, subject to a safeguard clause and rules of origin[19/]. For certain products (bananas, beef and veal, and sugar), the EU provides special market access under "commodity protocols", for which The Gambia is not a beneficiary. Of relevance to The Gambia is the fact that the Cotonou Agreement has abolished the STABEX.

The African Growth and Opportunity Act (AGOA)

55 The AGOA defined in the US Trade and Development Act of 2000 was later modified by an Act of August 2002[20/]. It offers free access to some manufactured products originating in African countries. To be eligible, African countries must demonstrate progress in: establishing a market-based economy; developing political pluralism and the rule of law; eliminating discriminatory barriers to U.S. trade and investment; protecting intellectual property; combating corruption; protecting human and worker rights; and removing certain practices of child labour[21/].

56 Countries eligible for AGOA preferential treatment are granted GSP status in the US market until September 2008 and qualify for an expanded list of GSP products. They are entitled to unlimited duty-free and quota-free access to the US market for apparel made from U.S. fabric, yarn or thread[22/]. Least developed countries, including The Gambia, 27 other eligible African countries with a per capita GNP below US$1,500 in 1998, plus Botswana and Namibia, may use non-US fabric and yarn[23/]. To enjoy AGOA preferences, countries must have in place an effective visa system the aim of which is to prevent illegal trans-shipment and use of counterfeit documentation. The Trade Act of August 2002 extended duty-free and quota-free access to certain types of apparel products previously excluded, specifically "knit-to shape" articles and "hybrid" apparel articles – that is, articles containing both US and sub-Saharan Africa beneficiary components and/or articles containing both fabric and knit-to-shape components.

57 The Gambia became eligible for AGOA's benefits following a review conducted by the Government of the United States in 2002[24/]. As of to date, Gambian exporters have not made use of preferences available under AGOA.

19/ The rules of origin require that qualifying products be either "wholly obtained or significantly worked or processed" in one or more ACP States. The latter definition is based on the product being sufficiently modified in the ACP State for it to be classified under a different four-digit HS tariff line.

20/ The modifications are collectively referred to as AGOA II.

21/ African Growth and Opportunity Act. Available online at http://www.agoa.gov/index.html.

22/ The list of manufactured goods (some 1,800 tariff lines) covered by AGOA includes products such as footwear, luggage, handbags and watches.

23/ Botswana and Namibia were accorded less developed country status under AGOA II. The possibility of using non-US-origin yarn was introduced under AGOA II.

24/ The review stated that The Gambia has made "significant progress in implementing political reforms, recognising basic human rights, and favourably addressing allegations of complicity in the illicit trade in conflict diamonds. The Gambia's progress includes holding multi-party presidential, legislative and local elections; qualifying for the HIPC initiative, and making significant progress in meeting performance targets; proceeding successfully with privatisation and deregulation plans; making substantial improvements in social infrastructure, and implementing an IMF Poverty Reduction and Growth facility; and ratifying ILO convention 182 on the worst forms of child labour."

Indeed as could be gathered from the statistics produced by the US Department of Commerce, not even a single US$ dollar worth of duty-free item permitted by AGOA has exported to the US by The Gambia. The visa system was still being worked on in late 2004 by the relevant authorities and the first sensitisation activities on AGOA preferences were only implemented in The Gambia in September 2004[25/].

58 Mauritius, Kenya, Lesotho and Swaziland are often cited as the most successful AGOA exporting countries on the continent. In the particular case of the two southern African kingdoms, AGOA-related exports are reported to have directly led to the creation of between 30,000 and 50,000 jobs in those countries' garment industries. In both cases the investments originate predominantly either in China (for Lesotho) or in Taiwan (for Swaziland). If The Gambia were to learn from the experience of these countries there is no reason why it could not attract AGOA related investments, which would greatly contribute to both job creation and poverty alleviation.

59 For the Gambia, it clearly appears that a combination of lack of information on the existing preferences and the cost involved in satisfying the rules governing the most generous of them (i.e EBA, AGOA) has contributed to a low rate of utilisation of these preferences. For instance, EU rules of origin are product specific and generally complex. In some cases a change of tariff heading is required, other cases have a value-added requirement and some are subject to a manufacturing process requirement. There are instances were these methods are combined. This applies particularly to agricultural products. Many LDC members of the ACP group such as the Gambia that are eligible to export to the EU under the EBA prefer often to continue to export under the Cotonou Agreement because of its more liberal rules of origin[26/].

60 The Gambia is one of the ACP countries where very little impact has been experienced as the results of the preferences in the EU and other OECD markets. It is true that, in practice, only a small number of countries (such as Mauritius, Fiji, Swaziland and a number of Caribbean countries) and for a limited range of products (such as sugar) have managed to gain significant transfers as the results of the preferential trade access to the EU, the US and Japan for instance.

25/ AGOA rules on apparel require beneficiaries to "establish effective product visa systems to prevent illegal transhipment and the use of counterfeit documentation, as well as [to have] instituted required enforcement and verification procedures".

26/ According to the EC data, the total value of preferences requested by the Gambia under Cotonou and the GSP programmes of the EU, as a share of agricultural export to the EU is less than 7 percent.

4 Domestic Production and Trade Flows

Production Structure

61 As clearly illustrated in Table 4.1 below, the composition of production revolves by declining order of importance around the service sector, agricultural produce and the industry.

Table 4.1: Shares of GDP by Origin, 1999–2003

Sector	(Figures in %)				
	1999	2000	2001 Prelim.	2002 Estim.	2003 Estim.
Agriculture	28.6	27.8	28.6	28.8	29.1
Industry	11.8	11.3	10.8	10.8	11.3
Services	48.6	50.1	50.3	50.7	52.2
Total Value Added at basic prices	88.9	89.2	89.7	90.3	91.7
Taxes, less Subsidies on products	11.1	10.8	10.3	9.7	10.1
Total	100.0	100.0	100.0	100.0	100.0
GDP at market prices (D' millions)	4,922.2	5,391.4	6,124.2	6,931.9	7,121.9

Source: DoSFEA

Agriculture and Agro-based Activities

62 An estimated 70 percent of the population derives its livelihood from the sector which employs more than 50 percent of the labour force and contributes about 30 percent to both GDP and export earnings. Due to a combination of low agricultural productivity and increasing household demands, the country is structurally a net food importer.

Groundnuts

63 Groundnuts constitute the predominant cash crop in The Gambia with about 47 percent of arable land devoted to its production which is predominantly small scale. Between 1999 and 2003, on average, groundnuts accounted for eight percent of GDP and nearly 32 percent of the value of total merchandise exports (excluding re-exports). Owing to a combination of climatic shocks, inconsistent supply of inputs, and unstable commercialisation arrangements - the privatisation of The Gambia Groundnut Corporation (GGC) and its subsequent re-nationalisation[27/] - production volumes were erratic throughout the nineties reaching their lowest levels in 1996-97 to 1998-99.

27/ The GMPB's monopoly on exports was revoked in 1990. In 1993, the GPMB was privatised. In the absence of any competition to the new GGC, this divestiture turned out to be the replacement of a public monopoly by a private one.

64 In an effort to reverse this dramatic decrease in production, the Government and the sub-sector designed and launched a Groundnut Revitalisation Programme (GRP) which aimed to:

- increase production and particularly that of the higher quality Hand Picked Select (HPS) variety;
- promote value-adding through downstream processing activities; and
- increase and secure the incomes of groundnut farmers as a means to reduce rural poverty.

65 In line with the objectives of the GRP, a Memorandum of Agreement (MOU) was established between the Government and Agribusiness Service Plan Association (ASPA)[28/] for the period 1999-2003. The MOU, which sets out the current policy under which the sub sector operates, comprises three main components: (i) a producer price determination mechanism coupled with a price stabilisation fund; (ii) an Agricultural Credit Programme to finance the supply of inputs; and (iii) an agronomic element geared towards the development of high-quality seed varieties, named the “Seed Multiplication Programme”.

66 The groundnut marketing system consists of a countrywide network of farmers' associations known as cooperative produce and marketing societies (CPMSs) and the private buying points operated by private traders. The CPMSs and private traders are responsible for the storage of groundnuts and their sale to the only two decortications plants in the country, Denton Bridge and Buniadu.

Table 4.2: Groundnut Production, 1997-2001

Groundnut Production Function	(Tonnes)				
	1997	1998	1999	2000	2001
Delivery purchases (undecorticated)	16,105	32,235	..	41,912	64,000
Export sales of which:	10,516	32,235	..	20,105	..
Decorticated FAQ groundnuts	6,011	28,126	..	15,204	..
Decorticated HPS groundnuts	4,505	4,109	..	672	..
Oil	..	..	..		..
Cake	..	..	..		..
Local sales	31,743	11,715	..	20,700	..
Wastage (shelling/ processing)	5,154	10,315	..	13,412	..

.. Not available.

Source: ASPA

67 The purpose of the price determination mechanism and stabilisation fund is to provide farmers with a guaranteed floor price. The key components of this mechanism are a threshold and a reference price fixed for unshelled groundnuts. The former is defined as the minimum price required by farmers to grow groundnuts and the latter is the actual price obtained by the farmers from traders and cooperatives. The stabilisation fund makes up for any shortfall between the threshold and the reference prices. In the reverse scenario, the farmers receive the reference

28/ The management of the groundnut sub-sector is entrusted to ASPA, which is a representative body of the stakeholders (i.e. farmers and all operators or groups of operators involved in groundnut activities, including the industries).

price (that is, an added premium derived from world market prices). Whenever the actual price prevailing at the time of the transaction is higher than the reference price, a windfall gain accrues to the traders. Groundnut prices over the period 1999-2002 are detailed below in Table 4.3.

Table 4.3: Groundnut Prices, 1999-2002

Kind of Groundnut Price	1999	2000	2001	2002
International market US$/T	834	843	833	753
International market D/T	9,516	10,802	13,080	14,990
Reference price D/T	2,700	2,600	2,650	4,250
Threshold price	2,453	2,525	2,650	2,755

a Average of monthly prices for the year.
b Calculated on the basis of annual average exchange rate.

Source: ASPA

68 Under the Agricultural Credit Programme, inputs imported by the Government through the use of Stabex funds are sold on credit at terms negotiated with members of the CPMS. In turn, they sell the inputs to farmers on credit at a national uniform price.

69 The third component of the sub-sector strategy, the seed multiplication programme (SMP), was aimed at providing farmers with quality groundnut seeds. Research into seed development is carried out by the National Agriculture Research Institute (NARI). Since its inception, the SMP has been financed exclusively by grants from donors even though it was stipulated that industries would allocate 0.3 percent of their turnover to finance research and development. Under the SMP, groundnuts cultivated using higher quality seeds are purchased with a premium of seven to 15 percent above the declared producer price.

70 The implementation of the GRP has helped to increase production from the low levels witnessed in the 1996-97 to 1998-99 seasons. However, whereas productivity (measured by yield per hectare) now compares well with other West African producers, it remains significantly below that of dominant producers in the world market[29/]. Furthermore, due to a very limited industrial capability, The Gambia has not been able to develop an export base in value-added processed groundnut products, such as confectionary, oil, and cake. At present, only one private company processes nuts into oil.

71 Another challenge is the need to improve the quality and efficiency of production. While this can be addressed by increasing the availability of superior seeds, sufficient incentives need to be in place for farmers to produce better quality groundnuts. At present, the only tangible reward for excellence accrues through the SMP's quality price premium. Otherwise, the announcement each season of a single undifferentiated reference price for unshelled groundnuts means that producers of the low value variety are not discriminated against[30/]. Moreover, the fact that the

29/ ITC (2002a).

30/ The need for strong price signals to encourage differentiation by quality may arise because farmers and operators may have an incentive to trade in FAQ varieties, on the basis that these can be sold for the production of groundnut oil in Senegal, where state subsidies generate higher-than-world-market prices (WTO, 2003).

threshold price is set to cover costs does not in itself act as an incentive for farmers to reduce costs.

72 The current system does not appear to contain penalties against farming practices that contribute to high aflatoxin content in groundnuts[31/]. In fact, this problem, rather than tariffs, appears to be the main constraint particularly in accessing European markets[32/]. Indeed, the insurance provided by guaranteed prices creates an adverse selection problem in that it keeps in business farmers who may perpetuate bad practices. Since the farm gate reference price is adjusted downwards on the basis of costs incurred by industrial operators, the latter have few incentives to lower their costs and increase efficiency. Furthermore, though the framework agreement adopts a policy of "no credit buying" by operators, in practice this has not been fully enforced[33/]. Finally, meaningful investment in the development of groundnut oil and cake production facilities has yet to materialise.

73 The groundnut sub-sector benefits from the maximum level of tariff protection (18 percent). While this policy and the floor price system are intended to stimulate production in the short-term, in the medium to long-term it could be counter-productive. This is because it does not directly address key issues of productive efficiency and quality, without which investment in groundnut processing would certainly not be attractive.

74 Although The Gambia used to be ranked among the highest quality producers of oil and confectionery nuts, present day production is primarily of the oil seed type. The by-product of groundnut hay is utilised locally as animal feed.

75 In addition to the problems aforementioned the groundnut industry is currently restricted by several major constraints including the following.

- Fluctuating international demand for groundnut products as a result of stiff competition from soybeans, sunflower and vegetable oil has led to fluctuating world market prices.

- The producer price for groundnut has taken a downward trend, in real terms, and this problem is compounded by the considerable delays experienced by some farmers in being paid for their produce. The credit system of payment is a disincentive for farmers and encourages the sale of the commodity to senegalese buyers who often pay cash-on-delivery for the produce.

- Although the country is quite competitive in terms of groundnut yields compared to its West African neighbours, they compare unfavourably to those of the dominant players in the World Market, namely, China, USA and Indonesia.

31/ Amongst the farming practices that can contribute to high afflotoxin content in groundnuts are the lack of sorting practices by farmers before marketing; the use of damaged and loose shelled kernels as seed; delayed and exposure to rain, pest, and disease attacks resulting from the lack of structures or the inadequate or inappropriate use of fertilizers and pesticides. See Mehnan et al. (1991); and www.aflatoxin.com.

32/ Diop, Beghin, and Sewadeh (2003).

33/ As alluded to in the Budget Speech, 2003.

- The high levels of aflatoxin content restricts the marketability of Gambian groundnut seed nuts and cake[34/].

- Most of the groundnut exported from The Gambia is in the form of raw nuts. Consequently, the profit margin obtained after the processing of the nuts into confectioneries and oil is mostly accrued outside the country. This in turn considerably reduces the amount of investment that can be re-directed back into the industry.

76 Other problems that restrict competitiveness and production are high post-harvest losses and the absence of an export guarantee fund or an Agricultural Development Bank. The storage and processing facilities within the industry are grossly inadequate and have deteriorated considerably in recent years, leading to high pest and disease infestation and considerable post-harvest losses. Similarly, lack of institutional support for the provision of medium to long-term loans to enterprises in the agricultural sector severely restricts increased production and competitiveness.

77 To enhance the competitiveness of domestic production and to effectively alleviate the constraints identified, several key steps would have to be taken by Government. Greater efforts must be made in shifting production in favour of confectionery nuts since they command greater demand and attract better prices in the international market. Also, efforts should be made to process the raw nuts into finished products for the export market since this will not only lead to employment creation and increased value-added, but will attract higher profit margins. To reduce post-harvest losses, harvesting techniques and storage facilities will need to be improved and local processing plants and equipment upgraded. Finally, attention must be devoted to stimulating production through enhancing timely access to production inputs, supply of good quality seeds and the adoption of an effective monitoring and quality control system.

Other Crops

Cereals

78 Rice, millet, sorghum and maize are the main cereals produced in The Gambia. The various support programmes initiated by the Government to increase the production and area under cultivation for rice – The Gambia's main staple food - have led to significant respective increases since 1999 as depicted in the Table 4.4 below.

79 Imports of cereals are subjected to the maximum duty rate of 18 percent. However, a zero tariff is applied to rice given its status as the staple food for which domestic production covers only 12 percent of the national requirement.

80 Rice is acquired by wholesalers either from importers or local producers and sold to retailers. The domestic market for rice is liberalised and competitive. There are four main importers who account for 95 percent of imports. Due to the extensive

34/ This is mainly a result of poor harvesting techniques, and the absence of quality assessment systems. Intensive farmer education in the field has to be regularly undertaken by agricultural extension workers to address this problem.

cross-border informal trade in cereals, price movements on the local market tend to mirror those obtained in Senegal where the liberalisation of the rice market has led to a reduction in the level of rice re-exportation through informal channels. Still, re-export levels remain substantial and estimated at 30 percent of total imports of rice to The Gambia[35/].

Table 4.4: Cereals Production, 1999-2004

	Hectares and Tonnes									
	1999-00		2000-01		2001-02		2002-03		2003-04	
	Ha	T	Ha	T	Ha	T	Ha	T	Ha	T
Millet	72.2	80.9	85.8	94.6	97.4	105	96.9	86.6	109.9	120
Sorghum	16.2	18.0	19.7	25.0	26.2	33.4	18.4	15.1	24.7	30.1
Maize	12.8	20.4	13.7	22.0	17.2	29.0	18.4	18.6	21.0	33.4
Rice	14.5	31.7	15.4	34.1	18.2	32.6	12.0	20.4	15.1	26.5

Source: Information provided by DOSA.

81 To stimulate production, policy measures have been put in place to encourage the development of irrigated rice farming in the Central and Upper River Districts, as this type of rice cultivation has been shown to generate yields per hectare four to six times superior to the yields of other crops. The IFAD-funded Lowland Agricultural Development Project (LADEP), launched in 1998, is designed to achieve this objective. The National Agricultural Research Institute (NARI) and the Seed Technology Unit (STU) are providing inputs and other services to promote production of irrigated rice.

Cotton

82 Production of cotton has been on a declining trend since the early 1990s. Land devoted to cotton currently accounts for less than 0.3 percent of all arable land. Exports of cotton and cotton products are negligible. The main reasons cited for these adverse developments are:

- the sub sector’s commercialisation arrangement which was dominated by an inefficient parastatal, GamCot;
- very low producer prices, which have been on average 22 percent of the international price; and subsequently ; and
- the re-allocation of factors of production away from cotton.

83 During recent years several sectoral reforms have been initiated, notably the restructuring of GamCot, which became the Gambia Cotton Company (GCC) with the selling of 60 percent of its shares to a French parastatal. The introduction of a price determination mechanism based on consultations between GCC, the Government and farmers was also initiated. Any significant sign of recovery has yet to be recorded and prospects, in view of the depressed world market price and the end in December 2004, of the Multi Fibre Agreement (MFA), are not encouraging.

35/ FAO/WFP (2002).

Horticulture

84 Horticulture is based on the production of flowers, fruits and vegetables (that is, onions, tomatoes, cabbages, legumes, mangoes, papayas and bananas). It contributes about four percent to GDP and is an important foreign exchange earner and has henceforth been identified as a potential growth sub-sector, geared to developed country markets and the domestic tourist industry. In recent years, in addition to the traditional small-scale household type of production, a few medium-scale (5-20 hectares) and large-scale (greater than 100 hectares) producers have emerged, primarily to take advantage of export markets in the EU. This has been the case particularly regarding the off-season market for vegetables for which The Gambia benefits from seasonal preferences. The cut-flowers sub-sector has attracted some foreign investment but precise data on this development and export performance is not available.

Table 4.5: Horticultural Production Indicators, 2003

Production Indicator	Onion	Okra	Egg Plant	Hot peppers	Sweet peppers	Melon	Other[a]
Area under cultivation (ha)	166.8	30.9	25.4	64.7	10.1	6	33.9
Production in tonnes	48.3	12.4	13.8	6.4	8.6	..	..

.. Not available; a Includes cucumbers, leafy vegetables, radishes, carrots, cabbages, and maize.

Source: DOSA

85 Phytosanitary inspections are carried out by the Plant Protection and Phytosanitary Unit. Investment in the horticulture sub-sector is eligible for incentives by the Investment Promotion Act. Likewise, activities in this sub-sector are targeted by the Free Zones Act. Most horticulture products are subjected to the highest rate of tariff protection (18 percent), a feature that may create an anti-export bias.

86 The three companies that export horticultural products on a regular basis to Europe are Radville Farms, Banjuluding Community Garden and The Gambia Horticultural Enterprise. All these companies have secured reliable markets abroad and can considerably augment their export output and levels of earnings if production levels are increased. Radville Farms is undoubtedly the dominant player in the field. It cultivates 300 hectares of vegetables and fruits in farms located at NemaKunku and Toubakuta, exports 1,500 tonnes of vegetables and around 700 tonnes of mangoes annually. Almost 50 percent of the 300 hectares cultivated are devoted to organic farming, which is increasingly more attractive to foreign buyers.

87 Although the cultivation process is relatively costly, organic farming is more profitable as it attracts a 30 percent mark-up. The market quota guaranteed by the parent company, Wilmorth Ltd., of the United Kingdom, cannot be presently satisfied. Consequently, there is a good opportunity for stimulating production to augment levels of exports and foreign exchange earnings in guaranteed markets abroad. The major problem currently restricting the production capacity of this farm is flight limitations. With increased freight space in aircrafts, weekly exports could easily be doubled.

88 Although the horticulture sub-sector has considerable potential for export earnings, employment generation and income-substitution, its accelerated development is restricted by several major constraints. Vegetables are highly susceptible to pests and diseases and the produce is highly perishable. In fact, as a result of an irregular and inadequate supply of production inputs, labour shortage and pest and disease problems, many horticulturalists have shifted to fruit tree production (that is, mango, cashew, papaya and citrus). To fully exploit the potential of this sub-sector, substantial investments have to be made in storage and preservation facilities as well as in pest and disease control measures.

89 Moreover there are no organised input supply sources and channels for the horticulture industry and producers are obliged to rely on individual dealers and local markets (LUMOS) for their production inputs. The problems of supply are further compounded by the absence of an organised credit system for horticulture. A myriad of other problems are faced by the sub-sector, of which the most acute relate to: the high standards of the EU market; marketing of produce; the acute problem of space in air freight; and the absence of a certification agent in The Gambia. Without a determined effort to alleviate these constraints, the sub-sector will not substantially benefit from the advantages of the EPA or any other preferential market access.

Fisheries

90 It is estimated that 26,500 to 32,000 people are employed in fisheries activities, which account for 2.5 percent of GDP. Fish and fish products generate approximately 15 percent of export earnings (excluding re-exports). The country's marine fish stocks are dominated by pelagics (Bonga, Sardinellas and Carangids) but exports are predominantly demersals, notably sole and crustaceans. In recent years, exports of smoked, dried, and frozen fish have been growing. Eighty percent of exports of Gambian fish are destined to the EU, which is by far the single most important foreign market. The EU with US$19.5 billion leads the major food fish importing nations of the world. It is followed by Japan (US$15.5 billion) and the USA (US$10.4 billion). The EU offers free access to all seafood products from the LDC including The Gambia.

91 The global concern about fishing as an industry is that it involves not only market access issues, but also resource access on a scale unprecedented in other areas of agriculture. For The Gambia, estimates put the combined maximum sustainable yield for all fisheries groups at 200,000 tonnes. With catches averaging 39,000 tonnes per year since 1998 (see Table 4.6 below), the sector can further exploit its overall fish resources, particularly the pelagic stock.

Table 4.6: Fisheries - Catches and Exports, 1998-2003

Year	Industrial catches ('000 tonnes)	Artisanal catches ('000 tonnes)	Export volumes ('000 tonnes)	Export values (Million Dalasi)
1998	7	26.5	1.7	33.3
1999	10.2	29.7	1.7	36.6
2000	9.2	26.9	0.9	31.1
2001	11.2	32	0.95	34.9
2002	12.1	32.3	0.93	21.3
2003	10.5	34.1	0.45	11.6

Source: Department of Fisheries.

Table 4.7: Fisheries - Composition of Exports, 2001-02

Fish / Seafood Product	Millions of Dalasi	
	2001	2002
Crustaceans	17.40	6.80
Frozen, dried or smoked fish	1.10	8.00
Cephalopods	1.10	3.50
Sole	14.40	13.60
Other demersals	0.50	0.20
Pelagics	0.01	0.05
Other (including parts of fish)	0.40	0.20

Source: Department of Fisheries.

92 There are 16 registered fishing companies in The Gambia that have their own facilities for handling, preservation and storage. Fishing operations are based on offshore trawlers but only three companies possess their own. Some 90 percent of trawlers are foreign vessels whose operators have concluded contractual arrangements with Gambian companies in order to satisfy licensing requirements conditions. As there is no large-scale port dedicated to fishing, a significant proportion of catches are actually landed outside The Gambia.

93 For its part, artisanal fisheries involve small fishing craft consisting mainly of a fleet of nearly 1,800 canoes for both marine and riverine fishing. Between 1999 and 2003, artisanal outputs stood on average at close to 30,000 tonnes per year, equivalent to three times the annual volume recorded in the early 1990s. This remarkable growth resulted from increased investment by private companies as well as expanded credit facilities provided by the Government.

94 The commercialisation takes place through a network of landing points, most of which are situated along the coast. As a result of insufficient storage and cooling facilities, post-harvest losses can be as high as 20 percent of the catch. Small-scale operators who have been certified as fish processing establishments can export smoked fish to the EU.

95 The Gambia has concluded a reciprocal fishing agreement with Senegal, allowing operators from either country to fish in each other's waters. There exists an agreement with Japan under which its trawlers are allowed access to Gambian territorial waters to fish for tuna, while Japan provides assistance to The Gambia for the development of its fish-processing capacity. Due to an unresolved dispute over the level of compensation, the access agreement with the European Union was not renewed after it expired in 1996.

96 By and large, The Gambia's fish exports have complied with the requirements of its major markets[36/]. The fisheries sub-sector is one of the most protected. The average tariff on fish and fish products is 17.6 percent with the maximum rate of 18 percent applying to nearly all commodities. Industrial fishing, fish processing and aquaculture are eligible for incentives under the Investment Promotion Act.

97 One of the main reasons for the under-performance of the industrial fisheries sub-sector is the lack of sufficient fishing vessels owned by local companies with the exception of the National Partnership Enterprise (NPE), International Pelican

36/ ITC (2002b).

Seafood and Kendaka Food and Fisheries International. Other factors include inadequate financial and skilled human resources and the high costs of energy, and air and sea freight. Moreover, there is an irregular supply of produce by artisanal fishermen. The failure to secure catches of high-priced species, particularly shrimps and demersal resources, has prevented many of the existing factories, particularly Kendaka Food and Fisheries International, from operating at optimal capacity.

98 To address the constraints faced by this sub-sector, external funding has recently been secured from various development partners to improve fisheries facilities and infrastructure including jetties. Monies have also been obtained to improve the sub-regional monitoring and surveillance of industrial fishing in The Gambia. The Government of Luxembourg donated US$5.6 million, which was utilised to provide facilities for protecting and preserving the marine resources of the country by reducing illegal fishing. Similarly, the ADB and BADEA have provided US$14.75 million for the improvement of landing, marketing and processing facilities, and the establishment of a credit programme. Effective implementation of these projects should strengthen the sub-sector’s capacity to exploit the advantages of the EPA.

Livestock

99 Livestock contributes to about 20 percent of total agricultural output and just fewer than five percent of GDP. Rearing is mainly for subsistence purposes, draught power and trading on a small scale. Cattle, sheep, goats, pigs, and chickens are the principal livestock goods. There are no facilities for producing processed meat products.

100 Given the importance of livestock products as a source of protein, the main policy objective for this domain is to increase productivity. This requires that the constraints facing the sub-sector such as diseases, and in particular trypanosomosis, the insufficient availability of water and quality pastoral land in the dry season, have to be overcome. This sub-sector would benefit from improved linkages with those of tourism and catering which at present import most of their requirements for meat and dairy products. In effect, the livestock sub-sector on the whole receives less attention than the other agricultural departments.

101 Meat products, whey and cheese are granted the maximal level of tariff protection of 18 percent. On the contrary, imports of milk, cream, and buttermilk attract the zero rates.

Forestry

102 Approximately nine percent and 19 percent respectively of The Gambia's territory constitutes forest and wooded land, the latter being the main source of domestic energy requirements. This sub-sector accounts for just 0.5 percent of GDP[37/]. It is estimated that six percent of the labour force is involved in forestry activities. Forest production is dominated by round wood and wood fuel. In 2001, The Gambia exported about US$0.25 million of forest products, mainly sawn-wood and wood-based panels. The objective of the ten-year Forest Policy approved in 1995

37/ According to the authorities, this probably underestimates the true contribution of the sub sector, as a substantial informal rural and cross-border trade in forest products is not included.

was to increase the extent of forest cover to 30 percent in order to fight desertification.

103 The private exploitation of forest resources requires a licence or timber permit issued by the Department of Forestry in accordance with the Forest Regulations of 1978, as amended in 1996. Licences and timber permits are specific to the type of activity envisioned and the resources to be exploited.

104 The average applied tariff on forestry and logging is 12.4 percent. The tariff displays positive escalation in the wood and wood products industry. The Forestry Regulations of 1978 require that a valid transit pass be obtained prior to the transport of imported forest produce in The Gambia. Exports of forest produce require the written permission of the Secretary of State for Natural Resources.

Mining and Quarrying

105 The contribution of mining and quarrying activities to the GDP and exports is marginal but it is believed that there is potential for development. Offshore exploration for hydrocarbons has commenced. Fusion Oil and Gas Plc signed a six-year petroleum production licence in 1999 for a 5,000 square kilometre offshore tract, allowing the company to undertake exploration and to drill two wells[38/].

106 The mining and quarrying sector is the least protected, with a simple average applied tariff rate of 7.6 percent. Incentives for investment in this sector are provided through sector-specific legislation rather than through the Investment Code.

Energy

Electricity

107 *Level of electricity production and consumption* is detailed for 1997-1999 in Table 4.8 below. The generation and distribution of energy is under the monopoly of the National Water and Electricity Company (NAWEC) in which the Government has a 54 percent stake. Electricity generation is by thermal power using petroleum with the total generation capacity being 20MW. Roughly 30 percent of the total production of 1.3 million kilowatt hours is consumed by residential customers, whereas businesses account for about 28 percent. Production losses and powerhouse consumption exceed a third of total output indicating a huge inefficiency in power generation. In fact, the erratic and unreliable nature of the power supply, stemming from low production capacity and inefficiency, is widely mentioned as the most critical supply-side constraints affecting the economy.

Table 4.8: Electricity Production and Consumption, 1997-99 (in ’000 Kwh)

	1996-97	1998	1999
Total Production	96,361	122,187	126,196
Residential consumption	25,053	37,462	
Business consumption	25,496	33,405	
Other consumption	3,599	7,736	
Losses	39,483	43,584	

Source: NAWEC

38/ See online information, at: www.mbendi.co.za; and Szczesniak (2000).

108 The supply problem is further aggravated by NAWEC's pricing structure, under which consumption by hotels and industries is 22 percent more expensive than residential consumption[39/]. Imports of electricity are duty free though The Gambia at present does not import any electricity.

109 NAWEC is listed as a "Track I" public enterprise. This category includes the public enterprises that are of key importance to the economy and require legislative reform prior to their divestiture. In 2000, annual losses were in excess of D50 million and close to D20 million in 2001 and 2002. This was partly due to the rising cost of electricity generation owing to increasing oil prices that were not fully accommodated by a change in the retail cost of electricity, but also as a result of inefficiencies. The Government's medium-term strategy for NAWEC is to un-bundle the various services provided and to restructure the company. Various restructuring options based on financial modelling and a twenty-year infrastructure development plan have been formulated but no concrete steps have been taken to date to reform the operations of NAWEC.

Petroleum Products

110 The Gambia imports all of its petroleum and gas requirements. The value of imported petroleum products averages just over 12 percent of its total imports[40/]. Domestic consumption is estimated at between 50,000 to 80,000 tonnes. Data for 1997 indicate that gasoline and kerosene accounted for nearly 50 percent of domestic consumption of petroleum products, with other distillates accounting for nearly all of the remainder.

111 Distribution and marketing of petroleum products are carried out by private companies, which must apply to the Government for a licence. Oil prices are set by the Government with emphasis on keeping pump prices stable. Since 1998, pump prices have changed on only four occasions. In 2001, The Gambia concluded a one-off bilateral oil-purchase agreement with Libya under which the Government procured oil and sold it to local oil companies for distribution. The price paid by the oil companies was set in Dalasis while the Government paid in US$. Approximately D320 million of petrol was procured in this manner but the agreement was not renewed.

112 Customs duties on petroleum products are specific: D2.35 per litre for gas oil, and D4.101 per litre for petrol. NAWEC benefits from a reduction of 80 percent on the standard customs duty applicable to petroleum products. Import duties on oil accounts for over 50 percent of total import duty collected since 1997.

Manufacturing

Composition and Size

113 The structure of the manufacturing sector in The Gambia reflects the Government’s open, trade-oriented development strategy. Limited reliance on tariff and quota protection to develop import-substituting industrial production (except for soap and plastics) has resulted in a narrow “modern” manufacturing sub-sector.

39/ Central Bank of The Gambia (2000).
40/ That is, excluding imports intended for re-export.

Outside of groundnuts and some fish processing for export, the sector consists mainly of simple food processing activities (including soft drinks bottling, beer, bakeries and fish preserving), basic chemicals (soap, plastics, animal feed and paint mixing), printing, and building materials production (such as bricks and cement blocks). The scale of activity is in all cases quite small and aimed almost exclusively at the domestic market. Production technologies are basic and labour-intensive. Up-to-date data on the number of "modern" manufacturing establishments - defined as employing more than five persons - are not available, but most of them are located in the Greater Banjul area and are estimated to account for between 40 and 50 per cent of overall manufacturing production.

114 The artisanal sub-sector, on the other hand, comprises a large number of small enterprises - employing fewer than five persons – and are scattered all over the country. The most important form of artisanal production is tailoring and batik making, followed by welding and blacksmithing, wood carving and furniture production, shoemaking, and gold and silversmithing. This sub-sector contributes between 50 and 60 per cent of overall production.

115 In contrast to the apparent steady growth of artisanal manufacturing, the growth of "modern" manufacturing has been erratic, primarily due to large fluctuations in value-added in groundnut processing, which historically has represented over 40 per cent of modern manufacturing output. Manufacturing production was boosted in 2002 by the entry of a large company into the groundnut processing sector. By providing facilities to produce groundnut cake and oil, the company has raised significantly the value added of groundnut-related exports. However, in 2003 manufacturing production is estimated to have decreased slightly to three percent from four percent in the previous year.

116 Exports of products manufactured in The Gambia are negligible. Apart from groundnut and fish-related activities, manufacturing is essentially oriented towards the domestic market. The contrast between the poor performance of the Gambian manufacturing sector in terms of exports and the role of the country as a warehouse for the sub-region sharply illustrates the lack of competitiveness of locally produced goods. Some sub-sectors that could have been viable sources of exports have not lived up to their potential. A case in point is with cotton products.

117 The current mixed pattern of tariff escalation creates an anti-export bias in certain industries. For instance, this feature may arise in food and soap manufacturing which is protected on infant industry grounds. The recent creation of an export-oriented free zone may in part help to correct this distortion, but is not in itself a substitute for across-the-board tariff reform.

Potential and Competitiveness

118 There are good prospects for resource-based processing for export, the expansion of food processing and building materials for the domestic market, and manufacturing activities linked to the tourist industry. Resource-based manufactured production can be successfully exported to the European market, as is the case with processed hides and skins and high-value frozen or processed fish. With the right incentives, this could be expected of horticultural processing and confectionary groundnuts.

119 For The Gambia to make use of current preferential market access schemes such as the EBA or AGOA, the anti-export bias of the tariff regime needs to be corrected and supply-side constraints addressed. While The Gambia's average labour costs are comparatively low, its literacy rates and skills levels – generally used as a proxy for labour productivity – are a major impediment to private investment. Similarly, the exorbitant energy costs, the frequency of load shedding and the high level of interest rates need to be addressed to make manufacturing in The Gambia competitive.

Services

120 Services constitute the largest sector of the economy accounting for around 65 percent of The Gambia's GDP. The sector is dominated by distribution services, closely linked to the re-export trade and also incorporates a vibrant informal sub-sector. The service sector employs about 25 percent of the Gambian labour force, of which six percent are Government employees. The tourism sub-sector is The Gambia's single largest gross foreign exchange earner.

121 The Gambia has made commitments for liberalisation of 12 service sub-sectors under the GATS, one of the highest levels of commitment amongst LDCs. However, the regulatory framework in some of these sub-sectors needs to be brought up-to-date to ensure compatibility with these commitments. The most important sub-sectors under services are tourism, financial services, and telecommunications and postal services.

Tourism

122 Tourism in The Gambia started nearly forty years ago with the arrival of a few hundred Scandinavians. Since then the industry has grown rapidly with over 90,000 visitors arriving in the country in 2003. Visitors to The Gambia by nationality over 1996-2003 are detailed in Table 4.9 below.

123 Tourism plays a vital role in the Gambian economy, contributing between 12 percent and 18 percent of the country's GDP, and providing direct employment for about 15,000 Gambians and indirect employment for another 100,000 people. According to The Gambia Tourism Authority (GTA) the industry generates US$3.6 to US$5.4 million annually. Tourism provides many benefits to the local catering industry and to other services operating in the urban informal sector such as restaurants, bars and craft markets. It is estimated that the average tourist spends approximately US$20 a day and the average length of their stay is two weeks.

124 The quality of the country's hotel bed stock, which stands at about 6,000, is largely sub-standard. An unreliable electricity supply and excessive bureaucracy have been identified as constraints to the development of this sub-sector.

125 The projected growth rate for the tourism industry is 10 percent per annum and according to The GTA a bumper season is expected in 2005 with projected arrivals of approximately 120,000. It is envisaged that an all year round tourist season will commence in 2004-05 with the further development of the tourism products.

Table 4.9: Visitors to The Gambia by Nationality, 1996-2003

Nationality	Year							
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003****
British	37,295	38,378	37,437	40,588	37,594	34,399	48,894	40,872
Swedish	6,317	5,478	5,574	5,556	4,997	4,043	5,594	4,205
Danish	2,445	2,237	2,836	2,956	3,597	1,605	2,260	2,616
Finnish	365	231	358	573	550	404	564	630
Norwegian	578	554	526	612	654	542	711	999
French	422	283	676	555	612	481	645	653
German	4,692	18,460	22,189	25,393	12,156	3,065	3,707	4,253
American	397	408	597	749	732	661	866	445
Italian	277	127	103	184	217	157	210	200
Belgian	6,366	3,795	3,703	3,984	4,392	3,264	4,268	1,707
Austrian	219	863	1,819	1,356	506	166	257	153
Swiss	167	154	366	247	250	154	190	705
Canadian	131	167	182	186	178	160	209	198
Holland/Dutch	13,207	10,365	10,762	9,625	9,668	6,592	10,419	7,262
Spanish	376	876	646	181	143	99	141	251
*Czech Rep.	-	-	-	-	-	-	-	19
*Polish	-	-	-	-	-	-	-	39
Gambian	306	839	555	228	138	14	19	4,542
Other-Africans	319	549	986	928	666	394	707	-
Others Nationals	2,485	1,287	1,788	2,221	1,660	1,030	1,344	3,736
Total	**76,814**	**84,751**	**91,106**	**96,122**	**78,710**	**57,231**	**81,005**	**73,485**

Source: GTA. Notes: * were included in the other national until 2003; 2003** is provisional.

126 In spite of the tremendous growth potential of Gambian tourism, its development is faced with several major constraints, as detailed below.

- The promotion of close linkages with local suppliers (that is, horticulture, transport and laundry services, etc.) has not been sufficiently developed.
- Most tourists are totally dependent on foreign tour operators for the provision of services during their stay in The Gambia at the exclusion of local suppliers.
- The taxes and fees generated from the sector are paid directly to the central treasury and local authorities. Only D6 million is annually transferred as a subvention to the GTA, supplemented by D2.5 million generated by the Authority itself.
- The development of tourism in The Gambia has been done on an ad-hoc basis without much attention being focused on environmental and spatial planning. Public health hazards and environmental degradation has occurred as a result of unplanned accommodation and services development.

127 A Tourism Development Master Plan funded by the African Development Bank is currently being prepared. Its completion, which is expected by December 2004, should help address the constraints and challenges faced by the sector through the proposition of policies and strategies for the sustainable development of tourism in The Gambia.

Financial Services

128 Under the terms of an Act of 2003, the Central Bank is mandated to: supervise the banking sub-sector; conduct monetary policy; and promote a sound financial structure and credit exchange conditions conducive to the orderly and balanced economic development of the country.

129 Although the aggregate profits of the banking sub-sector have been steadily increasing since 1997, growth in private sector credit as a proportion of GDP has been sluggish. Facilities provided by commercial banks in The Gambia are generally on a short-term basis and concentrated in the trade sub-sector. Banking transaction costs are very high, which consequently result in prohibitive lending rates of nearly 35 percent. Accordingly, many businessmen prefer to access credit from abroad.

130 As a result of commitments under the GATS, The Gambia has considerably liberalised the Insurance Industry, and has undertaken not to maintain any restrictions on market access. As such the insurance sub-sector comprises 11 companies all of which are privately owned with total combined assets estimated at D73.5 million in 2001. Regulation of the Insurance Industry is the responsibility of the Central Bank and the criteria employed are similar to those applied to banks and other financial institutions.

Telecommunications and Postal Services

131 The Gambia Telecommunications Corporation (GAMTEL) is responsible for maintenance and expansion of the telephone network system and the development of wireless telephone technology. The Corporation's development projects are mainly funded by development partners and Government. In 2002, for example, France provided a grant of US$15 million, which was invested in increasing fixed line telephones and related facilities. The Corporation is presently relatively profitable. In 2002 GAMTEL recorded profits of D70 million, most of which generated from International calls.

132 The cellular telephone was liberalised in 2001 and currently there are two service providers, GAMCEL - which is a subsidiary of GAMTEL - and AFRICELL, which is owned by private shareholders including Gambian investors. In 2002 GAMTEL invested D71 Million in GAMCEL as part of a network expansion project.

133 The development of modern and reliable telecommunications services and facilities, particularly internet and e-mail facilities, is vital for regional and inter-regional trade promotion. At present, telecommunication services in The Gambia are relatively efficient and competitive, when compared to those prevalent in the sub-region. However, to enhance the competitiveness of the sub-sector as would be required by the EPA, the constraints faced by GAMTEL in terms of limited managerial and technical capacities must be addressed.

Trade Volumes

134 Alongside the outward looking, low protection policies adopted by the Government (see Table 4.10) the continued growth in trading activities in The Gambia in recent years has been due largely to the normal functioning of social life and stable political conditions. A relatively well-functioning external communications

system, transport (including a competitive port facility) and marketing organisations have also served to support the development of the trade sector in country. The Gambia is characterised by a large import and export trade, the sum of which is disproportionately high when compared to the neighbouring countries[41/].

Table 4.10: Average Tariff Protection (Import Duties) in Selected Neighbouring Countries, 1996 and 2002

	The Gambia	Guinea-Bissau	Guinea - Conakry	Mali	Senegal
2002	11.8	12.0[1/]	12.0[1/]	12.0[1/]	12.0[1/]
1996	16.5	27.6	33.0	16.7	20.0

Notes: [1/] This simple average does not include a number of import surcharges permitted within the WAEMU framework, which typically raise the average duties to about 14.5 per cent.

Source: The Gambia: Selected Issues and Statistical Appendix, IMF 2004.

135 The figures in Table 4.11 show that the level of international trade in The Gambia is one-and-a-half times that of any of the other four countries in the sub-region. This is due to the fact that a substantial portion of the international trade in The Gambia represents commodities that are imported from overseas for re-export to the neighbouring countries. Most of the cross-border transactions are however un-recorded, and thus the level of international trade may exceed the figures indicated in Table 4.11.

136 The general pattern of Gambian trade has consisted of an inflow of foodstuffs, such as sugar, rice, flour and vegetable oils; industrial raw materials, mainly fuels and cement; and manufactured goods, such as machinery, textiles and chemicals. The return flow consists of primary (and semi-processed products), such as groundnut products, fish and fish preparations, cotton and horticultural products (see Tables 4.12 and 4.13). Included in the outflow are substantial quantities of re-exports, mainly foodstuffs (rice, sugar, flour and tomato paste), tea (mainly China green tea) and textiles[42/].

137 The figures in Table 4.12 indicate rising volumes of imports over the period under review, except for the reported sharp drop in 2001[43/]. Computed in US$ terms, however, imports have actually contracted over the period, from a high of about US$192.7 million in 1999 to US$133.5 in 2001, although it has gradually increased in the two subsequent years, to about US$163.5 in 2003. This decline is largely explained by two factors: the depreciation of the Dalasi (from an exchange rate of 11.4 D/$ in 1999, to 26.5 D/$ in 2003; and the adverse impact of measures adopted by Senegal (reduction in tariff rates and impediments at the border crossings) both of which have affected the re-export trade, and the imports (for re-export) in turn.

41/ This is even more striking when compared to Guinea-Bissau, whose characteristics in terms of the size of the country, its limited resources, small population and standard of living is almost the same as The Gambia's.

42/ Only a total of D30, 892,000 has been included in the figure for the year 2003. This is very well short of the estimated minimum of 35 percent of imports, equivalent to D572, 886,000.

43/ The IMF reckons that the recorded sharp drop in imports in 2001 may be the result of deficiencies in recording proceedings at the Customs Department, rather than a proportionate drop in domestic absorption (IMF 2004).

Table 4.11: International Trade as a Proportion of GDP for The Gambia and Selected Neighbouring Countries, 2002 and 2003

Country/Indicators	(Figures in Millions of US Dollars)	
	2002	2003
The Gambia		
Value of international trade	379	390
Gross Domestic Product (GDP)	379	390
Value International trade / GDP (%)	102	100
Population (in millions)		1.4
Guinea-Conakry		
Value of International Trade	1,305	1,303
Gross Domestic Product (GDP)	3,200	3,600
Value International trade / GDP (%)	41	36
Population (in millions)		7.9
Guinea-Bissau		
Value of international trade	154	153
Gross Domestic Product (GDP)	200	240
Value International trade / GDP (%)	77	64
Population (in millions)		1.5
Mali		
Value of International Trade	1,427	1,392
Gross Domestic Product (GDP)	3,300	4,300
Value of International trade / GDP (%)	43	32
Population (in millions)		11.7
Senegal		
Value of International Trade	2,841	3,579
Gross Domestic Product (GDP)	5,000	6,500
Value of International trade / GDP (%)	57	55
Population (in millions)		10.0

Notes: Figures for The Gambia may differ from those in other areas of the report.

Source: The World Bank Group, Country Statistics.

Table 4.12: The Gambia – Summary of Imports by HS Code, 1999 and 2003

HS CODE	Sector/Commodity Description	(Figures in Dalasi '000)			
		1999		2003	
		Value	%	Value	%
	Agricultural Products, Total	**803,163**	**37.1**	**1,636,818**	**37.8**
1701, 1702	• Cane or beet sugar, sucrose	193,908	8.9	487,729	11.3
1006	• Rice	191,656	8.8	277,333	6.4
1515	• Other fixed veg. fats and oils etc	53,948	2.5	148,010	3.4
2402	• Cigars, cigarillos and cigarettes	55,607	2.6	139,891	3.2
1101, 1102	• Wheat or meslin flour, cereal flour	68,230	3.1	148,066	3.4
0401, 0402	• Milk & cream, not concentrated	57,942	2.7	81,829	1.9
2103	• Sauces and preparations thereof	13,200	0.6	37,923	0.9
2106	• Other food preparations	10,133	0.5	34,918	0.8
2002	• Tomatoes prepared	20,699	1.0	34,917	0.8
0902	• Tea	11,921	0.6	31,746	0.7
	• All others[1/]	125,919	5.8	214,456	4.9
	Raw materials, Total	**181,658**	**8.4**	**692,487**	**16.0**
2710	• Petroleum oils and others	104,400	4.8	443,393	10.2
2523	• Portland, aluminous or slag cement	56,326	2.6	224,210	5.2
	• All others[1/]	20,933	1.0	24,884	0.6

HS CODE	Sector/Commodity Description	(Figures in Dalasi '000)			
		1999		2003	
		Value	%	Value	%
	Manufactured goods, Total	**1,182,310**	**54.6**	**2,004,925**	**46.3**
8703	• Motor cars, vehicles, for …people	201,949	9.3	245,166	5.7
8517	• Electrical apparatus for line telephony	23,971	1.1	93,873	2.2
3004, 3002	• Medicaments, blood	40,340	1.9	115,048	2.7
6309	• Worn clothing, other worn articles	10,676	0.5	82,947	1.9
5208, 5209	• Woven fabrics of cotton	98,722	4.6	115,681	2.7
6402	• Other footwear, upper soles	41,861	1.9	53,490	1.2
4901	• Printed books, brochures, etc.	8,826	0.4	46,072	1.1
5408	• Woven fabrics of artificial filament	13,585	0.6	42,519	1.0
9018	• Instruments used in medical science	4,788	0.2	40,199	0.9
9403	• Other furniture and parts thereof	13,722	0.6	34,033	0.8
8506	• Primary cells and primary batteries	28,349	1.3	31,742	0.7
6908	• Glazed ceramic flags and paving	5,149	0.2	27,171	0.6
3406	• Candles, tapers and the like	39,083	1.8	25,987	0.6
3808	• Insecticides, rodenticides, fungicides	10,693	0.5	25,987	0.6
	• All others[1/]	640,596	29.6	1,025,010	23.6
	TOTAL	**2,167,131**	**100.0**	**4,334,230**	**100.0**
	Average Exchange Rate, D/US$ [2/]	11.37		26.50	
	Total Imports in US$	**192,658**		**163,548**	

Notes: [1/] - Commodities with values <D25,000 in year 2003; [2/] Figures from Central Bank of The Gambia.

Source: Consultant's calculations based on trade data produced by custom department.

138 The figures for exports have fluctuated widely over the period, largely on account of the changing fortunes in the groundnut industry (see Table 4.13). A good harvest in 2001 resulted in a big rise in exports of groundnut products in 2002, followed by a sharp decline in 2003 resulting from the poor harvest in 2002. Exports are also affected by the perceived reduction in re-export activities, but as noted earlier in the report, these are largely unrecorded[44/].

Table 4.13: The Gambia - Exports by HS Code, 1999 and 2003

HS CODE	Sector/Commodity Description	(Figures in D' 000)			
		1999		2003	
		Value	%	Value	%
0001-2490	**Agricultural products, Total**	**120,457**	**86.0**	**92,653**	**69.0**
1508	• Ground-nut oil and its fractions	0	0.0	23,568	17.5
0710, 0709	• Vegetables	11,086	7.9	18,285	13.6
1202	• Ground-nuts	49,043	35.0	9,643	7.2
1404	• Other Vegetable products	2,070	1.5	6,686	5.0
0303, 0305	• Fish	14,115	10.1	6,480	4.8
0306, 0307	• Crustaceans, Molluscs	18,669	13.3	5,369	4.0
2402	• Cigars, cheroots, and cigarettes	3,374	2.4	13,327	9.9
1512	• Sunflower-seed, cotton-seed oil etc		0.0	1,270	0.9
	• Others[1]	22,090	15.8	8,025	6.0

44/ We note that both the imports from and exports to Senegal are largely un-recorded; the data is difficult to capture because of the informal nature of the transactions, and the fact that the border is porous.

HS CODE	Sector/Commodity Description	(Figures in D' 000)			
		1999		2003	
		Value	%	Value	%
2500-2790	**Raw materials, Total**	**966**	**0.7**	**1,119**	**0.8**
2800-9790	**Manufactured Goods, Total**	**18,565**	**13.3**	**40,524**	**30.2**
8905	• Light-vessels, dredgers, etc	0	0.0	7,388	5.5
5208, 5209	• Woven fabrics of cotton, …	35	…	8,789	6.5
8703	• Motor cars, vehicles, for … people	6,289	4.5	6,208	4.6
4101	• Raw hides and skins of bovine	880	0.6	1,567	1.2
6309	• Worn clothing and other worn articles		…	1,506	1.1
8701	• Tractors	0	….	1,288	1.0
	• Others[1]	11,361	8.1	13,778	10.3
	Total	**139,988**	**100.0**	**134,296**	**100.0**
	• Domestic Exports	118,620	84.7	103,404	77.0
	• Re-exports	21,368	15.3	30,892	23.0

Note: 1 - All others with value < 1,000 in the year 2003.

Source: Derived from data collected from The Gambian Authorities.

Direction of Trade

139 The general direction of Gambian trade has consisted of an inflow and outflow of goods mainly from Europe, but also from Asia and Africa. As mentioned earlier in the report, a substantial amount of imported goods are re-exported to neighbouring countries. As illustrated in Table 4.14, and Figure 4.1, imports from the EU-15 are substantial, and its proportion of the total has grown steadily from 48 percent in 1999 to 65 per cent in 2003. Table 4.14 also shows that imports from Asia (mainly China but also Japan) are second largest; imports from North America are mainly from the US, and those from the "Rest of the World" are mainly from Brazil (sugar). Imports from ECOWAS countries, although only third or fourth largest, are understated because a substantial proportion of the trade flows with Senegal is not recorded.

140 As with imports, exports to the EU-15 countries dominate trade flows in The Gambia. Over the period, it has fluctuated between D 66,538,000 equivalent to 32.3 percent of the total (2000) to D 299,684,000, 88.0 percent (2003), largely due to the fluctuations in the export of groundnut products from The Gambia to Europe. Here again, figures for re-exports to the neighbouring countries are absent from the data.

A Note on Trade Data Deficiencies

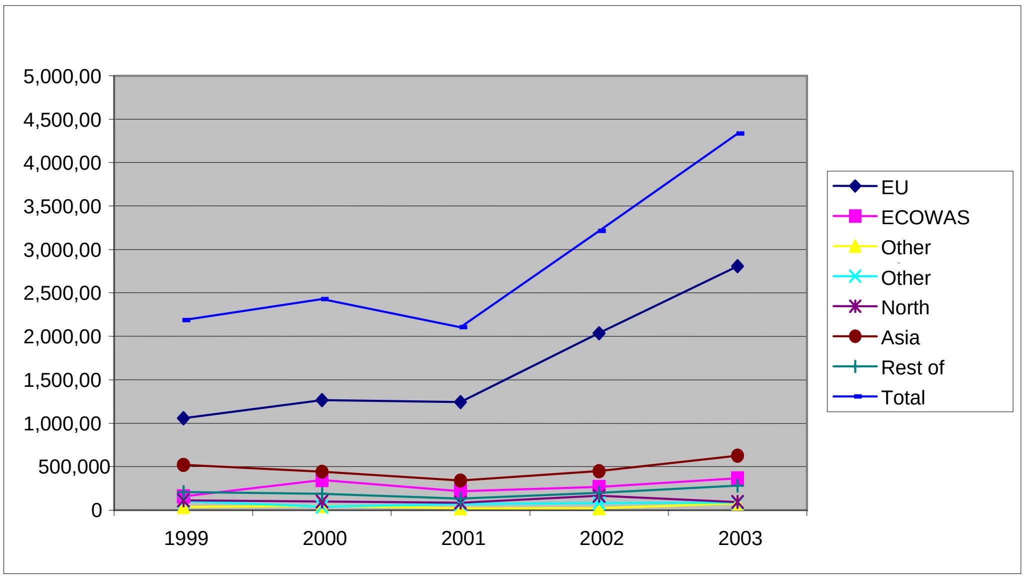
141 Data collected for this study come from figures extracted from The Gambia Customs' database. The IMF and the World Bank have noted deficiencies in these data over the years. We compared the data compiled from the Customs' data base with those extracted from the EU Trade Statistics data base and found that for the selected year, 2003, our figures for imports and exports were only 80 percent and 35 percent of the respective totals captured by the EU[45/] (see Table 4.16 for a summary).

45/ For the impact assessment we have maintained our figures as this represents the "reality on the ground".

Table 4.14: The Gambia - Imports by Region, 1999-2003 (Figures in Dalasi '000)

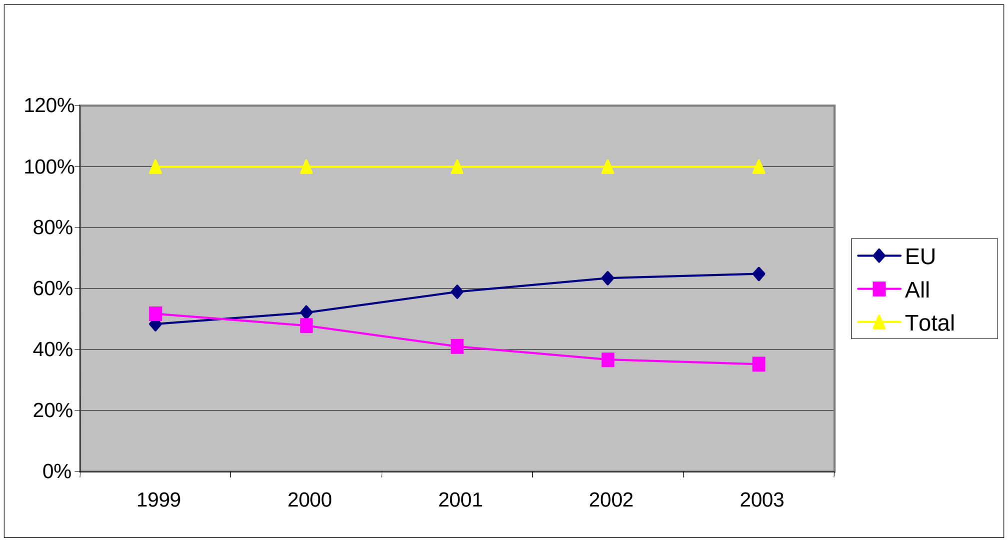
Region	Year				
	1999	2000	2001	2002	2003
EU-15	1,057,652	1,266,736	1,242,155	2,036,769	2,807,803
ECOWAS	157,059	345,691	218,190	268,377	364,294
Other African	35,009	46,742	20,986	20,620	77,003
Other European	101,065	40,689	68,683	78,409	84,168
North America	110,417	99,288	86,334	165,875	93,469
Asia	519,418	441,635	340,252	447,959	625,528
Rest of World	209,255	187,814	130,289	196,546	281,770
Total	2,189,875	2,428,595	2,106,889	3,214,555	4,334,035
Av. Exchange. Rates	11.37	12.92	15.78	20.08	26.50
Total (US$ '000)	192,658	188,020	133,488	160,061	163,549

Figure 4.1 Imports to The Gambia by Region, 1999-2003 (in GMD)



Source: Table 4.14

Figure 4.2: Proportion of Imports from EU versus All Others, 1999-2003



Source: Table 4.14

Table 4.15: The Gambia – Exports by Region, 1999-2003(figures in D '000)

Region	Year				
	1999	2000	2001	2002	2003
EU	55,299	66,538	85,103	299,684	91,025
ECOWAS	74,909	108,950	9,016	15,798	13,194
Other African	2,195	22,563	1,566	5,310	1,079
Other European	907	156	1,052	179	703
USA	2,286	3,873	687	12,312	1,274
Asia	1,116	3,345	2,334	7,095	27,767
Rest of World	3,281	694	97	21	1,388
Total	139,993	206,119	99,855	340,399	136,430

Note: [1/] Excluding informal re-exports to neighbouring countries, the figures for which are not available.

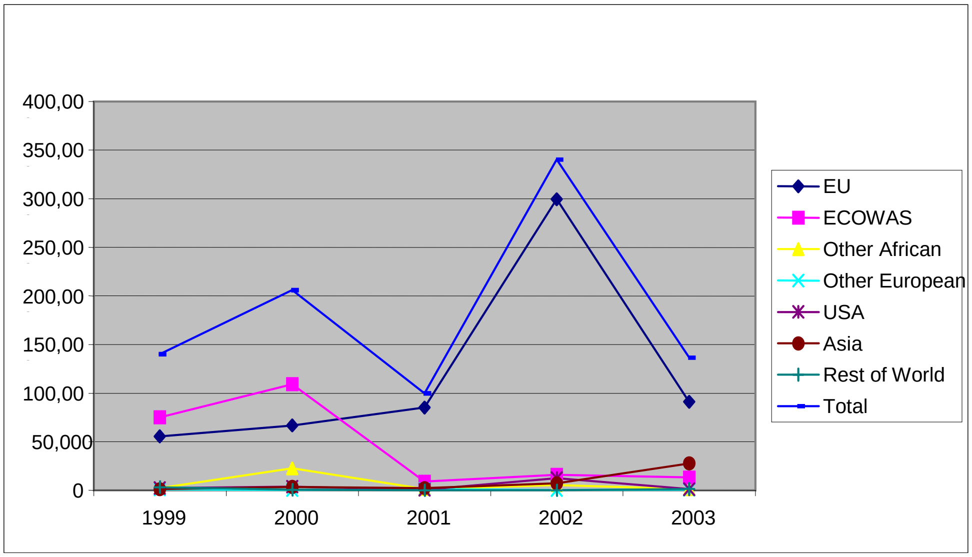
Source: Compiled from data provided by the Gambian Authorities.

Table 4.16: Comparison of Data Extracted and Compiled From the EU Data Base and The Gambia Customs Database, for 2003

Source	(in D'000)	
	Imports	Exports
The Gambia Customs	2,807,148	91,025
EU Trade Statistics	3,436,385	252,679

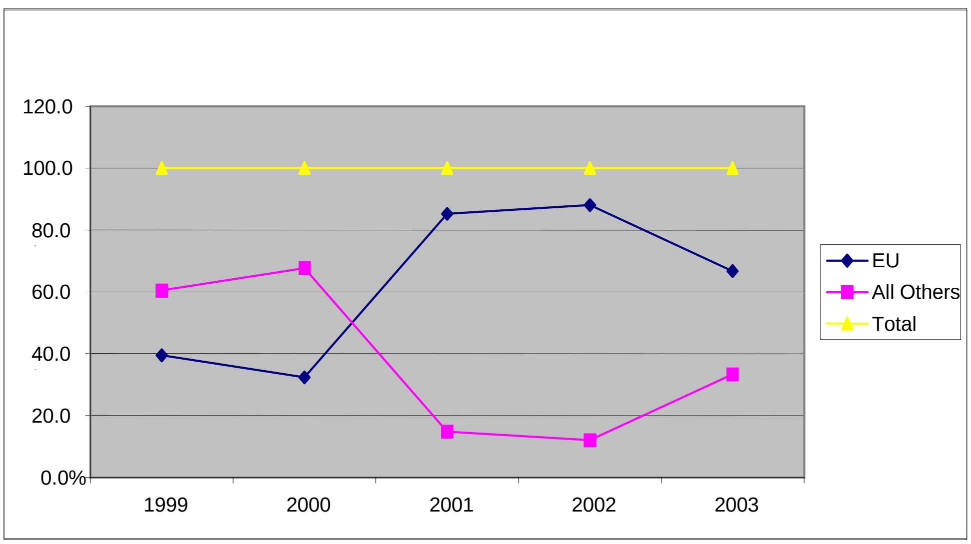
Note: The EU figures were converted from Euro to D using the average exchange rate of the D/Euro for the year.

Figure 4.3 Exports from the Gambia by Region, 1999-2003 (GMD '000)



Source: Table 4.6

Figure 4.4: Proportion of Exports, EU vs. Rest of the World, 1999-2003



Source: Table 4.6

5 The Evolving EU Policies and Context

142 As The Gambia as part of ECOWAS prepares to negotiate with the EU, it is essential that information is gathered on the evolution of the EU context and policy as they relate to the EPA.

Enlargement of the EU

143 On 1 May 2004, ten new countries joined the EU, increasing the total membership to 25. These so called “accession countries” (ACs) are Cyprus, the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovakia and Slovenia. Overall, this enlargement will bring into the EU some 75 million new consumers, four million new farmers and a fast growing purchasing power, twice the pre-May 2004 level in the EU. Thus, internally it is to be expected that enlargement will have major implications for the socio-economic situation of these new member countries and the new “EU-25” as a whole. For the rest of the world, including ECOWAS, the implications of the enlargement will result from the changes in trade and investment flows, development assistance resources, migration patterns and agricultural issues.

144 According to the EC[46/], the broad effects of the EU’s enlargement are expected to be as follows: “From a trade perspective, enlargement has already taken place, in the 1990s, with liberalisation of trade stemming from the Europe Agreements” and further “patterns are largely stabilised and enlargement will not disrupt trade with third parties”. The EC estimates that the enlargement will result in a decrease in average tariffs in the ACs from nine percent to four percent. Impact assessments undertaken by the United States Department of Agriculture (USDA) do indicate that in addition to this, in the agricultural sector, the eastward expansion of the EU will result in duty increases in some countries and in specific sectors - mainly those concerning beef, poultry meat, barley, rice, margarine, sugar, apple juice and palm oil.

145 However, the aforementioned rise in duties will not affect the majority of the ACP countries, and in particular, not ones such as the Gambia, who have preferential access to the EU under the EBA initiative. In terms of enhancing specific export opportunities, the accession will result in a reduction of tariffs for products such as tobacco, groundnuts, grape fruit juice, dried fruits and dry beans. For the LDCs, the direct implications will be in terms of erosion of their duty free preferences. In any event, for these poorer countries the recurring issues in improving market opportunities have more to do with meeting European food safety standards rather than duties per se.

146 The EU-15 has about 130 million hectares under agriculture, which employs four percent of the labour force. In the ten ACs with about a third of the EU-15’s agriculture acreage, farmers form more than 13 percent of the labour force. From 1

46/ EC Memorandum (Memo/04/23-04/02/2004).

May 2004, the Common Agricultural Policy (CAP) covered products will automatically apply to the ACs. This will generate immediate benefits to their farmers whose income would increase by 30 percent in principle as a result of the higher EU market prices. However, the actual benefits will depend on the extent to which the producers in the ACs are able to comply with EU food-safety standards. Where products do not meet these standards they will not be allowed free-movement within the EU-25, but nevertheless will still enjoy access to national markets.

147 It is anticipated that the enlargement will lead to an increase in the overall surplus of cereal in the EU. For instance, this could result in a drop in the price of wheat and thus enhance the export competitiveness of European wheat-based value-added food products in the ACP countries.

148 The enlargement is not expected to affect the ACP export of rice to the EU. Of greater relevance to EU's rice market is the cereals-sector reform, which is expected to result in a 50 percent reduction of the EU intervention prices. This would translate into rice market prices falling gradually from 34 percent to 41 percent over the medium-term.

149 As far as meat is concerned, the enlargement will expand the EU's demand for imports of high quality beef cuts and exports of lower quality beef cuts. Provided that they can comply with the SPS regulations, there will be significant export opportunities for the ACP exporters of quality cuts.

150 The EU's export of bulk dairy products is likely to be sustained at a higher level than would have been the case without enlargement. The trade effects on the ACP will depend on the respective national and regional policies in respect of the trade in dairy products and dairy sector development.

151 For sugar the enlargement is expected to have only a marginal impact on import patterns. As the new EU members do not have a tradition in sugar export beyond their regional boundaries, an increase of exports to the ACP countries is not anticipated.

152 Projections for the poultry sector suggest that production will increase by some 10 percent to 11.9 tonnes in the EU-25. Consumption will expand even faster, and the marketable surplus is expected to decline from 700,000 tonnes in 2004 to 400,000 tonnes by 2010 according to the medium term prospects computed by the EC. Given the trend of growing exports of poultry meat by some of the new EU members to the EU-15 countries, it is likely that the competition in the EU-15 for poultry product is expected to be higher than it has been during the past few years.

The Common Agricultural Policy (CAP)

153 The CAP has its roots in the 1950s Western Europe, whose societies had been damaged by years of war and where agriculture had been crippled and food supplies could not be guaranteed. The early CAP reflected the need to maintain and increase food production.

154 The CAP was very successful and, indeed by the 1980s, the EU had to contend with almost permanent surpluses of the major farm commodities, some of which were exported with the help of subsidies and others which had to be stored or

disposed of within the EU. These measures did not only have a high budgetary cost but they distorted some world markets and did not always serve the best interests of farmers. Eventually they became unpopular with both consumers and taxpayers.

155 In recent years environmental objectives, landscape preservation, the viability of rural economies and their cultural heritage, food quality and animal health and welfare standards have become prominent issues. Globalisation of world trade, concern over the budgetary cost of supporting farmers and the need to accommodate new Member States signifies that the EU cannot possibly continue to subsidise production as it has previously. All of these factors have led to a shift of emphasis in the CAP.

156 The Agenda 2000 CAP is the CAP of today but the CAP of tomorrow will again be different. In June 2003 a further reform was agreed upon following an initiative to carry out a mid-term review of the application of the Agenda 2000 CAP. This reform represents a change in the way the EU supports its farm sector. The various elements of the reform will enter into force in 2004 and 2005.

157 The new CAP takes consumers' and taxpayers' concerns fully into account, while giving EU farmers the freedom to produce what the market demands. In the future, the vast majority of aid will be paid independently of the volume of production. In the past, the more farmers produced the more subsidy payments they received. Under the new system, direct income payments (based on previous production levels) will be linked to compliance with environmental, food safety and animal welfare standards.

158 The de-linking of subsidies and production is expected to make EU farmers more competitive and market-oriented since they will be able to choose what they want to produce and according to what will be most profitable for them whilst still having the necessary income stability. However, in order to ensure that land is properly managed, farmers will have to keep it in good agricultural and environmental condition, and comply with European standards in the fields of environment, food safety, and animal health and welfare.

159 The current CAP has a well-established policy targeted towards organic food and farming. Organic farming involves farmers returning to the soil the nutrients found in waste products, showing concern for animal welfare and avoiding gene mutation and the use of any synthetic pesticides, herbicides, chemical fertilisers, growth hormones or antibiotics. Organic farmers use a range of techniques that help sustain ecosystems and reduce pollution. The aim is to give guarantees to consumers about the quality and reliability of the organic produce they buy and to provide farmers and others in the food chain with the parameters within which they must work. Incentives for organic farming are granted under the EU's agro-environment scheme.

Rules of Origin

160 Rules of origin define what goods can or cannot be given duty free access under a preferential trade arrangement. The main purpose of rules of origin is to ensure that the country benefiting from preferences is the one that was intended in the trade agreement. Typically, origin rules would prevent third countries that do not

enjoy preferential access from simply routing export products through preferred trading partners. Rules of origin generally specify what proportion of the final product must have been produced in the preferred country. These local content requirements vary from sector to sector and from product to product, particularly for those considered sensitive by the parties. Rules of origin may form a barrier to trade especially when they are made too onerous and thus possibly result in the beneficiaries receiving zero actual benefit.

161 An important aspect of rules of origin is the administrative requirements it imposes on exporters. For instance, if the documentation on rules of origin is not entirely in order, the concerned consignment of exports to the EU could either be held-up or be subjected to the standard Most Favoured Nation (MFN) import duties.

162 Due to methodological difficulties, the analysis of the rules of origin and their impact on exports from preferred countries invariably involves some speculation from opposing views. A comparison between for instance The Lome/Cotonou Regime and the AGOA for LDCs clearly demonstrates that more liberal rules of origin for the latter countries have enabled exports to emerge when previously these were constrained by those contained in the GSP.

163 For instance, the EBA grants full duty, special levy and quota free access to the EU for all products “originating” in least developed countries, except arms, ammunitions and, on a transitional basis, sugar, rice and bananas (with free access for sugar, rice and bananas by 2009).

164 However, a number of reasons could be advanced for the limited impact of the EBA initiative to date, notably the:

- far stricter rules of origin under the EBA in comparison with those retained under the Cotonou Agreement;
- restrictive nature of the requirements of the EBA initiative for meeting the “sufficient processing” criteria; and
- costs and difficulties of providing the necessary paper work.

Sanitary and Phytosanitary Standards

165 Over recent years, food and feed safety has become a prominent priority of the European Union. The aim is to protect the European consumers through an integrated approach “from stable to table” or “from the farm to the fork” by increasing controls for products of plant and animal origin (that is, fruit, fish, meat, vegetables, feedstuff, etc).

166 A new regulation (COM/2003/0052) is being prepared that is scheduled for application to third countries as of January 2006. It will typically require the streamlining and reinforcing of the control systems in the countries concerned. For those who export to the EU, the new regulation proposes to require each Government to present its own national export control system for feed and food products of animal and horticultural origin. The EC would then assess the performance of the national systems, mainly through the undertaking of audits.

167 Since the national authorities of many developing countries already struggle to meet the existing EU food safety standards, the importance of these issues for trade cannot be overstated. In March 2004, the EU Health and Consumer Protection Commissioner, at the time, David Byrne, pointed out that: “Unless there is a serious effort to …strengthen the capacity of developing countries to meet the food-safety standards of the developed world, the opportunities presented by trade liberalisation in the food area may prove illusory”.

168 The practices and evidence to date indicate that there are a series of problems that stem from the SPS requirements in the EU and the developed world in general. For LDCs in particular, these regulations constitute a major challenge as they tend to:

- skew the distribution of gains from international trade,
- form onerous challenges for exporters, particularly the smaller ones, and
- change too often and rapidly.

EU Free Trade Agreement[47/]

169 In recent years, the EU has concluded a total of ten free trade agreements (FTAs) with developing countries. The review of these FTAs provides an insight into the evolution of the EU trade agreements and the approaches adopted by the EU in negotiating these agreements. Such a review could therefore be of peculiar interest to the future ECOWAS EPA. For the purpose of this impact assessment we have limited the review presented in this section to agriculture and a sample of those agreements.

Agriculture in EU Free Trade Agreements

170 Similar to WTO provisions, in the recent FTA concluded by the EU with developing countries, agricultural liberalisation is relatively limited when compared to that of industrial products. Typically, in agriculture, the extent of liberalisation is reduced by several exceptions. Where advanced concessions are granted, they are product and country specific. In all the agreements concluded by the EU with developing countries such as South Africa, Mexico and Chile, six instruments are used to offer trade preference to third parties beyond the WTO MFN status.

(i) ***Tariff concessions*** are in the form of either complete or partial tariff reductions. In the case of products subjected to both ad valorem and specific duties, usually a complete or partial cut is achieved by removing the ad valorem component. For the EU, the tariff cut is generally in respect of the WTO MFN rates. For the trading partners, the tariff cut refers to actually applied tariffs, which could be lower than the maximum (bound) tariffs agreed in the WTO.

(ii) ***Tarrif rate quota concessions*** for defined quantities of specific products are tailored to the individual needs of the partner countries through seasonal limitations of favoured imports. Quantities may be adjusted by a fixed annual growth rate or by a rate to be decided based on annual reviews.

47/ For a comprehensive review of EU FTAs, refer to ECDPM Inbrief 6A; September 2004.

(iii) ***Safeguard clauses*** can be common to all products or special safeguards may be determined for agriculture and applicable to both imports and exports.

(iv) ***Specific rules of origin*** for agricultural products are spelt out to ensure the exclusivity of the preference benefits to the parties to the FTAs. This calls for the definition of criteria in respect of "wholly obtained product", the "import content" rule, "originating" products, etc.

(v) ***Options for flexible adjustments*** to a partner's market access are offered by two clauses: the review clause commits the parties to consider further liberalisation in agriculture and the flexibility clause allows the parties to amend the agreement if one of them changes its domestic agricultural policies.

(vi) ***Other specifics*** summaries the topics that are not common to all agreements.

171 No domestic-support related provisions are found in the EU's agreements since these are not part of the FTAs. In the agreements, the pattern of product coverage of liberalised imports into the EU is based on and reflects the degree of EU domestic protection and the risk, or existence, of internal surpluses for specific products.

172 In general, the EU's approach to negotiation is guided by the following considerations:

- high domestic protection implies low willingness to tariff cuts as these could undermine high domestic prices;
- high domestic protection coupled with risks of internal surpluses implies additional restriction on imports; and
- existing high surpluses lead to the EU's interest in seeking to expand access to the partner's market.

173 Within the EU's strategic agricultural products the following two categories can be distinguished:

- high domestic protection for: bovine animals and beef, domestic swine, poultry, dairy, cereals, sugar, some fruits and vegetables, olive oil, citrus, fruit and grapes, flowers and rice; and
- high domestic protection coupled with high surpluses for: meat, dairy, cereals and sugar.

174 From the FTAs concluded by the EU with developing countries in recent years, it appears that national interests invariably set a limit to the extent of trade liberalisation in agriculture as important agricultural products have been excluded from free trade.

175 In so far as the EPA negotiations are concerned, their specificity comes from the fact that it is the first time that the EU will negotiate FTAs with partners who are mostly LDC, ECOWAS being a case in point.

6 Infrastructure

176 Infrastructure expansion is crucial for the exploitation of the opportunities offered by trade liberalisation schemes and for development of key sectors of the economy. Improved infrastructure enhances access to social services and markets, lowers transportation costs and facilitates trade-gateway linkages. At present, inadequate infrastructure services are a major constraint to the advancement of agro-processing industries in The Gambia. For example, the unreliable and irregular supply of energy necessitates reliance on generators that require substantial investment outlays. Power failures are not only costly to business enterprises but render the planning of production levels impossible.

Road Transportation

177 The national road condition survey undertaken in 2002 revealed that six percent of the total road network length is in excellent condition but 24 percent is in a critical state of repair and is thus highly unsuitable for passenger and cargo services. The generally limited and poor quality road network slows transport of people and goods, and therefore raises operational costs. For instance, the absence of a bridge linking the northern and southern sections of the country entails that groundnuts must be unloaded off trucks into containers for the ferry, and then re-loaded into trucks and then subsequently off-loaded for processing.

178 Table 6.1 below shows the state of the major road networks in The Gambia that play a vital role in transportation, freight and commercial services.

Table 6.1: Main Road Condition in The Gambia, October 2002

Section	Kilometre	Condition	Status	Completion Date
North Bank				
Essau-Kerewan	51	Good	Completed (including bridge across Miniminiyan Bolong)	2001
Kerewan-Farafenni	57	Bad	Funding to the tune of us$10 Million secured from Islamic Development Bank	Contract has been signed; implementation to start soon
Farafenni-Laminkoto	115	Very Bad	Contract awarded Funded by BDEA and Kuwait Fund/GOTG	2005
Georgetown – Sandu-Fatoto	120	A section regravelled in 1993 but has deteriorated through lack of maintenance	KFAED Consultants KCIC, a subsidiary of KFAED	Unknown

Section	Kilometre	Condition	Status	Completion Date
South Bank				
Serekunda - Mandinaba	24	Good	Under construction	2005
Mandinaba – Soma	141	Bad	BADEA, Kuwait, Saudi, OPEC and GOTG funds secured	
Soma - Basse	192	Paved but has acutely deteriorated	Needs reconstruction Funding being sought	Not yet started
Basse - Fatoto	38	Gravel	Feasibility design to be carried out	To start in 2005

Source: Department of State for Works.

179 The re-export trade on which the economy heavily depends demands an improved road service that can facilitate cargo transit to the West African sub-region, particularly to Guinea-Bissau, Mali, Conakry and Senegal. To alleviate restrictions caused by deteriorations of the country’s road transport network, Government has initiated several projects aimed at revitalising this sub-sector, which is critical for the continued integration of The Gambia into the regional and global economy.

180 Over the years, there has been an acute under funding of road maintenance, due mainly to the effects of competing demands from other sectors of the economy. The problem has been further exacerbated by increasing institutional constraints, such as unclear policy direction, inadequate capacity and faulty technical approach. The huge maintenance backlog and rising cost of road maintenance operations owe their origins to these problems. In order to alleviate the situation, there is an urgent need to improve road management and road maintenance funding. The private sector would thus be accorded a greater role in the implementation of road maintenance. In this way, proper maintenance standards would be achieved and enhanced through improved institutional organisation, adequate and systematic funding and human resources development. The role of Government would be restricted to policy making and regulation. In line with these developments, responsibility for road management would devolve on the newly created Gambia Roads and Technical Services Authority (GRTSA). Funding for this entity would be secured through measures outlined in the enabling Act.

Maritime Transportation

181 The port of Banjul handles 90 percent of the country’s traded commodities and one milliontonnes of cargo annually. Table 6.2 provides cargo volume handled between 2001 and 2003, and the forecast for the period 2005 to 2020.

182 The cargo clearance and delivery period can be as low as 24 hours at the Port of Banjul, as compared to five to seven days in most other regional ports. In addition, cargo wharfage charges per container are much lower in the Port of Banjul than in Dakar, Abidjan or Conakry. Table VI-3 illustrates comparative costs of a 20 foot import container loaded with 10tonnes of high value electronic goods in the four ports. This table clearly shows that in the case of high value goods, tariffs applied in Banjul are much lower than those in the neighbouring ports.

Table 6.2: Traffic of Cargo Vessels at Banjul Port until 2020

Commodity/type	2001	2002	2003	2004	2005	2010	2015	2020
Rice	16	17	17	17	17	17	17	17
Sugar	14	13	13	13	13	12	15	17
Flour	15	15	16	17	18	23	29	37
Cement in bags	4	4	5	5	5	6	7	7
Sub-total bagged cargo	***49***	***49***	***51***	***52***	***53***	***58***	***68***	***78***
Cement in bulk	13	13	13	14	14	15	17	20
Petroleum products	53	54	56	57	59	67	80	98
Thereof: heavy Fuel	4	4	4	5	5	6	7	9
General & Misc. cargo	22	23	24	24	25	28	34	39
RoRo	20	20	20	21	21	24	25	28
Groundnut	13	13	13	13	13	13	13	13
Container	103	115	116	117	118	124	149	199
Total	**273**	**287**	**293**	**298**	**303**	**329**	**386**	**475**

Source: Feasibility Study and Master plan – Port of Banjul 2002.

Table 6.3: Comparative cost of a 20 Foot Imported Container

Dakar	EUR 24.85 per ton *10tonnes of cargo = EUR248.50
Conakry	EUR12.80 per ton *10tonnes of cargo -= EUR128.00
Abidjan	EUR 21.50 per ton * 10tonnes of cargo = EUR 215.00
Banjul	EUR 1.04 per ton *23tonnes per contr. = EUR 23.92[a)]

Source: Feasibility Study and Master Plan – Port of Banjul, 2002.

183 There are some disadvantages however, that the Banjul Port faces compared to its neighbouring container ports. An important limitation is that it has one of the shallowest draughts and lowest volumes capacity. As a result of Banjul's draft limitations as illustrated in Table 6.4 certain container vessels cannot come to The Gambia.

Table 6.4: Water Depth and Container Traffic at Main Ports of West Africa

Country	Port	Depth (m)	Container Traffic
Ivory Coast	Abidjan	12.5	487,058 (2000)
Nigeria	Apapa	10.5	293,286 (2000)
Ghana	Tema	11.5	176,360 (2000)
Senegal	Dakar	10.0	170,377 (2000)
Cameroon	Doula	11.5	127,000 (2000)
Benin	Cotonou	11.0	58,882 (1999)
Guinea	Conakry	10.5	53,106 (1999)
Togo	Lomé	12.0	36,112 (1998
Gambia	**Banjul**	**8.5**	**30,097 (2001)**
Mauritania	Nouadhibou	8.5	n.a

Source: Containerisation International, ISL.

184 Dakar has one of the largest deep-water seaports along the West African coast. It ranks fifth in Cargo volume in Africa. The Dakar Port Authority is currently implementing ambitions modernisation plans designed to make the port a primary shipping hub for West Africa, and to regain market shares lost to Abidjan and other West African ports. The Port of Abidjan is also undergoing an extension and

modernisation programme aimed at expanding its capacity to handle larger vessels, increased regional traffic and throughputs.

185 If the Port of Banjul is to remain competitive, it also has to expand and improve its facilities and operations. The Port's Master Plan envisages a major modernisation project that will include the conversion of the present navy yard into a passenger terminal, the extension of the existing jetty by 200 metres to accommodate two additional ships, the provision of a tugboat and additional shore handling equipment.

Air Transportation

186 The air traffic generated by the tourism industry is the main determinant of the capacity requirements of the Banjul International Airport (BIA). In addition to the state-owned Gambia International Airlines (GIA), eight airlines operate scheduled flights whereas 13 companies provide charter-flights. The majority of non-scheduled passengers are carried during the tourism season (November to April). Scheduled passenger movements are generally constant throughout the year. Freight traffic forms a less significant component of total traffic.

Table 6.5: Air Traffic Volumes

Passengers/Cargos	1997	1998	1999	2000	2001	2002
1) Scheduled Passenger	96, 604	95, 011	103, 803	107, 508	122, 361	108, 644
2) Non-Scheduled Passenger	178, 967	186, 135	194, 485	194, 248	160, 993	166, 761
3) Scheduled Cargo (Tons)	1, 382.9	1,382.9	1,859	1,633	1,979	1,558
4) Non-Scheduled Cargo (Tons)	1,639.6	1,673.5	1,243	678	804	802

Source: GIA

187 BIA faces many challenges that have to be effectively addressed if the competitiveness of its services is to improve. In particular, BIA handles less than 300,000 passengers annually; this will need to be doubled if the airport is to break even and the Gambia Aviation Authority (GCAA) that manages the airport is to stop accumulating losses.

7 Assessment of Likely Impact of Trade Liberalisation with the EU

The Expected Impact of the EPA on Investment Flows

188 According to the "Gambia Diagnostic Assessment of Investment Climate"[48/] of June 2004, FDI inflows nearly doubled from around US$24 million in 1998 to US$44 million equivalent to about 11 percent of GDP in 2002. In terms of distribution, the FDI appears to have targeted the financial sector, tourism and the production of groundnuts for exports. Whereas the majority of FDI used to originate in Europe, in recent years there has been some diversification of originating countries that now include Kuwait, India, Libya and Malaysia. In addition, there has been a rise in interests from within The Gambia itself.

189 Recent data produced by GIPFZA based on pipeline projects indicates that expected investment flows for 2004 could be as high as US$91m. However, a comparison of proposed capital investment to actual investment shows that less than 15 percent of intended investment has materialised over the past few years. This low level of realisation is most likely due in part to the fact that several large projects are still under appraisal. Nevertheless, there is no doubt that by addressing the specific barriers to investment identified to date, the Government could significantly improve the attractiveness of The Gambia.

190 This study has not been able to arrive at quantified findings on the likely impact of the EPA on investments in The Gambia. This is because tariff policies only play a small role in the decisions of private investors particularly the foreign ones. Tariffs are also much less important as a determinant of investment particularly for FDI than for instance tax concessions, political stability, investment subsidies, the market size and the overall cost of doing business. Clearly, the EPA by itself would not solve the problems The Gambia faces in attracting a higher level of investment than in the present scenario.

191 However, in view of The Gambia's open trading environment and improvements in external competitiveness, there are potential opportunities for diversifying the economy particularly in horticulture, fishing, upscale tourism, and so forth. This would require that infrastructure deficiencies, especially those relating to the provision of water and electricity, be addressed as a matter of urgency. Likewise, The Gambia could increase foreign and domestic investor interests in the context of the EPA by emphasising its comparative advantages, which include various financial incentives, lower wage costs (that is, lower wages not offset by lower productivity), an efficient port and the existence of a free zones which fiscal incentives regime is generous in comparison with international best practices.

192 The matrix below presents some of the recommendations and the time frame put forth by the Foreign Investment Advisory Service (FIAS) following the recent

48/ Foreign Investment Advisory Service (FIAS), IFC and World Bank.

diagnostic study of the country's investment climate. The matrix shows that irrespective of the EPA, substantial work needs to be done to streamline the process, clarify laws, render all procedures transparent, and make information easily available for potential investors.

Figure 7.1 FIAS Recommendations for The Gambia

Area	Recommendation	Lead Institution	Priority	Timeframe
1. The Tax Regime		DOSFEA: Commissioner of Taxes		
	Consolidate the various taxes currently imposed on business from different authorities.		High	Medium term
	Training courses and information on self-assessment should be provided particularly to SMEs.	Possible role for the private sector involvement in training delivery	High	Short term
	The Tax Tribunal as foreseen in the 2003 Income and Sales Tax should be implemented without delay.		High	Medium term
2. Judiciary		DOSJ: Court Administration		
	Properly staff the court to create a functioning judiciary.		High	Medium term
	Increase the capacity and quality of magistrate courts enabling them to deal with the more complex cases following the expansion of their jurisdiction		High	Medium term
3. Legal Framework	Review the legal framework and consistency among the laws and regulations.		Medium	Medium term
	Ensure the swift implementation of new laws.		High	Short term
	Update the version of the 1990 consolidated edition of the legislation of The Gambia.		High	Medium term
	Invite all relevant groups, including business associations, to comment on draft legislation before laws, regulations and orders are adopted.		High	Short term
4. Land		DOSLG&L		
	Deregulate the land market.		High	Medium term
	Begin privatisation process of state land.		High	Long term
	Review the institutional set-up and adjust it to the needs of a private land market.		Medium	Long term
	Streamline the approvals process to lease land.		High	Medium term
	Complete and update the real estate cadastre.		High	Short term

Area	Recommendation	Lead Institution	Priority	Timeframe
4. Land (cont.)	The consent to assign or mortgage should be obtained at the Department of lands level.		High	Medium term
	The leasing process should be made simpler and more centralised so that there is no longer a need for files to travel between Banjul and the parts of the country where the land to be leased is situated.		High	Medium term
5. The Role of Municipalities		DOSLG&L: Municipalities		
	Coordinate the overall tax and fee burden to businesses on the municipal and state level.		High	Short term
	Issue guidelines to harmonise taxes and fees among municipalities and to eliminate discretion.			
	Update the real cadastre to levy the property tax.		Medium	Long term
	The municipalities should charge rates as prescribed and not arbitrarily raise rates that have no basis in law.		High	Short term
6. Administrative Barriers				
6.1 Start up Procedures		Solicitor General: Registrar of Companies		
	Enable the Company and Business Registration registry to fulfil its obligations.		High	Medium to Long term
	Accelerate the computerisation programme.		High	Medium term
	Review the general business licensing procedure and fees.		High	Short term
6.2 Labour Regulations		Ministry of Labour		
	Establish the Industrial Tribunal as soon as possible.		High	Short term
	Provide information to foreign employees on requirements and eligibility criteria for work permits.		Medium	Short term
6.3 Customs Procedures		Customs Administration		
	Improve coordination between the customs administration and GIPFZA.		High	Short term
6.4 Privatisation	Expedite the privatisation process.	The Gambia Divestiture Agency	High	Short to Medium term

Source: Gambia Diagnostics Assessment of Investment Climate, FIAS, June 2004.

The Expected Impact of the EPA on the Key Agricultural Sectors

193 Given that 70 percent of the Gambian population derives its livelihood from the agriculture sector which employs more than 50 percent of the labour force, it is

important that the likely impact of the EPA on agriculture is investigated. Whereas the EPA would in principle present opportunities for the development of agro-industry activities and exports it also raises worries in so far as competition of EU products with local production is concerned. The main agricultural sub-sectors of The Gambian economy are reviewed below.

Fisheries

194 At the international level there has been little empirical analysis of the impacts of trade liberalisation through tariff reductions related to fish and fish products. This is partly due to the complex nature of the global seafood market and a lack of data. Worldwide, there is a dire deficiency of quantitative information on the impacts of trade liberalisation for developing countries in respect to fish. In the case of The Gambia, given that the exports of fish products from to the EU do not currently face any tariff barriers, the EPA scenario would not in itself imply better access for The Gambia from a tariff reduction perspective. In addition, in view of the good level of compliance recorded by The Gambia in all its export markets, for the EPA to have a positive impact on the local fish industry the aim of the authorities during the negotiations of the agreement should be to seek the removal of the subsidies afforded to its fishing fleet by the EU. There is also the option of removing foreign fleets from the exclusive economic zone of The Gambia. In the present circumstances where the local industry has limited means to capture the existing resources this would generate little gains and would not be effective anyway given the existence of the fishing agreement with Senegal. Rather, the goal of the authorities should be to seek a better access agreement while at the same time increasing the level of investment in the development of the local fishing capacity so that more volume of seafood is captured and landed leading to increased value-adding processing in The Gambia. There would be a clear gain for the country if the EPA could include direct support to the Gambian fishing industry.

195 Milazzo (1998)[49/] provides an overview of the benefits to developing nations such as The Gambia of removing subsidies. The benefits cited by Milazzo include the following.

- Subsidies that pay for access arrangements support the continued operations primarily by European distant-water fleets which operations reduce fishing opportunities available to local fishermen.
- The combination of developed countries' subsidies to their distant-water fleets and to their domestic (coastal) fleets minimises to some extent trade opportunities that should be available to developing countries.
- Fishing subsidies are highly non-transparent in the sense that more than three-quarters of these are not budgeted subsidies, and a good share of budgeted subsidies are controlled by government's agencies other than those responsible for fisheries.
- Environmentally harmful subsidies outweigh the effect of subsidies that are environmentally benign or positive. Milazzo's estimates show that possibly no more than five percent of all subsidies support conservation.

49/ "Subsidies in World Fisheries: A Re-examination" World Bank Technical Paper.

Groundnuts

196 The EU is the single largest market for groundnuts, accounting for 43 percent of total world imports. Canada is the second biggest market with nine percent of imports followed by Japan, 8.2 percent. China, is the largest groundnuts producer with 40 percent of world production in 2001 while India, the second largest world producer account for 23 percent of global production. There are three major ground nut products traded internationally namely groundnut meal, groundnut oil, and edible groundnuts which are the most traded.

197 The EU has a zero tariff for unprocessed and processed groundnuts imported from The Gambia since the latter is an LDC. However, due to the EU's stringent requirements on aflatoxin content and stricter product and quality standards the Gambian exports are sold at a discount relative to the high-quality groundnuts demanded in the EU. In addition, present day Gambian production which is of the oil type has seen its worldwide demand stagnating unlike the demand for confectionary nuts which has been rising and is expected to continue rising in the medium-term. Ndiame Diop, John Beghin and Mirwat Sewadeh have estimated that were The Gambia able to upgrade 50 percent of its exports from crushing to edible groundnuts, it would increase revenues by US$1.5 million.[50/]

198 Given that the present scenario for groundnuts exported to the EU by The Gambia is less concerned with tariff barriers than issues of quality and the type of products, from a tariff perspective, the direct impact of the EPA on the volume and value of export of groundnut would range from marginal to none. Nevertheless, while impacts for groundnut exports of trade liberalisation with the EU may be insignificant, multilateral trade liberalisation would have a significant impact on The Gambia groundnut sector.

199 Indeed, except notably in the EU and Canada, the groundnut market has historically been distorted by heavy government intervention in both industrialised and developing countries. The USA subsidises its exports when world price are low. Tariffs remain very high in India and China where the size of the market and the huge distortions in India substantially depress world prices of the three globally traded groundnut products. According to Beghin and others[51/], were these distortions to be eliminated, net buyers of these products would be worse off, but most Sub-Saharan African countries (including The Gambia) that export groundnuts would gain.

200 Several scenarios have been considered by Beghin et al in their analysis. These are:

- full multilateral trade liberalisation for groundnuts, meal, and oil, with and without elimination of the US peanut programme (FTML&US and FTML);
- multilateral trade liberalisation with and without elimination of the US peanut programme (GMTL&US and GMTL); and

50/ Global Agricultural Trade and Developing Countries, the World Bank, 2005.

51/ For a full description of the model, refer to The impact of Groundnut Trade Liberalisation: Implications for the DOHA Round" 2003.

- full trade liberalisation in the two largest and most distorted markets in India and China (CIFTL).

255 The summary results of the above five scenarios are presented in Tables 7.1 and 7.2 below. These results show that full trade liberalisation would increase world market prices by about 10 percent for groundnuts, 18 percent for groundnut meal, and 27 percent for groundnut oil. Trade in groundnuts would increase 16 percent and trade in oil and meal would more than double. For The Gambia, the welfare gain ranges from US$0.24 million to almost double that level at US$0.43 million which is obtained in the full liberalisation scenarios which encompass the value-added markets.

Table7.1: Welfare Effects of Policy Scenarios, 1999-2001 Average (US$ millions of 1995)

Country	FMTL&US	FMTL	GMTL&US	GMTL	CIFTL
Argentina	16	16	10	10	13
China	666	669	651	653	716
Gambia	**0.43**	**0.42**	**0.24**	**0.24**	**0.36**
India	213	214	197	198	229
USA	20	17	22	18	12
EU	-52	-51	-34	-34	-59
Canada	-6	-6	-5	-5	-5
Mexico	-7	-7	-6	-6	-6
Rest of World	-127	-127	-4	-5	-71
Africa 5 (Senegal, Nigeria, Malawi, South Africa, The Gambia)	67	67	39	39	35

Source: USDA

Table 7.2: Impact of Different Liberalisation Scenarios on Groundnut Trade and Prices (percent)

	FMTL&US	FMTL	GMTL&US	GMTL	CIFTL
Peanuts Trade (1,000 MT)					
Net Exporters of which:					
Argentina	7	6	22	22	-6
China	36	34	42	41	13
Gambia	**11**	**11**	**31**	**30**	**3**
India	-62	-64	-556	-557	-94
USA	22	22	20	20	14
Net Importers of which:					
EU	-3	-3	-3	-3	-2
Canada	-5	-5	-4	-4	-4
Mexico	-8	-8	-7	-7	-6
Rest of World	63	65	-47	-45	-7
Peanut price $/MT	10	10	8	8	8
Peanut Meal Trade (1,000 MT)					
Net Exporters of which					
Argentina	13	13	-6	-6	18

	FMTL&US	FMTL	GMTL&US	GMTL	CIFTL
Peanut Meal Trade (1,000 MT)					
China	741	739	-144	-146	759
Gambia	**22**	**21**	**-2**	**-2**	**22**
India	-1702	-1703	344	342	-1690
USA	484	487	-380	-376	563
Rest of World	499	499	-70	-69	385
Peanut Meal Trade (1,000 MT)					
Net Importers of which					
EU	-12	-12	1	1	-13
Meal Price 48/50 c.i.f Rotterdam $/MT	18	18	0	0	18
Peanut Oil Trade (1,000 MT)					
Net Exporters of which					
Argentina	11	11	-6	-6	16
China	3469	3459	-705	-713	3354
Gambia	**589**	**587**	**-5**	**-6**	**567**
India	-24288	-24304	4591	4558	24481
USA	288	290	-194	-192	326
Rest of World	861	864	-103	-99	665
Net Importers of which					
EU	-9	-9	0	0	-12
Peanut Oil Price c.i.f Rotterdam $/MT	27	27	0	0	26
Welfare Gains (million dollars) for:					
Argentina	16	16	16	10	13
EU	-52	-51	-34	-34	-86
China	666	669	651	653	716
Gambia	**0.43**	**0.42**	**0.24**	**0.24**	**0.36**
India	213	214	197	198	229
USA	20	17	22	18	12
Rest of World	-127	-127	-4	-5	-71
Africa 5 (Senegal, Nigeria, South Africa, Malawi, Gambia)	67	67	39	39	35

Note: Table totals are average changes for three years totaled in each column. Results are percentage changes from the baseline. Simulations were run for three years (1999-2001) and averaged.

Source: Global Agricultural Trade and Developing Countries, World Bank, 2005.

Horticulture

201 Unlike many other agriculture sectors the use of subsidies is not pervasive in the EU for horticulture which subsidies represents less than one percent of the value of total exports. In principle, exports of fruits and vegetables from The Gambia to the EU have traditionally benefited from the trade regime of the Cotonou Agreement and the more generous duty-free and quota-free EBA initiative since 2001. However, the fact that no use has been made by the horticulture sector of the EBA suggests that the challenge faced in respect of increasing export to the EU is less an issue of tariff or quota than that of supply-side constraints. This is a trend observed within the LDCs who as a group only account for one percent of the EU's imports of fruits and vegetables even with the EBA.

202 Indeed, horticulture already has a strong potential for increased exports to the EU under the present scenario. This would only be improved by the signing of an EPA between The Gambia and the EU if the agreement entails the latter granting direct support to this sector of the local economy with the aim of easing the supply-

side among which constraints discussed under section. Like the majority of LDCs, The Gambia faces enormous supply-side constraints in taking full advantage of the existing market opportunities in the EU. Critical among these is the economies of scale which can only be obtained through large volumes of freight which in turn translate into lower transportation costs. These tend to claim a larger share of final value of fresh products than for processed products.

Cereals

203 With the liberalisation of trade, this sub-sector would be most concerned with the likely increased imports of wheat and wheat products from the EU which could lead to substitution at the consumer level. The EPA scenario presents a challenge for the local production of millet, sorghum and maize which has been growing in recent years. In terms of both price and productivity, these traditional cereals are not in a position to compete with the large-scale and cheap production from the EU. As most farmers produce these cereals which are important for both rural income and food security, it would be necessary to ensure during the negotiations that the EPA does not lead to increased rural poverty and household vulnerability.

Meat

204 This sub-sector which includes beef and poultry is most likely to be affected by the risk of increased competition between local and imported products in the EPA scenario. The EU is the third largest producer and exporter of poultry in the world. EU exports of poultry are however decreasing in all markets except Sub-Saharan Africa, which now represent 25 percent of EU exports[52/]. In 2003, the EU exported 1,600 tonnes of poultry meat into The Gambia. Declining tariffs could lead to further exports of frozen chicken, which could accelerate the downfall of the local production of poultry which in The Gambia occurs at the household level and involves women.

Revenue and Other Fiscal Effects

Trade Flows, Data and Model Structure

Key Budget and Trade Flows

205 Table 7.3 presents key government revenue indicators of The Gambia and shows the importance of customs revenue for the country. The first two columns indicate the net financing requirement of the Government as the result of the significant budget deficits of 4.7 percent of GDP in 2003. If grants[53/] are excluded, the Government's ability to fund its activities from its own revenues becomes more obvious as the deficit worsens to 7.2 percent and the dependency on grants becomes more apparent.

206 The third and fourth columns of Table 7.3 illustrate the significance of customs revenue with respect to total GDP and total government revenue for The Gambia. In general, customs revenue consists of import and exports duties and other fees, taxes and surcharges related to trade. With respect to the EPA, only import tariffs vis-à-vis EU imports will be eliminated. The present analysis will

52/ Hermelin, 2004

53/ Grants are non-compulsory transfers, received by government units from other government units or international organisations (IMF 2001).

therefore only concentrate on import duties collected. Import duties as a share of GDP is 8.3 per cent in The Gambia. Import duties as a percentage of total government revenue, on the other hand, are much higher at 26.2 per cent. It is clear from these two indicators that The Gambia is highly dependent on import duties to finance public expenditures.

Table 7.3: Key Government Revenue Indicators of The Gambia, 2003

Government Deficit (-)/Surplus(+) % of GDP		Import Duties	
Including grants	Excluding grants	% of GDP	% of govt. revenue[1]
-4.7	-7.2	8.3	26.2

Note 1: Excluding grants.

Sources:IMF, National Authorities and Consultants calculations.

207 The importance of import duties becomes more apparent if the relative magnitude of imports and protection levels of The Gambia vis-à-vis imports from the EU are taken into account (Table 7.4). 64.8 percent of the country's imports are from the EU, which is equivalent to 32.0 percent of GDP.

208 The two remaining columns of Table 7.4 depict the protection levels of The Gambia vis-à-vis total imports and EU imports with respect to tariff barriers. While the import-weighted tariff rate for total imports is 8.2 percent, the same indicator for total imports from the EU is 7.7 percent, indicating moderate levels of tariff protection.

Table 7.4: Key Trade and Tariff Indicators of The Gambia, 2003

Imports from the EU		Tariff Rate	
% of GDP	% of total Imports	Total Imports %[1]	EU Imports %[1]
32.0	64.8	8.2	7.7

Note 1: Import-weighted averages.

Sources: Consultant's calculations based on trade data produced by the Customs Department.

209 Table 7.5 shows the import structure of The Gambia and the corresponding tariff rates at a slightly more disaggregated level. The vast majority of imports consist of manufactured commodities[54/] (such as machinery, electrical appliances, cars, trucks) and agricultural products (mainly sugar, rice, cooking oil and wheat flour). The relatively small share of raw materials consists primarily of petroleum products and cement. Surprisingly, The Gambia applies higher tariff rates on raw materials than on agricultural or manufactured goods.

210 A substantial proportion of the imports are from the EU, which, conversely, imports predominantly agricultural products from The Gambia (Table 7.5 and 7.6). The trade structure between the EU and The Gambia is, thus, fairly typical of trade relations between developed and developing countries. In 2003, the EU had an overall trade surplus vis-à-vis The Gambia of some D 2.7 billion.

54/ The share of manufactures in total imports from the EU in The Gambia is higher than the same indicator for total imports from the rest of the world, indicating that the country predominately imports manufactured goods from the EU.

Table 7. 5: Import Structure and Tariff Rates of The Gambia, 2003

Product Category	Total Imports		Imports from EU		Tariff Rate	
	GMD ('000)	%	GMD ('000)	%	Total Imports[1]	EU Imports[1]
Agricultural products	1,636,818	37.8	1,118,513	39.8	5.8	6.5
Raw materials	692,487	16.0	315,507	11.2	17.6	17.7
Manufactured goods	2,004,925	46.3	1,373,503	48.9	6.8	6.5
Grand Total	4,334,230	100.0	2,807,523	100.0	8.2	7.7

Note 1: Import-weighted averages.

Sources: Consultant's calculations based on trade data produced by the Customs Department.

Table 7.6: EU-The Gambia Trade Structure, 2003

Product Category	EU exports to The Gambia		EU imports from The Gambia	
	(D '000)	%	(D '000)	%
Agric products	1,118,513	39.8	70,410	78.2
Raw materials	315,507	11.2	883	1.0
Manufact goods	1,373,503	48.9	18,709	20.8
Grand Total	2,807,523	100.0	90,002	100.0

Sources: Consultant's calculations based on trade data produced by the Customs Department.

211 Rather surprisingly, German imports are greater than those from the United Kingdom, the former colonial power in The Gambia. However, together these two countries dominate total imports from the EU (Figure 7.2). Other important trading partners are France, the Benelux countries, Spain, Italy and Denmark.

212 By December 2007, when the EPA negotiations should be concluded, The Gambia will commit to eliminating tariff barriers on imports for all 25 (or possibly more) EU members. The following analysis, however, will exclusively focus on the 15 members of the EU. The ten accession countries that joined the EU in May 2004 will be excluded from the analysis. The trade and budget effects are thus likely to be larger, depending on imports and duties collected on imports from EU accession countries. For the year 2003, total imports by The Gambia from other European countries (including the ten accession countries) were relatively small in comparison to the 15 old EU members (Figure 7.3). Their share of total imports only amounted to two per cent in 2003, far less than the same figure for the EU-15 (65 percent). Other important trading partners of The Gambia were Asia (14 percent), and intra-ECOWAS trade (eight percent).

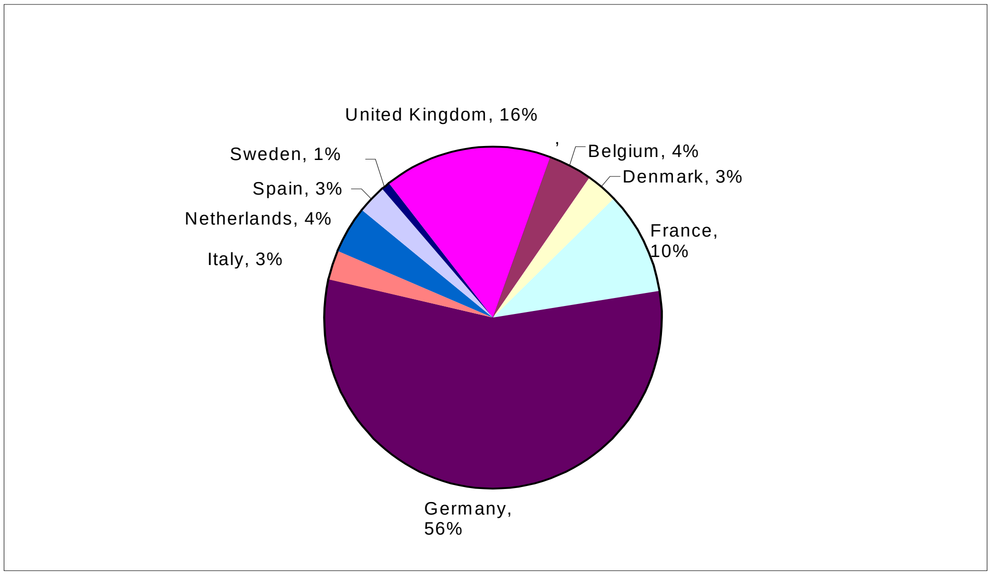
Data and Model Structure

213 Since the required data are not available for The Gambia for the use of a general equilibrium, the analysis of the EPA impact had to rely on an appropriate partial equilibrium model[55/]. More specifically, the model of Verdoorn has been used

55/ By their very nature, partial equilibrium models allow highly detailed studies on the impact of trade policy changes to be made. In contrast, general equilibrium models attempt to describe the effects of discriminatory tariff preferences on the economy as a whole and the intersectoral linkages in particular. In most cases, general equilibrium models are thus more suitable to analyse the overall trade and welfare effects. Yet they require a so-called social accounting matrix with detailed information on each of the involved economies, such as sectoral production data or substitution elasticities.

to estimate the impact on trade flows and budget revenue on The Gambia, as per the Matthias Busse et al study. It is regarded as a suitable partial equilibrium model for the analysis of trade flows in the proposed EPA. This model assumes product differentiation between supplying countries. Imported goods from different countries are considered to be imperfect substitutes in use. This assumption seems reasonable since the majority of Gambian imports consist of manufactured goods[56/] (Table 7.5).

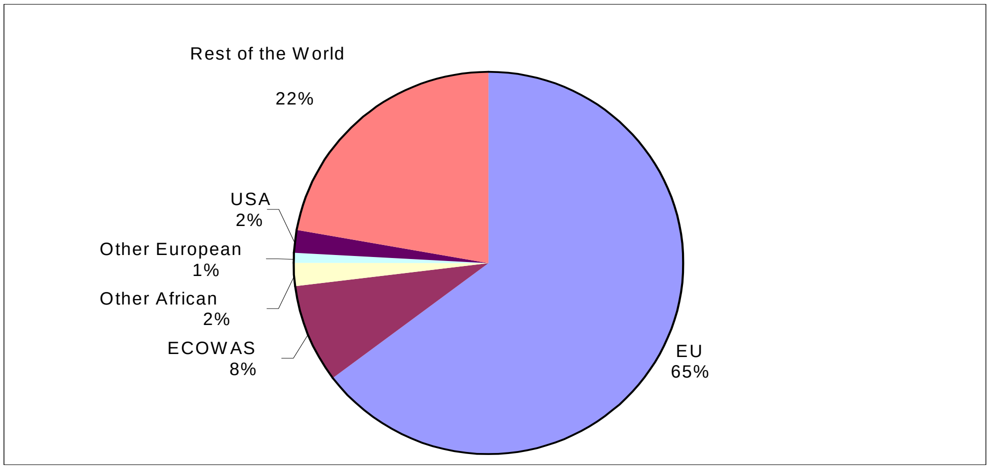
Figure 7.2: The Gambia Imports from the EU by Country, 2003



Source: Consultant based on trade data produced by the Customs Department.

56/ Verdoorn's model is based on the normal assumptions of partial equilibrium analysis, such as no repercussions on exchange rates or incomes due to changing trade flows, iso-elastic import-demand functions, and infinite supply elasticities. The latter assumption, frequently applied in models of international trade, seems appropriate in the case of the EU, since the EU is relatively large and its exports to The Gambia accounted for only 0.001 percent of total EU exports in 2002 (ITC 2004), or other major exporters, such as the United States. Yet it might be some cause for concern for smaller export nations, such as other African countries. In reality, their elasticities of supply are less than infinite. Yet the share of exports to The Gambia in domestic production is usually not very large. For these reasons, expected changes in total domestic production are likely to be small and the assumption of horizontal supply curves seems appropriate.

Figure 7.3: Structure of The Gambia Imports, 2003



Source: Consultant based on trade data produced by the Customs Department.

214 The estimation of trade creation and diversion and the changes in import duties has been conducted at the four-digit HS level. At that level of aggregation, the HS schedule consists of 844 goods. In comparison to an estimate at a more aggregated level, this highly disaggregated approach ensures a more accurate estimation of trade effects. Moreover, it also allows the identification of the commodities that are most likely to be affected by the EPA.

215 Application of the model necessitates an estimation of trade creation (TC) and trade diversion (TD) for the differentiated products. This in turn requires estimates of import demand and substitution elasticities. Unfortunately reliable estimates for both elasticities for The Gambia at the four-digit HS level are not available. As a proxy, we assume the same values for these elasticities as applied by Matthias Busse et. al. in their study for the other ECOWAS countries (Table 7.7). We also assume three scenarios: the low and high scenarios provide lower and upper bound estimates of the trade and budget effects of the EPA, whilst we assume the mid-scenario as the most likely outcome of the EPA.

Table 7.7: Assumed Values for the Elasticities, Four-digit Level, The Gambia

Product category (HS chapter)	Import Demand Elasticities			Elasticity of Substitution		
	Low	Mid	High	Low	Mid	High
Agricultural products	0.4	0.7	1.0	1.0	2.0	3.0
Raw materials	0.6	0.9	1.2	2.0	3.5	6.0
Manufactured goods	0.8	1.1	1.4	1.8	3.0	4.0

Source: "Impact of the ACP/EU EPA on ECOWAS Countries" M. Busse et al, July 2004

216 Based on the Customs data, we have computed collection ratios, that is, the share of duty collected on the c.i.f. value of imports[57/] (Table 7.8). Collection efficiency ratios, which are defined as the percentage of the collection ratio of import-

57/ The abbreviation c.i.f. stands for cost, insurance and freight. In international trade statistics, imports are usually reported c.i.f.

weighted tariff rates, have also been calculated. They provide information as to whether there are particular exemptions, such as special trade preferences, due to export-processing zones, and/or deficiencies in duty collection due to red tape, smuggling or corruption. Since there are no preferential tariff rates for The Gambia included in the database, the reported import-weighted tariff rates are larger than the collection rates.

Table 7.8: Efficiency of Import Duty Collections, 2003

Collection ratio[1] (%)	Import-weighted tariff rate	Collection efficiency[2] (%)
8.2	11.1	73.8

Notes: 1: Percentage of duty collected of the c.i.f. value of imports; 2: Collection ratio divided by import-weighted tariff rate.

Source: Consultants' calculations based on Customs data.

217 Importantly for the empirical results, only the actual collected import duties will be incorporated in the analysis, as these are subject to elimination as part of the EPA.

Impact Assessment for The Gambia

Empirical Results

218 Turning to the estimation of the trade and budget effects of the EPA on The Gambia, as a start, we have to make an assumption about the timing of trade liberalisation, as stipulated in the proposed agreement between ECOWAS and the EU. Under the likely terms of the EPA, duties and other regulations of commerce should be eliminated on "substantially all trade" within a period of up to 12 years. This implies that a few import-sensitive goods are likely to be excluded from the agreement. It is here important to note that the term "substantially all trade" has long been the most controversial of all the systemic issues arising from multilateral discipline under Article XXIV of GATT. The disagreement has pertained to the methods of measuring empirically that requirement, as well as the objective threshold level of meeting the requirement[58/].

219 In the analysis, we have assumed a complete tariff liberalisation using 2003 as the base year and focused on the final phase of trade barrier elimination instead of calculating the effects at each stage. Thus, depending on how many products will be excluded from the agreement, our figures are likely to be upper bound estimates of the static trade and budget effects for each of the three scenario settings.

220 As can be seen from Table 7.9, in the case of a complete tariff liberalisation vis-à-vis EU imports in The Gambia, total imports from the EU are expected to increase in the mid scenario by 6.6 percent. The reasons for this relatively low trade effect are mainly the lower tariff rates for EU imports and the high import-duty collection-efficiency ratios.

221 The low and high scenarios exhibit the expected range of the trade effects. In general, the results for the high scenario are roughly twice as large as those for the

58/ For a detailed discussion of the issues raised, see "How to Make EPAs WTO Compatible", ECDPM, 2003.

low scenario, since the assumed values for the elasticities in both scenarios are on average also roughly twice as large.

Table 7.9: Trade Effects of EPA on The Gambia, 2003

Scenario setting	Trade creation		Trade diversion		Total Trade Effects	
	GMD (000)	% of preferred imports	GMD (000)	% of non-preferred imports	GMD (000)	% of preferred imports
Low	126,197	4.5	52,680	3.5	187,877	6.4
Mid	185,173	6.6	101,045	6.6	286,218	10.2
High	244,149	8.7	159,945	10.5	404,094	14.4

Source: Consultant's calculations.

222 Trade creation exceeds trade diversion in absolute terms in all scenarios. However, the picture is quite different on a percentage basis. For trade creation, the increase in EU imports in the mid-scenario is 6.6 percent. The trade diversion effect is the same in the mid scenario (6.6 percent). For the low scenario, the trade creation effect is greater than the trade diversion (4.5 percent compared to 3.5 percent), while the situation is reversed for the high scenario (8.7 percent compared to 10.5 percent).

223 From an economic point of view, trade creation is welfare improving, as consumers substitute lower cost beneficiary imports for goods produced at home. Trade diversion, on the other hand, will decrease welfare, as a more efficient source of imports will be displaced by a preferred higher-cost producer. From this perspective, the EPA between the EU and The Gambia is likely to lower consumer prices, that bring about a rise in consumer welfare in The Gambia[59/].

224 Importantly, these trade effects do not occur immediately after the tariffs have been removed. To begin with, the tariffs are likely to be phased out over a period of 10 to 12 years. The effects would, hence, depend on the timetable of tariff elimination. There are further time lags, since relative prices do not adjust immediately after changes in tariff rates. As a consequence, it will take some time before an increase in total EU imports and the replacement of non-EU imports can be observed in The Gambia. The speed of the adjustment to changes in relative prices depends on the behaviour of EU and non-EU exporters and Gambian importers and/or wholesalers. If there is less competition, relative prices will adjust more slowly and, hence, any changes in the import structure and domestic production will be spread over a longer term.

225 Apart from the impact on trade flows, the tariff elimination will lead to a decline in import duties and, hence, total government revenue. In absolute terms, the decline in import duties is particularly strong, that is D 240,502,000 for the mid-scenario, with a range from D 233,381,000 in the low scenario to D 249,409,000 in the high scenario (as shown in Table 7.10). As a share of total import duties, the decrease is 33 percent for the mid scenario, with a range from 32.1 percent to 34.3 percent, for the low and high scenarios respectively. Given that import duties are a significant source of total government revenue, a sharp decline is bound to affect the financial positions of the Government and its ability to provide public goods and

59/ Yet this does not hold for all products, as at the highly disaggregated level trade diversion can exceed trade creation.

services. From this perspective, The Gambia will be particularly affected with an estimated decline in total government revenue of 15.4 percent for the mid scenario (in the range of 14.9 and 15.9 percent, respectively for the low and the high scenarios). As a share of GDP, the percentage figure is 2.8 for the mid scenario, a rather large number (and ranges from 2.7 to 2.9 percent for the low and high scenarios). Based on these calculations, the country would face a severe economic impact as the result of the EPA.[60/]

Table 7.10: Decline in Import Duties in The Gambia, 2003

Scenario setting	Decline in Import Duties			
	(D '000)	% of total import duties	% of total government	% of GDP revenue[1]
Low	233,381	32.1	14.9	2.7
Mid	240,502	33.0	15.4	2.8
High	249,409	34.3	15.9	2.9

Source: Consultants' calculations. Note 1: excluding grants.

226 The reasons for the sizeable decline in import duties and government revenues are The Gambia's large share of EU imports relative to its GDP, its dependence on import duties to finance public expenditures and its relatively high collection efficiency ratios (Table 7.9).

Table 7.11: Combined Tariff, Trade and Government Revenue Indicators, 2003

Imports from the EU in % of Total Imports	Import-weighted Tariff Rate EU Imports (%)	Import Duties in % of Total Government Revenue	Import Duty Collection Efficiency Ratio in %
64.8	7.7	26.2	73.8

Sources and Notes: See Tables 7.3, 7.4 and 7.10.

227 An important advantage of the partial equilibrium approach is the ability to identify the most affected products of the EPA at a fairly disaggregated level. To single out the sensitive products and product categories, we have sorted the disaggregated effects both by absolute changes in import duties and by changes in total EU imports. For losses in import duties, Table 7.12 lists the ten most important products for the country at the four-digit HS level.

228 In addition to the budget effects, we have identified (in Table 7.13) the top ten most affected products on account of the trade effects. These are products for which far-above average trade effects are likely to occur due to the EPA. The results clearly indicate that a few product categories are sensitive in The Gambia with respect to changes in trade flows.

60/ These calculations are based on the assumption that there will be no other policy changes, such as transfers from abroad or changes in domestic taxes to make up for the loss of government revenues.

Table 7.12: Top Ten Most Affected Products, Budget Effects

HS Code	Commodity Description
8703	Motor cars, vehicles for transport of people
2710	Petroleum oils and others, not crude
8517	Electrical apparatus for line telephony
2523	Portland, aluminous or slag cement
1701	Cane or beet sugar, chem. Pure sucrose
2402	Cigars, cheroots, cigarillos and cigarettes
1101	Wheat or meslin flour
6309	Worn clothing and other worn articles
2106	Other food preparations
2002	Tomatoes prepared otherwise than 2001

Source: Consultant's calculations. Notes: Four-digit HS codes in parenthesis.

Table 7.13: Top Ten Most Affected Products, Trade Effects

HS Code	Commodity Description
2710	Petroleum oils and others, not crude
6309	Worn clothing and other worn articles
8703	Motor cars, vehicles for transport of people
2818	Artificial corundum, aluminium hydroxide
7326	Other articles of iron or steel
0207	Meat and edible offal of the poultry
0402	Milk and cream, concentrated/sweetened
4819	Cartons, boxes, cases, bags and others
8418	Refrigerators, freezers etc
4011	New pneumatic tyres, of rubber

Source: Consultants' calculations.

229 Looking at these product categories, we have to keep a further limitation of our approach in mind - that is, we excluded domestically produced goods. Therefore, the identification of the ten most affected product categories is related only to absolute changes in total imports. Domestically produced goods will, thus, not automatically be displaced to the same extent. The notable exception is poultry product which import is expected to increase as the result of tariff liberalisation.

230 In general, the trade creation scenario consists of two effects, those of consumption and production. The latter relates to the displacement of domestically produced goods by more competitive preferred imports, whereas the former gives information on the change in total consumption, since import prices will decline due to the EPA. As there is no or very little domestic production in The Gambia for a number of EU imports, the production effect is zero or very close to zero for numerous manufactured goods such as cars or electrical machinery. For the identification of the most sensitive products regarding domestically produced goods, one has to compare the production structure in The Gambia with the list of changes in total imports.

231 Likewise, though we do incorporate collection efficiency ratios to control for tariff preferences and inefficiencies in duty collection, we do not have the required information at the four-digit level. The estimation of the trade and budget effects and the identification of the most affected products have therefore to be judged with

caution, since the impact cannot be estimated with a very high level of accuracy at the disaggregated level.

232 To complement the results of the model a survey was conducted with the Manufacturers Association. Items particularly recommended for protection by the manufacturers are: soap, candles, mineral water and beverages, plastic ware, nails and corrugated iron sheets.

Discussion of the Results

233 We have used figures provided by the Customs Department through the Central Statistics Department and the Department of State for Trade Industry and Employment. These figures are believed to understate both imports and exports, particularly re-exports[61/]. This notwithstanding, we conclude that the negative effects of the EPA on The Gambia are likely to be significant and should as such be a source of great concern particularly in light of the likely budget impact.

234 There are possible benefits however, and these must also be considered. In principle, trade liberalisation may foster competition as protection levels decrease and domestic firms are compelled to innovate and increase their competitiveness. These in turn are likely to raise productivity rates of domestic firms and, hence, income rates and national income. Also, The Gambia may attract higher inflows of foreign direct investment, due to the preferred access to the EU, if multinational enterprises use The Gambia as an export location to serve European or other African markets. This would increase capital stocks in The Gambia and boost growth rates. In addition, the EPA may lead to or promote a technological spill-over between the EU and The Gambia.

235 Any change in the medium or long-term growth rate of The Gambia would normally change trade flows and budget revenue. Higher growth rates would lead to increased imports from EU and non-EU sources and enhance import duties collected by the Government. As a consequence, our analysis underestimates the impact on trade flows and overestimates the effects on budget revenues. The positive effects on the latter depend, in turn, on the size and growth rate of non-EU imports, since European products will be duty free if the EPA comes into force. Yet it is impossible to provide any estimate of the magnitude of the growth effects, even though the assumptions for the growth effects and those made in our analysis will have an enormous impact on the final outcome of the impact of the EPA on The Gambia.

EPA Options and Impact Mitigating Measures

236 Until the negotiations near completion, it will not be possible to ascertain what the content of the EPA would be. As such any impact assessment at this early stage can only be speculative even if it is informed as in this study by the review of the production configuration, the trade and tariff structure of The Gambia as undertaken in the preceding chapters.

237 First of all, depending on the interpretation and decision of the negotiating parties the proportion of trade to be liberalised by the EU for exports from the

61/ See IMF 2004, Selected Issues.

ECOWAS could vary from 100 percent duty-free access to 80 percent[62/]. In the former case, ECOWAS countries would only have to liberalise 80 percent of their imports from the EU to satisfy the substantially all trade requirement (on average 90 percent of existing trade flows) laid down by Article XXIV of GATT.

238 Assuming that ECOWAS were to sign the EPA as a custom union, only one regional schedule of tariff liberalisation would be established before the EPA is concluded. In this instance, The Gambia like the other members of ECOWAS would first have to establish their national priorities for liberalisation before a regional consensus is reached. Given the existing differences within the composition of imports amongst the various member countries it is most likely that a lot of disparities would be found between the lists of exclusions and inclusions compiled at national level. According to a methodology recently developed by the Institute of Development Studies (IDS), Sussex, the proportion of exclusions common to all of the West African countries is zero. This implies that even if the EU were to grant 20 percent exclusions to ECOWAS, the drawing up of a common regional list of exclusions would be a formidable challenge. In such a scenario it has to be expected that The Gambia will hardly be in a position to have any of its sensitive products included in the regional list.

239 In the alternative option where ECOWAS signs the EPA as a Free Trade Area (FTA)[63/], but not as a custom union, a single regional exclusions list would not be required. Each country would in this instance be in a position to draw-up its own liberalisation programme. Given the vibrancy of unofficial trade across the borders in West Africa, in this scenario there is a real risk that the differences in national exclusions/inclusions list would further provide impetus to the cross-border informal trade. For instance if The Gambia was to exclude a certain product X and maintain the pre-EPA tariff on it, but Senegal remove all duties on product X, there could be sufficient incentive based on the price differential for this product between the two countries for traders to transport X from Senegal to The Gambia or vice versa. Of course, to prevent the un-official transactions from occurring affected countries can always increase border controls. As the experience already shows these measures are often more ineffective than not yet they tend to constrain genuine intra-regional trade.

240 An alternative scenario to the foregoing ones is the one under which The Gambia decides to sign a bilateral EPA with the EU, an option envisaged in the Cotonou Agreement. In this particular instance, The Gambia could directly negotiate with the EU Its very own trade liberalisation schedule whereby it would seek to achieve the following:

- backload the tariff dismantlement of the products that most contribute to government revenues (see Table 7.12 Top Ten Most Affected Products: Budget Effects);

62/ For The Gambia, 100 percent liberalisation will mean retention of the EBA duty-free preferences which the country already enjoys. For the middle-income ECOWAS member countries such as Nigeria and Ghana this will represent an improvement over the status quo.

63/ This is a most likely possibility as an ECOWAS custom union is not likely to be in place before December 2007.

- frontload the tariff reduction of products such as those of fishery and groundnut in parallel with the reform of these sectors (the current maximum level of tariff protection (18%) applied to these products could be counter-productive and create an anti-export bias[64]/); and

- exclude from liberalisation and/or introduce some seasonal quotas for imported products such as wheat, poultry, fresh tomatoes and onions. In this instance, The Gambia could learn from the experience of other countries in West Africa that have established specific market access measures (bans, reference prices, added tariffs, seasonal quotas).

241 Even though the scenario of bilateral EPA between The Gambia and the EU appears tempting in that under those circumstances the country will be able to negotiate a trade liberalisation agreement that will appear more relevant to the specific conditions and needs of The Gambia, this option does suffer from a couple of major setbacks. First of all, the issue of trans-border un-official trade with Senegal will remain in the medium-term if the two countries have different tariff reduction schemes. Moreover the very feasibility of this option by The Gambia is questionable in view of recent views expressed by the EC officials stressing the regional dimension of the EPA[65/].

242 From the above considerations it would seem that for The Gambia to really stand a chance to benefit from the EPA a lot more would have to be offered by the EU during the ongoing negotiations. For instance, if the EU were to accept the recent proposals made by the Africa Commission, the EPA's transition period could be extended from 12 to 20 years. Not only would this provide more time for regional integration to materialise and reduce the risk of the EPA disrupting it but it will give more time to The Gambia to adjust to full liberalisation of trade with the EU. In addition, a longer transition period will also allow WTO rounds to progress in a more favourable way to the LDCs. Moreover, given for instance the challenge of countries such as The Gambia in adjusting to tariff revenue loss it could be decided by the parties that the later phase of the EPA liberalisation could be made conditional to a new system of revenue collection such as a the VAT being in place.

243 Considering the high fiscal adjustment cost The Gambia would have to incur as the result of the EPA, it is certainly worthwhile to examine the non-EPA scenario which is recognised by the Cotonou Agreement under its articles Articles 37.5 and 37.6. If The Gambia was to consider that it is not ready for an EPA with the EU, this decision will not mean a rejection of the EU as a partner, nor a wish by the national authorities to prompt a reduction of the commercial links with the EU. In a non-EPA scenario, The Gambia would not loose as it would continue in principle to benefit from the EBA regime like the other LDCs who will feel that they are not ready to sign an EPA with the EU. The Gambia would not have to enter into any negotiations, offer concessions, or take any actions as regard its relationship with the EU. In fact in this instance The Gambia will retain its discretion in so far as deciding or not to sign an agreement with the EU at a later stage when the implications of the EPA are clearer. If this option was to be chosen by the national authorities, the country would have to approach the EU ideally together with other concerned LDCs to raise the issues of

64/ See WTO, Trade Policy Review of The Gambia, 2004

65/ See for instance EU Commissioner, Peter Mandelson's speech before the EU-ACP parliamentarians, Bamako 19 April 2005.

the reforms necessary to make the EBA more accessible to the beneficiary countries.

244 A number of reasons are advanced for the limited impact of the EBA initiative, notably:

- EBA rules of origin are far stricter than the Cotonou Agreement rules of origin;
- the restrictive requirements of the EBA initiative for meeting the "sufficient processing" criteria;
- the costs and difficulties of providing the necessary paper work;
- the danger of withdrawal of these preferences; and
- rapidly changing EU standards.

303 For the EU to present the EBA as a genuine alternative to the EPAs for the LDCs such as The Gambia, the above issues will have to be addressed such that the EBA can really help the beneficiary countries gain a better and secured access to the EU market.

8 Adjustments Required to Ensure Sustainability

245 Irrespective of its degree of success in influencing the details of the EPA, The Gambia will need to consider its policy response to the shocks that are likely to occur from the EPA and other trade liberalisation schemes in the context of ECOWAS, OIC, WTO, etc. At the very least, adjustments will be required in respect to: (i) public sector and expenditures management; (ii) trade and economic policy; and (iii) human resources and institutional capacity development.

Public Sector and Expenditures Adjustments

246 These proposed adjustments stem from the findings of the study that the revenue effect of the EPA will be particularly marked as the result of a sizeable reduction in custom revenues subsequent to the cuts in tariffs. The aim here is to avoid that the projected gradual reduction in the fiscal deficit over the period 2004-08, in a without the EPA scenario (see Table 2.4) is derailed as a result of the effects of the EPA.

Taxation

247 Unless there is a sharp reversal in the global trade liberalisation, the era in which governments could rely heavily on trade taxes as a source of revenue is coming to an end. The potential trade liberalisation linked to the EPA is only a milestone on this path. This trend presents The Gambia with significant adjustment problems. Trade taxes have indeed been favoured by many developing countries because of their relative simplicity in collection. A shift to an alternative taxation system is likely to be administratively difficult and could also be politically costly. It is high priority that the government undertake a fundamental review of the tax system. Ensuring the effectiveness of the planned revenue authority should be a prime consideration. It should have a salary structure and incentive system designed to sharply increase the efficiency of revenue collection. Trying to replace lost customs revenues by imposing higher rates for existing taxes would be much less effective.

248 A few other reform measures could be considered which include the following.

- An enhanced effort in revenue collection and the use of revenue data aimed at better revenues projection in the budget.
- The reform of the present system of customs duty waivers and deferments.
- The strengthening of the registration process of the tax payers.
- The introduction of a comprehensive VAT system. The experience of both industrial and developing countries in over 150 out of the world's 182 that have a fully established VAT system indicates that this is a sound system of

raising revenue. VAT imposes tax on consumption, at a fairly low rate, with a minimum administrative cost, and with the least distortion in the performance of the economy. Currently on the continent, countries as diverse as Malawi, Namibia, South Africa, Ghana, Lesotho, Benin, Niger and Cote d'Ivoire are imposing VAT. The success of the efforts of these countries lies in making the tax base as comprehensive as possible and by a rigorous enforcement of the law by the tax administration. If the government was to consider further investigating the feasibility of VAT in The Gambia, technical assistance could be requested from the IMF who has readily supported several countries in this type of project.

Management of Public Expenditures

249 Given the magnitude of the revenue loss as shown in Chapter 7, the adjustment to the decline in trade taxes is likely to be sufficiently severe to require action on the expenditures as well as on the revenue side. Alongside the review of taxation it is recommended that the Government review public expenditures with the view of increasing their efficiency and effectiveness.

250 DOSFEA has recently become aware of the above challenges. In addition to the reforms already being undertaken in the areas of taxation and public expenditures control, consideration should be given to the following.

- The decrease of expenditures on General Administration.
- Improvement of the balance between capital and recurrent expenditures and the full integration of the preparation and analysis of the recurrent and development budget. At present there is too much capital relative to recurrent expenditures.
- Increase of the share of salary and wages in the budget as part of efforts to revitalise the civil service.
- Acceleration of the public enterprises divestiture programme.
- Enactment and implementation of the Government Budget Management and Accountability Bill.
- Preparation and implementation of the cash budgeting phase-out implementation plan in parallel with efforts aimed at strengthening internal controls and auditing functions. In particular, the strengthening of the National Audit Office such that it can fulfil its constitutional mission is highly recommended.
- Further strengthening the linkage between the PRSP and the national budget to better monitor and intervene to mitigate macro-economic developments that tend to undermine the PRSP and the MDG objectives. In 2004, The Gambia was on track only on half of the education and health indicators. Moreover, the most recent poverty simulation analysis indicates that the poverty headcount target is substantially off-track. If not properly addressed external negative shocks such as those resulting from the EPA scenario

would only make the situation worse. Even with the EPA impact not being taken of, the World Bank has estimated that the target poverty headcount rate of 27 percent in 2015, based on a PPP adjusted of US$ 1 per day will be difficult to achieve under the best of circumstances.

Trade and Economic Policy Adjustments

251 The trade regime under the Lomé Convention did not produce the expected positive results. On the contrary, the ACPs' share of world trade has reduced over the last 25 years. For The Gambia a review should be made of why this mechanism has not worked. In a several ways the EPA is promising to overcome some of the limitations of the previous Lomé Conventions by positioning itself as an economic partnership accord rather than a conventional free trade agreement that has more restricted objectives.

252 Having stated this, it has to be clear that the EPA would not live up to its expectations unless the development component of the agreement is carefully planned and adhered to. However, if economic development is to be sustainable in The Gambia, the Government has to design its own economic integration and development programmes, and start putting in place the complementary policy and governance reforms that are needed. By initiating these actions, The Gambia would be in a better position to invoke the recognition on the part of the EU that supply-side measures, including sectoral reform programmes, have to explicitly be put in place if the new partnership agreement is to work. Lessons in this respect are found in a study recently concluded by the World Bank, where it is stated that: "there still remains a conspicuous and chronic gap between available market access and the capacity to meet production targets in terms of quantity, quality, standards, delivery time, etc., as well as to diversify the product mix. In a sense, the focus on market access issues has run ahead of the capacity to take advantage of the opportunities generated by this effort. Therefore, in seeking to develop a regional strategy for the future, emphasis should be placed on addressing the supply-side constraints underlying the gap. What is required is a production oriented strategy"[66/].

253 As trade increases, so do the opportunities and threats for the LDCs in particular. The Gambia must therefore be vigilant enough to avoid a situation where the domestic market is relegated to a dumping ground of unwanted goods and services. The recent drafting of a Food Bill by the authorities is a step in the right direction. All efforts must be made to ensure the compliance with the dispositions of the Bill once it is passed.

Competitive Adjustments

254 It has become clear from this study that The Gambia will have to make some serious changes in the way that business is generally carried out. Some of the key issues for business relate to the water and energy sectors as already discussed earlier in this report.

255 Within agriculture, a case has already been made for the restructuring of groundnut production and marketing to arrest the progressive marginalisation of the

66/ Harris, 2004, World Bank.

sector. The actions to be taken in this regard have long been identified, what is left is the bold implementation move by the relevant authorities.

256 In general, the Government's attitude towards the private sector has not been one of a genuine partnership. It cannot be overemphasised that this relationship needs to be markedly improved as a matter of urgency through regular and constructive dialogue. The representatives of the private sector could start playing its part in this by developing position papers on the most critical issues affecting businesses in the country. Once drafted these papers should be submitted to the Government to serve as the basis for the much needed public/private dialogue. Civil society for its part is currently drafting a position paper on the EPA. This is a step in the right direction, which should be emulated by the private sector using the good offices of the Chamber of Commerce and Industry.

257 Despite having recognised the importance of trade policy and the related reforms to the development prospects of The Gambia, the Government has yet to integrate trade into the other aspects of development policies. For instance, trade policy does not explicitly feature in the current Poverty Reduction Strategy Paper. The longer this situation remains unattended to, the harder it will be for The Gambia to insist that the EPA must be a development instrument geared towards poverty reduction.

Institutional and Human Capacity Developments and National Consensus Building

258 There are several government ministries, agencies, civil society and private sector organisations that have an interest in the EPA negotiations and implementation. Every effort was made during the study to meet with all these stakeholders and all were invited to the training component of the programme as well as the validation workshop.

259 This EPA study is one of a number of assignments that have been undertaken in the area of trade liberalisation during 2004. There is a sentiment of general study and conference fatigue but this is perhaps not surprising in view of the large number of regional, bi-lateral and multi-lateral agreements that have to be attended to at the same time. This no doubt is already putting considerable pressure on the capacity of a small country such as The Gambia and its relevant officials. This situation makes it all the more important that the country is well organised to undertake the work involved in the preparations, negotiations and implementation in an efficient and transparent manner.

Department of State for Trade Investment and Employment (DOSTIE)

260 The lead ministry for much of this work is the Department of State for Trade Industry and Employment (DOSTIE). DOSTIE is currently under-resourced and this is negatively impacting upon the preparation for and negotiation of agreements by The Gambia. This Department does have the benefit of two small donor-funded capacity building projects and will be the recipient of technical assistance under the “Hub and Spoke” component of the TRADE.COM Programme. However, urgent remedial actions need to be taken in order to:

- improve the work environment and staffing levels within the department; and
- spread the workload by making optimal use of the competencies and resources of the others ministries, agencies and private sector and civil society organisations. The recent establishment of a National Trade Negotiations Committee – with assistance of this EPA Project - is a step in the right direction.

261 Given the limitation of resources particularly in terms of skilled manpower in trade agreements and negotiations, it is essential that DOSTIE should acquire a good Management Information System (MIS) to enable an optimal utilisation of its limited resources.

Department of State for Finance and Economic Affairs (DOSFEA)

262 Given that trade tax accounts for the bulk of central government revenue, the DOSFEA is necessarily heavily involved in and concerned with any new or existing trade agreement and with trade policy formation in general. For the purpose of this section, we will focus on the specific case of the Customs Department given the role it has to play in enforcing the existing and future trade agreements.

Customs Department

263 Customs has a vital role to play in trade facilitation, revenue collection, protection of domestic industry and consumers, and in supplying reliable, up-to-date data on which to configure and monitor trade policy. Despite this, the reform of the customs administration including a review of its capacity requirements has yet to be addressed. Neither has the introduction of the WTO customs valuation been effected. Areas already identified for training needs include: the transaction value method and content of the agreement; legislation drafting; valuation; post-clearance auditing; and anti-fraud techniques and control. The IMF has been providing technical assistance in some of these areas. However, since all areas of need are not being targeted, further technical assistance is still being sought.

264 The procedures of the Customs and Excise Department are unnecessarily complex and error-prone. For instance, the processing of manifests is routed through three separate offices through five different steps and often takes a full day. With the exception of containers, it takes several days to release the majority of consignments. Such delays may be acceptable in The Gambia at the present time. In the long term, with the prospects of further trade liberalisation, the manual procedures might constrain the competitiveness of the Banjul Port as compared to others regional ones and especially that of Dakar[67/]. Streamlined procedures supported by a more extensive use of information technology and the ASYCUDA system will allow the Department to process larger trade volumes more efficiently.

Department of State for Agriculture (DOSA)

265 DOSA is an important player by virtue of the fact that agricultural and food products are key to The Gambia's external trade. Moreover, DOSA is expected to

67/ This point was stressed in the consultancy report by International Business Initiative on "Customs Procedures in The Gambia", July 2004.

lead negotiations on the WTO Agreement on Agriculture and manage SPS issues. There is a critical requirement for both institutional and human resource capacity building in the area of SPS, which is becoming, along with Technical Barriers to Trade (TBT), an even more important market access issue than tariffs.

266 In 2004, DOSA was allocated less than 6.5 percent of the national budget. In view of the agriculture sector's contribution to the economy in terms of food production, employment and foreign exchange earnings, this allocation is far below the department funding requirements if it is to effectively perform its role.

The National Environment Authority (NEA)

267 The National Environment Agency plays an important role in the regulation of the importation of free zone depleting substances and various chemical products into the country. It regulates the usage of chemicals and pesticides that can affect the marketability of local agricultural products. The NEA conducts Environmental Impact Assessment for enterprises before they start operation. The NEA should be targeted for capacity building in view of the role the agency plays in the overall process of sustainable development of the country.

Institutional Consensus

In order to negotiate effectively it is necessary to have strong political leadership in the form of a dedicated inter-departmental committee on trade matters. This committee could improve on the lack of coordination and commitment among the concerned departments of states. The National Trade Negotiations Committee (NTNC) which has been set up with representation from public and private sectors and civil society would be the focal point for national consensus building. It would normally report to the inter-departmental committee on all matters related to trade. The NTNC must now be formalised by an appropriate legal instrument. In addition its needs in material and logistical support should be addressed.

9 Institutional Reforms and Human Resource Adjustments

Labour Productivity

268 There is a dearth of recent data on the profile of the labour force and the dynamics of the labour market in The Gambia. Labour statistics, which were annually collected in the past, have remained un-collected since 1997. The Department of Labour has therefore no updated and accurate information on the activities of the labour force or on its productivity. This deficiency has been a major constraint to the formulation and implementation of appropriate policies that can effectively address the shortcomings of the labour force.

269 Several major factors are responsible for the pervasive low productivity of labour. First, the national education and training system is not sufficiently responsive to the dynamics of the labour market. Educational programmes are neither oriented towards skill development nor directly relevant to the needs and demands of the labour market.

270 Second, the inadequate incentive structures and motivation is particularly acute in the Civil Service and is a major cause of attrition and lethargy. The study on “Attrition in the Civil Service” undertaken in September 2004 by GLOCOMS INC. ascribed the low level of productivity in the Civil Service to: lack of job security; inadequate levels of remuneration compared to the private sector or parastatal organisations; poor conditions of service and low level of allowances; lack of promotion prospects and career development plans; low motivation and scarcity of material resources in general.

271 Third, low labour productivity in the formal sector in particular is caused by the institutional and management weakness of the labour administration system. In the Gambia, the latter involves many players including the Labour Advisory Board, the Ports Labour Board, the Injuries Compensation Fund, the Factories Board and the Joint Industrial Councils. Although each of these organs is engaged in some aspect of labour administration, they do not co-ordinate their activities.

272 Low institutional capacity is a key constraint to development and will therefore be a major challenge for the EPA. Many Gambian institutions are generally lacking in qualified manpower to efficiently implement the Government programmes and deliver services. The institutional weaknesses are most pronounced in public agencies directly concerned with trade and investment. These deficiencies if not adequately addressed could jeopardise the country’s ability to effectively use its comparative advantage to export its goods.

273 For instance an effective institutional framework needs to be established to coordinate and harmonise the activities of the Departments of State for Agriculture and Health in the management and control of food standards. In addition, a decentralised local government administration will be beneficial to the trade sector in

many respects. This will facilitate, for example, the allocation of commercial land, the issue of business licenses at village and district level, and the monitoring of trade and customs services.

274 There is a World Bank-funded Capacity Building and Economic Management Project (CBEMP) that seeks to improve the impact of government resources on economic and social development. This Project which was launched in 2002 is designed to:

- improve the institutional capacities of the revenue-generating departments, so as to achieve effective expenditure planning and management in the public sector; and
- build the capacity of the industrial and financial systems to facilitate trade and private sector development.

Another initiative that offers good prospects for export, investment promotion and poverty alleviation is the World Bank funded Trade Gateway Initiative (TGI). It aims at reshaping the country's economy through an export-led industrialisation strategy that dispels the bottlenecks in the Government bureaucracies. To achieve the objectives of this initiative, the Government established The Gambia Investment Promotion and Free Zone Agency (GIPFZA) in 2001. GIPFZA has both investment promotion and administrative/regulatory functions which according to FIAS should be separated as it is argued that GIPFZA should have no regulatory functions at all.

Human Resource Development (HRD) Needs

275 Several areas have been identified where human resources development is needed in preparation for the EPA and economic development in the Gambia in general.

HRD Needs Within the Public Sector

276 Capacity will have to be developed especially in the area of trade negotiations and the management of trade agreements. The beneficiaries of this training should be drawn from all the state departments and institutions that have a role to play in the negotiations and the implementation of the EPA and other similar schemes. More importantly though, in order to generally improve the performance of the public service the Government will have to design and implement a comprehensive public service reform programme.

HRD Needs Within the Private Sector

277 Detailed sectoral initiatives have already been designed for some of the key sectors of the economy including tourism, fishery and horticulture.

Tourism

278 The Gambia Vision 2020 study recognises the paucity of professional skills in the tourism industry and states that ''many of the workers in the industry are semi-skilled with only a few having had any professional training in their fields of operation''.

279 A training needs survey undertaken by the Gambia Tourism Development Master Plan in August 2004 established that the greatest training requirements are at the supervisory and craft levels, and the following core skill areas were identified as priorities: supervisory management skills in the area of food and beverages; food preparation; tour guide training; customer care; hygiene, health and safety; maintenance of infrastructure; and business and marketing.

280 As the fastest growing sector in the economy, with potential for benefiting from the advantages of the EPA, it is imperative to invest in the development of these core skills.

Fisheries

281 There is a paucity of professional and technical skills in the areas of processing, refrigeration mechanical engineering, and marine science. This will need to be addressed through the production of an increased number of mechanical and refrigeration engineers, marine scientists, laboratory scientists and technicians.

Horticulture

Increased production in this sector would require investment in securing the services of more extension workers, agronomists, pest control officers, middle level managers with supervisor skills as well as personnel with marketing, business and accounting skills.

10 Trade Related Technical Assistance and Training Needs

Trade Related Technical Assistance and Training Needs

282 In view of the heavy load of trade negotiations The Gambia is currently involved in, technical assistance should first and foremost focus on imparting skills in trade negotiations and trade policy formulation to the officials concerned. In addition to this, on-going assistance over the next few years will be needed for the identification of The Gambia's negotiating priorities given that these are by no means static.

283 Evidence gathered in interviews with various officials during the course of this project indicates the following.

- Given that there are a limited number of skilled and experienced personnel in the country, some "training of trainers" could be considered in order to maximise the cascading effect of knowledge.
- There is a need to mainstream training into Government budget to reduce current heavy reliance of training on donor-funded schemes.
- There seems to be little in the way of a common training facility; officials from government and civil society attend parallel courses. In the interest of promoting an all inclusive national trade policy formulation process, it is recommended that joint-training sessions be carried out.
- Study tours and training outside The Gambia seem to be random and sporadic. The choice of which training to undertake is lacking in continuity and uncoordinated. A more systematic selection of courses would be useful.
- The establishment of a network of personnel who have received training, however informal, would be most beneficial.
- A system of reporting back and dissemination of information should be developed.

284 In addition to training in negotiations skills and trade policy formulation there are several areas where institutional capacity enhancement is required. Some of the priorities relate to the development of:

- a focal point for national standards;
- dedicated structures for certification and implementation of sanitary and phyto-sanitary regulations; and
- legislations for contingency trade remedies to address cases of unfair competition, which is likely to increase as a result of trade liberalisation.

11 Recommendations for Negotiation Positions and Strategy

285 Before embarking on trade negotiations, Gambian officials will have to prepare position briefs, which must at all time be based on the EPA principles and the objectives pursued by The Gambia in each of the areas of negotiations.

EPA Negotiation Principles

286 The following principles should guide The Gambia in the negotiations of the EPA.

Instruments for Development

287 For the EPA to be an instrument of development for The Gambia, account must be taken of the specific economic, social, environmental and structural constraints and development policies of the country as well as of its capacity to adapt to a rapidly changing world economic environment. In this regard the EU should be prepared to increase its assistance to The Gambia with the view of easing the supply-side constraints the economy is faced with. Specifically, the assistance for restructuring should be markedly increased.

288 The scope and extent of the so-called SAPARD programme and other programmes of support, to the agricultural sector of the 10 accession countries constitutes an implicit recognition of the challenges faced if producers from those countries are to gain full benefits from the integration into the EU market. These various support programmes evidenced the recognition by the EU that competitiveness had to be improved if the agriculture sectors of the accession countries are to be enabled to take advantage of opportunities opened up under market integration. The massive support granted by the EU to the 10 accession countries has some implications for the EPA negotiations. It strengthens the argument often put forth by the ACP's officials that restructuring assistance is a pre-requisite if the enterprises of the ACP are to stand to benefit from trade liberalisation with Europe.

Regional Integration Processes

289 With ECOWAS' regional integration schemes running in parallel with the EPA negotiations there is a risk that the latter might take precedence or even undermine the former. To minimise this risk the EPA must be based on the integration objectives and agenda of ECOWAS with the EPA contributing to the reinforcement of regional integration. In particular, it should promote the regional harmonisation of rules, and the consolidation of the regional economy and market. In order to achieve this the transitional period for the EPA should be extended to say 20 years as already suggested by Prime Minister Tony Blair's Commission for Africa.

WTO Compatibility

290 The new trade and economic framework signed in Cotonou between the ACP States and the EU is one of the most important instruments of development cooperation between any developed and developing countries. It provides a new framework for economic and trade cooperation whose specific modalities shall ensure full conformity with WTO provisions including special and differential treatment for ACP States. The Cotonou Agreement consists of four pillars namely: (i) the temporary non-reciprocal preferential treatment for ACP countries; (ii) the introduction of EPAs between the willing ACP States and the EU; (iii) alternative arrangements for ACP countries that choose not to enter into EPAs; and (iv) special treatment for ACP least developed countries in the form of duty and quota-free access for their exports. In designing, negotiating and adopting the modalities under the four pillars, the WTO compatibility of the resultant arrangements is a fundamental condition albeit juxtaposed against the Special and Differential Treatment (SDT) for ACP countries. The EPAs must be compatible with WTO evolving rules and principles, in particular in the context of the Doha Development Agenda.

291 The modalities for the LDCs pillar have been addressed by the EBA market initiative, as an extension of the EU's GSP scheme. As such the EBA is compatible under the WTO with the Enabling Clause paragraphs 2(a) and 2(d). The modalities for possible alternatives to the EPAs, and the attendant WTO compatibility have yet to be identified. This pillar was scheduled for consideration in 2004. The WTO compatibility of future EPAs, especially with the regard to the SDT for ACP States needs to be addressed.

Special and Differential Treatment

292 The decision on Special and Differential Treatment for the LDCs dates back to the GATT era (Enabling Clause of 28 November 1979, WTO L/4903). It allows the granting of more favourable treatment to the developing countries in general and the LDCs in particular. There are several WTO specific decisions that are meant to benefit the LDCs. The "July package" adopted on 1 August 2004 in the framework of the Doha Round was specifically designed to encourage developed and developing countries alike to extend duty free and quotas free access to products originating in the LDCs.

293 In addition to the above arrangements, there are several derogations and rules meant to benefit the LDCs including The Gambia at the WTO. There are derogations on deadlines and flexibility in the implementation of measures in respect of SPS, TBT, Intellectual Property Rights, etc. The flexibility concerns matters related to conflict resolution and trade policy reviews. In view of the LDCs' poor performance in the use of preferences and others measures meant to support their integration into the world economy, it is to be expected that the Doha Round would reinforce the SDT concept by making it more practical, user-friendly and more development-oriented. Indeed the Doha work programme on regional trade agreements and the emphasis on SDT provide a unique opportunity not only for the LDCs but also for the whole ACP group of countries to engage actively in the negotiations in order to introduce reforms that address their specific, common trade and developmental interests in forming EPAs with the EU. What will be required in effect is a reform of the WTO rules on regional trade agreements in a way that these provide adequate

flexibility to enable the ACP to advance their interests in forming WTO-compatible arrangements with the EU. Currently, of concern specifically to the group of LDCs to which The Gambia belongs is the fact that they are normally exempt of reciprocity under the WTO but when such LDCs enter into the EPAs, they must also commit to liberalising their trade barriers.

294 Given the sequence of negotiations at the WTO and ACP-EU level, it is important that the ACP countries and the EU elaborate their negotiations objectives and time table back-to-back with their participation in multilateral negotiations so that the objectives of WTO compatibility arrangements with flexibility for ACP can be promoted in a coherent and mutually reinforcing manner.

Preservation of the Lomé and Cotonou Acquis

295 The EPA should preserve and improve the current ACP preferences into the EU market. For The Gambia as an LDC, the objective should be to improve on the EBA such that The Gambia should not be made worse off following the EPA negotiations.

Sustainability and Legitimacy

296 There is no doubt that the EPA will have significant implications for the socio-economic and political fabric of The Gambia and the other ECOWAS countries. The positive impact of the EPA needs to be maximised and their adjustment costs minimised so that their implementation is sustainable. The EPA sustainability should specifically be assessed in respect of the:

- expected adjustment costs;
- socio-economic and political implications;
- institutional and human resource capacities of the ECOWAS member countries; and
- socio-economic stability of the West-African region.

297 In addition, the EPA should result in trade creation and not in trade diversion so as to avoid any welfare loss. The EPA should also take into account possible polarisation effects and devise measures necessary to counter them.

298 To prevent issues of legitimacy becoming a major stumbling block, it will be necessary that from the onset it be made clear to all stakeholders that the EPA will contribute to the sustainable development of The Gambia. All parties to the EPA negotiations – that is, The Gambia, the ECOWAS Secretariat and the EU in particular - should play a role in this. There is currently a strong anti-EPA movement in Europe, Africa, the Caribbean and the Pacific regions which cannot simply be ignored[68/]. The main view of contention is that the EPA is an imposition of the EU on the defenceless ACP countries. More recently (in April 2005), the Africa Commission's report "Our Common Future" stressed the necessity for the European

68/ See stopepa.org and epawatch.net .

Commission to adopt an EPA negotiation approach that is more developmental rather than commercial.

The Gambia's Objectives for Negotiating an EPA

299 Over the next three years of negotiations, as a member of ECOWAS, The Gambia's negotiating briefs should be premised on the overarching objectives of the EPA which are to: (i) contribute to poverty reduction; (ii) facilitate a smooth and gradual integration of the national economy into global markets; (iii) expedite regional integration process within ECOWAS region; (iv) improve EBA market access by addressing related TBT and NTBT issues; and (v) increase productivity and competitiveness of Gambian producers.

Proposed Areas and Approach to Negotiation

Market Access

300 The EPA needs to be flexible and take into account the fact that The Gambia is an LDC. The eventual EPA must provide for asymmetry irrespective of the length of the transitional period, the product coverage and the detailed specifications of the applicable rules of origin.

301 It is critical that the EPA should preserve the positive elements and improve the current market preferences as granted to LDCs such as The Gambia by the EBA initiative and through their exemption from reciprocal commitments within the WTO framework. The argument here is that it has already been agreed in the Cotonou Agreement that EPAs shall preserve and improve the a*cquis* of Lomé (that is, with respect to market access, no country shall be worse off with EPAs than under the former trade regime). This entails that remaining tariffs and quantitative restrictions currently protecting European producers must be removed. In addition, the rules of origin applied by the EU on exports of interest to The Gambia must be simplified and reviewed to ensure that they are development-oriented. Similarly, the use and application of EU standards, in particular sanitary and phyto-sanitary measures must be rationalised, and made fully transparent.

302 In seeking to define simple and development-oriented rules of origin, the negotiators should aim at the formulation of asymmetrical legislation between the two parties. More specifically, the EPA should incorporate Special and Differential Treatment in the negotiations on rules of origin in order to take into account the varying levels of development of a country such as The Gambia. It is of paramount importance that ECOWAS should obtain the degree of flexibility that enables the Member States to enjoy cumulation with the rest of the ACP group and other developing countries in order to take full advantage of the EU market.

303 Concerning compliance with standards, under no circumstances would the EU be prepared to lower its legitimate requirement on SPS specifically for exports from The Gambia and other ACP countries. It is also a fact that The Gambia like most ECOWAS countries does currently lack the necessary institutional infrastructure for independent monitoring, testing and certification. The approach to solving this problem should be through the formulation of an EU support package in the context of the EPA. The objective of this assistance would be to improve

standards compliance, inspection, testing and certification at both the national and regional levels. For The Gambia in particular, this type of support would be of particular relevance for the agricultural and fisheries sectors.

304 Given that there are ongoing discussions at the WTO on possible amendments to Article XXIV of the GATT, The Gambia in conjunction with ECOWAS, should actively request that EPAs provide for more flexibility and *legally binding provisions for special and differential treatment* than are currently provided for in Article XXIV.

305 In line with the objectives stated in the Cotonou Agreement, the EPA must take full account of the lower level of development of The Gambia in relation to the EU. Special and Differential Treatment should therefore form a critical corner stone of the negotiation and implementation of the EPA. This should be reflected in the extent and pace of liberalisation commitments, the stringency of implementation schedules, and the costs associated with implementation requirements. Similarly, the EPA negotiations should provide for an appropriate definition of sensitive sectors that may partially or fully be exempted from trade liberalisation due to their economic relevance for an LDC such as The Gambia. Moreover, safeguard actions and anti-dumping measures that will allow The Gambia to restrict imports that cause or threaten to cause injury to domestic producers or result in serious macro-economic instability should be identified and spelt out in the EPA.

Agriculture

306 The extensive support to EU farmers and their products in the form of export subsidies within the Common Agricultural Policy (CAP) of the EU should form part of the negotiations in so far as they have the greatest bearing on the market-access arrangements established for ACP agricultural exports. In the same vein, the EU internal market structures that prevent countries such as The Gambia from targeting the higher value-added segments of the European market in spite of the preferential market access need to be taken into account and reviewed.

307 The main challenge for improved access into the EU market for producers in The Gambia and the region comes from the CAP reform and the EU's concern over food safety and animal disease control. Within the negotiations, a strong case should be made for establishing a structured mechanism of dialogue aimed at addressing the challenges posed by the ever stricter EU SPS standards in particular. In this regard, attention will need to be given to:

- the setting of standards,
- the costs of technical compliance,
- the costs of inspection and auditing, and
- transitional arrangements.

308 The economic costs associated with meeting higher hygiene standards given the country's limited volume of production could, if not appropriately and quickly attended to, constitute an important trade barrier.

309 In line with the developmental goal of the EPA, additional technical and financial assistance should be provided to The Gambia by the EU to improve

infrastructure, productivity and diversification as well as for the development of facilities and systems to achieve compliance with the EU's sanitary and phytosanitary standards and other requirements.

310 It is vital for The Gambia that the EPA is negotiated in such a way that it secures guaranteed access of the country's exports to the EU market, free of customs duties and other taxes, as well as non-tariff barriers and without any quantitative restrictions or measures having equivalent effects.

311 With the view of facilitating the progressive diversification and value adding of products from the agricultural sector, it will be necessary that the EC formally commits to the reduction of remaining disincentives to higher value-added production and to remove tariff escalation on agricultural exports from The Gambia.

312 It should be recognised that The Gambia has the right to declare specific agricultural products vital for its food security, livelihood and rural development as "special products". Such products should be exempted from any obligation under an eventual EPA.

Non-agricultural Products

313 In view of the importance of tariffs as an industrial and trade policy tool, The Gambia's position in this area should be to put forth the issues of tariff peaks and escalation for processed products in EU markets since these effectively impede value addition in The Gambia.

314 The case will have to be made that without industrial structure and exports diversification and value addition across the key economic sectors of the country, the EPA will not live up to its goal of supporting the sustainable development of The Gambia. The ultimate goal should be the provision by the EU of duty and quota free market access for all manufactured products not less favourable than those already granted by the EBA. For these benefits to be effectively enjoyed by Gambian producers, harmonised, flexible and simplified rules of origin will have to be granted by the EU.

Fisheries

315 Ideally, a single fishery agreement should be negotiated between the EU and the cluster of other countries in the region that have an interest in fisheries. In order to ensure that fisheries (industrial and artisanal) contribute to the development of The Gambia in a sustainable way, the agreement developed for this sector should be based on the principles of:

- sustainability of fishery resources especially with respect to biological pauses at both national and regional levels;
- commitments to environmental sustainability including the protection of over-exploited demersal species by all parties;
- meaningful financial compensation;

- assistance to The Gambia aimed at the development of the fishing sector (both artisanal and industrial) as well as their processing/canning industry and to export their fish products;
- support to the transfer of technology, national research and training;
- expansion of employment opportunities;
- mandatory landing in The Gambia of more than the current 10 percent of the catches once the required facilities have been established; and
- commitment by the EU to phasing out the subsidies to European vessels.

Trade in Services

316 The negotiations in this area should, on the one hand, build on the ongoing discussions and the commitments made at the WTO level. On the other, the objectives and principles of the Cotonou Agreement and in particular the development needs of The Gambia as an LDC need to be taken into consideration.

317 The negotiation brief should seek to arrive at an EPA on Trade in Services that supports growth in agriculture, mining, manufacturing and tourism. The ultimate goal is to enhance the capacity and competitiveness in the supply of services of export interest to The Gambia with a view to increasing their traded value and volume.

318 Taking into account special and differential treatment, the EPA negotiations should recognise the right of The Gambia to regulate trade in services, under which liberalisation should cover a limited number of sectors. As for most of the other sectors, the regional agenda for liberalisation on trade in services should take precedence over the negotiations with the EU. The approach should be to first harmonise the legal framework on services at the regional level before negotiating with the EU. Finally, it is important to recall that in fact, the Cotonou Agreement does not oblige the ACP states to negotiate liberalisation of trade in services with the EU. In Cotonou, this is only referred to as a desired objective.

Other Trade-related Issues

319 It has already been acknowledged in the Cotonou Agreement that the capacity of ACP countries to handle most of these issues (that is, investment promotion, competition policy, trade facilitation and government procurement) during the negotiations and at the implementation stage is very limited.

320 Firstly, it has to be acknowledged that The Gambia does not have as yet a competition policy or laws on government procurement. The Gambia should therefore seek to commit the EU to the institutional development component (that is, the establishment of regional regulations and laws) ahead of the EPA negotiations of these issues. The aim is to prevent a scenario in which the regional integration processes are disrupted by the negotiations with the EU. The timely establishment of the required regional institutions will go a long way in fast tracking the harmonisation processes within the ECOWAS region.

321 Concerning the Agreement on Trade Related Intellectual Property Rights (TRIPS), the specific interest to be pursued by The Gambia is in respect of the protection of intellectual property rights including those relating to artistic design, music, traditional knowledge as well as industrial property, and respective patents.

Recommendations Concerning Third Parties

322 The EPA would pose adjustment problems to The Gambia that it would be appropriate to raise with foreign aid donors. Since these are additional to the economic and development challenges addressed by current aid programmes, it is appropriate for any support to be additional to currently agreed levels.

323 The most clear-cut area in which foreign assistance would be required is in the medium term task of adjusting to a new revenue-base and associated need to revisit some aspect of public sector management. It is recommended therefore that foreign assistance be considered for:

- a detailed survey of the revenue options available to The Gambia in view of the likely decline in trade taxes;
- the re-design and implementation of new tax systems;
- technical assistance for the implementation of any new system and associated training required;
- capital assistance (such as to establish information systems) in order to make the new system operational; and
- detailed technical assistance for the acceleration of the divestiture of public enterprises.

324 Other areas in which technical or capital assistance would be appropriate include adjustment to the new competitive environment for the Gambian companies. Moreover, it is also recommended that foreign assistance be considered for:

- an extensive survey of firms to identify the impact at the company level leading to the formulation of support programmes targeted at companies that have the potential of becoming competitive;
- technical assistance to design economically and socially desirable support packages to mitigate the adverse consequences of the EPA on the level of employment in The Gambia (the caveat is that the Government should first undertake an employment census in order to address the present lack of data on labour conditions in the country);
- capacity building in trade policy analysis; and
- the establishment of SPS regional certification agencies and assistance to Gambian producers to help them comply with present and future standards.

Although these areas of technical and capital assistance would be appropriate for many of The Gambia's cooperating partners it maybe considered particularly appropriate to direct some of them towards the EU.

A1 List of People Consulted During the Study

Name	Position and Organisation
Mr Thierry Mathisse	Charge d'Affaires, EC Office
Ms.Anna Guallarte	Programme Officer, EC Office
Ms Collette O'Driscoll	Programme Officer, EC Office
Dr Omar Touray	Coordinator, NAO Support Unit
Mr Gibou Njie	Programme Officer, NAOSU
Mr Momodou Njie	Programme Officer, NAOSU
Mr Momodou S. Njie	Programme Officer, NAOSU
Mr Mor Secka	Director Economic Planning DOSFEA
Mrs Isatou Jallow	CEO National Nutrition Agency
Ms Ada Gaye	Deputy PS, DOSTIE
Mr Sam. Ali Asheroft	Director of Finance and Administration, GTA
Mr Sheriffo Sheikh Sonko	Assistant Project Officer, UNICEF
Mr Buba Pateh Jallow	Director Water Department
Mr Edrisa Ndow	Managing Director of UNIONVES
Mr Baba Mustafa Marong	Project Coordinator, GICAP
Alhaji Abdoulie M. Touray	President of GCCI
Mr Mahtarr Njie	Civil Society
Mr Momodou A. Ceesay	Director, GHE
Mr Kebba S. Touray	Chief Executive, GIPFZA
Mr Yaya Pito Kassama	Director Free Zones GIPFZA
Mr Guenet Birre Francois	Programme Officer, UNICEF
Mr Dominic Mendy	Chairman (CEO) Emanic
Mr Daniel M. Renna	Second Secretary, U.S Embassy
Mr Neil Boyer	Economic Advisor UNDP
Mr Kaliba Senghore	Ag. Director General, GTA
Mr Mambury Njie	Permanent Secretary State House
Mr Tamsir Manga	Permanent Secretary, DOSTIE
Mr Bai Ebrima Jobe	Deputy Permanent Secretary DOSTIE
Mr Bassirou Njie	Director Research Central Bank
Mr Sulayman Sowe	FACS
Mr Mustapha Colley	General Manager, GCC
Mr Ebrima K. Sallah	Programme Officer, ASPA
Mr Modou Sarr	Officer, ASPA
Mr Famara J. Dampha	Director Fisheries
Mr Famara S. Darboe	Ag. Assistant Director Fisheries
Mr Yankuba Darboe	Customs & Excise Department
Alh. Omar Taal	Permanent Secretary, DOSH
Mr Lamin Bojang	Programme Officer, NEA
Ms Marie Saine	Department of State for Justice
Mr Abdoulie Jammeh	DOSTIE
Mr Dodou David Sinyan	KENDAKA Fisheries

Name	Position and Organisation
Mr Edrissa Sanyang	Int. Pelican Seafood
Mr Adiatou E. Njie	Secretary General Fisheries
Mr A.M. Njie (LYE)	LYEFISH Inc.
Mr Phil Perkins	Director Protein Products Ltd
Mrs Fatou Mbenga Jallow	Manager Investment Promotion, GIPFZA
Mr Momodou A. Ceesay	Managing Director, GHE
Mr Asbeir Mandy	Research Officer, Department of Fisheries
Mr Matarr Bah	Socio- Economic Officer
Mr Baboucarr Jallow	Director Water Resources
Mr Ibrahim Camara	Director Planning Agriculture
Mr Kekoi Kuyate	Director Planning Agriculture
Dr Kuje Manneh	NAWFA
Mrs Mariatou Njie	Assistant FAO Representative (Prog.)
Mrs Mama Marenah	Gambia Divestiture Agency
Mr Aba Manneh	Central Statistic Office
Mr Abdou Kolley	Principal Economist, GDA
Mrs Susan Ngum	NAO Support Unit
Mr Demba Jawo	Gambia Press Union
Mr Momodou Sabally	Central Bank
Mr Ousman Jobarteh	Gambia Ports Authority
Mr Modou Touray	National Environment Agency
Mr Malang Fofana	National Nutrition Agency
Mr Buba Khan	Action Aid
Mr Lamin Danfa	DOSTIE
Mr Oussainou Touray	ASPA

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A3 Terms of Reference

1 Background

The objective of economic cooperation between the ACP-EU, under the 2000 Cotonou Agreement, is to foster the gradual and smooth integration of the ACP states into the global economy, with due regard to their development priorities, thereby providing their sustainable development and contributing to poverty eradication in the ACP. In order to achieve these objectives, the ACP-EU Economic Partnership was signed in Cotonou, in June 2000.

The agreement provides the framework that will enhance the production, supply, and trading capacity of the ACP countries, as well as their capacity to attract investment. However, the potential socio-economic adverse effect of the EPAs, both at regional and national levels, will need to be determined and appropriate measures taken, if the envisaged benefits of the EPA are not to be undermined. Neglecting these impacts would destabilize the socio-economic fabric of the ACP states, and the ACP regional integration processes, which this new partnership seeks to reinforce.

The Gambia Government is a signatory to the Cotonou Agreement, and as a member of the ACP Group, has been invited to participate in the Economic Partnership Agreement (EPA) negotiations, which is to commence in October 2003.

As part of its preparatory arrangements for the negotiations of the EPAs, the Gambia Government intends to undertake studies to assess the potential implications of the EPAs, in the context of its current economic situation, and to determine its negotiation strategies and the appropriate flanking policies that the government will have to put in place.

2 Objectives

The overall objective of the project is to facilitate the preparations of the Government of Gambia for its effective participation in the EPA negotiations and to build capacity at the level of the Government, the private sector and civil society through the following combined activities: (i) the conduct of an impact assessment study, (ii) a training programme, and (iii) three workshops.

i) The objectives of the **impact study** are the following:

- To have a deeper insight and better understanding of the contents of the EPAs;
- To determine the economic impact of EPAs for the country, both in terms of opportunities and challenges, and to analyze the potential trade-offs between these costs and the economic and social gains that could be generated by the EPAs;

- To map out the fiscal impact of the EPAs in general, and on the country of Gambia in particular;

- To investigate the adjustment costs of EPAs, and identify appropriate flaking measures to address these;

- To address specific national needs and concerns, which may not be a major preoccupation of other ECOWAS member countries (for instance, groundnut exports to the EU, and the afflotoxin content issue);

- To define strategic issues, and develop negotiation strategies and policy briefings.

ii) The objectives of the **training programme** (3 weeks) are the following:

- Trade policy formulation for government officials and other stakeholders, including those from the private sector, and civil society organizations involved in the process of ACP-EU negotiations;

- Negotiation skills and techniques for target institutions and individuals involved in the process of ACP-EU trade negotiations.

(iii) The main objective of the **Sensitization seminar** (2 days) is to build national awareness on the Cotonou Agreement and the EPA negotiations. It is intended that at the end of the workshop, the various stakeholders (Government officials, private sector and civil society) will have a good grasp of the Cotonou Agreement and the issues at stake in the EPA negotiations. This essential process of consultation should facilitate general acceptance of the obligations, which the country might assume under the aegis of an EPA. In this regard, two national workshops should be held, one for information and awareness building (iii), and the other to consider the report of the study (v) prepared by the consultants, as an aide to strategic decision-making on negotiating objectives and options.

(iv) The **workshop on SPS and TBT** (1 week) should pay particular attention to enabling decision-makers and technocrats in particular, to have a better understanding and awareness of the impact of food and feed legislation in the EU and of WTO agreements and the extent to which the food control system in Gambia provides the requisite degree of safety for exported Gambian products as those in the EU, a requirement of EU legislation. Consideration will be given to the extent to which institutional and technically qualified human resources exist to service a National Control System and the indicative costs of equipment and other elements of the Control System and of other technical barriers to trade (TBT) in the international food sector.

The participants should get a better grasp of the food control system in Gambia, of the WTO/EU agreements on the application of sanitary and phyto-sanitary (SPS) measures, and of other technical barriers to trade (TBT) in the international food sector.

These measures have been adapted, as food production has become more complex and sophisticated. Control systems need to be adapted and based on an approach targeted at critical points in the chain, nationally and internationally, and must cover an ever-increasing number of products and sectors. There is a similar responsibility to ensure that all imports of food, animals, plants and their products from third countries meet EU requirements

With many of the emerging countries facing a serious challenge in bringing their control systems up to the standards required within the Community, the new measures will introduce a new approach under which controls will be combined into one integrated process for all feed and food. There will be three core elements: operational criteria, which national authorities would have to meet; control guidelines to promote coherent national strategies, identify risk-based priorities and a comprehensive, integrated approach to control procedures; and enhanced administrative co-operation.

An EU framework for the development and operation of national systems will be developed, recognising existing best practices. The new regulation requires third countries to maintain an appropriate control plan and records with up-to-date information on the organisation and management of their systems, to be made available on request. It is intended that the control plans will be "proportionate" and technically and economically feasible, taking into account the nature of the products and the specific situation of the third country. The countries will be audited at a frequency determined on the basis of perceived risk and their compliance history. Guidelines will assist third countries to comply with the EU requirements.

(v) The **validation seminar** (2 days) will consider the consultants' report and recommendations resulting from the impact study, as an aide to strategic decision-making on negotiating objectives and options. It will enable the consultants to present the findings and obtain feedback from stakeholders for incorporation in the final report.

The target beneficiaries of these three workshops will constitute around 40 persons representing the government, the private sector and civil society.

Please note that the Sensitization Seminar and the Workshop on SPS and TBT is not part of this restricted consultation.

3 Tasks to be performed by Consultants

With respect to the implementation of the **impact study**, the consultants should:

- Undertake a detailed sector analytical assessment of the potential implications of the EPA for Gambia, both in terms of opportunities and costs. The consultants should quantify the amount of fiscal revenue and other economic costs and benefits of the EPAs, undertake trade creation and trade diversion analyses, examine the implications of the EPA on the nominal and effective rate of protection;

- Examine the adjustments and the costs that could be envisaged in affected sectors and industries as a result of the conclusion and implementation of an EPA with the EU;

- Assess the potential long-term positive dynamic effect associated with the exploitation of economies of scale, increase efficiency and productivity changes, as a result of greater competition stemming from EPAs and increase in domestic and foreign investment;

- Identify opportunities in the post-2007 EU markets that Gambia could take full advantage in any future EPA.

- Make substantiated recommendations on the structure and content of the EPA that the country could negotiate with the EU, the sequencing of the negotiations taking into account key milestones that will impact on the negotiations;

- Present the findings of the study at the **validation seminar**;

- Assist the Department of State for Trade, Industry & Employment (DOSTIE), in the preparation of material for the workshops as well as intervene in them as resource persons.

With respect to the implementation of the **training programme**, the consultants should:

- Organize training sessions in trade policy formulation, analysis, and techniques in negotiation;

- Work in close collaboration with DOSTIE to assemble appropriate materials, including reports on sector studies, trade statistics, and regarding EPA studies, to serve as the basis of the training sessions;

- Determine (in consultation with DOSTIE) the appropriate method to implement the training programme (ie through seminars, study tours to regional or international institutions, etc.). In this connection, both the scope of training (ie topics to be covered, and duration of the training course and study tours) will have to be determined;

- Work in close collaboration with DOSTIE to determine the appropriate areas from which participants for the training/study tours should be drawn (ie government, private sector, civil society organizations, etc., involved in the negotiation process with the EU).

With respect to the implementation of the **workshops**, the consultants should:

- Present the summary findings of the studies, and sensitize all the participants (national stakeholders) on the critical issues relating to the ACP-EU trade policy formulation, and the process of ACP-EU trade negotiations;

- Answer questions, provide clarification, and stimulate general discussion on the themes of the workshop;

- Conduct training workshop for decision-makers, technocrats, and operators, to have a better understanding of the WTO agreements on the application of SPS and TBT.

- Improve the awareness on EPAs by policy makers, private sector, non state actors and implementing agencies;

- Highlight issues that should be addressed in the negotiations on behalf of the private sector.

The workshops' emphasis will be to bring notice to the private sector of new opportunities in Europe that could be taken advantage of, to add value to the outcome of the negotiations with Europe.

Please note that the Sensitization Seminar and the Workshop on SPS and TBT is not part of this restricted consultation.

4 Level of Effort and Profile of Experts

4.1 Impact Study and Validation Seminar

Three experts (team of experts A) will be required to undertake the task delineated above. The team leader will be an international trade expert, supported by two Gambian consultants: a development economist, and a fiscal expert. This arrangement will not only expedite the implementation of the consultancy, but it will also help build local capacity, and allow for any follow up work needed to be undertaken after the completion of the study.

The international consultant will provide overall technical supervision of the consultancy, however, all the experts are expected to give necessary inputs to aid policy formulation, the development of negotiation strategies, policy briefings, etc.

This team should have proven track records and at least ten years experience in international trade, trade promotion, and economic integration preferably in the relevant ACP region. They must have a broad understanding of EU trade and economic policies. In addition, the consultants should possess postgraduate qualifications in the relevant fields.

Special skills include: computer literacy, and a minimum of ten years of continuous management experience in private, government, or regional/international organizations with strong trade links.

Profile of Experts to be Recruited

International Trade Expert (team leader)

Qualifications:

- University degree in Economics, International Trade or International Law, with at least 10 years prior experience in an international trade organization or in the private sector;

- Very good grasp of EU Trade issues;

- Thorough knowledge of all aspects that condition market access, with special emphasis on non-trade barriers (rules of origin, SPS measures, TBT);

- Thorough knowledge of the multilateral trade system;
- Familiarity with the current negotiation processes in which Gambia is involved (WTO Doha Round, negotiations of EPAs);
- Postgraduate qualifications in the relevant field;
- Fluency in English.

Duration:

- two (2) man-months

Fiscal Expert

Qualifications:

- Proven track record in his/her field of expertise, with at least 10 years experience in international trade and economic integration, including in the ECOWAS countries
- Knowledge of Gambia’s macroeconomic policies as well as fiscal policy and budget system. The consultant should also possess some expertise in the field of substituting customs revenue for other revenue sources;
- Broad understanding of EU trade and economic policies;
- Postgraduate qualification and practical experience in the relevant field.
- Fluency in English.

Duration:

- 1.5 man-months.

Development Economist

Qualifications:

- Proven track record in his/her field of expertise, with at least 10 years experience in international trade and economic integration, preferably in the ECOWAS region;
- Knowledge of industrial policy and the services sector;
- Expertise in the design and implementation of supply response triggering systems and adjustment mechanisms;
- Broad understanding of EU trade and economic policies, including CAP reform;
- Postgraduate qualifications in the relevant field;

- Fluency in English.

Duration:

- 1.5 man-months.

4.2 Training Programme

Depending on the topics to be covered, about three experts (team of experts B, 2 international and 1 national) will be required to organize and conduct the training/study tours session and programme. The national expert will be expected to undertake any follow up actions.

The experts should possess an advanced degree in economics, commercial, or social science, with a strong background in international trade, in industrial negotiation, trade policy formulation and tutoring experience. The possession of practical experience in trade promotion and development will be an advantage.

The experts should have proven track records and at least ten years experience in a senior management position, in private, government, or regional/international organization with strong trading and industrial links.

Special skills should include:

- Ability to communicate fluently in English;
- Tutoring skills;
- Organizational capabilities;
- Production of quality reports.

4.3 Sensitization Seminar

Two of the experts in charge of the impact study and validation seminar (the international trade expert and the development economist) should intervene and organize the sensitization seminar. They will be assisted by a local resource person who has the capacity to organize workshops and seminars, and ability to make effective presentation are factors to be considered in selecting both consultants.

The other national consultants hired to assist the international expert for the drafting of the impact study should be invited to both seminars as resource persons.

Please note that the Sensitization Seminar and the Workshop on SPS and TBT is not part of this restricted consultation.

4.4 Workshop on SPS and TBT

An international expert with up to date knowledge of EU food and feed legislation and regulations and of related international agreements, assisted by a local resource person should be hired for the organization and presentation of the workshops. They should have a strong background and experience in international trade, trade promotion and development, and particularly, on the EPAs, and the WTO/EU agreements on the application of SPS and TBT.

Capacity to organize workshops and seminars, and ability to make effective presentation are factors to be considered in selecting resource persons.

The international and the two national consultants hired for the drafting of the impact study should be invited to both seminars as resource persons.

5 Reporting

For the impact assessment study, the reporting procedures are shown below.

- The team of experts will submit to the National Authorities and the PMU an Inception Report, a Progress Report, a draft Final Report and a Final Report;
- The inception report will be submitted two weeks from the start of the study outlining the approach for the study and the draft contents of the main report;
- The Interim report outlining progress and preliminary findings will be submitted after the first two months and will be used as a basis for the dissemination seminar;
- The draft final report for comments by the Government and the PMU will be submitted within three calendar months from the start of the study.
- The draft final report and final report will comprise of 2 distinct separate parts. The first being a summary report of no longer than 15 pages, which will contain the main conclusions of the study together with clear recommendations which are relevant and provide guidance to the stakeholders in the formulation of the National EPA Negotiation Strategy. The second part will detail the findings and analysis for the different activities as detailed in the terms of reference.

The team of experts will also submit a synthesizing document relating to what was discussed during the validation seminar.

All reports will be drawn up in English

Week	Tasks to be accomplished	Output
0-1	Seminar 1 (Sensitization)	Report by international trade expert (from team A) and national resource person
0-2	Preparation of inception report	Inception report by team of experts A
3-7	- Training Programme - Preparation draft final report - Seminar 2 (Workshop on SPS & TBT)	Report by team of experts B Draft final report by team of experts A Report by international expert (assisted by local resource person)
8	Seminar 3 (Validation)	Report by team of experts A
8-12	Finalizing final report	Final report by team of experts A

6 Proposed Timing and Venue

The **impact study** will require a total of five (05) man months for three experts, while the **training programme** should require a period of three (03) weeks. The duration will be of two (02) days for the **national sensitization seminar**, two (02) days for the **validation seminar** too, and five (05) days for the **workshop on SPS and TBT.**

The workshops should be held in Banjul and shall include representatives from the Government, the ACP Secretariat, ECOWAS, as well as representatives from civil society and private sector.

7 Organization/Financial and Physical Means

Impact Study and Validation Seminar

Work should begin immediately after financial and contractual arrangements have been finalized. The duration of the study will be about 3 months, for a total of 5 man months. The consultants will be expected to spend all of this period in the country. They will have to undertake fieldwork, data collection and to meet with stakeholders both from the public and private sectors.

The team of experts A, which will be recruited by means of a Service Contract, will be responsible for the financial management of the **impact study** and the **validation seminar,** (implying accounting and disbursement management in line with EDF procedures), i.e. flights booking for international participants, disbursement of per diem, fees and logistical costs as per the budget.

The team leader, in close collaboration a local coordinator (selected by the department of State for Trade, Industry & Employment (DOSTIE), will be responsible for the workshops' content including the selection of themes to be discussed, and the selection of the speakers who will be intervening during the workshops.

Training Programme

The team of experts B, which will be recruited by means of a Service Contract, will be responsible for the financial management of the **training programme** (implying accounting and disbursement management in line with EDF procedures), i.e. flights booking for international participants, disbursement of per diem, fees and logistical costs as per the budget.

The experts, in close collaboration with the department of State for Trade, Industry & Employment (DOSTIE) will be responsible for the workshops' content including the selection of themes to be discussed, the program for the working groups and the selection of the speakers who will be intervening during the workshops.

Sensitization Seminar and Workshop on SPS and TBT

The local resource person, which will be recruited by means of Grant Contract, will be responsible for the financial management of the **sensitization seminar,** and the international expert (assisted by the local resource person) will be responsible for the financial management of the **workshop on SPS and TBT** (implying accounting and disbursement management in line with EDF procedures), i.e. local transportation costs, disbursement of per diem, fees and logistical costs as per the budget. The local resource person, in close collaboration with the department of State for Trade, Industry & Employment (DOSTIE), will be responsible for the workshops' content including the selection of themes to be discussed, the programme for the working groups and the selection of the speakers who will be intervening during the workshops.

The department of State for Trade, Industry & Employment (DOSTIE) will provide inputs in the form of offices (equipped with a computer, a telephone and an Internet access). It will also be responsible for the organization of each workshop, i.e. inviting participants, printing of support documentation, hiring of venue as well as any other technical or logistical aspects necessary to ensure the smooth progress of the workshops. A precise program and a list of participants shall be provided to the Project Management Unit at least a week prior to each workshop. The department of State for Trade, Industry & Employment (DOSTIE) will be responsible for producing a synthesis of each workshops and the training programme, and to this end, will seek the support of:

- The team of experts A, for the **impact study** and the **validation seminar**;
- The team of experts B, for the **training programme**;
- The international trade expert (from impact study team) and the national resource person, for the **sensitization seminar**;
- The international expert and the local resource person, for the **workshop on SPS and TBT**;
- as well as the speakers invited at each seminars.

This document shall be presented to the PMU within 30 days after the seminar.