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THE AGENCY FOR INTERNATIONAL DEVELOPMENT PRESENTS

# CRITICAL ISSUES FOR AMERICAN INVESTORS IN

# *GAMBIA*

October 1991

**Contents**

# GAMBIA

## EXECUTIVE SUMMARY

As one of the oldest multiparty states in all of Africa, The Gambia offers a remarkably stable and open political environment for foreign investors. Human rights and freedom of expression are widely respected and legally protected by the constitution. As in the U.S., the legal system is based on British common law. Taken together, these attributes provide a stable, predictable and familiar environment for conducting business.

The macroeconomic situation has improved dramatically since 1985, due to successful implementation of a comprehensive structural adjustment program under the auspices of the IMF and World Bank. By opening the economy to market forces, the Economic Reform Program (ERP) eliminated many of the structural imbalances that had constricted economic expansion and largely restored conditions conducive to sustainable economic growth.

The Gambian economy is based primarily on agriculture and services. Groundnut production and processing will continue to dominate the agricultural sector, but horticulture and fisheries will become increasingly important contributors as economic diversification occurs. Tourism constitutes the fastest growing sector of the economy and has witnessed significant investments over the past several years. Industrial production and manufacturing activity is limited.

The Gambian government has made important strides in moving away from state control of the economy. Under the structural adjustment program, the Government committed itself to a program of privatization of state-owned enterprises (SOE's) and a number of SOE's have already been sold off or closed. The two largest SOE's, the Gambia Commercial and Development Bank and the Gambia Produce Marketing Board, are currently in the process of being privatized.

While the overall business and investment climate in The Gambia offers an interesting range of positive features and assets, growth of the private sector has been limited by a number of important constraints including basic infrastructure deficiencies, an undeveloped financial sector, shallow capital markets, limited human resources, and administrative and bureaucratic inefficiencies.

Under the revised Development Act, The Gambia encourages foreign investment and provides attractive incentives including tax breaks, credits, and investment allowances for projects that meet national development goals.

The poor condition of economic infrastructure is probably the most significant constraint to doing business in The Gambia. With the notable exception of the telecommunications system (which is first-rate) basic services are unsatisfactory: roads are generally unpaved and in bad condition, electric power cuts are frequent, the airport is in need of serious upgrading, and the water supply is unreliable. On the positive side, however, the Government is working to improve delivery of basic services through a number of ongoing or soon-to-begin capital projects.

Trade policies, particularly in the areas of exchange rate controls, import tariffs and quotas, and export requirements are generally favorable to investors. Ongoing economic policy reform efforts will continue to address issues such as tariff reductions on importation of inputs and intermediate goods and other investment incentives to ease the burden on new or expanding enterprises. Though the country's trade deficit has increased significantly in the past few years, large infusions of foreign aid and other official transfers have resulted in a sizeable current account surplus.

All of the country's international debt arrears have been eliminated, but the government's economic program remains highly dependent on financial support from foreign aid donors. A strong consensus exists among donors about the need to sustain and consolidate the market-oriented liberalization policies implemented under the ERP.

The Gambia has a large pool of low-cost unskilled labor. However, there is a shortage of trained, skilled personnel for private sector employment. The Gambia has a liberal policy concerning the employment of foreigners for managerial and technical assignments.

The Gambia's financial sector is underdeveloped, comprising four commercial banks and a handful of private foreign exchange bureaus. Non-bank financial institutions have yet to develop to address the medium to long-term credit needs of most productive sector enterprises. The country's two principal commercial banks engage almost exclusively in foreign-exchange transactions, trade finance, and in highly profitable short-term lending to the government. Government interest rate policy is that all rates shall be market determined. Credit ceilings for banks have been eliminated and there are no other credit controls.

Inflationary pressures have subsided in recent years as a result of the government's tight monetary policies. These policies are likely to continue under the Program for Sustained Development (PSD). The government is also likely to maintain its commitment to market-determined interest rates and prices.

Ample foreign aid and prudent fiscal policies have produced a clear improvement in the government's overall financial position in recent years, reducing the need for public sector borrowing. Recent budgets reflect the government's policy of shifting responsibility for public services onto the private sector.

Most tax rates have been reduced during the last few years, and the government has committed itself to a pro-development taxation policy. However, various features of the current tax code still contain disincentives for certain business activities, including the incorporation of local business enterprises, the retention and reinvestment of corporate earnings, and certain financial transactions.

The Gambia generally protects intellectual property rights. Legislation modelled on the basic principles designed by the World Intellectual Property Organization (WIPO) was enacted as the Industrial Property Act in 1989. With certain exceptions, the legislation contains most of the protections expected.

# MAKING THE INVESTMENT DECISION

## COUNTRY OVERVIEW

At first glance, the most striking feature of The Gambia is its extremely small size. Occupying a narrow strip of land on both sides of the Gambia River, the country has a population of only about 800,000 and is roughly the size of Connecticut.

Despite its size, though, The Gambia offers a variety of attractive features to the U.S. investor. First, The Gambia has a long history of political stability characterized by an adherence to democratic principles. In the twenty-six years since independence, there has been only one coup attempt, and it failed. Presidential and parliamentary elections are held every five years, and opposition parties can and do compete for representation. In short, on a continent characterized by political uncertainty, The Gambia's record of political stability and democratic principles is a rare and positive exception.

Second, The Gambia has an open market economy, with a fully liberalized foreign-exchange regime, few import restrictions, a reasonably stable currency, and a liberal investment code that permits the free flow of capital into and out of the country, including the right of full repatriation of profits, and that places no restrictions on foreign equity participation. These recent economic reforms have gone a long way toward eliminating structural imbalances and restoring confidence in the macroeconomic environment.

Third, The Gambia is one of the few English-speaking countries in predominantly French-speaking West Africa. This feature, combined with its tropical coastline and strategic location at the mouth of the Gambia River and in reasonable proximity to European markets, has created profitable investment opportunities for American and British companies in regional trade, tourism, commercial fishing, horticulture, and agriculture.

Taken together, these three features distinguish The Gambia from other countries throughout most of sub-Saharan Africa and help to provide a welcome environment for American investors.

## TRENDS IN THE ECONOMY AND BUSINESS

Following nearly a decade of severe economic deterioration, the Gambian government launched an ambitious program of structural adjustment in 1985. Known as the Economic Recovery Program (ERP), the program was aimed primarily at opening the economy to competitive market forces, and reducing and redefining the role of the public sector. At the core of the ERP was a recognition that pervasive state control of the economy had failed to deliver real growth or to improve the standard of living of the majority of ordinary Gambians.

ERP reforms abolished price controls and government monopolies, rationalized the foreign-exchange regime, introduced a flexible exchange-rate system, reduced the fiscal deficit through decreased government employment, the sale of some state-owned enterprises and improvements in tax policy and administration, and implemented a more flexible interest-rate policy.

By the end of the five-year program in 1989, most of the structural imbalances that had distorted the Gambian economy and stifled economic activity had been eliminated, and conditions conducive to sustainable growth had largely been restored. Among the ERP's most notable accomplishments were:

- five consecutive years of annual GDP growth of about five percent;
- the elimination of all external debt servicing arrears;
- a fully liberalized foreign-exchange regime;
- a stable local currency;
- increased private savings and investment, and a significant decline in the fiscal deficit and the rate of inflation.

These accomplishments are the more notable because The Gambia has limited resources with which to achieve sustainable development—The Gambia is a resource-poor African economy with a tiny domestic market and a host of problems related to general underdevelopment.

Although economic expansion has been impressive over the past five years, the pace of per capita income growth has been modest, both in relative and absolute terms, and tangible improvements in the living standards of the majority of average Gambians have been slow to materialize.

In general, the ERP helped set the stage for a shift in focus from economic recovery to a forward strategy of growth. The Gambia is thus at a pivotal stage in its national development, as it attempts to shift from a program of crisis-driven structural adjustment to one of steady, sustainable growth aimed at improving the basic living standards of the majority of the population. To guide the process of transition from stabilization to growth, the government has introduced a medium-term follow-on program to the ERP, entitled the Program for Sustained Development (PSD). Underlying the PSD is a reconfirmation of the government's commitment to the liberal market-based economic policy framework established under the ERP and a reiteration of the government's belief in the private sector as the most appropriate and reliable engine of economic growth. The PSD also acknowledges that accelerated economic growth will require increased private investment from both domestic and foreign sources, as well as the successful incorporation of new technologies to increase productivity.

This attitude and policy direction will help ensure that The Gambia remains hospitable to foreign investors, and that general economic conditions will continue to improve steadily.

## How Investment Policy and Regulation Work

The Gambia's regulatory policies overtly favor foreign investments. There are no restrictions on capital repatriation, no requirements for local management or equity, no restrictions on royalty payments or compensation for the use of technology. In addition, the government's investment policy contains a number of attractive incentives and tax breaks for foreign investors that support national development goals, of maximizing exports and using local inputs. There is no stated preference, moreover, for prestige projects or large-scale units with high employment thresholds and minimum investment authorizations.

To establish a business in The Gambia, private investors generally must submit to two approval processes before establishing new ventures in The Gambia:

(1) applications to meet normal business establishment requirements such as operating licenses, building permits, legal access to land, commercial registrations, and work permits for foreign professionals; and

(2) application for tax concessions and other fiscal and non-fiscal incentives granted under the Development Act in the form of a development certificate for those projects meeting specific export and local content criteria.

The Ministry of Trade, Industry, and Employment (MTIE) has ultimate responsibility for administering concessions granted under the Development Act. To facilitate the investment process and reduce bureaucratic red-tape, The National Investment Board (NIB) was established several years ago as a "one-stop shop" to assist and advise potential domestic and foreign private investors.

Effective implementation of the "one-stop shop" service concept has proven problematic in the event, due mainly to a lack of clearly delineated legal and administrative authority for NIB to obtain clearances, licenses, and approvals from various ministries and agencies that are frequently involved in the approval process. Complaints about time consuming bureaucratic delays and cumbersome approval processes are common among private investors. However, the NIB is making a concerted effort to fine-tune the existing system to reduce turnaround time. Planned enhancements include the introduction of standard application forms, simultaneous processing of investment applications by the relevant government ministries, and further development of NIB's "One-Stop-Shop" liaison service. These improvements should produce some positive results in the near future.

## KEY ISSUES FOR AMERICAN INVESTORS

A discussion of general issues for business is given in section 5.3, and for the economy in section 2.4. American investors in particular should consider the following features of The Gambia's operating environment:

✓ *stable democracy*

The Gambia's record of political stability and democratic principles is impressive, particularly in a region characterized by political uncertainty. Regularly held presidential and parliamentary elections provide a stable and predictable political environment for conducting business.

✓ *open, market-based economy*

The Gambia has one of the most open economies in Africa, with a fully liberalized foreign-exchange regime, few import restrictions, low import tariffs, no price controls, and a reasonably stable currency.

✓ *liberal investment regime*

The Gambia's liberal investment code permits the free flow of capital into and out of the country, including the right of full repatriation of profits, and places no restrictions on foreign equity participation.

✓ *low operating costs, including low wage rates*

Because it is not a member of the CFA franc zone, with its high costs induced by an overvalued currency, The Gambia offers significant cost advantages to American companies vis-à-vis the francophone states, particularly in terms of wage rates (the average daily wage is one dollar).

✓ *strong support from the international financial community*

Financial support from multilateral and bilateral donors has been critical in enabling The Gambia to realize positive results from recent economic reforms. Relations among the various donors and development agencies operating in The Gambia are characterized by a high level of consultation and cooperation. All donors have commended the government on its discipline in implementing the structural adjustment program and expressed confidence in the country's future progress.

✓ *strategic geographical location*

The Gambia's strategic geographical location, low tariff regime, and the ability of local firms engaged in the import business to secure supplies from the cheapest sources, have made Banjul an important transit trade and re-export center. Trade policies in areas such as exchange-rate controls, import tariffs and quotas, and export requirements are generally favorable to investors, and ongoing policy-reform measures continue to reduce tariff barriers that would impede the importation of inputs and intermediate goods for investment activities.

✓ *excellent telecommunications services*

The state-owned monopoly, GAMTEL, provides excellent international telecommunications services from Banjul. A major installation of new equipment was completed with assistance from France three years ago. GAMTEL is planning a major effort over the next several years to expand the telephone network to the interior.

✓ *comfortable working and living environment*

With the peace, stability and rule of law that characterize the country, The Gambia has all the facilities to provide a comfortable working and living environment for foreign investors and their families. Expatriates have a wide range of choices with regard to housing. Attractive and comfortable homes can be found in scenic surroundings located in Banjul and its suburbs, including Bakau, Cape Point, Fajara, Pipeline and Kotu.

## MAJOR OPPORTUNITIES AND CONSTRAINTS

A general list of investment opportunities in The Gambia is provided in section 5.4. For U.S. firms in particular, however, certain **industry trends, opportunities** and **constraints** are worth highlighting:

*agriculture and horticulture*

Despite the volatility of world market prices for groundnuts, the potential exists for increased profitability through more efficient production, improved processing, and enhanced marketing strategy. Privatization of the state-owned produce marketing board is scheduled for late 1992 and should provide new opportunities private commodity dealers.

Outside of groundnut marketing, profitable investment opportunities for private-sector participation in agriculture exist in the production of vegetables and tropical fruits for specialty markets in Europe and for the provision of the tourist hotels. Export-quality mangos, papayas, avocados, green beans, eggplants, peppers, cauliflowers, and other fruits and vegetables are currently produced on an increasing number of privately owned farms.

*fisheries*

The demand in export markets for Gambian flatfish and shrimp has consistently exceeded supply, and foreign and domestic investment in this sector has consequently increased steadily since the mid-1980s. There is a growing demand for the higher-priced demersal fish in the local market and for export. The export demand for warm-water species has always exceeded supply.

Key industry constraints include the absence of an exclusive modern fishing harbor and marine facilities to provide efficient berthing, off-loading and maintenance services for both commercial and artisanal fishermen.

*tourism*

The Gambia's proximity to Europe and pleasant winter climate make it an ideal location for winter tourism, and this factor has been recognized by the tourism industry in Europe. For example, the National Investment Board has recently received applications from credible foreign investors to construct major new hotel and retirement facilities in the beach area. Outside of a handful of beach hotels, the downstream industry is underdeveloped. Opportunities exist to develop other entertainment outlets, tourist handicraft markets, eco-tourism up-country and regional travel.

Rapid growth has placed increased strains on the public sector's capacity to provide essential services to the industry. Water and power supplies have become increasingly unreliable. Hotels are dependent on standby facilities to guarantee continuous services. Furthermore, the limited sewage-disposal capacity in the major tourism center, the Kombos area, could become a key impediment to future growth. Some infrastructural deficiencies (e.g., unreliable electric power supply) are less restricting to foreign developers because of the developers' financial capability to construct all-inclusive operations and their technical capacity to manage autonomous on-site infrastructure. The water-supply problem is a serious problem to all of the beach hotels. Investments in water, sewerage, and electricity infrastructure, as well as improvements to the airport, are needed.

In addition to the sector-specific **constraints** mentioned above, foreign investors in The Gambia face additional constraints at a general level.

*infrastructure deficiencies*

The Gambia's poor infrastructure (outside of telecommunications) is perceived by local entrepreneurs and foreign investors as an increasingly negative feature of an otherwise favorable investment climate. Electricity and water distribution in some areas are so unpredictable that many businesses have opted for self-sufficiency in power and water supplies. Frequent electric power failures and water shortages pose particular problems for the tourism industry. In addition, irregular and insufficient international air cargo services impose constraints on increased sales and general business expansion.

The government and donors are taking steps to address these problems, particularly with projects focused on improving power and water problems.

*small domestic market*

The domestic market in The Gambia is extremely small (with a total population of 800,000), and per capita purchasing power is weak (with the average per capita income at only $250). Productive private enterprises are by necessity export oriented, either toward the west African regional market or to European, Asian, or American markets.

*shallow capital markets*

Limited competition in the commercial banking sector and a conspicuous lack of differentiation to serve the medium- and longer-term credit needs of resource-based enterprises, have combined with continued high levels of government domestic borrowing to create high real interest rates that effectively limit access to loan funds to a small, well-established cadre of import-export traders.

Currently, there are no building societies, no development finance companies, no consumer credit or finance companies, no market for new issues of stock, no venture capital funds, no credit unions or non-agricultural cooperatives, no leasing organizations, and no private pension funds. Insurance companies have not developed sufficient excess reserves to be able to make long-term investments. Moreover, there are no secondary markets for financial instruments, stock exchanges, or private placement services for capital investment. As a result, private investors seeking capital for the start-up of a new business or the expansion of an existing business are unlikely to find satisfaction through the domestic financial system. In many ways the system can be said to favor those with access to off-shore financing.

The government is now engaged, with USAID support, in a major effort to address a range of issues affecting financial sector development, beginning with a restructuring of the commercial banking sector. In particular, this restructuring will create a new arm to provide credit to the private sector. This effort has already produced major improvements in the situation.

*limited human resources*

The Gambia has a large pool of low-cost unskilled labor. However, there is a shortage of trained, skilled personnel for private sector employment. The Gambia has a liberal policy concerning the employment of foreigners for managerial and technical assignments.

*administrative bottlenecks*

Serious administrative inefficiencies which deter private investment include an archaic, manual registry system for both real and personal property, inadequate procedures and staff for the enforcement of claims, absence of staff to supervise the insurance industry, and an overburdened and understaffed court system. Taken together, the shortcomings of the legal, regulatory and administrative systems create a climate of uncertainty and conservatism that reinforces the short-term orientation of savers, investors and creditors in The Gambia. Government efforts to improve the situation are beginning to take effect but will be gradual.

*continued large role for public sector*

The government has made substantial progress in its efforts to reduce the role of the public sector in the economy through the privatization and divestment of state-owned enterprises. But public ownership of critical industries continues to be an important impediment to increased private investment in The Gambia, for several reasons.

First, despite marginal improvements in the performance of some state-owned enterprises (SOEs) now operating under performance contracts, on balance the remaining state enterprises continue to drain public revenues that could otherwise be applied to needed public investments, such as infrastructure.

Second, certain SOEs—notably the public utilities company—provide poor basic services, which add to the real cost of doing business in The Gambia and discourage increased private investment.

Finally, the groundnut sector—which constitutes the most important sector of the economy—is still dominated by the state owned marketing board, whose facilities are in a state of serious disrepair and whose management has served the industry poorly. Recognizing this state of affairs, the government in September 1991, entered into a management contract with a private European company to prepare the industry for full privatization and to take immediate steps to open the export market to private businessmen.

...

On balance, The Gambia provides one of the more open and attractive environments for American investors in West Africa. The constraints cited above are substantial, but most stem from "red tape" issues that can be overcome much more easily than more serious problems relating to political and economic stability, economic management and convertibility, which The Gambia does not have. In perspective, then, The Gambia is indeed a comparatively attractive environment for American business in Africa, one that will reward patient effort, and one that will continue to improve in the near and medium term.

# 1. POLITICAL BACKGROUND

**As one of the oldest multiparty states in all of Africa, The Gambia offers a remarkably stable and open political environment for foreign investors. Human rights and freedom of expression are widely respected and legally protected by the constitution. As in the U.S., the legal system is based on British common law. Taken together, these attributes provide a stable, predictable and familiar environment for conducting business.**

## 1.1 GOVERNMENT AND POLITICS

The Gambia is the oldest multi-party democracy in West Africa. A former British colony, it was granted internal self-government in 1963 and independence in 1965 as a parliamentary democracy. In 1970, The Gambia became a multi-party republic, while maintaining its Commonwealth membership and linkages. With the exception of a coup attempt during 1981 The Gambia has enjoyed political stability since independence in 1965.

The Gambia is led by an executive president. Its major political parties include: the ruling People's Progressive Party (PPP), the Garnbia People's Party (GPP), and the National Convention Party (NCP).

Although it is a multi-party democracy, the country since independence has been governed by the People's Progressive Party under the leadership of His Excellency, Alhagi Sir Dawda Kairaba Jawara, who became The Gambia's first president in 1970. Jawara is very popular, viewed by the people as a founding father, and is expected to run again in the next election.

Under the current constitution, general elections are to be held every five years to elect members of the country's parliament. It consists of the House of Representatives, which is composed of a speaker, a deputy speaker, and thirty-five elected members. In addition, four chiefs are elected by the Chiefs in Assembly.

For administrative purposes, the country is divided into the capital territory and the provinces. The provinces are, in turn, divided into five divisions, each headed by a commissioner. Each division is further divided into thirty-five districts locally administered by head chiefs, assisted by village heads and advisers. The capital city of Banjul is administered by a City Council.

Although Jawara has been head of state and his ruling PPP party in control since 1965, opposition parties can and do compete for representation. But since the main opposition party's announcement last September that it wished to merge with the ruling People's Progressive Party, domestic opposition appears virtually to have disappeared.

In the last election, held on March 11, 1987, the ruling PPP increased its representation in the parliament from twenty-eight to thirty-one seats, a victory that gave the Jawara government a strong mandate to continue its Economic Recovery Program (ERP). The next presidential and legislative elections are due in March 1992. It is unclear whether Jawara intends to stand for a further term; there is no obvious successor.

## 1.2 HUMAN RIGHTS

The constitution provides for basic human rights and rule of law. In fact, The Gambia is heralded as having one of the best human rights records in Africa. Moreover, President Jawara marked the twenty-sixth anniversary of The Gambia's independence on February 18 by freeing the remaining thirty-five prisoners held since the abortive attempt to overthrow him in 1981. Nineteen of the prisoners were serving life sentences.

In addition, The Gambia is attempting to help other countries in the region improve their human rights records. The non-governmental African Center for Democracy and Human Rights Studies appears to be coming into its own, particularly now that multi-party democratic reforms are sweeping the continent. The center, headed by the former Gambian solicitor general, Raymond Sock, was reported by early March to have obtained most of the $500,000 funding for which it has appealed to foreign governments and appears ready to start training courses for magistrates from Benin, Cameroon, Gabon, Guinea and Togo, as well as for African non-governmental organization activists and senior law-enforcement officials.

## 1.3 CORRUPTION

In The Gambia, it is only occasionally that one encounters extortion, bribery, or fraud. Under these circumstances, the best defense is an absolute refusal to cooperate, explaining gently that while one values friendship and would like to accommodate, the laws of the United States provide severe punishments for activities that might be considered entirely appropriate in other countries. This strategy is usually successful. Corruption is not an institutionalized aspect of the political system.

## 1.4 FREEDOM OF EXPRESSION

There is an open airing of political views in The Gambia, although it is not always easy to understand how the four opposition parties differ ideologically from the ruling party.

In The Gambia, freedom of the press is guaranteed by the constitution and no attempt has been made to infringe on this freedom. There are three radio stations and a variety of small weekly newspapers, ranging in political views from socialist to libertarian. Moreover, The Gambia allows the sale of a number of foreign newspapers in Banjul.

In addition, even though The Gambia is 95 percent Islamic, the constitution allows for freedom of religion, and these rights are enforced throughout the country.

## 1.5 Legal System

The Gambian legal system is based on the British system of common law. But in some areas, such as land tenure and ownership, Islamic law becomes relevant. Indeed, the system of land tenure is not very Western. In the area of contracts and commercial law, however, the Gambian legal code is very similar to that of the U.S. and the U.K. Recently, all of the law codes in The Gambia were published in twelve volumes.

The legal system governing business activity in The Gambia suffers from substantial inconsistencies and major gaps in statutory law and regulations as a result of the wholesale inheritance of certain British parliamentary acts, some of which were last revised in the nineteenth century. The Gambia is bound by international treaties into which the U.K. entered before independence and that have not been explicitly renounced or repealed.

The need for improvements in the legal structure is generally non-controversial within the government of The Gambia, and the slow pace at which these problems have been addressed reflects a lack of sufficient technical expertise rather than a failure to recognize the problem or a resistance to change. The government recently completed a five-year effort to consolidate the statutory enactments of the Gambian parliament and to update them technically. The President's annual budget address in November 1990, committed the government to publishing a revised edition of the laws of The Gambia and to maintaining the laws cumulatively.

The deficiencies in Gambian statutory law are hindering private investment and inhibiting the development of financial instruments, transactions, and institutions that have been important vehicles of investment in other economies. Virtually every type of equity or long-term debt-finance technique currently in use or potentially suitable for use in The Gambia is affected in some way by the lack of a complete, consistent, and up-to-date legislative framework for business activity.

The President also announced in his budget address that the government will develop new legislation to provide a unified legal basis for the control of land development, set standards for land survey work, review the laws and regulations governing financial institutions, amend the Companies Act to facilitate the issuance of and trade in securities and further protect the rights of shareholders, enable the establishment of hire/purchase transactions and institutions, and establish a statutory body to govern accounting practices and auditing procedures.

USAID has recently begun a new five-year project to address many of these problems in the legal sector. And the central bank is currently drafting amendments to the Central Bank Act and the Financial Institutions Act, has issued new licensing procedures to shorten the processing period for financial institutions, and has decided to recruit an expatriate to serve as insurance commissioner and to rewrite the insurance regulations.

## 1.6 International Relations

Although The Gambia follows a formal policy of non alignment, it maintains particularly close relations with the United Kingdom, the United States, Senegal and African Members of the Commonwealth. The Gambia takes an active interest in international affairs although its representation abroad is limited.

As chairman of ECOWAS in 1990-91, The Gambia played a significant role in bringing the Liberian crisis under control. The tireless round of diplomacy has greatly increased Jawara's prestige in the region, and his contributions were recognized by fellow ECOWAS leaders at their summit in Abuja, Nigeria, in July. Not least, under President Jawara's leadership the organization has managed to contain the potential splits between French- and English-speaking members and to survive francophone suspicions of Nigerian empire-building.

The Gambia is a member of the United Nations, the Organization of African Unity, the Economic Community of West African States (ECOWAS), the Non-Aligned Conference, and the British Commonwealth.

## 1.7 Implications for American Investors

- The Gambia offers an open, democratic political system, one that will be relatively familiar to American investors.
- The country's exemplary human rights record and open avenues for freedom of expression combine to provide a friendly and respectable atmosphere for the investor.
- Although some allegations of corruption exist, it is not institutionalized and does not pose a severe impediment to conducting business.

## 2. ECONOMIC PERFORMANCE AND OUTLOOK

**The macroeconomic situation has improved dramatically since 1985, due to successful implementation of a comprehensive structural adjustment program under the auspices of the IMF and World Bank. By opening the economy to market forces, the Economic Reform Program (ERP) eliminated many of the structural imbalances that had constricted economic expansion and largely restored conditions conducive to sustainable economic growth.**

### 2.1 SUMMARY TABLE OF MAJOR INDICATORS

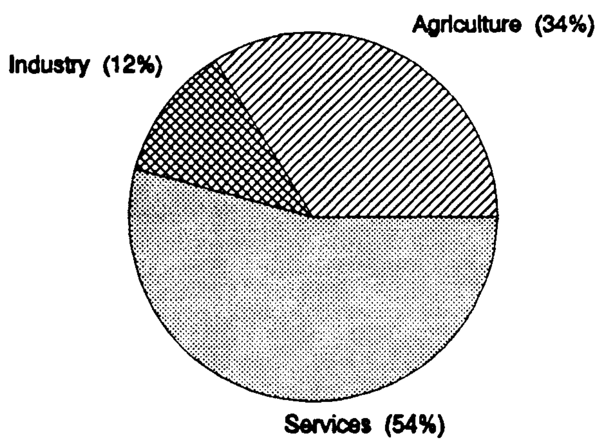
**SUMMARY TABLE OF MAJOR INDICATORS**
**(% change)**

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991-96p |
|---|---|---|---|---|---|---|
| GDP (real) | 10.6 | 5.5 | 4.9 | 5.4 | 4.0 | 4.5 |
| GDP per capita | 3.9 | 2.5 | 1.9 | 2.2 | 1.5 | 1.7 |
| Consumption | 18.5 | 10.3 | 10.0 | 12.2 | 11.0 | 11.5 |
| Savings (nominal) | 7.8 | 7.0 | 6.5 | 7.0 | 6.8 | 7.0 |
| Inflation | 56.6 | 23.5 | 11.7 | 8.3 | 7.0 | 6.0 |

### 2.2 STRUCTURE OF THE ECONOMY

Composition of GDP

(1990)



Agriculture is the dominant sector of the economy. It accounts for 34.5 percent of GDP, 70 percent of the work force, and more than 60 percent of annual exports. Industry, responsible for 11.9 percent of GDP, consists mainly of agroprocessing, manufacturing, and assembly. Services constitute the remaining 53.6 percent of GDP, with trade and government services accounting for the largest components.

Within each major sector, important subsectors stand out. For example, groundnuts and groundnut products account for approximately 80 percent of agricultural exports and about 60 percent of total agricultural planting area. The industrial sector consists chiefly of activities such as groundnut crushing, baking, brewing and tanning, and the production of bricks, fruit juices, soaps and plastics. Within the services sector, tourism represents the predominant contributor to GDP and enjoys steady growth, employing about 6,000 Gambians during the main season from October to April.

## 2.3 Structural Performance

**GDP BY SECTOR ORIGIN AT CONSTANT 1976-1977 PRICES**
**(Dalasi millions)**

| | 1985-86 | % of GDP | 1989-90 | % of GDP |
|---|---|---|---|---|
| Agriculture | 108.4 | 28.6 | 163.1 | 34.5 |
| groundnuts | 25.1 | 6.6 | 46.5 | 8.8 |
| other crops | 41.1 | 11.1 | 62.5 | 13.2 |
| Industry | 35.6 | 9.4 | 56.4 | 11.9 |
| manufacturing | 18.5 | 4.9 | 33.2 | 27.0 |
| Services | 235.1 | 62.0 | 253.5 | 53.6 |
| GDP at factor cost | 379.1 | 100.0 | 473.1 | 100.0 |

Over the past five years, the agricultural and industrial sectors have outperformed the services sector in contributing to GDP. Agriculture has increased its percentage of GDP from 28.6 percent to 34.5 percent, industry has raised its share from 9.4 percent to 11.9 percent, and the services sector's portion has declined from 62.0 percent to 53.6 percent.

The following chart presents a further breakdown of the Gambian economy by sector in 1985/86 and 1989/90. As the data show, groundnut production has maintained a consistent share of GDP of approximately 21 percent. The other major contributors to GDP include trade, with 12 percent of GDP in 1989, down from 19 percent in 1985; livestock, with 11 percent in 1989, up from six percent in 1985; transport and public administration, with nine percent each in 1989, down from 10 percent in 1985; and finance and insurance, with eight percent in 1989, up from four percent in 1985. Manufacturing, hotels and restaurants, and real estate and business services each contributed a share of approximately six percent of GDP in 1989.

**SHARE OF GDP BY ECONOMIC ACTIVITY**
**(%)**

| | 1985-86 | 1989-90 |
|---|---|---|
| Groundnut production | 21 | 21 |
| Trade | 19 | 12 |
| Public administration | 10 | 9 |
| Transport | 10 | 9 |
| Real estate & insurance | 4 | 6 |
| Hotels & restaurants | 6 | 6 |
| Manufacturing | 6 | 6 |
| Livestock | 6 | 11 |
| Finance & insurance | 4 | 8 |
| Other | 14 | 12 |

Although recent government economic policies in The Gambia have achieved some success in mobilizing savings, the financial sector, for a variety of reasons, has been reluctant to begin channelling additional savings into longer term productive investments.

**SAVINGS, CONSUMPTION AND INVESTMENT**
**(As % of GDP)**

| | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 |
|---|---|---|---|---|---|
| Domestic Savings | -4.6 | 7.3 | 4.4 | 7.0 | 7.1 |
| Consumption | | | | | |
| public | 18.2 | 16.4 | 22.8 | 20.0 | 16.9 |
| private | 86.5 | 76.3 | 72.9 | 73.0 | 76.0 |
| Gross Savings | 10.5 | 15.1 | 16.3 | 23.5 | 20.7 |
| Domestic investment | 19.2 | 15.8 | 20.4 | 18.5 | 17.9 |
| public | 16.2 | 10.6 | 14.9 | 14.1 | 10.7 |
| private | 3.0 | 5.2 | 5.4 | 4.4 | 7.2 |

The flow of domestic savings increased from -4.6 percent to 7.1 percent of GDP during the period from 1984-85 to 1988-89, largely at the expense of private consumption, which declined from 86.5 percent to 76.0 percent of GDP. The turnaround from dissavings to a positive savings rate has generally been attributed to the Economic Reform Program (ERP), particularly the deliberate policy of positive real interest rates for savers and borrowers. Gross savings (domestic savings, plus foreign grants and private transfers) increased from 10.5 percent to 20.7 percent of GDP during the same period.

In contrast to the improvement in domestic savings, overall domestic investment remained relatively stable during this time, averaging between approximately 16 percent and 21 percent of GDP. Private investment increased from 3.0 percent to 7.2 percent, while public investment fluctuated between roughly 10 percent and 16 percent. In general, the data show that the level of private investment has not been responsive to the level of private savings. In addition, much of the increase in public investment appears to have been funded largely through foreign aid.

## 2.4 Economic Prospects 1991-1996

In general, over the next five years The Gambia can look forward to increasingly buoyant revenue from a growing tourism industry and the solid backing of the foreign aid community.

According to the World Bank and the IMF, real GDP is expected to grow by an average of 4.5 percent a year during 1991-96 and the annual average rate of inflation is expected to average six percent a year. Continued aid flows, which political stability and generally sound economic management will guarantee, should produce the conditions for these targets to be met.

As is the case for a number of other African countries, however, The Gambia is at the crucial juncture of shifting from a program of crisis-driven structural adjustment to one of steady, sustainable growth. To sustain growth, the economy must be able to ride out contractionary effects arising from any or all of three probable external shocks: (1) a possible reduction in overall official development assistance levels; (2) a reduction in the current volume of unofficial trade between The Gambia and its regional trading partners; or (3) a decline in the value of Gambian oilseed exports. World groundnut prices and weather patterns in the Sahel are volatile, and regional trade relations are equally unpredictable. Moreover, although there is little likelihood of the international donor community abandoning its assistance efforts in sub-Saharan Africa, there is nevertheless growing impatience among international donors to see evidence that assistance funds are yielding tangible progress towards sustainable growth and the creation of viable indigenous private enterprises.

To guide the process of transition from structural adjustment to sustainable growth, the government has introduced a medium-term follow-on program to the ERP, entitled the Program for Sustained Development (PSD). At the core of the PSD is a reconfirmation of the government's commitment to a liberal, market-based economic policy framework and a reiteration of the government's belief that the private sector is the most appropriate and reliable source of productive investment and commercial development in The Gambia. In general, the PSD is designed to make the transition from a program of economic recovery to one of broad-based sustainable growth. Under the PSD, the government has committed itself to specific steps to encourage private investment in the

Gambian economy. These measures include the consolidation of macroeconomic reforms; a continued reduction of the size and scope of the public sector through the privatization of state-owned enterprises (SOEs); improved administration and provision of social services; and increased capital investment in infrastructure.

The challenge for The Gambia as it moves into the 1990s is to channel adequate investment and human resources into productive sectors of the economy in order to enable them to realize their full potential to contribute to sustainable economic growth.

## 2.5 Implications for American Investors

- Macroeconomic performance in The Gambia has been generally positive for the past several years and has been characterized by a marked shift away from state control of the economy towards market determined growth. The Government and the international donor community are working together to ensure consolidation and deepening of economic policy reforms implemented over the past several years.

- While growth of the productive sectors of the economy will continue to be constrained by the limitations of the domestic financial sector, interesting opportunities exist in the Gambia for investors with access to off-shore financing.

# 3. SECTORAL ANALYSIS OF THE ECONOMY

**The Gambian economy is based primarily on agriculture and services. Groundnut production and processing will continue to dominate the agricultural sector, but horticulture and fisheries will become increasingly important contributors as economic diversification occurs. Tourism constitutes the fastest growing sector of the economy and benefitted from significant new investments over the past several years. Industrial production and manufacturing activity is limited.**

## 3.1 AGRICULTURE

The agricultural sector is the major pillar of the Gambian economy. Within this sector, groundnuts are the most important crop and are produced on 84 percent of all farm units. Overall, groundnuts account for approximately 50 percent of farm income from agricultural products. Moreover, groundnut products account for over 60 percent of The Gambia's domestically produced exports. In the world market, The Gambia accounts for less than one percent of all groundnut exports.

As a whole, the agricultural sector had a dismal performance last season, with groundnut production down by over one-third, the worst performance in a decade. According to figures from the United Nations Food and Agricultural Organization (FAO), there was an overall shortfall of 50 percent in The Gambia's output of groundnuts, rice, coarse grains and cotton during the last crop season.

Over the past three to five several years, the Government has made significant progress in transferring responsibility for the groundnut industry from the public to the private sector. Export taxes on groundnut products have been removed, domestic marketing has been deregulated, and the state-owned Gambia Produce Marketing Board's (GPMB) legal monopoly on export of groundnut products was rescinded in early 1990. While GPMB currently retains control of the only existing groundnut processing facilities, the Gambian Government in September, 1991 placed the facilities under a private management contract to prepare for full privatization and to provide immediate access to the private sector. Sale of the facilities to the private sector is scheduled for late 1992.

Given the importance of the oilseeds industry to the economic well-being of The Gambia, full privatization of the GPMB is viewed as a necessary part of the overall process of enhancing the sustainability of growth by ensuring that the limited capital and human resources in The Gambia are allocated to their most productive uses.

Despite the volatility of world market prices for groundnuts, the potential exists for increased profitability through more efficient production, improved processing, and enhanced marketing strategies. The main constraints on the expansion of commercial agriculture are: the inefficiencies created by the historic dominance of state-owned enterprises in input supply, crop procurement, processing and export marketing; the lack of a coherent strategy and financial commitment to facilitate crop diversification or to engender efficient private-sector development of agricultural production and marketing; and low levels of soil fertility, which inhibit increases in productivity and crop yields. Diversification into alternative oilseeds such as sesame or sunflower is both feasible and potentially more profitable than groundnut production.

## 3.2 Horticulture

The Gambia has made efforts in recent years to supplement its groundnut production, which is so dependent on climate, by diversifying into profitable horticultural schemes. In fact, profitable investment opportunities for private-sector participation in agriculture exist in the production of vegetables and tropical fruits for specialty markets in Europe and for the provision of local tourist hotels. Export-quality mangos, papayas, avocados, green beans, eggplants, peppers, cauliflowers, and other fruits and vegetables are currently produced on an increasing number of privately owned farms in The Gambia.

Horticultural production and distribution is almost entirely under the control of the private sector. At least ten private companies are currently in operation, and the industry is fast becoming an important generator of foreign exchange and employment.

Almost all of the investment in commercial horticulture has occurred in the last five years. The initial success and profitability of this industry in The Gambia has led to increased investment. As for land area currently under commercial horticultural cultivation, approximately 1,000 hectares are currently in production.

The combination of adequate ground water, good growing conditions, and a proximity to European markets has made the export of high-value horticultural products from The Gambia a highly profitable economic activity capable of providing substantial employment for Gambians. While the per-ton value of the export varies from crop to crop, a medium- to large-scale operation working 200 hectares to produce 100 megatons of exports per week is capable of generating as much as $5.0 million in gross annual revenue. Using a figure of ten to fifteen workers per hectare, such an operation would employ between 200 and 300 people.

The major constraints on the growth of horticulture in The Gambia are related to transportation and marketing. Chief among these are the cost and dependability of air shipment (the country now has a weekly air charter flight to Europe for horticultural products), and the availability of cold storage while produce awaits shipment. Market knowledge of quality-control standards and consumption patterns in the European and North American markets is also lacking among smaller firms. Contract farming between the smaller farms and larger exporters, including foreign companies, could largely alleviate these constraints.

The limited storage facilities and inadequate cargo space for shipment on commercial airlines has restricted expansion in this sector, even as the demand for Gambian produce in external markets has shown consistent growth over the past several years. A number of private firms are currently undertaking feasibility studies of charter air cargo service for

The Gambia and for cold-storage facilities at the airport to respond to an evident demand among the commercial farms. Foreign investment through joint-venture arrangements between Gambian producers and foreign agri-business enterprises could provide the necessary capital and technical services for the horticultural sector to expand rapidly in the 1990s.

## 3.3 FISHERIES

The Gambia has also tried to diversify economically by developing its fisheries sector. Indeed, fisheries appear to have done quite well in recent years, with exports growing in value from $20.1 million in 1988-89 to $23.1 million in 1989-90.

The country's abundant ocean and river fish and shrimp resources are currently harvested by a growing number of small and medium-sized private enterprises, both for domestic consumption and for export to European and other markets. Artisanal fishing is conducted along the length of the Gambian River and close to the shoreline, primarily by Gambian fisherman in small privately owned or leased canoes and boats. Commercial ocean fishing is practiced mostly by larger ocean-going trawlers of mixed Gambian, foreign, and joint ownership. Industrial fishing is conducted offshore, mostly by foreign vessels. Shrimp, squid, sole, and other varieties of whitefish are the principal export products.

Offshore fishing takes place in the Gambian Exclusive Economic Zone (EEZ). In the EEZ, The Gambia has exclusive control over the licensing of fishing rights as authorized by its ratification of the Law of the Sea Treaty in the mid-1980s. The width of the Gambian coastline, including the river mouth, is about thirty-two nautical miles, so that the area of ocean controlled by The Gambia is about 6,400 square nautical miles. This is about 14 percent of the combined Gambian/Senegalese shelf area. Most of the productive fishing, except that of tuna, is done within thirty to forty miles of the coast.

Several commercial ocean-going companies land their catch in The Gambia for processing prior to export. Nearly all of the country's fish-processing facilities are privately owned. Twelve private companies operate processing facilities, with three large firms handling up to 80 percent of the landed catch. Most of the foreign vessels that fish offshore process their catch at sea and transport it directly to foreign markets.

The structure of fish marketing is closely related to processing conditions. In artisanal fishing, fish are either smoked and dried for export to neighboring countries and up-country consumption, or they are sold fresh, usually within thirty-five kilometers of the landing site. Local hotels show an increasing demand for fresh fish under the stimulus of the tourist trade. Some of the artisanal fishery's shrimp and sole fish are exported to Europe through marketing arrangements with larger commercial companies.

Three Gambian companies are responsible for most of The Gambia's fish exports. These include the National Partnership Enterprises (NPE), Pelican Seafood and Lyefish Company. The principal markets for Gambian fish and seafood are Europe and Japan.

Two companies have recently made sizable investments in the fisheries sector in The Gambia, and are achieving success that can be replicated. NPE has expanded its cold-storage and shrimp- and fish-processing facilities and is expanding its fleet with additional concessional financing arranged through the Danish government. Moreover, an American fisheries company, Vinaport, has established a partnership with Pelican Seafood. Under an arrangement that includes IFC (International Finance Corporation) financing through a local bank, Vinaport has agreed to increase the company's ocean fishing capacity by providing three additional trawlers. Other available investment funds will be used to expand the company's storage and processing facilities.

Demand in export markets for Gambian flatfish and shrimp has consistently exceeded supply, and foreign and domestic investment in this sector has consequently increased steadily since the mid-1980s. Meanwhile, there is a growing demand for the higher-priced demersal fish in the local market and for export. Export demand for warm-water species has always exceeded supply. The government has actively encouraged the development of artisanal fisheries and shrimp farming. To facilitate growth, it has abolished supplementary licensing requirements for the fish-processing industry.

Key industry constraints include the absence of an exclusive modern fishing harbor and marine facilities to provide efficient berthing, off-loading and maintenance services for both commercial and artisanal fishermen. The limited capacity of the Gambian Marine Unit to control the illegal exploitation of Gambian waters by foreign industrial concerns constitutes another constraint on the growth of the sector.

The production and processing of fish and seafood is expected to demonstrate continued growth in the 1990s, and the fisheries sector will afford increased opportunities for private investment and enterprise development. With an estimated maximum sustainable yield of 75,000 metric tons, against a current offtake of about 29,000 metric tons, there is ample scope for further private-sector investment in capture fisheries. Increases in the landed catch could be achieved through private investment in off-loading facilities and would create opportunities for the expansion of processing facilities.

## 3.4 TOURISM

Tourism is one of the most important sectors of the Gambian economy. Between 1987 and 1989, the contribution of tourism to GDP averaged about 10 percent. During this same period, tourism contributed approximately D250 million per year to government revenues. Employment in tourism (direct and indirect) averages about 7,000 people, while net foreign-exchange earnings from the sector amount to around $25 million per year.

Since the 1970s, The Gambia has benefitted from a tremendous boom in tourism, with an increase in total tourist volume from 300 arrivals in 1965 to nearly 100,000 arrivals in 1990. Since the beginning of the boom, The Gambia has been quick to recognize its potential as a winter beach resort, and private investors have moved accordingly to expand the hotel capacity to accommodate foreign tourists in increasingly large numbers. The number of hotel beds increased from 4,000 in 1983-85 to 4,800 in 1988-89.

The Gambia's sixteen hotels usually operate at full capacity during the winter season. Therefore future growth can only be sustained by increasing the number of guest rooms. Private investors have undertaken significant construction in anticipation of future business opportunities in this sector. Most recently, construction was completed on a 120-room five-star beach hotel.

Rapid growth has placed severe strains on the public sector's capacity to provide essential infrastructure to the tourism industry. Water and power supplies have become increasingly unreliable. For The Gambia to derive maximum benefit from tourism in the 1990s, it will be necessary for leaders in the industry to move aggressively to make improvements to existing infrastructure. In particular, investments in water, sewerage, and electricity infrastructure, as well as improvements to the airport, are badly needed.

The Gambia's proximity to Europe and pleasant winter climate make it an ideal location for winter tourism, and this factor has been recognized by the tourism industry in Europe. For example, the National Investment Board recently received applications from credible foreign investors to construct major new hotel and retirement facilities in the beach area. Outside of a handful of beach hotels, the downstream industry is underdeveloped. Opportunities exist to develop other entertainment outlets, tourist handicraft markets, eco-tourism up-country and regional travel.

## 3.5 Manufacturing

The manufacturing base of The Gambia is small, in both quantity and range of output. Product lines focus on bakery goods, beverages, processed fish, paints, insecticides, soap, construction, and garments. In general, industrial production and manufacturing has been constrained by the small size and limited buying power of the domestic market, non-availability of medium and long term financing, open, non-protectionist trade policy that oblige that local products to compete effectively with low cost imports, and high start-up and operational costs.

## 3.6 Implications for American Investors

- Horticulture and fisheries show solid growth potential and attractive investment opportunities for American business.

- New opportunities in groundnut production, processing, and marketing will be created through the slated full privatization of the oilseeds industry by the end of 1992.

- Growth in the tourism sector is likely to slow until sufficient improvements are made in basic infrastructure. U.S. investors willing to contribute to infrastructure improvements are likely to receive special benefits and incentives.

## 4. STATE'S ROLE IN THE ECONOMY

**The Gambian government has made important strides in moving away from state control of the economy toward implementation of an open market economic policy framework. Under the structural adjustment program, the Government committed itself to a program of privatization of state-owned enterprises (SOE's), and a number of SOE's in various sector of the economy have already been sold off or closed. The two largest SOE's, the Gambia Commercial and Development Bank and the Gambia Produce Marketing Board, are currently in the process of being privatized. Other remaining SOE's include the public utility company (GUC) and the telecommunications company (GAMTEL).**

### 4.1 Strength and Role of the Public Sector

Since 1985, the government has made substantial progress toward reducing the role of the public sector in the economy through simultaneous adoption of a liberal, open-market economic policy framework and implementation of a program of privatization and divestiture of state-owned enterprises. Under the privatization program, the government has successfully sold off, liquidated, or closed down a significant number of public enterprises in the tourism, fisheries, financial, agribusiness, and retail marketing sectors. The two largest parastatals, the Gambia Commercial and Development Bank (GCDB) and the Gambia Produce Marketing Board (GPMB) are currently being prepared for final privatization. GCDB is currently for sale with a closing date for offers set for December 1991, and GPMB is scheduled for sale by late 1992.

Remaining SOE's include the Gambia Utilities Company, the Gambia Telecommunications Company, the Gambia Public Transport Company, the Gambia Social Security and Housing Finance Company, and the Gambia Livestock Marketing Board. Under the new Program for Sustained Development, the Government will continue to pursue a privatization agenda. Furthermore, program agreements with both the World Bank and the USAID preclude the creation of new parastatals and include commitments by the Government to discourage any public sector involvement in economic activities of potential interest to private investors.

While the Government has made substantial progress in this area, certain remaining SOEs, notably the Gambian Utilities Company and the Public Works Department (road maintenance) constitute impediments to increased private investment in that they provide poor infrastructural services and,in effect, add to the real cost of doing business in The Gambia. Plans are currently underway to turn over management of the utilities company to a private management contractor. At the same time significant capital projects are in the early implementation stages to improve water availability and to improve the road network.

Over the medium term, budgetary constraints are likely to limit the state's role in the economy. Government investment and expenditures will be severely constrained and effectively limited to provision of improved essential government services, such as road building and maintenance, public health, education, defense, and law enforcement. While some limited rural and agricultural development activities may continue to receive direct, subsidized funding from external donor agencies, most private-sector development, will be dependent upon financing from private domestic or external sources.

## 4.2 Strength and Role of the Private Sector

As the government has moved decisively to eliminate state control of the economy, the strength and role of the private sector have naturally increased. Former state-owned enterprises that have been successfully taken over by the private sector include an insurance company, a tourist hotel, and a sawmill and lumber company. The private sector has furthermore expressed keen interest in opportunities to be created by the full privatization of the groundnut industry.

Until the mid-1980s, almost all of The Gambia's private-sector-led economic diversification had been initiated by foreign investors able to benefit both from management expertise and well-established export-marketing arrangements. Local investment, before 1985, was largely confined to the expansion of trading and re-export enterprises. This stemmed from a general lack of capital and the reluctance of the Gambian private sector to compete with subsidized SOEs. Indigenous entrepreneurs have also been impeded by a lack of technical skills and specialized knowledge of new technologies and potential export markets.

Under the ERP, Gambian participation in productive export-oriented businesses increased substantially because of the growing strength of the local private sector. In horticulture, for example, seven of the ten export operations are joint ventures or are solely owned by Gambians, nearly all of the fish-processing facilities are owned and operated by the local private sector. Moreover, three hotels that were originally built by foreign investors are now wholly or partially owned by Gambians. These and other examples indicate the private sector's growing role in the economy.

At the same time, a number of private-sector business organizations are positioning themselves for potentially significant contributions to private-sector development in The Gambia. These include organizations such as the Gambia Chamber of Commerce and Industry (GCCI), the Gambia Women's Finance Association (GWFA), and the Association of Gambian Entrepreneurs (AGE).

## 4.3 Implications for American Investors

- Recent economic reform efforts by the government, particularly under the ERP, have substantially reduced the role of the public sector in the economy and have contributed significantly to private sector development.

- Budgetary constraints in the near term will serve to further curtail the state's role in the economy. The Government has also committed itself not to undertake any new investments in areas of potential interest to private investment.

- Continued private sector development will be dependent on financing from private domestic or external sources, rather than substantial levels of subsidies from the government.

# 5. INVESTMENT CLIMATE

**While the overall business and investment climate in The Gambia offers an interesting range of positive features and assets, growth of the private sector has been limited by a number of important constraints including basic infrastructure deficiencies, an undeveloped financial sector, shallow capital markets, limited human resources, and administrative and bureaucratic inefficiencies.**

## 5.1 RECENT INVESTMENT PERFORMANCE

There are no aggregate measures of investment profitability or performance for The Gambia, but the recent increase in foreign investment, particularly in the tourism sector, is an indicator that the majority of foreign investments are performing well, with most investors optimistic about the future.

## 5.2 EXPERIENCE OF PRIVATE INVESTORS TO DATE

Direct foreign private investment in The Gambia comes from a variety of European and Asian sources, and it focuses on five sectors. Other than hotels, banks, and a few capital-intensive fishing and farming enterprises, most foreign investments tend to involve amounts less than $1 million, reflecting in part the small size of the local economy and in part a need to minimize overall risk by building businesses slowly. Despite their relatively small size, however, foreign investments generally involve substantial equity participation, reflecting the high level of involvement by foreign investors in both short-term operating and long-term management decisions.

## 5.3 INVESTMENT OUTLOOK

By most accounts, The Gambia's economic recovery program (ERP) has been a success. By the end of the fifth year of the program in 1989, most of the structural imbalances that had distorted the Gambian economy and stifled economic activity had been eliminated, and conditions conducive to sustainable growth had largely been restored.

Among the ERP's most notable accomplishments were:

- five consecutive years of annual GDP growth of close to five percent;
- elimination of all external debt servicing arrears;
- a fully liberalized foreign-exchange regime;
- a stable local currency;
- increased private savings and investment; and
- a significant decline in the fiscal deficit and the rate of inflation.

As is the case for a number of other African countries, The Gambia is at a pivotal stage in its national development, particularly as it attempts to shift from a program of crisis-driven structural adjustment to one of steady, sustainable growth aimed at improving the basic living standards of the majority of the population. To guide the process of transition from structural adjustment to sustainable growth, the government has introduced a medium-term follow-on program to the ERP, entitled the Program for Sustained Development (PSD). Underlying the PSD is a reconfirmation of the government's commitment to the liberal market-based economic policy framework established under the ERP and a reiteration of the government's belief in the private sector as the most appropriate and reliable engine of economic growth. The PSD also acknowledges that accelerated economic growth will require increased private investment from both domestic and foreign sources, as well as successful incorporation of new technologies to increase productivity.

### *Assets*

The investment outlook in The Gambia will continue to be shaped by a wide range of positive features and assets, including:

- continued political stability, which will provide a stable and predictable political environment for conducting business;
- an open, market-based economy, with a fully liberalized foreign exchange regime, few import restrictions, no price controls, and a reasonably stable currency;
- a liberal investment policy that permits the free flow of capital into and out of the country, including the right of full repatriation of profits, and that places no restrictions on foreign equity participation;
- a production and operating cost advantage compared to its francophone neighbors;
- strong support from the international financial community, which has commended the government on its discipline in implementing structural adjustment reforms;
- a strategic geographical location, which has made Banjul an important transit trade and re-export center;
- a liberal trade regime, with policies in areas such as exchange rate controls, import tariffs and quotas, and export requirements remaining generally favorable to investors;
- excellent telecommunications services, with new equipment providing extensive and first-rate international connections;
- a comfortable working and living environment for expatriate families.

### *Business Problems and Constraints*

While the overall investment outlook in The Gambia is relatively positive—particularly in comparison to other countries in the region—the Government recognizes that there are a number of significant problems and constraints that must be overcome to improve investment potential and promote business growth in The Gambia. These include:

- basic infrastructure deficiencies, e.g. frequent electrical power failures, water shortages, and transportation problems;
- the small size and limited buying power of the domestic market;
- shallow capital markets, limited competition in the commercial banking sector, and underdevelopment of non-bank financial institutions;
- limited human resources, particularly skilled labor to fill technical and managerial positions in the private sector;
- administrative bottlenecks and bureaucratic delays.

It should be noted that the Government is working with the international donor community, including USAID, to eliminate or reduce the impact of these constraints on private enterprises in The Gambia. For instance, reduction of bureaucratic and other delays in the processing of investment applications is the focus of a major USAID project to strengthen the National Investment Board and promote growth of productive private enterprises. Similarly there are a number of ongoing programs to deepen the financial sector and provide a framework for development of appropriate non-bank financial institutions. While there may be nothing that can be done to change the size of the domestic market, this constraint can be overcome through recourse to both regional and international markets.

## 5.4 INVESTMENT OPPORTUNITIES

The Gambia offers a number of potentially profitable investment opportunities, particularly in the areas of tourism, fishing and fish processing, aquaculture (particularly shrimp farming), agri-business (especially horticulture and floriculture for export to specialty markets in Europe), livestock production for regional trade, and food processing for both the domestic and export markets. Further opportunities abound in the areas of garments, feedmills, freight services, river transport, cargo services, dairy farming and rice milling.

For U.S. firms in particular, the following investment opportunities are worth highlighting:

*agriculture and horticulture*

Outside of groundnut marketing, profitable investment opportunities for private-sector participation in agriculture exist in the production of vegetables and tropical fruits for specialty markets in Europe and for the provision of local tourist hotels. Export-quality mangos, papayas, avocados, green beans, eggplants, peppers, cauliflowers, and other fruits and vegetables are currently produced on an increasing number of privately owned farms.

Of particular interest to U.S. firms is the fact that horticultural production and distribution is nearly entirely under the control of the private sector. At least ten private companies are currently in operation, and the industry is fast becoming an important generator of foreign exchange and employment.

*fisheries*

The Gambia has abundant ocean and river fish and shrimp resources that are currently harvested by a growing number of small and medium-sized private enterprises, both for domestic consumption and for export to European and other markets. Demand in export markets for Gambian flatfish and shrimp has consistently exceeded supply, and foreign and domestic investment in this sector has consequently increased steadily since the mid-1980s. There is a growing demand for the higher-priced demersal fish in the local market and for export. Export demand for warm-water species has also always exceeded supply. The government has actively encouraged the development of artisanal fisheries and shrimp farming in The Gambia. To facilitate growth, it has abolished supplementary licensing requirements for the fish-processing industry.

*tourism*

The Gambia's proximity to Europe and pleasant winter climate make it an ideal location for winter tourism, and this factor has been recognized by the tourism industry in Europe. For example, the National Investment Board recently received applications from credible foreign investors to construct major new hotel and retirement facilities in the beach area. Outside of a handful of beach hotels, the downstream industry is underdeveloped. Opportunities exist to develop other entertainment outlets, tourist handicraft markets, eco-tourism up-country and regional travel.

## 5.5 Implications for American Investors

- The Gambia offers a number of potentially profitable investment opportunities for U.S. investors, particularly in the areas of commercial agriculture, agribusiness, tourism, fishing and fish processing, aquaculture, livestock production for regional trade, and food processing for both the domestic and export markets.

- The investment climate is characterized by a wide range of positive features and assets. U.S. investors in particular would benefit from the country's political stability, open, market-based economy, liberal investment policy, strong international financial support, strategic geographical location, liberal trade regime and excellent telecommunications services.

- Donor agencies, including USAID and the World Bank are assisting the Government to identify solutions for reducing or eliminating a number of the most significant constraints and problems that are currently hindering growth and limiting profitable private investment opportunities for potential U.S. or other investors. The Government's commitment to private sector-led growth is genuine and improvements, particularly in the areas of basic services, should be forthcoming over the short to medium term.

# 6. REGULATION OF FOREIGN INVESTMENT

**Under the revised Development Act, The Gambia encourages foreign investment and provides attractive incentives including tax breaks, credits, and investment allowances for projects that meet national development goals.**

## 6.1 GOVERNMENT POLICY

The Gambian government actively encourages foreign investment. Its economic policy contains a number of incentives aimed at maximizing foreign investment in key areas.

Generally, a well-conceived business venture that supports national development goals should encounter few obstacles to being approved or receiving tax credits. There is no stated preference, moreover, for prestige projects or large-scale units with high employment thresholds and minimum investment authorizations.

## 6.2 INVESTMENT PRIORITIES OF THE GOVERNMENT

The priority growth sectors in The Gambia include: commercial agriculture, horticulture, commercial fishing, livestock, and tourism.

In addition, the Development Act of 1988, which governs priority investments, gives a list of desirable objectives for a project that is granted development status. These objectives are intended to ensure that projects that qualify for incentives also benefit The Gambia as a whole. The objectives are:

- the achievement of foreign-exchange earnings or savings;
- the generation of substantial value added;
- the maximum employment and training of Gambians;
- the maximum utilization of Gambian resources and services;
- the creation of a national productive capital;
- the spatial decentralization of development projects.

## 6.3 INCENTIVES FOR INVESTORS

The government's investment policy contains a number of attractive incentives and tax breaks for foreign investors who support national development goals, such as maximizing exports and using local inputs. Its Development Act of 1988 grants: (1) tax holidays up to five years on corporate profits, extended by an additional two years should losses be incurred during the first five years of operation; (2) tax holidays on dividends; (3) the duty-free entry of capital goods and inputs; and (4) the free repatriation of capital and dividends.

In general, tax holidays are awarded to businesses by the Ministry of Economic Planning and Industrial Development. They vary according to the degree to which a business satisfies national development goals. Although only large, export-oriented businesses were favored for tax holidays before 1988, a broad variety of businesses falling under the categories of agriculture, manufacturing, mining, and tourism are currently considered to be eligible for tax credits.

Moreover, companies that provide training in management or other skills relating to the operation of an investment project can receive an income-tax offset of 200 percent of the cost of training with an approved institution, including the wages and salaries of the staff attending the course. Where the training is provided in-house and the course is approved by the Directorate of Vocational Training and the Department of Labor, relief is given for 200 percent of the cost of the training, including the salaries of the trainers and including preparation time of up to 20 percent of the total cost. Foreign personnel are exempted from the payroll tax when they are employed with the agreement that they will be replaced by the Gambians they are training.

If an investment project is located in an area of inadequate infrastructure and provides such infrastructure, the capital allowance is given at 200 percent of the normal rate. This concession will only be made available, however, if the infrastructure is also made available to others.

If an investment project uses local inputs, Gambian tax authorities will give a tax credit certificate amounting to 10 percent of "local input" (including the cost of the employment of Gambian nationals, the cost of raw materials and intermediate inputs sourced in The Gambia, the cost of services sourced in The Gambia, profit before tax accruing to Gambian equity holders, and interest on Dalasi loans) in each of the first five years of production and in the capital and construction phase.

The tax credit certificate can be used in two ways:

(1) in settlement or partial settlement of income-tax liabilities;

or

(2) in settlement or partial settlement of customs duties.

During the first period for which a tax credit certificate will be given, customs duties are deferred until the amount of credit has been determined. Thereafter, duties may be paid using the previous period's tax credit. Tax credit certificates are transferable.

In addition to the financial benefits received through the taxation system, an investment project designated as a priority investment will also be given assistance in the following areas:

- preferential treatment in the allocation of leases for land;
- preferential access to advisory services;
- support in obtaining permits to employ foreign personnel;
- support in gaining access to domestic material resources and services; and
- support in obtaining licenses and permits where needed.

## 6.4 Limitations on Foreign Investment

The government does not formally limit foreign investment. There are no limitations on capital repatriation, no requirements for local management, no restrictions on royalty payments or on compensation for the use of technology.

## 6.5 Acquiring Real Estate

Arable land may be purchased with government approval directly from its owners, generally the neighboring township. Land for strictly industrial and manufacturing purposes is likewise available, both on government-sponsored industrial estates (such as Kanifing, located near Serrekunda, approximately midway between the port and the airport of Banjul) and along the Gambia River. This land is leased directly from the government through the Ministry of Local Government and Lands for periods of up to ninety-nine years. Leases are easily renewed.

## 6.6 Establishing a Business

Gambian company law, contained in the Companies Act of 1955, follows closely the U.K. Companies Act of 1948. Any company registered under this act as a limited liability company limits the liability of its members to the amount unpaid on their shares. The act governs the formation of companies, share capital, liquidations and receiverships, the responsibilities of officers and directors, accounts, and management and administration. The act also has provisions concerning branches of companies incorporated outside The Gambia.

### *Types of Business*

The Gambia has a wide range of business formats available to the foreign investor, including sole proprietorships, partnerships, cooperatives, statutory bodies, limited liability companies and state-sponsored corporations. The most common format used by foreign investors, however, is the limited liability company (public or private).

In practice, there is little difference between a public and a private limited company. The former must have at least seven members (but six can be nominees of a parent company) and the latter at least two. Private companies, by their articles, restrict the right to transfer their shares, limit the number of shareholders to fifty (excluding employees), and prohibit any invitation to the public to subscribe to their shares or debentures.

### *Necessary Paperwork*

To incorporate a company in The Gambia, the following documents have to be filed with the Registrar General:

(1) Memorandum of association, which includes the company's name, its objectives, authorized share capital and a statement that the liability of the members is limited.

(2) Articles of association, which regulate the internal affairs of a company.

Both of these documents are to be signed by the subscribers, two in the case of a private company and seven for a public company.

The Registrar will require immigration clearance for resident expatriate shareholders and will ask the National Investment Board (NIB) to satisfy itself that foreign investment in The Gambia is supported by adequate finance before completing incorporation formalities and issuing the company's first business registration certificate.

### *Other Requirements*

Every company must have at least one director or, in the case of public companies, two directors. (Nothing is contained in the legislation requiring either Gambian directors or shareholders.) Every company must also appoint a secretary and keep proper books with respect to money received and expended, sales and purchases of goods, and assets and liabilities. Accounts are filed annually with the Registrar of Companies, are attached to the annual return, and are open to inspection by the public.

### *Setting up Shop*

In general, private investors must submit to two approval processes before establishing new ventures in The Gambia: 1) application for tax concessions and other fiscal and non-fiscal incentives granted under the Development Act in the form of a development certificate; and 2) applications to meet normal business development requirements such as operating licenses, building permits, legal access to land, commercial registrations, and work permits for foreign professionals.

### *Potential Stumbling Blocks*

Private investors unfamiliar with conditions existing throughout the developing world frequently complain of excessive bureaucratic inefficiencies and cumbersome approval processes. This is especially true with regard to applications for concession granted to private investors under the Development Act.

## 6.7 Local Content Requirements

There are no local content requirements in The Gambia.

## 6.8 Regulation of Competition

With the most recent dismantling of the monopoly marketing position of the Gambia Produce Marketing Board (GPMB), there are no remaining significant regulations affecting competition. Interest rates and prices throughout the economy are market determined. Licensing requirements in the fisheries, tourism, and financial sectors, although technically barriers to entry, should not be view as protectionist measures but rather as a means for protecting the natural resource base and applying minimum standards to strategic sectors of the economy. In general, The Gambia has one of the most open, non-protectionist market economies in all of Africa.

## 6.9 Investment Protection

The Gambia is a member of the International Center for Investment Disputes (ICSID), established under the auspices of the World Bank, which provides a forum for conciliation and the arbitration of investment disputes between states and foreign investors. In addition, The Gambia has an Arbitration Act that is essentially an old U.K. law allowing parties to submit disputes to arbitration. The procedures are governed by the Supreme Court, which can appoint an arbitrator (if the parties fail to agree on a choice) and enforce an arbitral award. Other international arbitral awards, such as those granted under the International Chamber of Commerce Rules, will be enforced in Gambian courts under common-law principles.

## 6.10 Implications for American Investors

- In general, The Gambia is most attractive for small-scale American investment.
- National development goals are sufficiently broad so as not to pose an impediment to the American investor.
- Because of bureaucratic inefficiencies, a local partner that knows the bureaucracy can be useful in gaining approval for an investment.

# 7. INFRASTRUCTURE

**The poor condition of economic infrastructure is probably the most significant constraint to doing business in the Gambia. With the notable exception of the telecommunications system (which is first-rate) basic services are unsatisfactory: roads are generally unpaved and in bad condition, electric power cuts are frequent, the airport is in need of serious upgrading, and the water supply is unreliable. On the positive side, however, the Government is working to improve delivery of basic services through a number of ongoing or soon-to-begin capital projects.**

## 7.1 TRANSPORT

### *Port Facilities*

The Banjul port is managed by the Gambia Ports Authority under a performance contract with the government. The port has two wharves, with the capacity to service boats up to 600 feet long, but at least one of its two transit sheds is in poor condition. Although the facilities require maintenance, they are fairly efficient except for congestion in June caused by a combination of groundnut exports and the normal upsurge in imports that precedes the rainy season. Adequate container equipment is available, but there are no arrangements for “roll-on/roll-off” (Ro-Ro) vessels or cargo.

### *Air Transport*

The international airport, located approximately thirty-five kilometers from the capital of Banjul, has very good runways (to be used by NASA, if necessary, as an emergency space-shuttle landing site) and can accommodate large planes.

Air passenger transport, particularly during the low tourist season is limited, with only two to three direct scheduled flights to and from Europe per week. Connecting flights to Europe and the United States are available through Dakar. During the tourist season there are frequent charter flights from northern Europe. Regular air cargo service has until recently been limited to space available on passenger flights. However, private horticulture and floriculture producers are now organizing dedicated charter flights to improve the flow of exportables to target markets in Europe.

Airport facilities, once appropriate for regional commuter traffic, need to be upgraded to accommodate The Gambia’s tourism growth. Cargo facilities, especially cool room space, are needed to alleviate the bottleneck in air cargo services.

### *River Transport*

River transport, once a key feature of The Gambia’s historical pattern of trade with other West African states, has shown a steady downward trend over the past several years.

Traffic on the river today is moribund despite the fact that the transport of bulk materials by river boat is still considered to be more efficient and cost-effective than transport by truck. The demise of river transport in the 1980's can be directly attributed to poor management by the Gambia Produce Marketing Board (GPMB) and short-sighted policies of the late 1970's favoring public investment in SOEs over private investment. Opportunities exist in the Gambia for private investment to revitalize river transport, particularly in conjunction with full privatization and liberalization of the groundnut industry, which has historically constituted the bulk (up to 100,000 tons per annum) of river cargo.

No large passenger or freight vessels operate scheduled river service. There is ferry transport of cars and trucks at five locations along the river.

### *Railroads*

There are no railways in The Gambia.

### *Roads*

Most roads in Banjul proper are unpaved or are in a state of advanced disrepair. Road conditions between the port in Banjul, the industrial park in Kanifing, the hotel sector in Kotu, and the airport at Yundum are fair. On the positive side, a major project sponsored by the African Development Bank to resurface city streets is soon to be initiated, and the installation of a modern sewage and water-supply system will be completed in Banjul in 1992. Roads to the interior are rudimentary, but passable. There are no paved roads on the northern side of the Gambia River, other than the main commuter/trade link between Banjul and Dakar.

Though two well-surfaced highways extend into Senegal, only 450 out of 3,000 kilometers of the national road system are paved.

## 7.2 Energy and Water Supplies

The Gambia Utilities Company (GUC) has five generators with an aggregate productive capacity of twenty-two megawatts of electricity—enough to provide a continuous supply to the greater Banjul area including the capital, the industrial park, hotel resorts, urban localities, and the main commercial agricultural districts. Company operations have deteriorated considerably over the past several years, and in January 1991 only one of GUC's five generators was functional, with the other four at various stages of repair or rehabilitation. As a result, load shedding and power interruptions are common, and businesses and residences are dependent on stand-by generators. Further, the GUC has demonstrated a conspicuous inability to manage its finances. Billing is anywhere from three to six months late, and the parastatal lost 40 million dalasis in fiscal year 1990.

The government has sought technical assistance from European and Japanese donors for equipment maintenance and financial management. EEC technical advisors are currently working to improve the billing system, and discussions are underway for a private lease arrangement that should be in place by mid-1992.

The water supply and distribution system, also managed by the GUC, is in a similar state of chaos. An inadequate supply from the central sources has forced many service-sector businesses to overuse bore hole wells. The World Bank, the African Development Bank and the European Investment Bank are involved in multi-faceted long-term projects to increase water supplies and to establish a prudent GUC water-management program.

Finally, because the supply of electricity and water is erratic, with outages common, businesses often install standby generators and water tanks to ensure adequate supplies.

The government signed a C$2.5 million (US$2.2 million) onshore oil-exploration contract with Petro Canada last year for a seismic survey of the western part of The Gambia. There has been no confirmation yet of reports that an exploration offshore, near the maritime border with Senegal, has produced positive results.

## 7.3 COMMUNICATIONS

The state-owned monopoly, GAMTEL, provides excellent international telecommunications services from Banjul, including telex and facsimile transmission. A major installation of new equipment was completed with assistance from France three years ago. While international connections are first rate, connections with the interior are unreliable or non-existent. GAMTEL is planning a major effort over the next several years to expand the telephone network to the interior. There are two private radio stations and one public AM station. None of the radio stations is powerful enough to be received throughout the country. There is no television station.

## 7.4 PRIVATE BUSINESS SERVICES

Major American accounting firms are represented through local subsidiaries in The Gambia. Legal services are quite good and have a firm grasp of Western, and especially British, contract law. Other important business support services, such as market profiles, technology information services, labor relations, and financial management and planning, are difficult to obtain in the formal business community. This inhibits private-sector development, especially in priority export sectors like horticulture and fisheries.

In addition, there is no functioning central information or documentation center where investors or local importers can obtain foreign-trade and technology information.

The Gambia does not have an extensive mail delivery or collection system. Businesses hire a mail box or private mail bag at a post office and collect their mail each morning. Similarly, outgoing mail should be taken to a post office for onward transmission. Most offices employ a messenger for this purpose and also to deliver local post by hand.

## 7.5 IMPLICATIONS FOR AMERICAN INVESTORS

- Current infrastructure deficiencies and weaknesses will continue to discourage investors.

- An extensive amount of planned bilateral and multilateral assistance to The Gambia should produce positive results in infrastructure development over the next two to three years.

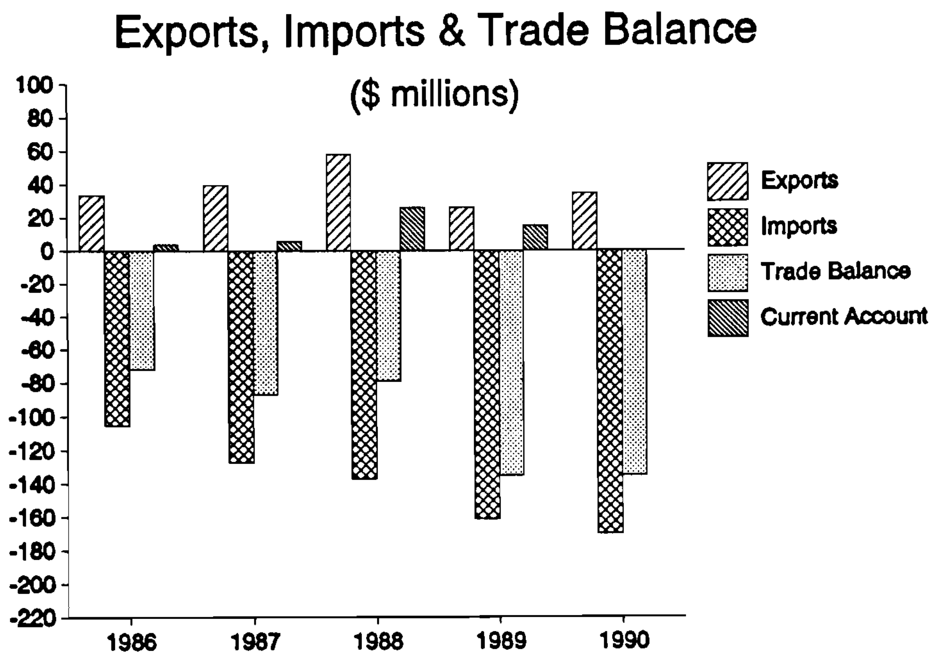
- Telecommunications facilities in The Gambia are excellent and relatively inexpensive.

- Because the supply of electricity and water is erratic, with outages common, investors should plan on installing their own standby generators and water tanks to ensure adequate supplies.

## 8. FOREIGN TRADE AND BALANCE OF PAYMENTS

**Trade policies in areas such as exchange rate controls, import tariffs and quotas, and export requirements are generally favorable to investors, and ongoing policy reform measures continue to reduce tariff barriers that impede the importation of inputs and intermediate goods. Though the country's trade deficit has increased significantly in the past few years, large infusions of foreign aid and other official transfers have resulted in a sizeable current account surplus.**

### 8.1 SUMMARY OF MAJOR INDICATORS




### 8.2 RECENT PERFORMANCE

The Gambia's trade deficit has increased significantly in recent years, rising from $71.7 million in 1986 to $135 million in 1990. Large infusions of foreign aid, however, and other official transfers have resulted in a sizable current account surplus. In 1988, the surplus reached over $26 million. By 1989, however, it had dropped to $15 million. Excluding official transfers, the current account for 1989 showed a deficit of $3.2 million. Since 1985, The Gambia has built up its foreign-exchange reserves to over $42 million, again largely as a result of large infusions of foreign aid.

### 8.3 EXPORTS

International commodity prices and the size of the annual groundnut crop are key to The Gambia's export earnings. Groundnuts and processed groundnut products account for over 80 percent of the country's total export earnings. The greater part of the balance consists of fish and processed fish products. Although the absolute volume of groundnut and fish exports declined between 1985 and 1989, the total value of exports increased, largely as a result of strong world market prices. Meanwhile, the horticulture industry, introduced in The Gambia in 1985, currently accounts for approximately five percent of total exports.

The main source of improvement in exports in recent years is to be found in the country's re-export trade. Re-exports (particularly of rice, flour, sugar, tobacco, tea, textiles and garments) account for up to two-thirds of total Gambian exports, with about 40 percent of imports finding their way across the border to Senegal. The powerful vested interests involved in the re-export trade on both sides of the border are thought to be partly responsible for the slowness of the development of a customs and economic union under the now defunct Senegambia Confederation. Meanwhile, new tax cuts on essential consumer imports are expected to benefit further the re-export trade in the year ahead. A 10 percent transshipment charge has been imposed on goods for re-export, but the exemption from local duties and sales tax has been maintained.

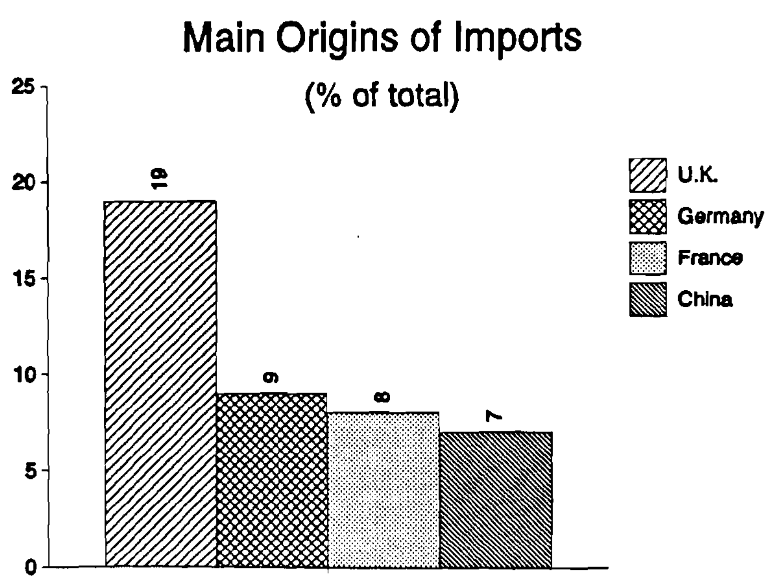
## 8.4 IMPORTS

Total imports increased from approximately $105 million in 1985 to $170 million in 1989. A substantial share of these imports (about 40 percent) is used to support The Gambia's re-export trade. Many imports, therefore, find their way across the border to Senegal.

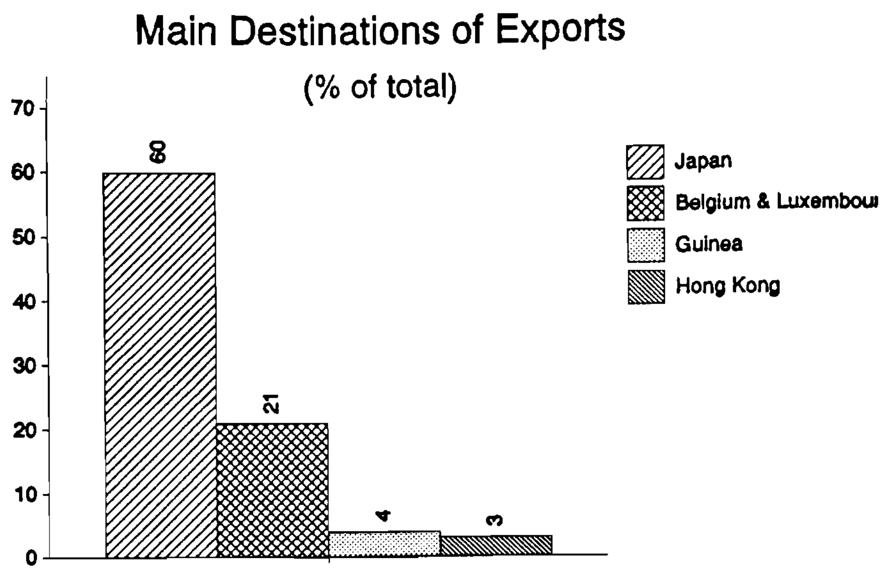
Food remains The Gambia's largest import item, accounting for 36.7 percent of the total in 1988-89, followed by manufactures and machinery and transportation equipment, each representing approximately 20 percent of total imports.

## 8.5 DIRECTION OF TRADE

Most of The Gambia's imports come from Western Europe, with the U.K. supplying the largest share. Other important import markets include West Germany, France, and China.



Nine-tenths of The Gambia's non-entrepôt exports flow to Japan and Europe. Export trade with the U.S. is undeveloped and accounts for only one percent.




This pattern of both imports and exports has been relatively consistent over the past five years.

## 8.6 Exchange-Rate Policy

The launching of the ERP in the mid-1980s ushered in a liberal exchange-rate regime, with the floating of the Gambian dalasi, the removal of restrictions on all imports under open general license, and the abolition of fixed foreign-travel allowances. Currently, The Gambia has a fluctuating exchange-rate system, with rates determined on a weekly basis by the central bank, commercial banks and the country's foreign-exchange bureaus. Foreign exchange is readily available from commercial banks. This allows investors to remit funds into The Gambia and transfer them out of the country without the approval of the central bank. Commercial banks, which have been appointed as authorized foreign-exchange dealers, are free to conduct transactions, both among themselves and with corporate customers, at an exchange rate agreed upon by the parties to the transactions. The central bank conducts a fixing session on the last working day of each week, with the participation of the commercial banks. The exchange rate for customs valuation purposes during the following week is set separately in relation to the interbank market rate. There are no taxes or subsidies on purchases or sales of foreign exchange.

Exchange-control policy is determined by the Ministry of Finance and Trade and is administered daily by the Central Bank of The Gambia's Exchange Control Department.

## 8.7 Currency Outlook

*Average Exchange Rate (D/$)*

| 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|
| 7.07 | 6.71 | 7.58 | 7.88 | 9.00 |

The national currency of The Gambia, the dalasi, has floated freely against other major foreign currencies since January 1986. Between June 1986 and December 1990, the dalasi depreciated by only three percent against the U.S. dollar. It is expected to remain relatively stable against the dollar for the foreseeable future.

## 8.8 Trade and Payments System

Authorized dealers are free to make payments for all imports into The Gambia upon producing documentation issued by the Customs and Excise Department. Advance payment for imports may be freely made when authorized dealers are satisfied as to the bona fide nature of the transaction. Dealers are required to report payments they have authorized to the Exchange Control Department of the central bank for statistical purposes.

Export proceeds must be received through a commercial bank within six months from the date of exportation in a convertible foreign currency and sold to commercial banks or through transfers from a designated external account.

## 8.9 Licensing Requirements

The importation of certain goods is prohibited from all sources for social, health, or security reasons. All other imports are freely permitted under open general licenses.

The export of forestry products is subject to prior authorization by the Forestry Department. The export of all other goods can generally be made without individual licenses, if settlement is made in accordance with procedures laid down by the central bank.

The Gambia Produce Marketing Board is the sole exporter of groundnut products and oil, cotton, and all their derivatives. Other goods can generally be exported without individual licenses, provided settlement is made in accordance with the procedures laid down by the central bank. Forestry products may only be exported with the prior written approval of the Forestry Department.

## 8.10 Invisibles

Payments to non-residents for current transactions are not restricted, provided that commercial banks are satisfied that the payment is due. Commercial banks may sell foreign exchange for travel purposes and for making interest and profit remittances without prior approval. Visitors to The Gambia do not have to declare foreign currency in their possession.

There is no restriction on the import of foreign currency notes, but the importation of Gambian currency notes is prohibited.

## 8.11 Capital Transactions

Capital transfers to The Gambia for direct equity investment are not restricted, but should be reported to the Exchange Control Department of the central bank. Prior approval by the central bank is required in order for residents to accept loans in foreign currency from any source. Such applications are considered on their own merits and with consideration for the benefits likely to accrue to the economy.

Overdraft facilities may be provided by the banks to members of diplomatic and international missions in The Gambia up to reasonable amounts. Loans and advances by commercial banks to non-resident companies are subject to the authorization of the central bank. Foreign-exchange working balances held by the commercial banks are subject to limits set by the central bank; amounts held in excess of these limits must be sold in the interbank market or offered to the central bank. These limits must be observed on a daily basis, and the amount held must be reported weekly to the central bank.

There are no restrictions on profit remittances or on payments for current and capital international transactions.

## 8.12 Regional and International Affiliations

The Gambia is a member of the Economic Community of West African States (ECOWAS), the General Agreement on Tariffs and Trade (GATT), and the Lomé Convention. It is not a member of the West African Monetary Union (WAMU), also called the CFA franc zone. Because the CFA franc is currently significantly overvalued, this gives The Gambia a significant cost advantage in providing many services, including labor, to dollar-based companies.

## 8.13 IMPLICATIONS FOR AMERICAN INVESTORS

- Although groundnuts and processed groundnut products currently account for over 80 percent of the country's total export earnings, the most promising export business in recent years is to be found in the country's re-export trade.

- The Gambia offers investors some of the most liberal trade policies in all of Africa. Policies in areas such as exchange rate controls, import tariffs and quotas, and export requirements are extremely favorable to investors.

- Ongoing policy reform measures continue to reduce tariff barriers that impede the importation of inputs and intermediate goods.

- Foreign exchange is readily available from commercial banks. This allows investors to remit funds into The Gambia and transfer them out of the country without having to go through a tedious approval process.

- The local currency, the dalasi, is expected to remain relatively stable against the dollar for the foreseeable future, thus ensuring a predictable exchange rate for U.S. investors.

- Because The Gambia is not part of WAMU, operating costs are significantly cheaper in The Gambia for dollar-based operations than in francophone neighbors.

# 9. EXTERNAL DEBT AND AID

**All of the country's debt arrears have been eliminated, but the government's economic program remains highly dependent on financial support from foreign aid donors. A strong consensus exists among donors about the need to sustain and consolidate the market-oriented liberalization policies implemented under the ERP.**

## 9.1 EXTERNAL DEBT

The Gambia has a sizable foreign debt. In 1989, total disbursed debt amounted to $342 million. Eighty percent of this debt, however, is composed of concessional lending, with low interest rates, long maturities, and favorable grace periods. Meanwhile, the country's debt service ratio has declined significantly in recent years, from 33.2 percent in 1986 to 10.9 percent in 1989.

By mid-1990, all of The Gambia's debt arrears had been eliminated, foreign-exchange reserves amounted to three months of imports, the dalasi had become relatively stable and, for the first time in twelve years, the country had net positive foreign assets.

### *Paris Club*

On the basis of commitments at the end of 1989 and after relief of $25 million accorded by the Paris Club of official creditors for the twelve months from September 1986, the servicing of public and publicly guaranteed debt is projected at $19-28 million per year during 1989-92.

### *London Club*

In January 1988, the London Club of creditors signed a $19.5 million refinancing agreement with The Gambia covering the period from the signing date to December 1995. The debt—originally contracted in the late 1970s and early 1980s—is mainly short-term, although some medium-term funds are also involved.

## 9.2 FOREIGN AID AND ADJUSTMENT PROGRAMS

The government's economic program is highly dependent on continued financial support from foreign aid donors. Donor support has been critical in enabling The Gambia to realize positive economic results from the ERP. Financing requirements for the three most recent fiscal years (from 1988-89 to 1990-91) of the program were estimated at $258.6 million, of which $168.8 million came from bilateral and multilateral project grant and loan commitments.

Some of this financing was provided under the IMF's first Enhanced Structural Adjustment Facility (ESAF) of $26.7 million. An additional $31.5 million was provided by the second

ESAF, including co-financing from the African Development Bank. Moreover, $7.4 million was provided under the Special Program for Debt Distressed Low Income Countries in Sub-Saharan Africa (SPA). Finally, under Lomé IV, The Gambia was to receive D189 million in grants and a further D36 million in risk capital and soft loans, compared with total allocations under Lomé I, II, and III of D102 million, D126 million, and D198 million, respectively.

Relations among the various bilateral and multilateral donors and development agencies operating in The Gambia are characterized by a high level of consultation and cooperation. The effective coordination of technical, material, and financial resources has been a critical element in the successful implementation of the ERP. Coordination among the donors remains strong, particularly in the area of economic policy and planning, where a strong consensus exists regarding the need to sustain and consolidate the market-oriented liberalization policies implemented under the ERP. A Policy Framework Paper (PFP) is produced annually by the Gambian government, in consultation with the IMF and World Bank, and the document serves as a basis for coordinating various donor activities in a commonly shared framework.

This commonality of donor viewpoints has been reflected in the observance of broad World Bank and IMF-led conditionality, focusing on private-sector solutions, administrative improvements specifically geared to the investor, and continued technical assistance to strengthen government management in key areas. Along these lines, The Gambian government and the IMF have agreed on a set of economic-management policies as conditions for continued support. Notably, the government will continue to reduce the fiscal deficit, restrain the growth of domestic credit, and abstain from borrowing externally and guaranteeing external debt. The government will appropriate funds to retire the debts of state-owned enterprises in preparation for the private sale of these companies. In addition, the government will not direct credit to specific sectors of the economy or subsidize borrowers through the use of below-market interest rates.

The current multi-year ESAF ends in November 1991, although a one-year extension or a shadow program is possible. Both the IMF and World Bank have commended the Gambian government on its discipline in implementing the structural adjustment program. This has, in turn, secured the continuation of donor confidence in the country's future progress.

## 9.3 IMPLICATIONS FOR AMERICAN INVESTORS

- The Gambia's external debt is relatively large, but it remains manageable because of its concessionary nature.

- Foreign exchange shocks are unlikely, particularly given The Gambia's strong donor support.

# 10. LABOR

**The Gambia has a large pool of low-cost unskilled labor. However, there is a shortage of trained, skilled personnel for private sector employment. The Gambia has a liberal policy concerning the employment of foreigners for managerial and technical assignments.**

## 10.1 PROFILE OF LABOR RESOURCES

Unskilled labor is in large supply and inexpensive (the average wage rate is approximately one dollar a day). Some 40 percent of the population (or 315,200 people) are of working age and, owing to the low rate of literacy and small industrial base, are largely unskilled. Of this group, approximately 48 percent (or 150,000 people) are employed or self-employed.

The public sector employs about 16,000 people, roughly 45 percent of total formal-sector employment. Salaried employment represents only about 30,000 out of a population of about 800,000, and approximately half of these positions are in government ministries and parastatal companies. Within the formal private sector, one-third are employed in the wholesale and retail trades and in the hotel and restaurant businesses supporting the tourism industry. Another one-third are employed in primary activities. One-sixth are engaged in construction, and another one-sixth work in industry.

An estimated 35,868 people were employed in the formal sector, defined as establishments with five or more workers, at the end of 1990. This was an increase of 7.7 percent in one year, and was mainly attributed to the growth of the private sector. It is encouraging to note that in the aftermath of the ERP, growth in formal-sector employment has been concentrated in the private sector. Private-sector earnings were estimated to have risen by 38.7 percent in the year to June 1990. The largest formal employers are the distributive trades, hotels and restaurants, community and social services, and manufacturing. Employment in the tourism industry is concentrated mostly in beach hotels, and to a lesser extent in restaurants and tour operations. Formal employment in every major industry with the exception of construction has at least doubled since 1985.

Agriculture and fishing provide the majority of employment in The Gambia. Fishing is largely an individual enterprise, although there are a few fishing enterprises that are large enough to have employees. Most of the labor force in The Gambia is employed in traditional agriculture.

Recent studies have identified the lack of qualified personnel as an important constraint to private-sector development. Public-sector employment has traditionally been the employment of choice in The Gambia, leaving a dearth of qualified persons to manage and operate private enterprises. There is an urgent need for qualified and competent managerial, professional and technical personnel.

## 10.2 UNDER-AND UNEMPLOYMENT

The Gambia has a high level of unemployment, approximately 30 percent particularly among unskilled and semi-skilled workers.

"Underemployment," per se, is less of an issue since so many workers are unskilled, but the generally poor job market means that many workers take whatever employment they can, irrespective of their training.

## 10.3 INCOMES POLICY

The labor legislation of The Gambia currently protects the rights and welfare of workers. The wage policy was recently reviewed with respect to cost-of-living increases. The length of the work week and work day is strictly controlled, with annual leave and hiring and termination procedures specified at the moment of hire. A compulsory national pension plan (a type of social security) is in place and amounts to 19 percent of each employee's annual salary.

The minimum daily wage is very low, about D12 (slightly more than $1.00) a day. Skilled workers such as carpenters, plumbers, and experienced foremen earn between D18 and D30 per day. Informal-sector activities currently generate between D8 and D35 per day, with unskilled laborers representing the lower end of the wage scale and traders the higher end. Recent data on wage levels indicate that the lowest-paid workers are in agriculture, forestry and fishing, and the highest in financial and business services.

Laws do permit piecemeal pay after or on top of the minimum wage.

Under the current labor code (the Labor Administration Act, which governs wage rates in both the public and private sectors) pay may only be correlated with output above and beyond the minimum wage (piecework). Remuneration systems tied to levels above legally mandated minimums have been found to have a positive effect on productivity.

Normally, employers will pay their employees' medical costs and transport costs either in the form of an allowance or by reimbursement. It is also common for employers to make loans available to employees, especially to finance housing construction.

## 10.4 LABOR UNIONS

Labor and trade unions exist, but are not very active. Most laborers, by and large, are not unionized. There are labor unions for all economic sectors, but the most active are among dock workers and in the transport sector. The unions are coordinated by the Gambia Workers Confederation, which was formed in 1985. The confederation is not militant, but is becoming increasingly active in negotiations on pay and employment conditions for its members.

## 10.5 EMPLOYMENT OF EXPATRIATES

The Gambia pursues a liberal policy concerning the employment of foreigners for managerial and technical assignments. Depending on the requirements of the company, as judged by the Allocation Committee, the company is allotted an expatriate quota for specific posts for a stipulated period. The authorization is extendable beyond the initial period when a company has been unable to train or recruit a Gambian to fill a position held by an expatriate.

When permission has been secured to employ an expatriate, a residence permit should be obtained from the Immigration Office, Ministry of the Interior. It is usually obtained after the arrival of the person concerned.

Immediate family members are covered by the entry permit of the employed expatriate. They are not permitted to undertake any employment without prior permission, however.

The employment of foreign personnel for a shorter duration (approximately three months) is permitted on the basis of a "temporary quota" granted by the Principal Immigration Officer. This procedure is adopted in the case of specialists required to install machinery or equipment.

## 10.6 EXPATRIATE LIVING CONDITIONS

With the peace, stability and rule of law that characterize the country, The Gambia has all the facilities to make living comfortable, in line with international standards.

The investor has a wide range of housing choices open to him. Attractive and comfortable houses can be found in scenic surroundings in Banjul and its suburbs, including Bakau, Cape Point, Fajara, Pipeline and Kotu.

## 10.7 IMPLICATIONS FOR AMERICAN INVESTORS

- Labor in The Gambia is readily available for unskilled positions at low cost.
- Gambian workers will require substantial training programs for any technical or management positions.
- Public sector employment remains the employment of preferred choice in The Gambia, leaving a dearth of qualified persons to manage and operate private enterprises.
- Labor unions in The Gambia should not be a hindrance to business operations. Most workers are not unionized, and those unions that do exist are not well organized and lack strong memberships. As a consequence, they have little impact on the establishment of wage rates.
- The Gambia has no significant restrictions on the employment of expatriates.

# 11. FINANCIAL SECTOR

**The Gambia's financial sector is underdeveloped, comprising four commercial banks and a handful of private foreign exchange bureaus. Non-bank financial institutions have yet to develop to address the medium to long term credit needs of most productive sector enterprises. The country's two principal commercial banks engage almost exclusively in foreign-exchange transactions, trade finance, and in highly profitable short-term lending to the government. Government interest rate policy is that all rates shall be market determined. Credit ceilings for banks have been eliminated and there are no other credit controls.**

## 11.1 Overview of Financial Sector

The Gambia's formal financial sector is focused almost exclusively on providing credit and other services to institutions and individuals located in urban areas. The structure of this formal, urban-oriented system is dominated by three banks (two private commercial banks and one government-owned development bank in the early stages of being restructured into a privately owned commercial bank) and one relatively large non-bank financial institution, the parastatal Social Security and Housing Finance Corporation (SSHFC). In addition, there are two very small non-bank financial institutions (the moribund General Post Office Savings Bank, or GPOSB, and a fledgling foreign-exchange bureau) and a small insurance-company sector (consisting of three private firms and a parastatal that is about to be offered to the public). Except for the GPOSB, the other nine institutions are served by three accounting firms resident in external audits. These institutions composing the formal financial sector are regulated to varying degrees by the Central Bank of The Gambia.

The shallowness of the financial sector in The Gambia constitutes a major constraint on private-sector investment from domestic sources. An entrepreneur seeking capital for a start-up or the expansion of an existing business will be unlikely to obtain it through the formal financial system. Virtually all of the liquidity in the financial sector resides in the country's two healthy commercial banks, one parastatal commercial and development bank and the SSHFC. None of these organizations is actively engaged in development lending or term lending at more than a token level.

The banks engage almost exclusively in foreign-exchange transactions, and in highly profitable short-term lending to the government (through the purchase of mostly short-term debentures) and to a small group of well-established commercial trade clients (through overdraft facilities and the financing of trade bills). The lack of competition in loan markets has led to persistently high lending spreads and very high real interest rates.

Further, there are no building societies, no market for new issues of stock, no venture capital funds, no credit unions or non-agricultural cooperatives, no leasing organizations, and no private pension funds. Insurance companies have not developed sufficient excess reserves to be able to make long-term investments. There are no secondary markets for financial instruments, stock exchanges, or private placement services for capital investment.

## 11.2 BANKS

Effectively, Gambians are currently served by only two banks: the Standard Charter Bank (SCB) and Bank International for Commerce and Industry (BICI), both locally incorporated, although with majority shareholding by overseas interests. Commercial bank profitability is high by international standards, but this is balanced by a relatively small base reflecting the size of the Gambian economy. The traditional commercial banking practices of the two banks reflect their history, which emphasizes working capital and overdraft financing, rather than development or project financing.

The regulation and supervision of the banking system is the responsibility of the Central Bank of The Gambia, a role it undertakes through its Banking Supervision Department. The Central Bank Act of 1971 broadly defines the central bank's authority to prescribe interest rates, aggregate credit ceilings, exposure limits to borrowers, maximum loan maturities and security requirements. In addition, the act establishes the central bank's general authority to set bank financial-reporting, cash-reserve, and liquidity-ratio requirements.

The commercial banking system, while sound and profitable, is not entrepreneurial and provides few long-term resources to fund investments. With only three banks (and one in serious financial condition), competition is low, and the quality of service is poor. In short, it is a lender's market. The lack of financial outlets for long-term contractual savers blocks investments by these savers in agriculture and industry. In sum, The Gambia's financial system now plays a limited role in intermediating maturities and risks as well as in the intersectoral mediation of funds.

Inadequate competition in the banking system, especially in lending and related retail services, is demonstrated by the abnormally high profitability of the commercial banks and very high interest-rate spreads. High real interest rates deprive otherwise viable projects of debt financing and generally depress economic activity in all sectors of the economy.

One important macroeconomic effect of the dearth of competition in the financial sector is the two existing banks' lack of interest in encouraging new deposit-taking. This has two results: (1) it constrains the development of a banking "culture" among a wider circle of Gambians who lack access to banking facilities (lack of access here can mean physical distance from bank branches as well as implicit and explicit signals that customers are not welcome) and (2) it fails to mobilize new and as yet untapped sources of national savings that will be needed for productive investment in The Gambia, when the current and unusual high levels of liquidity are gone.

## 11.3 NON-BANK FINANCIAL INSTITUTIONS

Other than the SSHFC, the GPOSB, and a fledgling foreign-exchange bureau, The Gambia has no formal deposit-taking or lending non-bank financial institutions. Consequently, small businesses and entrepreneurs that are not sufficiently collateralized must rely on equity capital or borrowing through informal loan markets (usually at very high interest rates) for working capital.

## 11.4 INSTITUTIONAL INVESTORS

There are no effective institutional investors in The Gambia.

## 11.5 CAPITAL/EQUITY MARKETS

Capital markets are largely undeveloped in The Gambia.

Formal equity markets have yet to appear in The Gambia. Impediments to the formation of equity markets include a lack of legal and regulatory structure, low levels of public awareness and acceptance of trading opportunities, procedural and tax disincentives, a reluctance on the part of joint stock companies to support the organized trading of shares, and generally poor experience with the handling of stock issues to date.

No stock trading companies or exchanges exist. Those individuals who have expressed interest in starting trading companies have not received encouragement from the government or from the companies that have issued stock to the public.

## 11.6 MONETARY POLICY

Except for the minimum rate on three-month time deposits, which is set five percentage points below the treasury-bill rate, all other deposit and lending rates are market-determined. The treasury-bill rate is determined at bi-weekly auctions.

High interest rates, both nominal and real, persist in The Gambia and are a major deterrent to private investment. Credit ceilings for banks were eliminated in 1991, so there are no credit controls.

Agriculture and distributive trade are the largest users of bank credit in The Gambia. The distribution of commercial bank credit by activity remained largely unchanged between 1985 and 1989. Substantial growth has occurred, however, in tourism and other categories (e.g., consumer loans and advances). By and large, expansion in the use of credit by the private sector has been dampened by restrictive monetary policies under the ERP.

## 11.7 IMPLICATIONS FOR AMERICAN INVESTORS

- The shallowness of the financial sector in The Gambia is an important constraint to private sector investment and particularly domestic investment. An investor seeking capital for a start-up or expansion project should count on obtaining it overseas.

- The commercial banking system provides few long-term resources to fund investments. With only three banks (one in serious financial condition), competition is low, and the quality of service is poor.

- The lack of competition in loan markets has led to persistently high lending spreads and very high real interest rates. Restrictive monetary policies have further increased the cost of borrowing for investors.

## 12. INFLATION AND PRICE CONTROLS

**Inflationary pressures have subsided in recent years as a result of the government's tight monetary policies. These policies are likely to continue under the Program for Sustained Development (PSD). The government is also likely to maintain its commitment to market-determined interest rates and prices.**

### 12.1 INFLATION AND ANTI-INFLATION POLICIES

Inflation has been not only been contained, but also it has been significantly reduced in recent years. Currently it is averaging about seven percent a year. The IMF projects inflation to fall to an annual rate of five percent by the end of 1992. If so, this would be in line with the government's short-term target. In general, inflationary pressures are subsiding. Monetary growth amounted to only 12.0 percent for M1 and only 7.4 percent for M2 in 1990.

Under the Program for Sustained Development (PSD), the government will continue its conservative monetary policies established under the ERP. The rate of expansion of the net domestic assets of the banking system will continue to be limited to what is compatible with the accumulation of foreign-exchange reserves to a level of at least five months of import requirements.

The government will also maintain its commitment to market-determined interest rates, and will refrain from subsidizing credit, except in cases where on-lending at concessionary rates is an intrinsic part of a well-defined foreign aid package.

Finally, the government appears determined to cut the public-sector deficit significantly, as well as the public sector's use of credit, in an effort to reduce the real rate of interest in the banking system and free up more domestic savings for private investment.

### 12.2 PRICE CONTROLS

Except for the government setting the pump price of petroleum products and participating in the setting of GPMB's purchase prices for groundnuts and cotton, all prices in The Gambia are market-determined.

### 12.3 IMPLICATIONS FOR AMERICAN INVESTORS

- As long as the government continues with relatively tight monetary policies, inflation should not be a significant problem.
- With the exception of petroleum products, cotton and groundnuts, price controls are not a concern.

# 13. PUBLIC FINANCE

**Ample foreign aid and prudent fiscal policies have produced a clear improvement in the government's overall financial position in recent years, reducing the need for public sector borrowing. Recent budgets reflect the government's policy of shifting responsibility for public services onto the private sector.**

## 13.1 Overview of the Fiscal Situation

In the past few years, the government has been able to point to a clear improvement in its overall financial position, reducing the need for domestic borrowing. This is attributable partly to the inflow of external grants and partly to the strict limits set by the Central Bank of The Gambia on domestic credit. Total domestic credit fell by 5.3 percent in 1988-89, from D284.3 million at the end of March 1988 to D269.1 million at the end of March 1989. During this same time, bank advances to the private sector increased by D37 million, 19.6 percent above the level during the previous year.

The budget deficit was once again reduced in 1990-91 as part of the government's continued program of prudential monetary and fiscal policy. The projected deficit (excluding foreign grants) for 1990-91 is D82 million ($9.5 million), equivalent to just over four percent of GDP, compared with 10.7 percent of GDP in 1989-90. The reduction of the deficit was achieved by a combination of strict control over recurrent expenditure and a continuing high level of revenue collection. Expenditure on salaries and wages increased by only 10 percent during the year and, for the first time, no transfers or loans were made to parastatals. This year's budget aims to reduce the overall fiscal deficit even further, limiting it to 2.8 percent of GDP.

## 13.2 Public Expenditures

The 1991-92 budget reflects the government's policy of shifting responsibility for public services onto the private sector, wherever feasible. Total development expenditure for 1991-92 is set at D226 million ($26 million), representing a 17.4 percent increase over the 1990-91 approved total of D195 million. Spending on public utilities has been cut significantly, from 26.7 percent to 7.8 percent of the development budget. No government expenditure on industry is foreseen this year. Transportation and communications, however, received a 10 percent increase in their budgetary allocations. Meanwhile, health spending has actually been cut, from 8.8 percent to 5.1 percent, while education, representing 10.9 percent, is unchanged from the 1990-91 budget.

The new budget also includes measures to benefit the country's public-sector workers. They will receive a six-percent across-the-board salary increase and the return of some of the perks they enjoyed before the IMF came on the scene. Although welcome, the increases fall short of the rise in consumer prices. Staff loans have also been reinstituted for cars, housing and such expenses as medical care, at interest rates of nine percent, compared with market rates approaching 30 percent. Civil Service retirement pensions also benefitted, and will now enjoy income-tax exemptions.

## 13.3 Government Revenues

The overall pattern of government finance has changed very little over the past ten years. Since the late 1970s, direct taxes have accounted for only about 10 percent of government revenue, indirect taxes (principally on imports and exports) for 45 percent, and official transfers (mainly aid funds) for about 40 percent. Most capital expenditure has been financed by external grants, loans and other receipts, such as those under the EC Stabex scheme. Along these lines, under this year's budget, 62.4 percent of the projected D226 million ($24.1 million) in development spending is expected to come from external loans, 25.7 percent from grants, and only 11.9 percent from local sources.

With recent reforms in the tax system, government revenues are increasing, both absolutely and as a percent of GDP. Increased revenues, combined with increased donor resource flows, have led to significant investment in the rehabilitation of infrastructure that deteriorated badly during the late 1970s and early 1980s.

The government intends to continue improving the domestic side of the budget by further tightening up on revenue collection. Domestic revenue is projected to increase by 12.7 percent this fiscal year, with the national sales tax and customs and excise duties expected to yield D450.5 million ($48.1 million), a 16 percent increase over last year's D388.5 million. Meanwhile, projected revenue from taxes on income is expected to increase by four percent, rising from D67.7 million ($8 million) in 1990-91 to D71 million ($8.2 million) in 1991-92.

If growth from re-export trade slows, however, government revenues from customs fees will grow at a much slower rate. This, in turn, means that government investment and current expenditures will be severely constrained and effectively limited to essential government services, such as roads, public health, education, defense and law enforcement.

## 13.4 Implications for American Investors

- The government's policy of shifting responsibility for public services onto the private sector could result in increased investment incentives and tax breaks for those foreign firms willing to contribute to basic infrastructure development.

- In the meantime, increased government revenue, combined with increased foreign aid flows, will strengthen the government's ability to address infrastructure needs.

# 14. TAXATION

**Most tax rates have been reduced during the last few years, and the government has committed itself to a pro-development taxation policy. However, various features of the current tax code still contain disincentives for certain business activities, including the incorporation of local business enterprises, the retention and reinvestment of corporate earnings, and certain financial transactions.**

## 14.1 Overview of Taxation Policy

The Gambia has both direct and indirect taxes. Direct taxes include an income tax, a capital gains tax, a national development levy and a payroll tax. Indirect taxes include a national sales tax, customs and excise duties, and capital and stamp duties.

Various features of the tax code taken together still create biases against foreign investment in The Gambia, the incorporation of local business enterprises, and the retention and reinvestment of corporate earnings, as well as certain financial transactions, such as the leasing of facilities and equipment, the buying and trading of shares, and the use of legal mortgages to secure loans. The code also contains biases in favor of the repatriation of profits to foreign investors, and the insurance of Gambian assets with foreign insurers.

Further, a number of taxes on financial transactions discourage equity investments and the growth of non-bank financial institutions without raising substantial revenues. Examples of the latter include the capital gains tax on the sale of securities (which, in some cases, can have an effective rate in excess of 100 percent), the stamp tax on legal and equitable mortgages, the sales tax on insurance premiums, the stamp tax on transfers of financial instruments, and the duty on industrial and commercial leases.

Generally, the Gambian tax system consists of:

- import duties and other taxes on international trade;
- a sales tax on certain services, manufactured goods, and imports;
- income taxes on companies and individuals, including a capital gains tax and development levy;
- other taxes on goods and services, including stamp duties.

Tax laws and their administration do not constitute a serious impediment to investors. There are few onerous taxes on company operations or capital transactions, and the tax system does not strongly favor debt over equity financing. While some fine-tuning of the laws might eventually help foster the expansion of the financial sector, the most pressing problems appear to be with the administration of existing tax laws.

The tax policies are typical of most African countries, and consist of four types:

(1) Income taxes levied by the income-tax department. In the case of corporate entities these amount to 50 percent of net profits or three percent of gross revenue (whichever is higher).

(2) Property taxes levied by townships. In most cases these are low.

(3) Customs duties levied by the customs department on imported inputs. Prevailing duties average 25 percent. They are to be replaced by a federal sales tax of 10 percent in the near future.

(4) Federal taxes, such as the national development levy administered by the Ministry of Finance and Trade. The national development levy is scheduled to be ratified by parliament in the next few months. It will amount to 10 percent of the monthly salary of all employees.

## 14.2 PRINCIPAL TAXES

### *Corporate Income*

The company income tax is assessed at a rate of 50 percent of net profits, or three percent of turnover (gross receipts), whichever is higher. Registration with the government is important for tax-collection purposes, because the Central Revenue Department has the names of all registered companies, and the companies must have a certificate of tax payment before they can renew their business licenses. Even so, evasion is reportedly widespread, especially among the trading companies that form such a large part of the economy. Only 150 companies voluntarily filed tax returns in 1988-89.

The 50 percent company tax rate is higher than in many developed countries. It is also higher than in most other West African countries. Accordingly, the income tax may serve as an impediment to attracting investment capital from outside The Gambia.

### *Dividends*

Although dividends received by individuals and companies are subject to the income tax, they are generally not double-taxed. Under Gambian law, taxes paid by a company remitting dividends are fully credited to the recipient of the dividends. In practice, few individuals file for the credit, most likely because they wish to avoid revealing any information on their income or wealth to the tax authorities or because filing a separate form is burdensome.

### *Interest*

Companies are allowed to deduct interest expenses when computing net profits. Interest from sources outside The Gambia is included in income, however.

For individuals, interest income is treated as part of ordinary income and is taxed accordingly.

### *Royalties and Fees*

Royalties payable to non-residents are not subject to any specific withholding tax.

### *Sales*

The national sales tax is a tax on the sales price of goods manufactured domestically or imported, and on certain services provided in The Gambia. The tax is payable when the goods are delivered, when the service is sold, or when the goods are taken out of bond. There is no sales tax on goods produced for export, sold through a duty-free outlet, exported by the purchaser, or purchased by the government.

Businesses that are liable to the sales tax and that have an annual turnover in excess of D100,000 are required to register with the Customs and Excise Department. The current rate of sales tax is 10 percent.

### *Capital Gains*

The capital gains tax was introduced in 1978 as part of the general provisions of the Income Tax Act and are subject to a different rate than ordinary income. For companies, tax is charged on the capital gains arising from the transfer of an asset at the rate of 25 percent, or on 10 percent of the selling price, whichever is higher.

For an individual, the capital gains tax is 15 percent of the gain or five percent of the sales price, whichever is greater. Capital losses may be used to offset capital gains only during the year in which the loss was incurred and cannot be used for other purposes.

### *Customs Duties and Import Taxes*

By and large, tariffs and other import taxes are low, especially in relation to those of other developing countries. All merchandise imports are subject to a national sales tax of 10 percent of the c.i.f. value; imports by the government, diplomatic missions and charitable organizations are exempt from this tax.

Customs duties are charged at varying rates on a wide range of imported goods. In general, however, the average tariff rate ad valorem is approximately 18 percent.

Import duties alone accounted for over half of the total tax revenue collected last year. Much of this revenue was collected on goods for the re-export market. This market is thriving in response to the higher duties imposed in nearby countries, but would collapse if these countries lowered their duties.

### *Personal Income*

The individual income tax is assessed on all the following forms of income: employment and partnership income, rents, interest, dividends, and certain pensions and annuities. The tax rates are progressive, beginning at 10 percent and rising in five-percent increments to a top rate of 35 percent. The only allowable deductions are a standard deduction of D5,000 per taxpayer. Mortgage interest payments are not deductible for individuals.

Voluntary compliance among local citizens is weak. Only 5,000 individual income-tax returns were voluntarily filed in 1989-90, out of a labor force of some 400,000. This level of compliance is perhaps not surprising, because over 80 percent of the labor force is engaged in agriculture, where taxable incomes are low and difficult to trace. Wage earners who do not voluntarily file a return are assessed taxes based on employer reports of wage payments.

### *Development levy*

Individuals and companies are also subject to a development levy. This tax on income is computed slightly differently for individuals and companies. Individuals pay a 10 percent tax on income earned in the month of July. For a company, the tax is 10 percent of the company's average monthly income. In effect, for salaried employees and for companies, the tax amounts to a 0.833 percent surcharge on yearly income.

### *Payroll tax*

An annual payroll tax is payable by the employer for each non-Gambian employee of executive, managerial, professional or technical rank or above. The tax period runs on the calendar year. The full amount of tax is payable however short a period the employee is employed in any year. Exemptions from payroll tax, other than on the grounds of insufficient seniority, are limited to clergymen, missionaries, diplomats and employees of the president. Payroll tax is also not deductible for income-tax purposes.

### *Stamp duties*

Stamp duties are levied on transfers of property, including equity shares, bonds, mortgages, life-insurance policies, and lease agreements. The rate of tax on equity share and bond transactions is two percent. The rate is 0.2 percent on life-insurance policies, 0.4 percent on lease purchase agreements, 14.25 percent on residential leases, and 40 percent on industrial and commercial leases.

***Lease tax***

The 40 percent duty on industrial and commercial leases is a major deterrent to the leasing of fixed assets. Because leasing is an alternative to purchasing (using equity or debt financing), the duty reduces the financing options available to investors.

## 14.3 Determining Taxable Income

In computing net profits, companies are allowed to deduct expenses, depreciation, interest, and a portion of home-office expenses, if the company is headquartered outside The Gambia. Included in income are dividend and interest income and remittances from sources outside The Gambia.

Companies can choose any financial year end they wish, but once fixed there can, in certain circumstances, be adverse tax effects if the year end is changed for any reason.

Losses can only be carried forward and set off against future profits from any trade or business for six years. Losses include unabsorbed capital allowances.

## 14.4 Depreciation

Capital allowances can be claimed on fixed assets used in the business and deducted from the adjusted profits. The taxpayer can claim an initial allowance on the cost of assets purchased in the period assessed, thereafter annual allowances can be claimed on the reducing-balance method. Balancing charges are raised or balancing allowances granted on the sale or disposal of assets on the amount by which the proceeds of sale or disposal (cost if lower than proceeds) exceed or fall short of tax residual value.

Advances can be claimed on assets used but not owned by the business if the full burden of wear and tear falls on the user.

In the case of buildings purchased "secondhand," no initial allowance is granted. Annual allowances are based on the purchase price. This does not apply to the purchase of "secondhand" plant, on which a company can claim initial and annual allowances on the price it pays for such plant.

## 14.5 Tax Treaties

Double-taxation agreements with the following countries are in force: the United Kingdom, Sierra Leone, Nigeria, Sweden, Denmark, Norway, and Switzerland. The treaty with the U.S. has expired and has yet to be renewed.

## 14.6 APPEALS

Appeals of tax matters may be pursued through the legal system.

## 14.7 IMPLICATIONS FOR AMERICAN INVESTORS

- The Gambian tax system is generally workable for U.S. investors.
- The Gambia has a few onerous taxes on company operations or capital transactions, and the tax system does not strongly favor debt over equity financing.
- The Government of the Gambia is committed to improving the enabling environment for private investment and private enterprises and under a recently executed program agreement with USAID, will undertake a comprehensive review of the overall tax system as it affects investment decisions and development of new or expanded enterprises. Further tax reform will favor productive private enterprises.

## 15. INTELLECTUAL PROPERTY PROTECTION

**The Gambia generally protects intellectual property rights. Legislation modelled on the basic principles designed by the World Intellectual Property Organization (WIPO) was enacted as the Industrial Property Act in 1989. With certain exceptions, the legislation contains most of the protections expected.**

### 15.1 PATENTS

The Industrial Property Act contains most of the protections an American investor would expect. To receive protection, applications must be filed with the Registrar General in Banjul. Failure to register any license contract concerning patents, utility model certificates, or industrial designs can render it invalid. Patents granted by ARIPO are recognized in The Gambia, as are industrial designs that are registered with the organization. Although not a member of the International Union for the Protection of Industrial Property ("Paris Union"), protection under local law and regional agreements appears sufficient for the American investor.

### 15.2 TRADEMARKS

Trademarks are governed under local law and must be registered with the Registrar General in Banjul. Failure to register a trademark may render it invalid.

### 15.3 COPYRIGHTS

The Gambia is not a signatory to the Universal Copyright Convention. As a result, the protection of copyrights is governed by local law. But the U.S. investor is advised that this remains an underdeveloped and evolving area of law.

### 15.4 REDRESS

The laws of The Gambia are based on British common law. Contracts and other binding agreements concerning intellectual property can be enforced by the legal system through lawsuits, but given the underdeveloped nature of the court system, this may prove to be time-consuming.

### 15.5 IMPLICATIONS FOR AMERICAN INVESTORS

- The American investor may initially have some difficulty in enforcing agreements concerning intellectual property. However, as the Gambian government gains experience in dealing with these issues, these problems should subside.
- It is important that the U.S. investor follow the local laws very closely. Failure to comply fully may result in reduced protection.
- The laws of The Gambia are based on British common law, and, therefore, contracts and other binding agreements concerning intellectual property are enforced by familiar legal codes.

## FORMAL VS. INFORMAL SECTORS OF AFRICAN ECONOMIES

The economies of sub-Saharan African (and other developing) countries are typically segmented into formal and informal sectors. In the African context, these are not simply synonymous with legal and illegal markets, although the formal sector usually complies with laws and regulations more diligently than does the informal.

The formal sector is "modern" in the sense that its organization is bureaucratic rather than patriarchal, whereas the informal sector follows "traditional" organizational patterns and relies on "traditional" relationships of authority and status.

But the crux of the difference is that the formal sector is literate rather than illiterate—i.e., the formal sector keeps written records, especially written accounts that can be examined by tax officials and auditors, whereas informal sector economic operators keep records in their heads.

The result is that the formal sector either endures or pays bribes to avoid the taxes and regulatory burdens that the informal operator can escape simply by disappearing into a crowded market street or into the bush. This gives the informal sector a cost advantage over the formal, which means that its economic surpluses, reinvestments, and growth are often much larger than those of the formal sector, despite the latter's purported advantages of communications, technology, and scale of operations.

Structural adjustment programs of the World Bank and the IMF always target governments' budget deficits by cutting spending but also by improving revenue collection, including by trying to tax the informal sector. Although the goal is more equitable sharing of the cost of government, the effect is sometimes to put fiscal reform in contradiction with economic growth.

## LOME CONVENTION PREFERENTIAL TRADE ARRANGEMENTS

The Lomé Convention is a cooperation agreement between the European Community (EC) and the African, Caribbean and Pacific Group of States (ACP). The former has twelve member states and the latter comprise of sixty-six. This convention was concluded in order to promote and expedite the economic, cultural and social development of the ACP States through trade, financial and technical assistance.

Under this convention, the chapter on Trade Cooperation has as its object to promote trade between the ACP States and the Community by improving the conditions of access for their products to the community market.

The pertinent clause reads:

> 2. *Products originating in the ACP States shall be imported into the community free of Customs duties and charges having equivalent effect.*
>
> *The following products shall be considered as products originating in an ACP State.*
>
> *(a) products wholly obtained in one or more ACP State.*
>
> *(b) products obtained in one or more ACP States in the manufacture of which products other than those referred to in (a) are used, provided that the said products have undergone sufficient working or processing.*

Sufficient working or processing means that the goods obtained receive a classification under a different tariff heading from that covering each of the products worked or processed. The incorporation of non-originating materials and parts in a given product obtained shall only make such products lose their originating status if the value of the said materials and parts incorporated exceeds 5 percent of the value of the finished product.

When products wholly obtained in the EC or in their overseas territories or ACP States undergo working or processing in one or more ACP States, they shall be considered as having been wholly produced in that or those ACP States, provided that the products have been transported directly.

Eligible products shall be accompanied by evidence of originating status, the movement certificate EURI.

However, products which fall under a common organization of the treaty establishing the European Community or are subject on import into the Community, to specific rules introduced as a result of the implementation of the Common Agricultural Policy (CAP) may be excluded or subject to quantitative restrictions or the safeguard clause.

The following products shall be considered as wholly obtained either in one or more ACP States or in the Community.

(a) mineral products extracted from their soil or from their seabed;

(b) vegetable products harvested therein;

(c) live animals born and raised therein;

(d) products from live animals raised therein;

(e) products obtained by hunting or fishing conducted therein;

(f) products of sea fishing and other products taken from the sea by their vessels;

(g) products made abroad their factory ship exclusively from products referred to in subparagraph (f);

(h) used articles collected there fit only for the recovery of raw materials;

(i) waste and scrap resulting from manufacturing operations conducted therein;

(j) goods produced there exclusively from the products specified in subparagraphs (a) to (i).

For the purpose of para.2(b) the following shall always be considered as insufficient working or processing, whether or not there is a change of tariff heading:

(a) operations to ensure the preservation of merchandise in good condition during transport and storage;

(b) simple operations consisting of removal of dust, sifting or screening, sorting, classifying, matching, washing, painting, cutting-up;

(c) (i) changes of packaging and breaking up and assembly of consignments;

(ii) simple placing of bottles, flasks, bags, cases, boxes, fixing on cards or boards.

(d) affixing marks, labels and other like distinguishing signs on products or their packaging.

(e) (i) simple mixing of products of the same kind where one or more components of the mixture do not meet the conditions as originating product.

(ii) simple mixing of products of different kinds unless one or more components of the mixture do not meet the conditions as originating product.

(f) simple assembly of parts of articles to constitute a complete article;

(g) a combination of tow or more operations specified in subparagraph (a) to (f)

(h) slaughter of animals.

In defining the concept of originating products, Protocol I of the Lomé III Convention gives a list of working or processing operations carried out on non-originating materials which result in a change of tariff heading without conferring the status of "originating products" on the products resulting from such operations.

The Lomé Convention has a provision for financial assistance in trade promotion so that exporters from any ACP country may participate in trade fairs and exhibitions.

THE GAMBIA

No. 4 of 1988

Assented to by The President,

this Tenth day of May, 1988

LS D.K. JAWARA,
President

**AN ACT** to make provision for granting Investment Incentives to Investors and for other matters connected therewith

Enactment. **ENACTED** by the Parliament of The Gambia.

**PART I - PRELIMINARY**

Short title 1. **THIS ACT** may be cited as the Development Act, 1988. (No. 4 of 1988).

23rd May, 1988

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# Development Act, 1988

## Arrangement of Sections

SECTIONS PART I - PRELIMINARY



PART II - DEVELOPMENT PROJECTS AND DEVELOPMENT INCENTIVES



PART III - DEVELOPMENT CERTIFICATES



PART IV - CUSTOMS DUTY



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Interpretation

2. In this Act, unless the context other requires

"approved development project" means a development project in respect of which a development certificate has been issued under section II of this Act;

"Comptroller" means the Comptroller of Customs and Excise;

"construction date" means the date on which construction, alteration or expansion of a development project commences and specified as such by the Minister in the development certificate;

"development certificate" means a certificate issued by the Minister under section II of this Act for an approved development project;

"development project" means any enterprise concerned with any of the economic activities specified in section 3 of this Act;

"domestic value added" means the excess of gross output value of a development project over all imported materials and services absorbed, and valued where adequate for the purpose of economic appraisal in world market prices;

"exemption" means exemption from customs duty;

"incentive" means any fiscal exemption, tax relief or other assistance provided under section 5 and 6 of this Act;

"Minister" means the Minister responsible for the administration of this Act;

"production date" means the date on which a development project commences production or the provision of services in marketable quantities and specified as such by the Minister in the development certificate;

"tax holiday period" means in respect of any development period, the period, not exceeding five years from the production date, during which a tax credit certificate has been granted; and

"tax credit certificate" means the certificate which may be granted under section 5(1) of this Act.

## PART II - DEVELOPMENT PROJECTS AND DEVELOPMENT INCENTIVES

Application of this Act to development projects

3. This Act shall apply to development projects engaged in any of the following activities:

(a) the manufacturing industry
(b) agriculture, livestock, fishing, and forestry
(c) mining and quarrying
(d) tourism

Requirements for development projects to qualify under this Act

4. (1) For any development project to qualify for the purposes of this Act, it shall have an investment potential sufficient to make a significant contribution towards economic diversification and the promotion of economic growth generally.

(2) Subject to subsection (1) of this section, a development project shall have the following objectives:

(a) the achievement of net foreign exchange earnings or savings;

(b) the generation of substantial domestic value added;

(c) the promotion of maximum employment and adequate training for Gambians;

(d) the maximum utilization of resources and services of Gambian origin;

(e) the formation of a national productive capital; and

(f) the spatial decentralization of development projects.

(3) The Minister may by Regulations, provide guidelines for the purposes of this section.

Incentives for investment

5. (1) Subject to the provisions of this Act and in accordance with the terms and conditions of the development certificate, a development project may be granted an incentive in the form of a tax credit certificate for the following purposes:

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(a) a total or partial exemption of customs duties on the following items:

(i) the approved capital equipment, plant, building material, machinery and appliances to be used in establishing the project; or

(ii) the approved quantity of semi-finished products, spare parts and other supplies to be used in the production operations.

(b) a total or partial exemption from payment of company tax or turnover tax.

(2) A tax credit certificate shall indicate the amount of money the Government shall forego from the holder of a development certificate as a fiscal incentive.

(3) The basis for calculating such an amount shall be determined by Regulations made under this Act.

(4) The duration and validity of any exemption granted under paragraph (a) (ii) and (b) of subsection (1) of this section shall be effective for as long as there is an unused amount outstanding on the tax credit certificate specified in the development certificate, but such duration and validity shall be limited to a period of not more than two years from the production date.

(5) The holder of a development certificate may at the end of the tax holiday period, set off any remaining unused tax credits against future tax or customs duty liabilities until the amount granted is completely used up.

Development Assistance

6. (1) Subject to any other law in force, the Minister may provide the holder of a development certificate with such assistance and facilities as are essential to enable him to carry out his development project including the following:

(a) preferential treatment for the allocation of land for the project site and the provision of infrastructural facilities;

(b) access to advisory services available from government institutions and related external organizations.

Assessment for exemption and granting of tax holiday

7. (1) The Minister shall, in considering tax credit certificates, have regard to the capacity of the development project to fulfill the aims and objectives specified in section 4 of this Act.

(2) The Minister shall not grant any incentive which may create privileges not enjoyed by persons in a competitive position or create monopoly within the economy.

## PART III - DEVELOPMENT CERTIFICATES

Application and procedures

8. (1) Any person who desires to engage in a development project and to obtain benefits conferred by this Act, may apply in writing to the Minister for a development certificate.

(2) No application under this section shall be entertained, unless the application is made on behalf of a company incorporated and registered in The Gambia.

(3) The application for a development certificate under this Act shall give particulars of:

(a) The development project including the type of products and services proposed, scale of operation, sources of material, inputs and annual quantities required, and an estimate of local and export markets;

(b) an estimation of the proposed site, specifying the area of land required, layout and floor area of buildings, and the cost of construction and site improvement;

(c) a list of plant, machinery and equipment for the development project and a cost estimate for each item;

(d) the location of the proposed project site and the date on which it was or will be acquired;

(e) the approximate construction date and the production date;

(f) the number of Gambian nationals to be employed, the category of their employment and, if expatriates are to be employed, their number and the reason for their employment; and

(g) a detailed forecast of income statement and cash flow of the development project.

Publication of application in the Gazette

9. Where the Minister is satisfied that:

(a) the intended development project relates to the activities specified in section 3 of this Act;

(b) the application has complied with the provisions of section 8 of this Act;

(c) the intended development project is designed ultimately to promote the objectives specified in section 4 of this Act;

(d) the applicant is adequately financed;

(e) the applicant has an adequate number of trained personnel in his employment or is in a position to obtain the services of such personnel;

(f) the applicant has access to the necessary technical information;

(g) the applicant is able to obtain adequate raw material; and

(h) the applicant possesses or will possess the necessary place of business,

he shall cause the fact that he is about to consider the granting of a development certificate under section II of this Act to be published, by notice, in the Gazette.

Objections to development certificate

10. (1) The notice referred to under section 9 of this Act, shall contain such particulars of the development product or products the Minister may think necessary in order that any person interested in the development project concerned may object to the proposed granting of the development certificate.

(2) The notice shall state a period not being less than thirty days within which any objection to the proposed certificate shall be made.

(3) Every objection, to the proposed granting of a development certificate, received by the Minister within the time stated in the notice or within such extended time as the Minister may allow, shall be notified to the original applicant for a development certificate and such objection together with any further representations submitted by the original applicant shall be considered by the Minister before any development certificate is granted.

(4) The provisions of section 9 and 10 of this Act shall apply mutatis mutandis, in the case of an application to amend a development certificate.

Approval and issue of development certificate

11. (1) In the absence of justifiable objections to the proposed development certificate and after consultation with the appropriate Government agencies, the Minister shall approve the application and grant the development certificate.

(2) The certificate granted by the Minister under this Act shall specify:

(a) the type of benefit conferred and incentive granted;

(b) the effective date, which may be a date before the issue of the certificate but not before the date of application;

(c) the duration and limitation of such incentives and benefits;

(d) the construction date;

(e) the production date;

(f) the production services of the development project;

(g) the location of the place of business of the development project;

(h) any development assistance and facility to be offered under section 6 of this Act; and

(i) any specific conditions, obligations or limitations imposed on the applicant by the Minister.

(3) In addition to the particulars mentioned in subsection (2) of this section, the Minister may provide in the development certificate a detailed list specifying the quantity and value of all imports approved for exemption from customs duty and for which the tax credit Certificate may be used in payment thereof.

Variation of date

12. (1) The Minister may, on a special request from an applicant and after due consideration of the reasons for so requesting, amend the construction and production dates specified in a development certificate.

(2) The construction and production dates may be amended only after the effective date of the certificate and before such construction or production dates.

(3) No such amendment as may be made under subsection (2) of this section shall operate so as to extend the period of the tax holiday.

Assignment of development certificate

13. No development certificate issued under subsection (1) of section II of this Act shall be assigned to any other person without the prior consent of the Minister.

Alteration or expansion of a develop-project

14. (1) The holder of a development certificate who wishes to expand his development project after the effective date of such certificate may apply in writing to the Minister for an extension of the incentives to cover the proposed new investment.

(2) The Minister may, subject to the provisions of this Act, extend the incentives to cover the proposed new investment.

Vital information

15. (1) Any person to whom a development certificate has been issued under this Act shall, as soon as is reasonably practicable, provide to Minister the Minister with evidence that the development project described in his application has in compliance with the terms and conditions stated in the development certificate, been substantially executed.

(2) The holder of a development certificate under this Act shall:

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(a) not later than thirty days after construction commences, inform the Minister of the actual date of construction;

(b) permit such audits and investigations as are necessary to ascertain compliance with the terms and conditions of the development certificate;

(c) submit to the Minister at the end of every financial year, financial statements and cost accounts in respect of the development project, and;

(d) provide the Minister or any other person authorized by him, with such information on the progress of the development project as he may, from time to time, require.

Maintenance of Records

16. The holder of any development certificate who has been granted exemption under this Act, shall maintain a record of all articles and materials in respect of which such exemption has been granted and such record shall state;

(a) the date on which each article or material was landed in The Gambia, or if purchased in The Gambia, the date of purchase of such article or material;

(b) the value of each article or material imported into or purchased in The Gambia; and

(c) the total value of all such articles and materials up to and including the date of submission of such record.

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Enforcement and implementation of conditions

17. (1) The Minister may serve a notice to the holder of a development certificate requiring such holder to comply with the terms and conditions of the development certificate if he is satisfied that such certificate holder has:

(a) failed in any way to implement the development project in accordance with the terms and conditions of his certificate;

(b) misused any incentives or benefits granted to him under this Act; or

(c) failed to comply with any of the provisions of this Act.

(2) Where the holder of a development certificate fails to comply with the notice referred to under subsection (1) of this section, the Minister may withdraw any incentive or benefits granted or cancel the development certificate.

Provision position

18. The Minister may, on the cancellation of a development for certificate under this Act, require the holder of such development certificate to pay to the Accountant General such compensation as he may, after consultation with the Minister of Finance, determine.

## PART IV - CUSTOMS DUTY

Record of Customs duty paid

19. The Comptroller shall record and collect the customs duties on approved imported goods in accordance with regulations made under this Act.

Obligations of holder of development certificate

20. The Comptroller may require the holder of development certificate:

(a) to keep such records and submit such returns, in such form and containing such particulars as he may, from time to time, determine;

(b) to pay the duty due on approved imported goods in accordance with the procedure prescribed by regulations made under this Act; and

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(c) to permit the Comptroller or any person authorized by him at all reasonable times to have access to any premises under his control and to inspect such records and examine such articles and materials which the comptroller may believe to be therein and to satisfy himself of the accuracy of particulars in relation to such articles and materials contained in such records.

Offense

21. (1) Any person who fails to comply with section 20 of this Act commits an offense and on conviction thereof, shall, be liable to a fine not exceeding D20,000.

(2) If the person who commits the offense is a company, every director of that company shall be held guilty of the offense unless any such director can explain to the satisfaction of the court that he was unaware of the commission of the offense.

## PART V - INCOME TAX

Application of Income Tax

22. Notwithstanding the provision of this Act, the granting of a development certificate does not confer any special status to the holder with respect to the Income Tax Act.

Monitoring of Income Tax

23. The provision of Part X of the Income Tax Act shall apply to the holder of a development certificate in respect of information, returns, books of accounts and other requirements necessary to compute tax liability and tax credits earned by the holder of the development certificate.

Application of Part XIV of Cap 96

24. The provisions of Part XIV of the Income Tax shall apply to any false return delivered or any false account kept or prepared, as if such return had been made or such false account had been kept or prepared with reference to income tax on profits or gains chargeable under the Income Tax Act.

External Monitoring

25. The Auditor General shall, at the request of the Ministry of Economic Planning and Industrial Development, be empowered to audit books of any holder of a development certificate with respect to the calculation of tax credit, customs duty and excise payments or income tax.

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## PART VI - MISCELLANEOUS

Training

26. The holder of any development certificate shall:

(a) Within six months from the production date, establish a scheme for the training of persons who are citizens of The Gambia in the fields of administration, technology, management and other skills, with a view to imparting knowledge and skills to such persons; and

(b) On the advice of the Commissioner of Labour provide such facilities as are considered necessary for the benefit and welfare of employees of the development project.

Settlement of disputes

27. (1) Where a dispute arises between a holder of a development certificate and the Government with respect to any development project, such dispute shall be settled amicably between the certificate holder and the Government.

(2) Where the certificate holder and the Government fail to reach any amicable settlement, the dispute shall be referred to arbitration in accordance with:

(a) any bilateral or multilateral agreement on investment protection to which the Government and the country of which the holder of the development certificate is a national, are members;

(b) the International Convention for Settlement of Investment Disputes between States and Nationals of other States and under the auspices of the International Centre thereunder established; or

(c) any agreement between the Government and the holder of the development certificate.

Regulations

28. The Minister may make Regulations and rules for the better carrying out of the purposes and objectives of this Act.

Repeal of Act No. 15 of 1973

29. The Development Act, 1973 is hereby repealed.

Savings

30. (1) Notwithstanding the repeal of the Development Act, 1973, all orders made or certificates and benefits granted under that Act and which have effect when this Act comes into force, shall continue to have effect as if made or granted under this Act.

Savings (cont.)

(2) Nothing contained in this Act shall be construed as adversely affecting any rights, privileges or obligations existing in respect of a development certificate previously granted.

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**Development Act, 1988**

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PASSED in the House of Representatives the Twenty-fifth day of February, in the year of Our Lord One Thousand Nine Hundred and Eighty-Eight.

E. O. BRIGHT
Clerk of the House of Representatives

THIS PRINTED IMPRESSION has been carefully compared by me with the Bill which has passed the House of Representatives, and found by me to be true and correct copy of the said Bill.

E. O. BRIGHT
Clerk of the House of Representatives

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