

THE GAMBIA GATEWAY PROJECT

The International Development Agency (IDA) has approved a credit of SDR 12.4 million for the Gambia Gateway Project. The Project intends to enable The Gambia to establish itself as a globally competitive export and processing center. The Project is a key component of the Government's strategy – as stated in its Letter of Strategic Development Policy – for achieving broad-based, export-oriented, and sustained growth. The Program will be implemented in phases through an Adaptable Program Lending (APL) instrument. This lending instrument was selected for the following reasons: (i) the clear need to progressively build a capacity in The Gambia for trade promotion; (ii) the phased sequence of the investment part of the project; and (iii) the long-term commitment of the Government to implementing the Gateway Project.

The APL will be implemented in two phases:

Phase 1 (APL1) will lay the physical and operational foundations for establishing The Gambia as a credible player in the world trade arena. This will be accomplished by creating a favorable business environment, promoting private investment, and by launching an operational Free Zone (FZ) adjacent to the airport. At the same time, this phase will develop a long-term marketing and operational strategy that will reinforce FZ activities with the country's economy and exploit its comparative advantage.

Phase 2 (APL2) will consolidate the FZ functions and financing, and secure managerial and financial autonomy for The Gambia Investment and Free Zones Agency (GIPFZA). This phase will also deepen the production linkages of the FZ with the local economy, and continue the pursuit of The Gambia's competitiveness in the global market, thereby extending and sustaining the Project's income and employment benefits. Phase 2 will focus particularly on the population living along the Gambia River by improving river navigation. This allows the transportation of horticultural and agricultural products into other potential Free Zones, which may develop under the terms of the Free Zone Act of 2001. Phase 2 will also concentrate on roads and rural transport in order to facilitate exchange of goods and products between agricultural production centers and the potential additional Free Zones. However, the Project will finance the development of only one Free Trade Zone – that of the airport. The development goal of Phase 1 is to lay the foundation for expanded private investment export-oriented production and employment, through the establishment of the Free Zone and an improved institutional environment. This objective will be achieved by:

- (i) Establishing a self-sustaining Gambia Investment Promotion and Free Zone Agency (GIPFZA).
- (ii) Marketing and facilitating local and foreign investments in well-targeted economic sectors.
- (iii) Developing a 10 ha. pilot Free Zone (FZ) at the airport.
Promoting privately financed and operated FZ-related businesses, including teleport services.
- (iv) Helping the government to implement its divestiture strategy.

- (v) **Mitigating any social and/or environmental impacts that could result from project implementation.**
- (vi) **Preparing the APL 2, including a better interface between the FZs and the population along the Gambia River.**

This goal will also be achieved by supporting on-going efforts from donors in the following fields:

Building business and technical skills among private and public sector actors.

Facilitating administrative procedures for private enterprise creation, investment, and operations in tourism, trade services, and agriculture sub-sectors.

Modernizing ports and airport services and streamlining customs clearance procedures.

The following performance indicators will measure Achievement of the Project's development objectives:

Private investment promotion

The number of licenses delivered by GIPFZA during the period 2002-2006

Creating at least twenty new firms by 2006 *Export-oriented production*

Achieving annual ton and value targets for the FZs

Employment creation

Creating at least 4,000 – direct and indirect – new jobs by 2006

Improved institutional environment

Reducing average process time to create new enterprises to four weeks

Reducing average customs clearance time for FZ-related cargoes to one day

Given a population growth rate of about 3 percent per annum, the 5 percent average annual GDP growth during the last decade has not been enough to significantly reduce poverty levels. It is estimated that an annual GDP growth rate of 8-10 percent would be required for a significant poverty reduction. In order to achieve the level of economic activity needed to reach the targeted growth rate, The Gambia must consciously develop and consolidate its "competitive advantages" and cater to export markets.

Potential for export-oriented growth

The Gambian economy has long been primed by the re-export trade, groundnut exports, and tourist industry. On average, the re-export sector has accounted for about 15 percent of GDP, 20 percent of fiscal revenue, and 85 percent of all exports. The country has traditionally been a magnet for traders in the immediate sub-region for re-exported commodities, as well as for nontraditional

exports. The Port of Banjul has served as an entrepot for re-exports to peripheral countries for a limited number of products, such as textiles, vehicle, rice, tea, and sugar.

The Gambia is a member of the Economic Community of West African States (ECOWAS), which should increasingly facilitate intra-regional trade. It has reciprocal trade agreements with the United Kingdom and Senegal. Because of its least-developed- country status, The Gambia has preferential access to markets because of the Generalized System of Preference (GSP) and the special provisions under various Uruguay Round Agreements. Its relative proximity to major regional markets of Europe and North America offers a major comparative advantage over East Africa for exports to these markets. The Gambia is one of only three LDCs certified by the European Union to export its fish products to Europe.

The Gambia's tourist industry has been the fastest growing sector in the economy. With limited state support, the industry has grown at an average rate of 4 percent per annum and has been a significant source of national income (12 percent of GDP). The country has a wide range of historical and natural tourist attractions. The number of tourists in 2000 is estimated to have been 125,000, mainly from Germany, Scandinavia and the UK, with growing potential from Eastern Europe and "roots-based" tourists from the U.S. market. This is complemented by a steady flow of visitors throughout the year for business and international organizations attending conferences.

A comprehensive review of The Gambia's potential for export-oriented growth was carried out in 1994, and was recently updated by International Development Ireland, Ltd., Jebel Ali Free Zone Authority, and Sahel Invest Management International ("Consulting Services for the Gambia Free Zone Development Strategy," July 2000).

This strategy noted that the agribusiness (primarily fish and agricultural products) and the tourism sectors have the potential for generating long-term exports and foreign exchange earnings. The Gambia is also well positioned to build on its traditional trading and tourist activities to exploit new markets related to telecommunications and spin-off "cluster" developments. Although the private sector is small, it is growing and has the potential to expand rapidly. The strategy also noted that, although The Gambia should build on its traditional role as a regional center for trade and services, it cannot continue to depend heavily on transit trade. This is because the application of WTO rules will progressively reduce the income potential from regional duties, which the country now collects through re-export trade transactions.

The strategy presents a clear vision for export-based growth in which The Gambia sets up an environment conducive to building internationally competitive clusters around the economy's key strengths: (i) the tourism industry; (ii) the trade and services economy; and (iii) agribusiness. Focused development of tourism will provide a catalyst for spin-off competitive and value-added industries. It will also promote the development of the airport, critical air-links, and therefore support the growth of The Gambia as an international trade and business center. The Gambia can also reduce its current dependency on re-export services and capitalize on emerging value-added markets, such as telecommunications and "teleport" services, for both developed

and regional markets. The proposed strategy will also stimulate local industries with export potential, such as fish, fresh vegetables, and flowers. Finally, with the establishment of a favorable business environment and dependable infrastructure, future opportunities exist for minor processing, electronics assembly, and break bulk operations.

Although European countries – namely, UK, Germany, and the Netherlands – constitute the main target markets for The Gambia, the development of its trade will be beneficial at the regional level, allowing neighboring countries – Senegal, Mali, and Guinea – to export part of their production through the Gambian Gateway. The development of tourism and re-export activities will also provide an opportunity for entrepreneurs in neighboring countries to promote handicraft and traditional garments.

The Gateway will also pave the way for an increased partnership between The Gambia and Senegal in the maritime transport sector, since a major part of Gambian trade will have to be channeled through the international port of Dakar to benefit from improved shipping services to and from Europe.

Government strategy

Overall vision and strategy. The Gambia Incorporated Vision 2020 and the Government Policy Framework Paper (PFP) for the period 1998-2000 outlined visions of transforming the country from one of the least developed countries in Sub-Saharan Africa into a middle-income country with a vibrant private sector open to the world.

This goal would be attained by expanding and deepening a fast-growing tourism sector, increasing productivity and diversification in agriculture and manufacturing, and developing internationally linked services – in particular, a Free Zone based on an improved port and airport and a modern financial center. The strategy is to be implemented on three fronts:

Public sector reform.

The Government strategy for the public sector focuses on:
Improving the structure of government revenue and expenditure, enabling a reduction in domestic debt and import tariffs

Strengthening the institutional capacity of the public administration
Reforming public administration to foster good governance and efficiency in providing public services

Supporting public enterprise reform and divestiture

Reforming the energy sector

Private sector promotion.

The Government strategy for the private sector concentrates on:
Deepening structural reforms to encourage private sector development and attract foreign investment

Enhancing the incentive system for the development of the private sector

Streamlining business regulations and improving the legal and judicial environment for economic activities

Modernizing legislation affecting corporations, contracts, partnerships, and business registration

The Gambia Gateway Project is a key component in the Government's drive to reshape its economy based on an outward-looking and export-oriented strategy. As the first phase in this endeavor, the Project will address several key issues to lay the groundwork for future consolidation and expansion. These will be based on several guiding principles: (i) the need to have a long-term vision and constantly update strategy, and establish credibility and competitiveness in the international marketplace;

(ii) the critical importance of the participation of the private sector in the establishment of the Free Zones, (iii) the complementary and facilitating role of the public sector, and

(iv) the development of the local private sector, as well as the strengthening of local capacity to meet international trade standards. A summary of the main issues addressed by the Project and the strategic choices at hand follows.

Building institutional capacity to promote private sector development

The development and pursuit of a long-term competitive strategy requires an independent agency designed for this purpose. To this end, the Project will support the establishment of the Gambia Investment Promotion and Free Zone Agency (GIPFZA).

The establishment of GIPFZA was a precondition for project appraisal. Over the long term, GIPFZA will need to be financially self-sustaining. However, since it is a new entity and its role will be to generate revenue through private investment in the FZ, this will not be possible at first. Therefore, during Phase 1, its operating costs will be supported by the Project, with a requirement that it becomes financially self-sufficient at the end of this phase.

Improving energy and telecommunication services

The Project, in close coordination with the proposed Bank energy project, will support the Government in opening the energy sector to private participation. Competition will be promoted between energy services providers within the Free Zones, including independent power producers. Technical assistance will be provided under the Project to implement "build-operate-transfer" schemes (BOTs). In order to enable the development of teleport activities within the Free Zones, the Project will support the Government in setting up a new institutional framework, ensuring competition among telecommunication services providers within the Free Zones.

Improving transport services

Under the proposed Government Divestiture Program, the private sector will participate in port operations, particularly in container handling operations, and maintenance services, while the Gambia Port Authority (GPA) will assume the role of a "landlord" port authority with the responsibility of monitoring and

regulating the participation of the private sector in infrastructure investments and in operations. The Project will provide technical expertise to build capacity in this regard.

The Project will help improve the competitiveness of port and airport services to approach internationally acceptable levels of operational efficiency. For this purpose, it will assist in separating commercial services from regulatory functions, i.e., (i) shifting from a "service" port to a "landlord" port scheme;

- (ii) Opening cargo handling services to private competition;
- (iii) Contracting out warehousing and auxiliary such as security and maintenance, to the private sector; and
- (iv) concessioning airport management to the private sector.

Trade and transport facilitation

The key to private sector-led export growth lies in creating an efficient trade Infrastructure and achieving low-cost, frequent, and reliable transport to end markets.

This involves assuring on-time deliveries and adequate equipment maintenance services, which can be accomplished by creating strong backward linkages to raw material and production sources, to packaging, and to on-time shipping. Competitive access to multiple-end markets via diverse distribution channels is also essential. One way to improve a country's competitiveness in international trade is to increase the quality of international transport while minimizing associated costs. In addition, it is essential to reduce transaction costs by adapting commercial practices to international standards and by removing unnecessary trade barriers within the economic, social, and political context of that country. There is therefore a need for trade facilitation, which involves removing barriers through simplification, standardization, and harmonization of procedures, information flows, and documentation. The Project will include a sub-component dealing with facilitation, using the World Bank/IECC (International Express Carriers' Conference) Facilitation Audit Methodology (as described in *Trade and Transport Facilitation – an Audit Methodology* by John Raven, 2000). This audit will examine and evaluate obstacles to cross-frontier movement of a routine consignment and its associated payment. Experience shows that customs form the hard core of most procedural problems. In many countries, operational inefficiency and outdated regulations are aggravated and perpetuated by dishonesty.

Customs reforms

The development of Free Zones will require more efficient customs services. The Project will assist the Customs & Excise Department (CED) to become a facilitator, rather than a source of red tape, through the reorganization of their services, enhancement of their procedures, and improving efficiency within the Free Zone's context. Under the proposed Project, the Customs & Excise Department will develop and implement a far-reaching program of re-engineering its corporate structure. The program will ensure that customs transactions are computerized, making it less reliant on human interventions. Processes and procedures will be re-engineered to bring the quality of customs services up to international standards. In particular, the Project will provide support for:

- (i) Streamlining customs procedures and reducing clearance time for both export and import cargo. Reviewing the current legislation to determine necessary amendments and revisions.
- (ii) Designing a modern information management system.
- (iii) Establishing a valuation database in compliance with the WTO valuation code and risk management systems.
- (iv) Training and capacity building on facilitation procedures designed specifically for Free Zone enterprises.
- (v) Initiating a multi-year work program designed to achieve, in the medium term, an ISO 9000 certification.

The first step in accomplishing this will be implementing a management audit based on the principles of Quality Management Systems (QMS). The QMS principles are internationally accepted and can be certified using International Standards Organization certification procedures (ISO 9000). By implementing the QMS audit recommendations at the Customs & Excise Department, and eventually obtaining certification, The Gambia will reassure potential investors of the viability of doing business in the country.

Improving the financial and judicial environment

Two issues not directly addressed by the Project, but critical to its success, are (i) the high interest lending rate and poor access of the private sector to credit, and (ii) the reform of the judicial system, especially regarding the collateral recovery system. The first issue is being addressed through the on-going macro stabilization program supported under a PRGF with the IMF, and the second through the UNDP-financed National Program.

Export guarantees or private sector finance

Based on Bank experience in similar projects, the management of these financial instruments would be difficult in the Gambian environment, and run counter to the principal of establishing long-term financial credibility for international investors. The Project therefore does not include export guarantee schemes nor special facilities to finance new enterprises. The impact of the Project on the development of the local private sector will result mainly from the capacity building activities. To this end, consulting services will be recruited to assist the GIPFZA to achieve market development and long-term competitiveness through market surveys and by identifying Free Zone developers and/or operators. Technical assistance will also provide on-the-job training for future Zone operators, and will target skills for effectively competing in the international market place. These would include quality management and control processes, ISO certification concepts, and information management about US and European markets' access regulations for products originating from the ACP countries.

4. Program description and performance triggers for subsequent loans:

The Project has been designed under an Adaptable Program Lending (APL) structure that will be implemented in two phases:

APL 1 will establish the institutional and physical foundations for achieving an export-oriented growth strategy. This will include building the capacity for The Gambia to achieve a competitive position in the global trade and export community. It will have five components:

- (i) Physical Investment for a Free Zone at the airport;

- (ii) Establishment of an Investment Promotion and Free Zone Agency (GIPFZA);
- (iii) Support to the Gambia Divestiture Agency;
- (iv) Capacity-building; and
- (v) Project Management and Environmental and Social Management Plan.

APL 2 will consolidate the FZ functions and financing, and deepen the production linkages with the local economy. It will emphasize maintaining and continuously improving The Gambia's competitive position in the global markets and maximizing its income and employment benefits over time.

Performance indicators

The outcome of the Project at the end of Phase 1 will be assessed using the following indicators:

1. number of licenses delivered by GIPFZA during the period 2002-2006;
2. creating at least 20 new firms by 2006;
3. achieving annual ton and value targets for the FZs;
4. creating at least 4,000 – direct and indirect – new jobs by 2006;
5. Reducing the average process time of creating new enterprises to four weeks;
6. Reducing the average customs clearance time for FZ-related cargos to one day.

3. Benefits and target population:

The proposed Project will contribute to The Gambia's objective of sustainable poverty reduction by achieving greater private foreign and domestic investment. The Project will benefit three target groups: the local population, the private sector, and the GOG. The local population will benefit from more job opportunities in Banjul's area, as well as improved skills and mobility within the labor force. By addressing key policies and building institutional capacity, the Project will lay the groundwork for rapid and sustained economic growth that will benefit a broad spectrum of the Gambian population.

The private sector will benefit from (i) the removal of major institutional and procedural constraints that hamper its activities and development; and (ii) a more supportive environment for investment, including new incentives, new economic activities, lower transaction costs, more training opportunities, and the availability of ready sites for export processing industries.

For the GOG, the Project is expected to attract a flow of Foreign Direct Investment that will create direct and indirect new jobs, as well as transfer technology and know-how.

D. Project Rationale

1. Project alternatives considered and reasons for rejection:

The Gambia badly needs projects that fight poverty by creating employment. The Gambia Gateway Project complements the Bank's other programs that focus on capacity building, health, and education by creating employment through new economic activities and private sector development. Although the Gateway Project is a "high case" lending scenario project, it is a cornerstone in the overall strategy to alleviate poverty and attain sustainable growth levels.

To complement the over all development objectives of the Project, there is need to establish “One Stop Shop” and Center of Excellence. The “One Stop Shop” will bring under one umbrella all Government institutions that are one way or the other associated with private sector investments in the country. The Centre of Excellence will provide the skills and technology transfer opportunities necessary for an increased private sector investments in the country. The Project has a funding gap in this area which donor intervention is highly solicited.