GAMBIA
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GAMBIA

- **Economic growth is still driven by a recovery in agriculture and by a strong start up to the tourist season.**
- **Incoherent macroeconomic policies have caused major disruptions to the Gambian foreign exchange market and created fiscal imbalances, increasing the country's vulnerability to external shocks.**
- **Despite the Gambia's significant progress in reducing the overall incidence of poverty, inequality and high unemployment, especially among the youth, remain a challenge.**

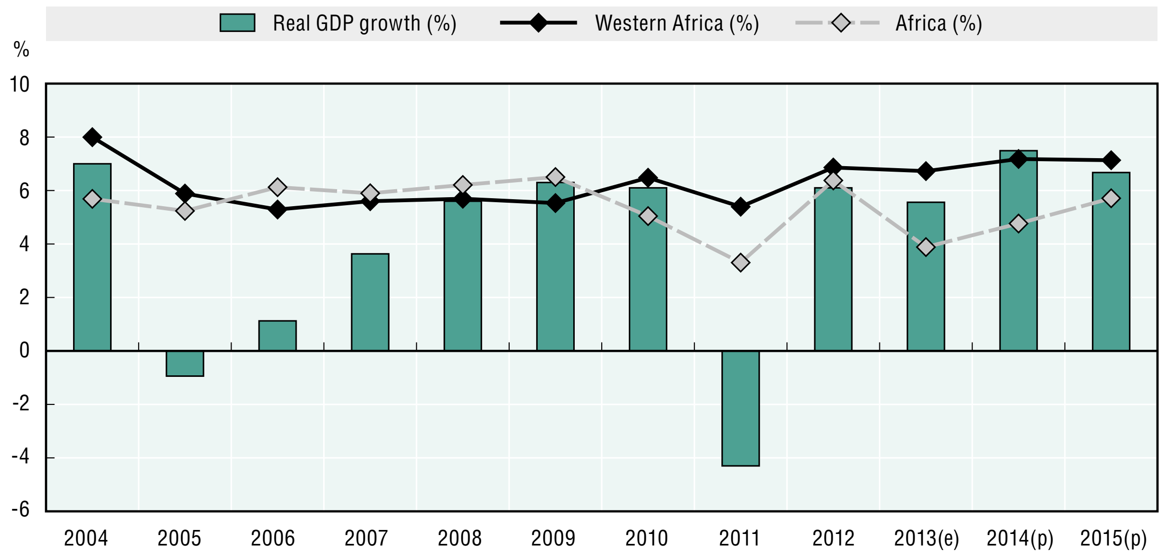
Overview

Recovery in agriculture and healthy gains in tourism supported GDP growth in 2012 and 2013. Real GDP is estimated to have grown by 6.1% in 2012 and 5.6% in 2013 compared to a contraction of 4.3% in 2011. The outlook is optimistic as real GDP is projected to grow by 7.5% and 6.7% in 2014 and 2015, respectively. Inflation increased to 5.3% in December 2013 from 3.9% at end-2012, largely due to a weakening of the Gambian dalasi.

The fiscal deficit is projected to fall from an estimated 3.3% of GDP in 2013 to 2.5% in 2015. Tax revenues are projected to decline by 0.8% of GDP over the period despite value added tax (VAT) and other tax measures. On the expenditure side, a decline in interest payments on domestic debt, along with other factors, is expected to contribute to a decline in outlays from an estimated 17.9% of GDP in 2013 to 17.3% in 2015. The government needs to control domestic borrowing and provide for a consistent and appropriate macroeconomic framework. This will help to stabilise the economy and rebuild market confidence, as well as to diminish crowding out of private sector activity and to create space for development spending. The government should strive to maintain a flexible exchange rate policy and to tighten monetary and fiscal policies to ensure stability and preserve adequate foreign reserve levels.

The Gambia is connected to global value chains through two main sectors: tourism and nuts. Tourism and nut production are the main foreign exchange earners outside the re-exports sector. Though the country has achieved a relatively high multiplier effect from tourism, such returns are mainly limited to coastal areas. By promoting up-country eco and cultural tourism, the Gambia can expect greater benefits to the poor. In order to promote investment in such opportunities, an enabling environment needs to be created through land and river networks and information and communications technology (ICT) to increase accessibility. Furthermore, the economic environment of the Gambia is ideal for investing in cashew nuts. Currently, cashew processing in the Gambia is negligible. The Gambian cashew nuts value chain includes several different stages between the farmers and processors capable of delivering wealth creation opportunities.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic indicators**

	2012	2013(e)	2014(p)	2015(p)
Real GDP growth	6.1	5.6	7.5	6.7
Real GDP per capita growth	2.9	2.4	4.3	3.5
CPI inflation	3.9	5.3	5.7	5.3
Budget balance % GDP	-4.4	-3.3	-2.5	-2.5
Current account balance % GDP	-16.4	-16.0	-15.8	-14.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Despite the 2008 global financial crisis, the Gambia has experienced a strong economic performance during the period 2005-10 with a 3.7% average annual real GDP growth. Economic growth was hurt in 2011 by a harvest crop failure caused by drought. However, agricultural production started to recover in 2012 due to above average rainfall. Real GDP growth is estimated to have recovered from a contraction of -4.3% in 2011 to 6.1% in 2012 and 5.6% in 2013, supported by the continuing recovery in agricultural production and a strong start-up to the tourist season. The outlook is optimistic as real GDP is projected to grow to 7.5% and 6.7% in 2014 and 2015 respectively. Subsequently, GDP growth is expected to return to trend growth of about 5.5%. However, this is predicated on a sustained recovery in crop production, with normal rainfall that supports a return to pre-drought levels of crop production and no further external shocks. Also, fiscal slippages would undermine development objectives by crowding out of private sector activity and government priority programmes.

As a small, open economy, the Gambia remains highly vulnerable to external shocks. The country is heavily dependent on rain-fed crops for agricultural output, on imports for food consumption, and on tourism receipts and remittances for foreign exchange earnings. Over recent years, the Gambia's entrepôt activity has also been eroded due to competitiveness gains in neighbouring Senegal and harmonisation of external tariffs across the sub-region. The global financial crisis led to a fall-off in tourist activity and weaker foreign direct investment inflows. Recent political crises in Mali and Guinea-Bissau have disrupted trade activity.

The services sector represents 62.6% of GDP in 2013 even though its contribution to total GDP dropped from 16.3% in 2011 to 14.5% in 2012. The sector recorded a growth rate of 5.8% in 2012. Wholesale and retail trade grew to 4.5% from 1.0% in 2011, communication grew to 13.0% from 7.0% in 2011 and education grew to 7.0% from 4.7% in 2011. However, growth in hotels and restaurants, financial intermediation and health and social work decreased to 4.0%, 4.3% and 0.1% respectively in 2012 in comparison to 16.8%, 13.6% and 3.7% in 2011.

The Gambia is mainly an agricultural country, with over 70% of the population dependent on agriculture for their food (subsistence farming) and income (cash crop farming for groundnuts, cashews and sesame, for example). The Gambia produces only 50% of its total food consumption needs. Agriculture accounts for about a quarter of GDP in 2013. The agricultural sector is estimated to have grown by 6.0% in 2012, in contrast to the negative growth rate of 24% recorded in 2011. Crop production, the main agricultural activity grew by 8.5% in 2012 in comparison to the negative 40% growth recorded in 2011. Livestock, fishery and forestry recorded positive growth rates of 3.8%, 3.4% and 3.1%, respectively.

Despite its socio-economic importance, agriculture continues to lag behind other sectors in productivity growth and especially modernisation. The Gambia, similar to most sub-Saharan African countries, suffers from poor soil fertility due to depletion of micronutrients caused by constant farming without adequate soil maintenance. Poor soil quality – coupled with the absence of or insufficient application of fertilisers and pesticides during crop production – results in very low yields and productivity.

Growth in the industrial sector is estimated at 6.4% in 2012, in contrast to the growth rate of 5.5% in 2011, as a result of increased growth in the construction and mining and quarrying subsectors by 12.7% and 9%, respectively. Manufacturing output declined to 2.1% from 4.3% in 2011. Electricity, gas and water output also declined to negative 3.9% from a positive growth rate of 3.4% in 2011.

Table 2. **GDP by sector (percentage)**

	2008	2013
Agriculture, hunting, forestry, fishing	27.8	24.4
of which fishing	2.2	2.0
Mining	2.7	3.6
of which oil		
Manufacturing	6.4	6.0
Electricity, gas and water	1.4	1.3
Construction	4.3	5.4
Wholesale and retail trade, hotels and restaurants	31.9	28.4
of which hotels and restaurants	4.1	3.1
Transport, storage and communication	12.4	15.8
Finance, real estate and business services	8.6	10.3
Public administration, education, health and social work, community, social and personal services	1.7	2.2
Other services	2.8	2.6
Gross domestic product at basic prices / factor cost	**100**	**100**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

After posting a surplus in 2007, the fiscal balance gradually shifted into deficit, exceeding 5.4% of GDP in 2010 as a result of slow growth in revenue, coupled with rapid growth in expenditure. Thereafter, fiscal deficits decreased to 4.7% of GDP in 2011 and 4.4% in 2012. Fiscal restraint and rising domestic tax revenues are projected to contribute to an improvement in the fiscal position over the medium term. The fiscal deficit is projected to fall from an estimated 3.3 % as a share of GDP in 2013 to 2.5 % in 2015.

Domestic revenue has increased since 2010 due to sustained efforts aimed at improving tax policy and administration. In early 2013, the Gambia embarked on a gradual process of tax reforms. The authorities introduced VAT, to replace an outdated general sales tax, and a simplified tax regime for small businesses. In the supplementary budget, which was submitted to the National Assembly in late April 2013, the government specified a path for almost eliminating the costly fuel subsidies by the end of 2013. However, tax revenues are projected to decrease by 0.7% of GDP over the period 2013-15 despite VAT and other tax measures.

Strong expansion in expenditure has been led by spending on personnel emoluments (PE), with the wage bill amounting to around 35% of total current expenditure in 2012. One of the causes of the increasing wage bill is the increase in security forces (military and police). The government therefore depends heavily on grants and loans to fund capital development expenditure to promote social services.

Deficits have mainly been funded through domestic borrowing and this has led to a further significant rise in debt service payments. Net domestic debt reached almost 33.8% of GDP at end 2012. Around 75% of this is in the form of treasury bills with maturity periods of 3, 6 and 12 months. Interest payments consumed around 22.5% of government revenues in 2012, the vast majority of which is interest on net domestic debt (81%). This negative impact is compounded by the crowding out effect on the private sector whereby commercial banks are investing significant amounts of resources on Treasury bills instead of lending to the private sector. A decline in interest payments on domestic debt, along with other factors, is expected to contribute to a decline in outlays from an estimated 17.9% of GDP in 2013 to 17.3% in 2015. These improvements are projected to support a reduction in net domestic borrowing from an estimated 1.9% share of GDP in 2012 to 0.5% in 2015.

Budgetary reforms anchored on the introduction of the Medium Term Expenditure Framework (MTEF) have been introduced on a pilot basis to replace the existing incremental line item budgeting currently in place. The MTEF is being introduced to ascertain that public resources are strategically allocated to finance government priority areas as articulated in the Programme for Accelerated Growth and Employment (PAGE), as well as to ensure operational efficiency by adhering to effective and efficient utilisation of public resources.

Table 3. **Public finances (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Total revenue and grants	**15.8**	**18.9**	**21.1**	**25.2**	**24.1**	**22.7**	**21.7**
Tax revenue	12.9	13.2	14.2	14.4	14.5	14.0	13.7
Grants	1.2	4.0	5.1	8.9	7.7	6.8	6.1
Total expenditure and net lending (a)	**23.1**	**24.3**	**25.8**	**29.6**	**27.4**	**25.2**	**24.2**
Current expenditure	13.4	15.2	17.2	17.3	15.1	13.4	12.7
Excluding interest	7.0	12.4	13.6	13.6	13.4	12.4	11.7
Wages and salaries	3.1	5.7	6.4	6.2	6.1	5.8	5.6
Interest	6.3	2.9	3.6	3.7	1.7	1.0	1.0
Capital expenditure	9.9	9.0	8.6	12.3	12.3	11.8	11.5
Primary balance	**-0.9**	**-2.5**	**-1.1**	**-0.7**	**-1.6**	**-1.5**	**-1.5**
Overall balance	**-7.2**	**-5.4**	**-4.7**	**-4.4**	**-3.3**	**-2.5**	**-2.5**

Note : a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

Monetary policy focused on reversing the rise in inflation in 2012. Despite the impact of the drought which put pressure on food prices, and some depreciation of the Dalasi, inflation was contained at 4.8% in 2011 and 3.9% in 2012. The Central Bank of Gambia (CBG) implemented a relatively tight monetary policy leading to an increase of the broad money supply by 7.8% in 2012. Credit to the private sector expanded by 1.3%.

Monetary policy in 2013 aimed to limit average reserve money and broad money growth to 10.9% and 12.5% respectively. Inflation, however, picked up, reflecting a depreciation of the Gambian dalasi, as well as side effects caused by the introduction of VAT on 1 January 2013, as many firms opportunistically increased prices. Inflation reached 6.1% in October 2013 and decreased to 5.3% at the end of 2013. The CBG is prepared to tighten monetary policy if shocks to energy and food prices start sifting into the general price level.

Between October 2012 and October 2013, the Office of the Gambia's President issued a series of directives that imposed exchange rates and other restrictions on the foreign exchange (FX) market, ostensibly to eliminate speculation and illegal FX trading by unlicensed dealers. By imposing an overvalued exchange rate, the directives disrupted local currency markets. The dalasi is estimated to have been significantly overvalued by as much as 20% while the directives were in force. In September 2013, an IMF Staff Mission, advised the CBG to maintain a flexible exchange rate policy, which has served the Gambia well over the years, particularly in helping to maintain its international competitiveness. In order to rebuild market confidence in the exchange rate policy, the government will need to establish credibility through sustained commitment and strong signaling in both monetary and fiscal policies.

Economic co-operation, regional integration and trade

Regional integration and economic co-operation are important for the Gambia. Due to its limited surface area, population size and markets and its geographical position as a semi-enclave into Senegalese territory, any developments affecting the sub-region, specifically Senegal, have effects on the Gambia. Acting as a hub with an efficient and cost-effective port, the Gambia re-exports up to 35% of its merchandise imports. The Gambia is a member of regional bodies such as the Economic Community of West African States (ECOWAS) and the Gambia River Basin Development Organisation (OMVG). Based on its historic linkages to Great Britain, the Gambia was a member of the British Commonwealth until October 2013, when the government withdrew its membership.

European countries constituted the Gambia's main export markets, rendering the country particularly vulnerable to developments in the euro area. However, the government has started to implement a strategy to diversify both its trade exports and tourism to non-European countries (i.e. Asia and Africa) to help lessen the exposure to the euro crisis.

The current account deficit is projected to diminish slightly to 16.0 % as a share of GDP in 2013 from a revised 16.4 % in 2012, largely due to rising tourism receipts. The projected full recovery in agricultural production and strong growth in tourism activity – combined with easing pressures on the fiscal side – are forecast to support further improvement in the current account balance. The current account deficit is projected to fall incrementally to 14.7% by 2015.

Whilst in force, the overvalued exchange rate eroded export competitiveness. This, combined with a sharp drop in international groundnut prices, resulted in disappointing export revenues. Falling international groundnut prices, tied to a recovery in global supply, are hitting the Gambia's main commodity export; international groundnut prices declined 37% over the last year. The level of gross external reserves has fallen from an equivalent of 4.6 months of imports of goods and services in 2012 to 4 months in 2013. Increased budget support grants contributed to financing the current account deficit.

There are no quantitative restrictions on trade in the Gambia. The country ranks well in the trading across borders sub-category with some of the world's lowest per container export and import costs, averaging USD 800 less than competitors' costs. The country enhanced competitiveness after depreciation of the dalasi during 2009-12, but it stands to become less competitive in the medium term as neighbouring countries continue to liberalise their trade regimes and ports. Banjul is a relatively efficient port with one of the lowest costs per container in the region and with uniform non-tariff barriers.

Table 4. **Current account (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Trade balance	-22.8	-22.5	-23.8	-27.8	-27.6	-26.0	-24.7
Exports of goods (f.o.b.)	13.0	10.0	11.9	10.8	10.9	9.5	8.8
Imports of goods (f.o.b.)	35.8	32.5	35.6	38.6	38.6	35.6	33.5
Services	6.0	3.9	6.2	6.5	7.5	6.4	6.6
Factor income	-7.0	-3.1	-3.5	-3.7	-3.6	-3.0	-2.7
Current transfers	12.6	5.7	6.2	8.7	7.7	6.8	6.0
Current account balance	**-11.2**	**-16.1**	**-14.9**	**-16.4**	**-16.0**	**-15.8**	**-14.7**

Source: Data from the Central Bank and domestic authorities; estimates (e) and projections (p) based on authors' calculations.

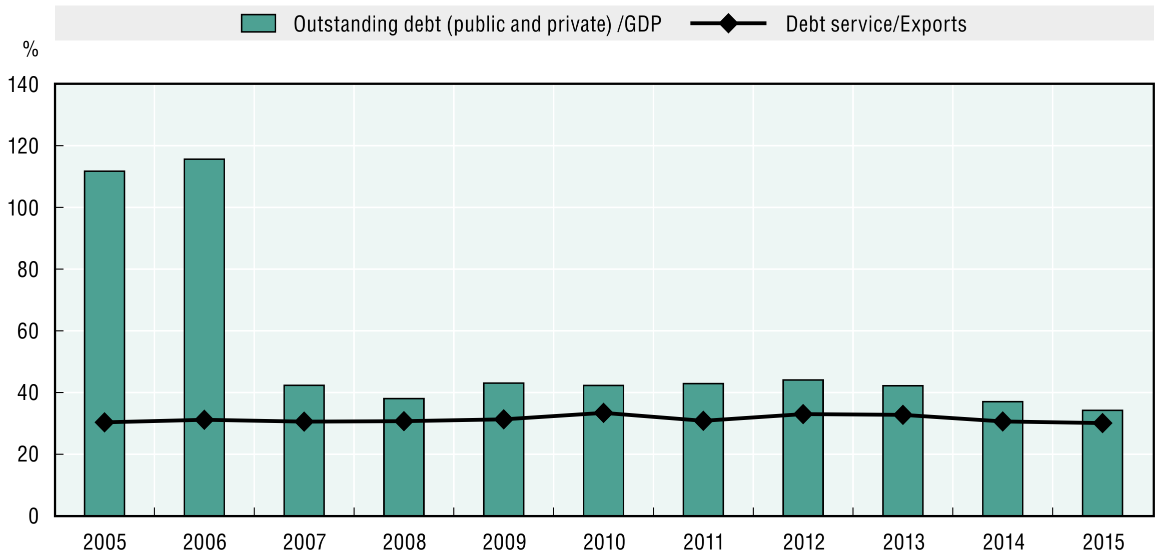
Debt policy

The debt burden and the risk of debt distress are relatively high in the Gambia because of the large accumulated public deficit caused by excessive domestic borrowing by the government. The public debt stock increased from 71.1% of GDP in 2011 to 78.7% in 2013. While The Gambia has moderate external public debt, estimated at 43.2% of GDP in 2012, it has substantial high-cost, short-term domestic debt, estimated at 35.5% of GDP. Around 75% of this is in the form of treasury bills with maturity periods of 3, 6 and 12 months. Interest payments consumed around 22.5% of government revenues in 2012, the vast majority of which is interest on net domestic debt (81%). This negative impact is compounded by the crowding out effect on the private sector whereby commercial banks are investing significant amounts of resources on treasury bills in preference to lending to the private sector.

A series of monetary policy directives were issued from end June to early October 2013, which imposed an overvalued Gambian dalasi against the US dollar and restrictions on US dollar shipments. As a consequence, government borrowing rates climbed sharply (up 600 basis points to 18.5% for one year in early November), and treasury bill auctions for shorter-dated paper (3-months and 6-months) have been undersubscribed. Both roll-over and interest rate risks have become more elevated, and the burden of domestic debt servicing on government coffers is set to climb.

The Joint IDA/IMF Debt Sustainability Analysis (DSA) of 7 May 2013, concluded that over the medium to long term, domestic debt is projected to fall from 33.4% of GDP at the end of 2012 to 23% of GDP in 2016 and to continue to fall thereafter. This projection, however, critically hinges on sustained fiscal discipline. The authorities have expressed their intention to achieve a gradual fiscal adjustment over the medium term in order to curb net domestic borrowing. The goal is to reduce net domestic borrowing to 0.5% of GDP in 2014 and beyond (from 3.2% in 2012 and a targeted 1.9% in 2013).

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

The country's ranking in the World Bank report, *Doing Business 2013* has deteriorated from 148 in 2013 to 150 in 2014 out of 189 economies. The 2014 indicators also show that the time required for registering a business is 27 days, in contrast to the 29.7 day average for sub-Saharan Africa. On the other hand, the cost of business registration (174.3% of per capita income) by far exceeded that of the sub-Saharan average (67.4%). Nevertheless, the overall ranking of the Gambia is higher than several countries in the region. The private sector continues to face extremely high interest rates on loans from commercial banks. These are due not only to crowding out by the public sector, but also to high reserve requirements, high overheads, and legal and institutional difficulties in recovering loans and realising collateral.

The Gambian Constitution guarantees the right of private ownership. Under the Company Act of 1955, there are no restrictions on the minimum or maximum share capital of a business venture, nor is there any compulsory requirement for equity participation by Gambian nationals in foreign-owned enterprises, except as described in paragraph 9 in relation to privatisation programmes. Businesses may be wholly-owned by foreigners or jointly-owned with participation by local investors.

The Labour Act of 1990, the 2007 amendments to the act, and its regulations, provide the legal framework for labour relations in the Gambia. It covers most conditions of employment, including dismissals, recruitment and hiring, registration and training, protection of wages, registration of trade unions and employees' organisations, and industrial relations in general. Minimum wages and working hours are established through six joint industrial councils: commerce, artisans, transport, port operations, agriculture and fisheries. The Labour Act imposes restrictions on the right to organise strikes, with civil service employees being denied this right.

The Government of the Gambia considers the MSME sector to be the engine of growth for the future. MSMEs contribute about 20% to GDP and support more than 60% of the urban labour force. A National Policy for MSMEs (2014-18) has been prepared and is in the process of being adopted.

Financial sector

The Gambia's financial sector is dominated by commercial banks. Between 2007 and 2010, the number of banks doubled to 14, leading to intense competition and diminished profits for the system as a whole. However, the increase in the number of banks in the Gambia has not led to a fall in interest rates. This may be because all the banks are chasing a small pool of deposits for which they have to pay a premium, thus keeping credit interest rates high. Treasury bills are an easier way of making money rather than lending. Other notable characteristics of the banking system include: a relatively low rate of interbank lending; a high concentration of government treasury bills as a share of banks' total assets; and a largely domestic source (deposit liabilities) of the banks' funding, despite the dominance of foreign-based banks.

The banking system underwent a modest consolidation when two banks went into voluntary liquidation rather than meet the two-step increase in the minimum capital requirement implemented at end-2010 and end-2012.

Banks are risk averse to MSMEs because of lack of credit history, poor financial records and lack of credible business plans. Micro and very small businesses can access credit more easily from the Village Savings and Credit Associations of Gambia (VISACAs), Credit Unions and Microfinance Institutions (MFIs). The establishment of the Credit Reference Bureau at the Central Bank will go some way to improve this situation, although this deals only with the banks.

Young people are often excluded from the formal financial system because of their age, lack of work experience, limited credit history and other barriers that exclude them from the financial system.

Since access to finance is important for all businesses of all sizes, the following issues need to be addressed: *i*) finance is generally a short-term overdraft or Letter of Credit with average maturity of 90 days; *ii*) finance for start-ups (angel or venture capital) is non-existent because of the high risk; *iii*) attracting additional support funds for banks, operated through and combined with encouragement from the CBG for banks to ensure that a specified proportion of their portfolio should be at the MSME level.

Public sector management, institutions and reform

According to Transparency International, there has been a notable improvement in the fight against corruption and lack of transparency between 2008 and 2011. The Gambia recorded significant progress as its score on the Corruption Perception Index (CPI) almost doubled from 1.9 to 3.5 during the period. The country's global ranking witnessed a remarkable improvement from 158 in 2008 to 77 (out of 182) in 2011. In 2012, its CPI index rank was 105 (out of 174) using an updated methodology, and as such this index is not comparable to previous scores. In the face of still pervasive corruption, the government is in the process of establishing an Anti-Corruption Agency to co-ordinate and consolidate integrity within the public sector. Since the early 2000s, the country's public procurement system has undergone substantial reforms and there has been moderate progress in the field of justice. The CPI ranking is consistent with a similar, albeit less dramatic improvement noted by the Mo Ibrahim Index of African Governance, according to which the ranking of the Gambia amongst African countries has been improving. In 2013, the Gambia scored 53.6 (out of 100) for governance quality and is ranked 22nd out of 53 countries. It scored higher than the regional average for West Africa (52.5) and higher than the continental average (51.6). Its highest rank was in rural sector (6/52) and its largest 6-year score improvement was in health (+18.0). Its lowest rank was in participation (44/52) and its largest 6-year score decline was in personal safety (-15.8).

The government recognises that strengthening economic and financial governance is crucial for boosting economic growth, improving the business environment, increasing employment and reducing corruption. The government has made good progress in key aspects of governance and the fiduciary environment and has been pursuing reforms in public financial management since 2004. Recent major achievements, with the support of donors include: the submission of 2008-11 consolidated financial statements to the National Audit Office (NAO); the preparation of a budget framework for 2013 with indicative medium-term expenditure budget projections; the fully staffed Internal Audit Unit; and the implementation of VAT in January 2013. Also substantial support is provided to the country in the areas of internal and external audit, to ensure that effective internal controls and external scrutiny are in place.

Natural resource management and environment

Mining and quarrying is a minor component of the Gambia's economy, representing only 2% of GDP. However, The Gambia harbours a wealth of terrestrial, coastal, marine and wetland habitats and species of local, national, regional and global significance, making the Gambia an attractive tourist destination and a hub for trade in the region.

The Gambia continues to face important challenges in its efforts to institutionalise and mainstream the principles of environmental sustainability. Deforestation is a major challenge since over 90% of households have to meet their primary energy needs by biomass. Conservation is also a challenge due to the increasing demand for housing materials and land for construction and agricultural production. In addition, periodic floods add to land degradation problems. The government plans to declare a 100 metre protection zone in the vicinity of all waterways.

Climate change issues and risks have successfully been integrated into the Programme for Accelerated Growth and Employment (PAGE 2012-2015) as a cross-cutting theme. A Climate Change Priority Action Plan enables mainstreaming of climate change into the national development process. This is achieved through the development of a low carbon strategy, integration of climate change into national and sectoral policies and programmes, integration of climate change into education curricula from basic to higher education and an attempt to address the climate data needs of the country.

Political context

The Gambia is a presidential republic with a unicameral legislature. The president is elected by popular vote for unlimited five-year terms. The incumbent President Yahya A. J. J. Jammeh was re-elected for a fourth term on 24 November 2011, with 72% of the popular vote. In the parliamentary elections of 29 March 2012, the President's party, the Alliance for Patriotic Reorientation and Construction (APRC) maintained its sizeable majority, with 43 seats in the 53 seat National Assembly. The National Assembly continues to play an important role but it is affected by the dominance of a single party. Although there are six other political parties, the opposition remains fragmented and unable to affect policy decisions.

The Freedom in the World 2013 report categorises the Gambia as "not free". The Gambia's civil liberties rating declined from 5 to 6 due to worsening restrictions on civil liberties, including amendments to the Information and Communication Act and the Criminal Code Act that further limited open and free private discussion. There is a ban on the use of Skype and other voice communication programmes in internet cafés. In July 2013, the National Assembly passed amendments to the Gambia's Information and Communications Act which penalise those who spread "false news or information" against the government. Three members of the opposition United Democratic Party (UDP) were arrested in September 2013 and convicted of sedition. They will serve up to five years in prison.

Recent major policy reversals have undermined confidence in the government's commitment to its international agreements. Tension with donors – notably the EU – over human rights, freedom of press and political issues heightened in 2012, culminating in the cancelation of a high-level political dialogue with the EU in January 2013. Moreover, in October 2013, the Gambia withdrew its membership of the British Commonwealth and in November 2013, the Gambia's government cut diplomatic ties with Chinese Taipei . Another source of tension was the temporary introduction in late October 2012 of an ad hoc fixed exchange rate peg that risked the overall macro-framework and diminished confidence in the Gambia's commitment to the extended credit facility (ECF) arrangement signed with the IMF earlier in 2012. Pressures by development partners, especially the IMF, finally led to the reversal of the policy.

Social context and human development

Building human resources

The Gambia has slightly improved in its ranking in the Human Development Index to 165 out of 187 in 2012 (from 168 in 2011) but is still considered "low human development" and continues to faces challenges in achieving most of the Millennium Development Goals (MDGs). Some gains have been recorded in education, health and nutrition in recent years. However, many challenges remain in the attainment of the other goals. The Gambia has achieved the MDGs related to gender parity in primary and secondary education, and to improved access to water sources. The MDGs related to primary school completion rates (even though considerable progress has been made), infant and child mortality, measles vaccination and births not attended by skilled staff, might not be achieved by 2015 if current policies are continued and donor support is maintained at current levels.

Though well executed, the poverty programmes are primarily contingent on continued donor support. The budget execution rate of social programmes (including education, health and agriculture) in 2011 was 96.5%. The highest rates were recorded for education, health and nutrition programmes in the upper 90s. However, most of the programme budgets went on wages and salaries. In 2011 the government spent 34.4% of its budget on priority sectors and allocated over 38% in 2012.

The Gambia has witnessed a significant expansion in enrolment in education over the past decade which has been matched by continuously high primary completion rates and a low average repetition rate. However, inequities and disparities are evident when disaggregating by income and region. Gambian households make considerable contributions to the education of their children, covering 46% of education costs at the lower basic level, for example. Informal school fees at public schools contribute to these costs, and in some cases are prohibitive for the poorest households. The priority for the education sector is to address these challenges by providing for the elimination of school fees.

Poverty reduction, social protection and labour

Poverty noticeably declined during the last decade but remains widespread with considerable regional variation. The overall poverty rate has decreased from an estimated 58% in 2003 using the less than one dollar per person per day threshold to 36.7% in 2010. Using the less than 1.25 dollar per person per day threshold, poverty was estimated to be 48.4% in 2010. Given the count down to 2015, poverty should be reduced by 33 percentage points to achieve the set target by 2015 (15%). Unless there is massive investment in poverty reduction programmes, the country is not likely to meet the poverty targets by 2015. In particular, output volatility caused by the 2011 drought has impacted negatively on poverty, particularly in rural areas[1].

Poverty is deeper and more widespread among households headed by agricultural and fishery workers. Indeed there is pronounced spatial diversity, with the poverty headcount index for rural households twice as high as for urban households. Large family sizes also impact negatively on poverty while remittances from the diaspora have helped to alleviate poverty. High unemployment and underemployment, particularly among women and youth is one of the major causes of poverty in the Gambia. Youth unemployment is estimated at over 40%, three times higher than among other adults.

The importance the government of the Gambia attaches to poverty alleviation is manifested in the existence of many MDG-based policies. The PAGE seeks to deliver and sustain a 10% GDP growth with emphasis on employment creation and income generation, particularly in the productive sector of agriculture where most of the poor earn their livelihoods. Tackling youth employment is also a central strategy of the PAGE. In 2010, the government implemented an employment policy (2010-14) to: help create respectable employment for youths and women; promote youth and female entrepreneurship; facilitate and create more employment and opportunities; and help youth and women to access finance. In order to address access and equity considerations, access to Technical and Vocational Education Training (TVET) programmes will be facilitated for women and vulnerable persons.

Currently the government pension system is a non-funded defined benefit system. The review of the existing system and baseline projections suggests that: *i*) low and unpredictable benefits provide insufficient transition support for workers reaching retirement age; *ii*) the bulk of pension benefits are assured shortly after retirement but carry considerable risk and uncertainty for the duration of the retirement period; *iii*) the benefit formula and qualifying conditions create weak incentives and inequities between different workers; *iv*) the disability programme does not cover workers prior to vesting and provides very limited benefits for younger or vested workers and the survivor programme is practically non-existent; and *v*) although the pension system seems to be currently affordable, its long-term costs are projected to escalate due to a deterioration of system demographics. The government has begun to put in place a new sustainable pension system in the context of its civil service reform strategy (2008-15).

Gender equality

Women constitute 45% of the economically active population, with a labour force participation rate of 72%, compared to 83% for males. Women are predominantly employed in the informal sector and make up only 21% of the civil service. The majority of women (70%) are engaged in rural subsistence agriculture, particularly in rice production and horticulture. However, women operate at low levels of productivity due to limited access to agricultural inputs, credit and technology, and lack of markets. A strategic entry point to address women producers' needs is ensuring a gender responsive extension service, better organised marketing channels and more equitable participation in value chains. Women across all ethnic groups are denied land rights in the Gambia. The government is committed to addressing this issue and the PAGE recognises the need to restructure the land tenure and inheritance system to correct the gender bias and increase agricultural productivity.

The Gambia ranks relatively well among its West African peers on the World Economic Forum 2011 Global Gender Gap Index, at 77 (out of 135), ahead of neighbouring Senegal (rank 92) and Mauritania (rank 114). The MDG target set on gender parity in primary and lower secondary schools has been attained and the country is on track to reach the target set for parity at senior secondary schools by 2015. However, women's participation in decision making remains low. Only 33% and 13% women occupy decision-making positions in cabinet and the National Assembly, respectively. The barriers to women entering politics are multifaceted and rooted in social and cultural traditions that discourage female participation in public life.

Thematic analysis: Global value chains and industrialisation in Africa

The Gambia is connected to global value chains through two main sectors: tourism and nuts. Tourism and nut production are the main foreign exchange earners outside the re-exports sector. We will analyse in this section the tourism and cashew nut sectors for which information is available.

Tourism value chain

Tourism has become the fastest growing sector of the economy, contributing 12% of the country's GDP and 3.8% of total employment in 2011. In 2012 about 175 871 tourists visited the Gambia in comparison to 91 000 arrivals in 2010. Tourism's contribution to GDP is targeted to increase to around 18% by 2020, which implies that tourism will grow considerably faster than other sectors of the economy.

Tourists mainly come from the UK (54.6% of traditional markets in 2012), Holland (17.9%) and Sweden (7.3%) because of proximity (only 5 to 6 hours by air from the airports of northern Europe). As the destination is almost entirely dependent on the charter flights of the major tour operators, decision making about capacity is in the hands of the UK-based tour operators. The Gambia is very vulnerable to any downturn in the demand for sun, sand and sea tourism in its originating markets. This form of tourism is highly competitive, with new beach tourism and winter sun destinations being developed. Tourism in The Gambia is highly seasonal, with most of the originating market tour operators only operating from November to April. From the UK, Gambia Experience is the only major all-year operator and its charters constitute the scheduled service between London and Banjul.

The Gambia Tourism Board (GTB) was established in July 2001 to promote, develop, regulate and oversee the tourism sector in the Gambia. This is comprised of hoteliers, travel businesses and entertainment. The GTB is also responsible for advising the tourism sector and it offers a one-stop-shop service; the board is aggressively marketing and promoting foreign and local investment in the tourism industry. It also works in co-operation with its European partners to develop sustainable tourism products and services in Africa.

The Gambia is seeking to diversify its tourism brand from a low-cost budget "sun, sea and sand" destination to more upscale attractions cross-country. Incentives are being offered to investors through the Investment and Export Promotion Act, the Gambia Tourism Development Master Plan (developed in 2006) and the national development strategy. These incentives are aimed to benefit eco-tourism, national heritage, up-country tourism, tourist camps, sport fishing, river sports and cruising, 4/5 star hotels, integrated resorts and marinas.

The Gambia Tourism Development Master Plan highlights key priorities in order to ensure more spill-over of tourism earning to the rest of the economy. These include infrastructure development, especially in terms of increased access to the interior and agricultural linkages. For agricultural linkages, the short-term strategy includes the promotion of local products in hotels and restaurants, while the medium-term strategy focuses on improving the functioning of the horticulture supply-chain to the food service industry in terms of wholesalers and women's groups. To address seasonality, the Master Plan emphasises the need to target niche markets, including through the conservation and exploitation of natural and cultural heritage sites and areas.

The structure of the Gambian tourism sector is concentrated with a few package operators that work with only 4 national operators and approximately 20 hotels along the coast. The package holiday value chain accounts for the majority of tourism into the country. In an Overseas Development Institute (ODI) study of March 2008 by J Mitchell and J Faal, "The Gambian Tourist Value Chain and Prospects for Pro-Poor Tourism" the authors calculated that one-third of the package holiday value remains in-country while the remainder is retained abroad by air transport companies and international tour operators. In the case of out-of-pocket expenditure from tourists, though, a much larger share remains in the country and much of this spending has relatively high pro-poor impacts. The ODI calculations conclude that overall "14% of the Gambia-based part of the value chain flows directly into the hands of the poor." For agriculture in particular, the use of local inputs for food and beverage sales to tourists has been estimated to translate to about 1 million British pounds (GBP) at the farm gate.

Aside from policy reform, such pro-poor benefits can also be attributed to in-country initiatives such as Gambia is Good (GiG) which works to strengthen linkages between the fruit and vegetable sector and the tourism industry and the Association of Small-Scale Enterprises in Tourism (ASSET). The Tourism Challenge Fund through ASSET had also resulted in formalising some small and medium enterprises (SMEs) enabling them to enter the tourism value chain. For example, it has been reported that beach, fruit sellers and juice pressers adopted a code of conduct to reduce the hassling of tourists and established stalls so that they no longer needed to hawk for business on the beaches. Guides and craft workers took similar initiatives, and hoteliers invited craft workers to sell within the hotels on a rotational basis. Fruit sellers' incomes increased by 50%; juice pressers' by 120%; guides' by a third; and craft workers in the market reported a doubling of their incomes and 43 new jobs.

Though the country has achieved a relatively high multiplier effect from tourism, such returns are mainly limited to coastal areas. By promoting up-country eco and cultural tourism, the Gambia can expect greater benefits to the poor. In order to promote investment in such opportunities, an enabling environment needs to be created through land and river networks and ICT to increase accessibility.

Cashew value chain

Cashew occupies a prominent place in the international trade of nuts, accounting for nearly 20% of total trade by weight. West Africa currently harvests about 650 000 tonnes of raw cashew kernels per year, which makes up 30% of the world crop. The vast majority (95%) of the cashew produced in West Africa are exported to India, where the kernels are baked, stripped of their shells, and processed into edible cashew nuts before being sold locally and internationally. Although the price of cashew has been variable in the past, the trend is leaning on the upside. The price spike in 1998/99 was caused by crop shortfalls and processors contracting in advance for more product than they were able to deliver.

Currently more than 1.2 million small-scale farmers grow cashew in West Africa. The current yields in cashew farming in West Africa stand at around 400kg/ha. This is low considering the potential yield of 1 500kg/ha if best cashew farming practices were adopted. With the help of the Africa Cashew Alliance, the region is developing into an increasingly significant producer and processor of cashew nuts, feeding into lucrative markets in India. The benefits of developing a local processing industry in West Africa are evident: fairer prices for farmers selling to local processors, reduced unemployment, improved rural food security and improved income for farmers. Countries with the best business environment and government commitment are likely to see the fastest increase in processing industries.

At independence in 1965, the Gambia was dependent on the production and export of nuts, a sector which has subsequently declined in relative importance as tourism has grown in significance. Nut production now accounts for some 10% of GDP. In this section we will focus on cashew nuts which are better integrated in the global value chain and accounted for 62% of nut production and 44% of total exports in 2013. Cashew was introduced in the Gambia in the 1960s and was originally intended as a fire break surrounding forest areas. Cashew production as a cash crop has increased significantly since 2000, especially for small farms in the West Coast and North Bank regions. The production of raw cashew nuts has multiplied by more than 20 times in fewer than 10 years, from an estimated 150 tonnes in 2001 to 6 500 tonnes in 2009[2]. Production is estimated to have reached 10 000 tonnes in 2010. The Gambian government is keen to support the cashew sector as one of the value chains earmarked to achieve the country's trade development objectives.

The economic environment of the Gambia is ideal for investing in cashew nuts. Notable among these ideal conditions are: very good drying conditions, a superior quality nut (nut count of 190-210 per kilogram and an outturn of 23-28 kilograms of kernels per 80 kilograms of raw cashew nuts) comparing well to nut production in Senegal and Guinea Bissau. The cashew is mostly purchased by seasonal Indian exporters. There is currently no major purchaser of cashew nuts and, as a result, farmers are never sure of whom to sell their products to, and at what price. Over the years, however, the price of raw cashew nuts (RCN) has steadily increased as a result of increasing global demand and the quality of the Gambian crop. Currently, the cashew throughput at the ports is estimated at 54 000 tonnes annually which is an 8% increase over 2009.

The Gambian cashew nut value chain includes several different stages between the farmers and processors which further squeezes the margins of the farmers. Specifically, after the post-harvest handling, purchasing is generally handled by middlemen, village shop owners, and collection agents. The product is then transported to either local exporters, seasonal Indian exporters, or to national stockists. National stockists, who are mostly Gambians, are generally local businessmen who stand to make a profit by buying, storing, and selling nuts to seasonal Indian buyers. Almost all of these nuts that are purchased are eventually shipped to India for processing.

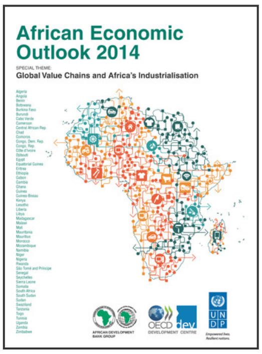
The value chain would need to overcome a number of challenges to enhance wealth creation opportunities: *i*) marketing challenge, i.e. lack of official cashew buying centres in the Gambia; *ii*) no processing facilities; *iii*) farmers and technicians in need of best practices training; iv) no processing done on the cashew apple; *v*) insufficient and expensive transportation from rural farming areas to urban areas; *vi*) lack of storage and drying facilities at the farm level.

Cashew processing in the Gambia is negligible: only between 5-10 tonnes are processed annually. A large proportion of cashew nuts are exported to processors in India. With the 165 000 tonnes of cashew nuts that come out of the region, there is an opportunity for companies to set up processing facilities in the Gambia and to become a major processor in Africa. The advantage of the location is its efficient and cost-effective port system relative to that of the sub-region.

Another potential venture would be processing of the cashew apple. This would be a venture for which the input would essentially be free as farmers in the region throw cashew apples away. In some parts of the world, the pulp from the cashew apple is used to make juice, spirits, and jams. Another serious potential for the cashew apple is ethanol production.

Notes

1. Estimates from the post-harvest assessment of the 2011 drought by FAO show that slightly over 700 000 people (7% in the rural areas) were severely affected by the drought.
2. In 2009, the production was about 2 000 000 tonnes for the whole world, 124 000 tonnes for Guinea Bissau and 35 000 tonnes for Senegal



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