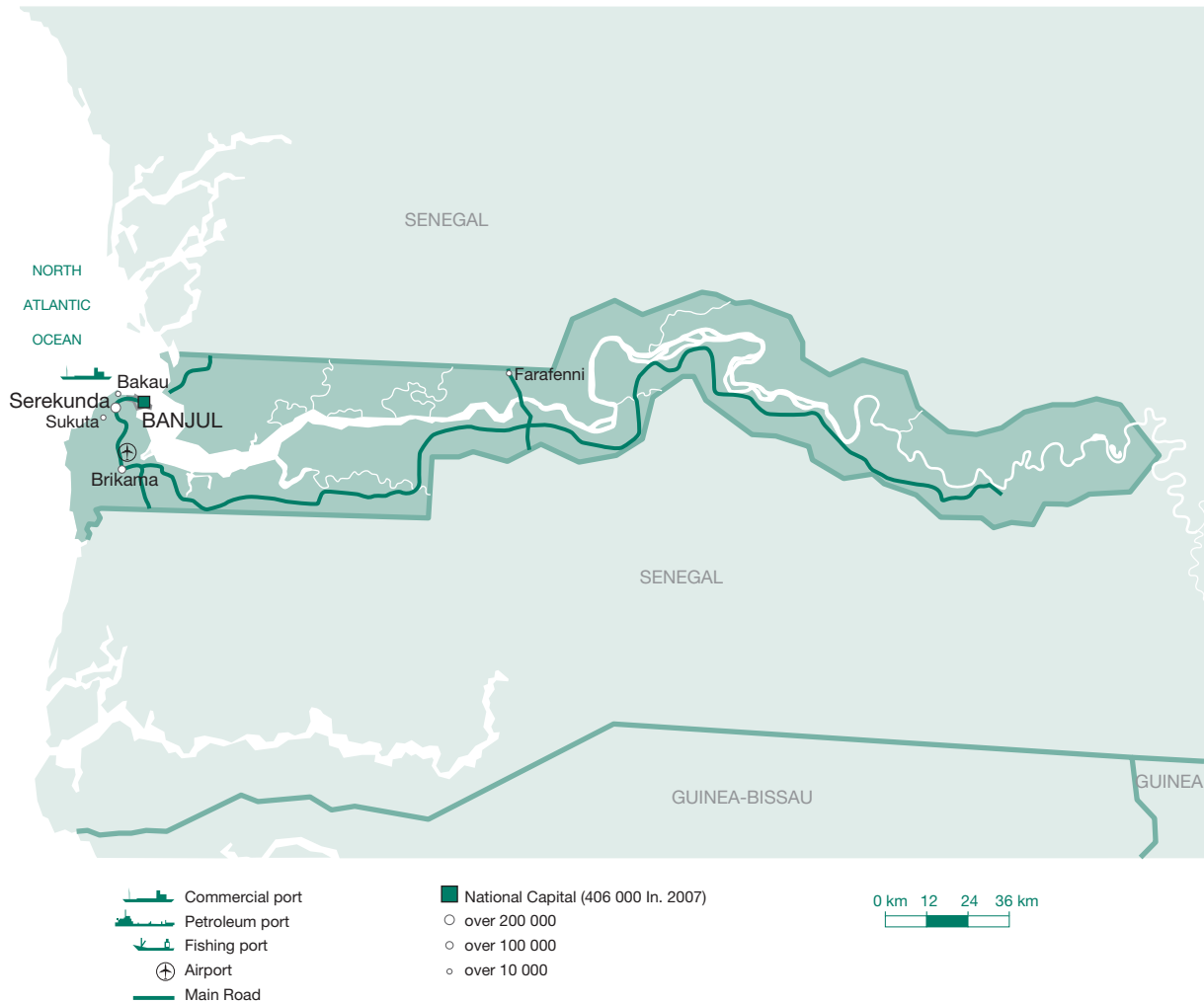


Gambia

2011



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Gambia

Overview

Gambia is a low-income country with a structural food deficit but it has managed to post relatively strong growth rates over the past three years. In 2010, growth slowed to 5.4% from 6.7% in 2009 as the global slump continued to be felt on re-exports, tourism and remittances. Growth should pick up to 5.6% this year and next. Good harvests – especially of rice – and gains in the construction and banking sectors drove economic growth. The newly launched National Agricultural Investment Plan aims to improve agricultural sector productivity.

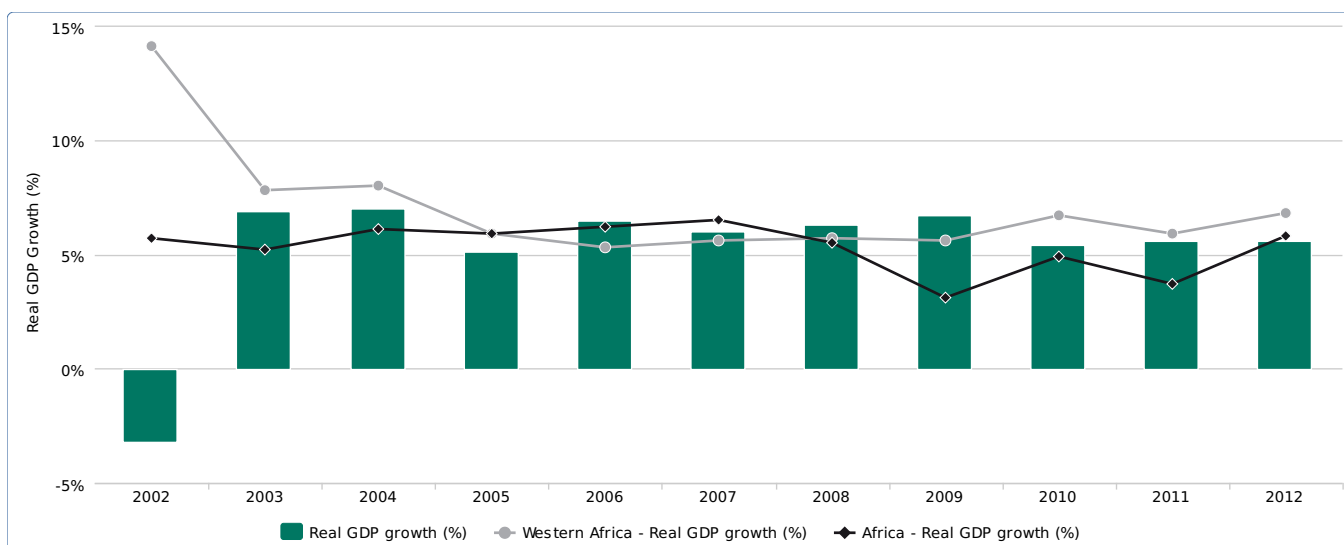
The government managed to maintain macroeconomic stability in the face of external shocks such as a reduction in grant aid and trade revenues, as well as rising oil and food prices. Debt, both domestic and external, remains a problem and the burden is expected to increase further in the near future. Inflation picked up in the second half of 2010, partly reflecting the Central Bank of the Gambia's financing of the budget deficit. The central bank accordingly hiked interest rates to 15% and succeeded in keeping inflation below its 6% target. Inflation in 2011, driven by higher oil and food prices, is expected to accelerate in the first quarter.

The banking sector is developing, driven by foreign direct investment (FDI). Increased competition and capacity in the industry has increased deposits and credit supply. However, a large share of bank credit has been absorbed by the government and private sector demand for credit is limited.

With the support of development partners, the government launched initiatives to promote the private sector, such as the Growth and Competitiveness Project (GCP) to support foreign trade and investment, and the Gambia National Agricultural Investment Plan (GNAIP) to improve agricultural productivity. GNAIP could be the first step towards broad-based agricultural development, provided that it is complemented by land reform and infrastructure provision. It could also encourage development partners to participate more actively in agricultural development.

The role of emerging country partners in the Gambia has remained relatively limited. Traditional development partners, including the World Bank, the International Monetary Fund (IMF) and the African Development Bank (AfDB), retain crucial roles. Among emerging country partners, Chinese Taipei remains the most important, followed by Cuba and Venezuela while Kuwait exerts a growing influence. The political situation in the Gambia was calm during 2010. There seems to be little interest in institutional reform.

Figure 1: Real GDP growth (W)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink <http://dx.doi.org/10.1787/888932404123>

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	6.7	5.4	5.6	5.6
CPI inflation	4.6	5.8	5.9	6.3
Budget balance % GDP	-3	-2.7	-2.4	-1.5
Current account % GDP	-10.1	-12.2	-11.9	-11

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932406479>

Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2010
Agriculture, forestry, fishing & hunting	28.3	33.2
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	2.4	2.2
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	6.9	4.6
of which hydrocarbon	-	-
Electricity, gas and water	1	1.4
Electricity, water and sewerage	-	-
Construction	4.3	5.8
Wholesale and retail trade, hotels and restaurants	27.9	23.2
of which hotels and restaurants	3.2	2
Transport, storage and communication	12.7	9
Transport and storage, information and communication	-	-
Finance, real estate and business services	10.6	12.2
Financial intermediation, real estate services, business and other service activities	-	-
General government services	-	-
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	5.3	7.9
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	0.5	0.5
Gross domestic product at basic prices / factor cost	100	100

Source: AfDB Statistics Department; national authorities.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932407448>

Agriculture sector growth has helped offset declines in tourism and remittances. The sector is backward,

however, in terms of technology and institutions to promote productivity, with weather the key variable. It is dominated by small-scale rain-fed crop production; semi-commercial groundnut and horticulture production, and artisanal fishery. Employing around 70% of the working population, the sector accounted for some 26.9% of gross domestic product (GDP) and 46.7% of total food supply. Out of total cultivated land, 30% was devoted to groundnuts, the principal export crop, and 18% to rice in 2010. Most households have livestock. The years from 2008 to 2010 experienced good harvests, with agricultural production up 11.9% annually. That performance suggests agriculture could potentially contribute more to the economy.

Farmers have planted more rice in recent years but the country still needs to import the staple. According to the Food and Agriculture Organization, Gambia imported 113 000 tonnes of rice in 2007, or 67% of total cereals imports that year.

Gambia has few natural mineral deposits so mining activity is minimal. Since 2006, however, mineral sands have been exported to China. The government recently awarded offshore and onshore oil exploration licences.

Industry, which accounted for 11.8% of GDP, grew 12.3% in 2010. Bank lending to the construction sector, traditionally driven by remittances, helped sustain growth. There is little foreign interest in manufacturing, which is the preserve of mostly small companies engaged in processing groundnuts, fish and hides for export and bottling beverages for domestic markets. Manufacturing grew 5.7% in 2010.

Growth in the service sector, accounting for 52.8% of GDP, slowed to 2.3% in 2010 from 7.2% in 2009 as the distributive trade and hotels and restaurants slipped in the wake of the global recession. In particular tourism, accounting for about 12% of GDP, contracted substantially, with revenues down 27.6% during the first nine months of 2010 compared to the corresponding period in 2009. The government is looking to the World Bank and the United Nations World Tourism Organization to help promote the industry.

The government and development partners launched several initiatives to support private sector driven economic development. The government is still working on the Programme for Accelerated Growth and Employment (PAGE) – the successor to the second Poverty Reduction Strategy Paper (PRSP 2007-11). The World Bank's International Development Association (IDA) meanwhile proposed the five-year Growth and Competitiveness Project (GCP) to support pro-poor growth and employment driven by the private sector.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	2009	2010	2011	2012	2010	2011	2012
Gross capital formation	7.3	18.2	2.1	0.5	0.5	0.4	0.1	0.1
Public	7.3	7.5	-12	-7.8	-9	-0.9	-0.5	-0.5
Private	0	10.8	11.8	5	5	1.3	0.6	0.6
Consumption	98.4	96.7	10.3	7.3	6.5	9.7	7.3	6.5
Public	9.9	9.3	3.1	16.4	3.6	0.3	1.5	0.4
Private	88.5	87.4	11.1	6.4	6.8	9.4	5.8	6.2
External sector	-5.7	-15	-	-	-	-4.7	-1.8	-1.1
Exports	31.6	23.7	-8.7	1.2	1.8	-1.9	0.2	0.3
Imports	-37.3	-38.6	8	5.6	3.9	-2.8	-2	-1.4
Real GDP growth rate	-	-	-	-	-	5.4	5.6	5.6

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

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932408417>

Fiscal Policy

Government revenue and spending both declined in 2010, reversing gains made in 2009. Total revenues and grants fell to 18.5% of GDP in 2010 from 19% the previous year, with tax revenues slipping to 13.5% from 13.6%. Trade receipts fell as Banjul lost competitiveness as a regional port. Fuel subsidies cost more as oil prices rose and in June the government tried to redress the balance by hiking fuel prices. Foreign grants decreased in 2010 largely owing to a delay in budget support disbursement from the European Union (EU).

Total expenditure and net lending in 2010 fell to 21.2% of GDP from 22% in 2009, with capital spending cut to 6.3% from 7.5% – with further reductions expected to 5.4% and 4.6% this year and next. The government hiked civil servant salaries by some 20%.

The overall fiscal deficit in 2010 narrowed to 2.7% of GDP from 3.0% the previous year and is projected at 2.4% this year and 1.5% in 2012.

The Gambia bears a heavy debt burden. Total external and domestic debt came to 54.9% of GDP in 2010. Domestic debt was equal to 25.3% of GDP, above the 25% target set after debt relief was granted under the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) in 2007.

Despite government reliance on debt financing, mostly via short-term lending, money market yields fell over the year, attributed to investor confidence in the government's ability to manage sovereign risks. The debt repayment burden is expected to increase this year and the position could be made worse by delays in EU budget support.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	14.3	17.8	16.3	19	18.5	18.2	17.8
Tax revenue	9.8	14.8	13.7	13.6	13.5	14	14
Oil revenue	-	-	-	-	-	-	-
Grants	3	0.9	1.1	4	3.1	2.8	2.4
Other revenues	-	-	-	-	-	-	-
Total expenditure and net lending (a)	17.4	17.7	18	22	21.2	20.6	19.3
Current expenditure	12.4	12.6	13.9	14	15	15	14.6
Excluding interest	8.9	8.6	10.8	11.2	12	11.9	11.6
Wages and salaries	3.7	3.3	4.3	4.6	5	4.9	4.8
Goods and services	4.8	5.3	6.5	6.5	6.9	7	6.8
Interest	3.5	4	3.1	2.9	3	3.1	2.9
Capital expenditure	5.3	4.7	3.7	7.5	6.3	5.4	4.6
Primary balance	0.4	4.1	1.4	-0.1	0.3	0.7	1.5
Overall balance	-3.1	0.1	-1.7	-3	-2.7	-2.4	-1.5

a. Only major items are reported.

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

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932409386>

Monetary Policy

The Central Bank of the Gambia focused on containing inflation below its target of 6%. Prices rose 5.8% in 2010

from 4.6% the previous year, reflecting monetary growth and higher energy and food costs. In response to accelerating inflation in the second half of 2010, the central bank hiked its rediscount rate by 1 percentage point to 15% in early September. Food price inflation increased from 2.9% in December 2009 to 8.3% in December 2010. Given that Gambians spend 55% of their income on food, the impact of rising food prices is severely felt. The Gambian Dalasi depreciated 5.7% over the year.

Monetary policy is based on controlling broad money supply as the intermediate target, with foreign reserves at a minimum of USD 125 million, a level set by the IMF's Extended Credit Facility performance criteria. To manage liquidity, the central bank carries out open market operations through Treasury bill sales and the recent introduction of a 30-year bond. Rates on the 364-day Treasury bill remained around 13%, suggesting that there is some slack in the money markets given the benchmark interest rate was increased to 15%. Broad money growth slowed from 21% in June to 13.7% in December.

External Position

The import bill rose to 31.5% of GDP in 2010 from 30.8% in 2009, reflecting higher oil prices and a weaker currency, while exports fell to 9.2% from 9.8% as re-exports, which account for more than half of all exports, slipped. Re-exports continued to decline as tariff harmonisation in the Economic Community of West African States (ECOWAS) and improving efficiency at other regional ports eroded Banjul's advantages as an entrepot. The current account deficit widened to 12.2% of GDP in 2010 from 10.1% in 2009 and is projected at 11.9% this year and 11% in 2012.

Gambia has applied the ECOWAS common external tariff since 2006, with the mean tariff rate falling from 19% to 14% as a result. As tariffs are an important source of government revenue, the government appears cautious in pursuing further tariff reduction through the Economic Partnership Agreement (EPA) between ECOWAS and the EU. The country has preferential duty free access to the EU under the "Everything But Arms" (EBA) scheme for the 49 Least Developed Countries and to the United States under the African Growth and Opportunities Act (AGOA). So far, however, no exports have been recorded under the AGOA. This poor performance of the AGOA suggests that preferential tariffs alone are not enough to stimulate Gambian exports. Participation in the ECOWAS Trade Liberalisation Scheme (ETLS), which provides various benefits to qualified exporters, also does not seem to have helped much. ECOWAS, the EU and other development partners have launched initiatives to improve the quality of export groundnuts to meet World Trade Organization (WTO) standards.

The services surplus declined to 5.5% of GDP in 2010 from 6% in 2009, mainly owing to a fall in European tourist arrivals. Workers' remittances fell 17.3% and government transfers declined 15.4% in the first nine months of 2010. FDI fell 5.3% in the first nine months of 2010 after a sharp increase in the presence of foreign banks the previous year.

Gross official reserves, including Special Drawing Rights at the IMF, stood at USD 163.5 million, or 5.1 months of import cover at the end of 2010, down from USD 186 million, or 6.4 months at the end of 2009. The decrease reflects central bank spending on intervention in May and June 2010.

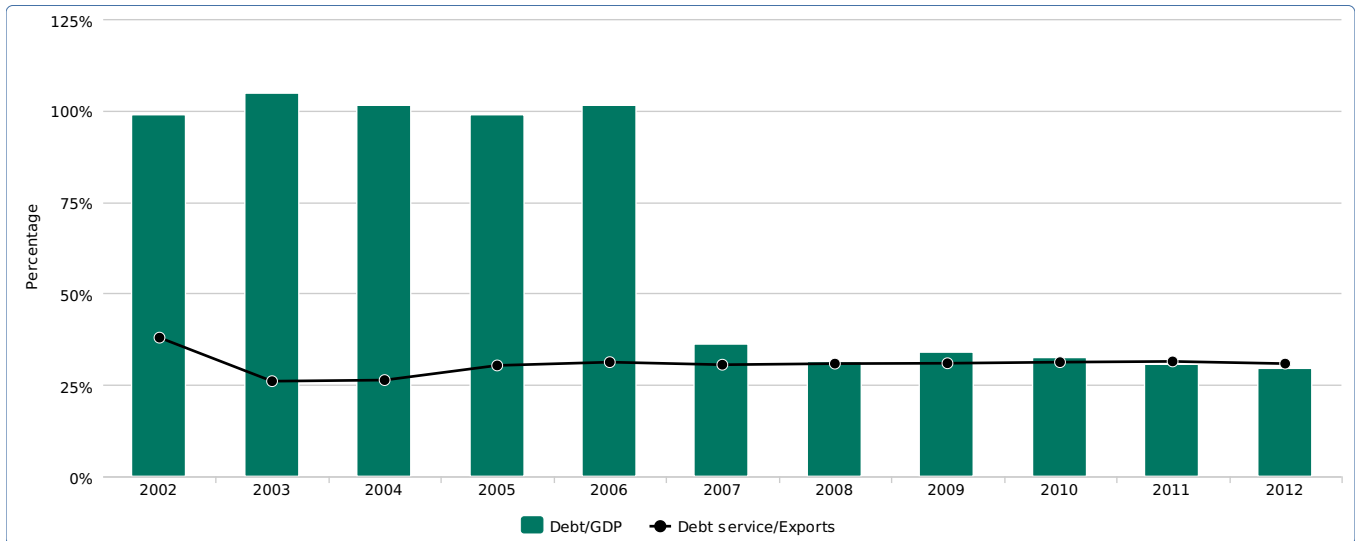
Table 5: Current account (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Trade balance	-11.7	-20.8	-21.4	-21	-22.3	-22.4	-20.8
Exports of goods (f.o.b.)	20.5	11.1	8.4	9.8	9.2	8.6	8.2
Imports of goods (f.o.b.)	32.2	31.8	29.8	30.8	31.5	31	29
Services	5.9	8	6.1	6	5.5	5.5	5.4
Factor income	-4.2	-5.7	-4.4	-4.5	-4	-3.5	-3.1
Current transfers	8	8.7	7.1	9.4	8.7	8.5	7.5
Current account balance	-1.9	-9.7	-12.6	-10.1	-12.2	-11.9	-11

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

Figures for 2010 are estimates; for 2011 and later are projections.

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



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

Structural Issues

Private Sector Development

Gambia's business environment remains challenging. In the 2011 World Bank *Doing Business* survey, Gambia was 146 out of 183 countries, down five places. Problem areas cited include poor tax collection and high tax rates. Despite a recent cut of 2 percentage points in corporate tax, effective tax rates in the commercial banking sector were put at 44.8% in the third quarter of 2010. Investors also face problems in getting credit and registering property.

The banking sector comprises 14 commercial banks, up from five in 2005 after an influx of foreign groups which now dominate the industry. The largest bank is a local subsidiary of the British-based Standard Chartered Bank while the largest majority locally owned bank is Trust Bank. The commercial banks are heavily involved in government debt financing, allocating assets to the public sector as much as to the private sector. In the third quarter of 2009, the banks earned more interest income from the government than from the private sector. That has since changed, with the share of total interest income from the private sector increasing to 58.1% in the third quarter of 2010 compared to 49.2% a year earlier. The arrival of foreign bank groups increased competition – putting pressure on the cost side as they recruited qualified staff and narrowing interest rate margins. The average net interest rate margin declined from more than 8% in 2005 to around 6% in 2010. Bank liquidity remains high given their reluctance to take on long-term risk.

The loan profile as of September 2010 showed lending to the distributive trade sector taking the largest share at 28%, followed by property on 11%, transportation 8%, tourism 6%, agriculture 6% and manufacturing 5%.

Increased competition has pressured profitability and resulted in a rise in non-performing loans (NPLs). The average NPL ratio rose from 7.2% at the end of September 2009 to 16.2% at the end of September 2010. The average risk-weighted adjusted capital adequacy ratio (CAR) fell from 33.9% in the first half of 2009 to 19.3% at the end of September 2010. Government moves to enforce minimum capital levels at the banks saw the CAR recover, however, to 46.3% by the end of the year.

The microfinance sector is also expanding but remains very small, with a penetration rate put at 8.5% at the end of 2007 and loans outstanding of GDM 243 million (Gambian dalasi) to 144 000 clients at the end of 2008.

In addition to strengthening banking supervision, the central bank has stepped up measures to establish an efficient payments system, including the introduction of a Real-Time Gross Settlement System (RTGS). The project should be completed by end-2011. The Credit Reference Bureau (CRB), established in 2009, also became operational, which should help banks track and verify customer creditworthiness. The central bank is also working with development partners to acquire Electronic Financial Analysis and Surveillance (e-FASS) software to strengthen its capacity for off-site bank supervision. Banking supervision is based on CAR, NPLs, earnings, liquidity and net foreign exchange open positions.

Other Recent Developments

The government implemented public sector reforms. Among these were the Gambia Public Financial Management Reforms Strategy adopted in 2010; the ongoing expansion of the Integrated Financial Management Information System (IFMIS) to improve financial accounting, auditing, and reporting; shifting to a Medium Term Expenditure Framework (MTEF) and Performance Based Program Budgeting (PBB); and strengthening the Gambia Revenue Authority (GRA). The government plans to replace sales taxes with a value added tax (VAT) before January 2013 in concert with the IMF. In addition, the government cut the corporate tax rate by 2 percentage points from 35% and simplified taxes on commercial property rental income.

Gambia is badly lacking in infrastructure – for example, there are not enough bridges across the Gambia river, a major impediment to communications. The country's Internet backbone is linked with Senegal to access capacity on the SAT-3 submarine cable. The government is committed to the Africa Coast to Europe (ACE) submarine cable project to meet increased demand for bandwidth. The four mobile operators cover more than 90% of the country, with more than 60% of the population counted as subscribers.

In agriculture, the government announced the Gambia National Agricultural Investment Plan (GNAIP 2011-15) in 2010, aimed at improving productivity through commercialisation and private sector participation. Spending on agriculture and land resources will double to 6% of the budget in 2011. Aligned with the New Partnership for Africa's Development (NEPAD)'s Comprehensive Africa Agricultural Development Program (CAADP), the GNAIP aims to raise the budget allocation for agriculture to 10% in the future. However, the plans do not address the key issue of reforming land ownership and tenure security. Land is traditionally held under communal ownership, making it difficult for individual farmers to reap the returns of investment. This undercuts effective land resource use and productivity, with knock-on effects all through the economy. Significantly, domestic food

production has always fallen short of demand. According to the Food and Agriculture Organization, Gambia was producing only 46.7% of its food in 2007 and it is estimated that only 57% of available arable land is being cultivated. Reform of land ownership and tenure is therefore a key first step to boost agriculture, on which the majority of the population depend for their livelihood.

Environmental concerns are focused on deforestation, desertification and water pollution. Deforestation is the most serious problem, with slash-and-burn agriculture being the principal cause. Although improving, contaminated water supplies are still responsible for many of the life-threatening diseases that contribute to high infant mortality rates.

Emerging Economic Partnerships

Gambia has engaged with emerging country partners with mixed results – its ties with Chinese Taipei have come at the expense of its relationship with China. Chinese Taipei has provided funding, especially in the areas of health, education and defence. Cuba has also provided doctors and medicines as well as scholarships while Venezuela has offered scholarships for engineers and university equipment. Gambia officials have said that while obtaining aid from traditional partners is a complicated process and takes a long time, the process with emerging country partners is simpler and carries few, if any, conditions.

Multilateral development institutions such as the IMF, World Bank, IDA and EU bodies are still the main interlocutors, however, providing the majority of grant aid in 2010. Among emerging country partners, the Kuwait Fund for Arab Economic Development (KFAEB) accounted for 10.4% of grant aid, the Islamic Development Bank (IDB) 9.3% and Chinese Taipei 6.8%. Emerging country partners as a whole accounted for 38.3% of grant aid in 2010, down from 39.4% in 2009. Total outstanding grant aid came to USD 690 million by 2010, up 41.7% from 2008, while foreign loans came to USD 462 million, up 31.3%.

Kuwait especially has become a more active partner, helping finance the University of the Gambia project. Chinese Taipei remains Gambia's most important emerging country partner overall, followed by Cuba, Venezuela, Malaysia, Saudi Arabia, China, Turkey, India, UAE, Pakistan and Iran, based on a measure assessing trade links, FDI, technical assistance and diplomatic relations. The government cut diplomatic ties with Iran in November without giving a reason.

Political Context

There was little political change in 2010. Poor governance and lack of political commitment to institutional reform continued to hamper economic reforms. According to the World Bank's *World Governance Indicator* for 2009, Gambia was ranked most highly for political stability, put at 53.8 on a scale of 0-100, and rule of law, 42.4. For voice and accountability, the reading was 17.1; government effectiveness 31.4; regulatory quality 42.4; and control of corruption, 34.8. A higher reading indicates better governance. The reading on political stability – one of the highest among West African countries after Cape Verde and Benin – reflects President Yahya Jammeh's firm grip on power. Presidential elections are due to be held in the fourth quarter of 2011 and President Jammeh is expected to win, thanks to the ruling party's powers of patronage.

Political stability, however, has not translated into long-lasting cabinets and frequent reshuffles have undermined government effectiveness. In contrast to political stability, the voice and accountability indicator reading was the lowest of Gambia's sub-indicators, reflecting continued media censorship.

Corruption remains a problem despite a government anti-corruption campaign started in 2003. Gambia was ranked 91 out of 178 countries in Transparency International's Corruption Perceptions Index for 2010.

Social Context and Human Resource Development

Gambia has made significant progress towards achievement of the Millennium Development Goals (MDGs) on hunger, primary schooling, the share of women in non-agricultural sectors, child immunisation, the integration of sustainable development into country policies and developing global partnerships. However, much more needs to be done to halve extreme poverty, achieve full employment of the young and women, eliminate gender discrimination, reduce child and maternal mortality, and reverse the spread of HIV/AIDS and malaria.

Poverty remains high and is far more severe in rural than urban areas. According to the Integrated Household Survey 2003/04 (2007), 58% of the population lived on less than USD 1 a day in 2003, down from 68% in 1998. In addition, over two-thirds of the rural population lived below the poverty line, compared with 6.6% in Banjul and Kanifing and 39.6% in other urban areas. A poverty assessment survey conducted by the World Bank in 2008 concluded that 55.5% of the population was poor – well above the MDG target of 15% by 2015.

In keeping with high poverty rates, employment is a major problem. The most recent available data, the 2003 Population and Housing Census, show that only 38% of the population was employed in 2003, up from 33% in 1993. Most of the improvement took place in rural areas, where the ratio increased to 39% from 33.1%. In urban areas the ratio improved only slightly to 30.8% from 29.4%.

Malnutrition is prevalent in Gambia. The proportion of underweight children remains high at around 20%, roughly the same level as in 1996. Likewise, child and maternal mortality rates are not decreasing as fast as needed to achieve MDG targets. Immunisation against measles for children aged 1 year increased to 96% in 2009 from 87% in 1990. Partly as a consequence, the infant mortality rate has fallen from 75 per 1 000 births in 2003 to 67.5 in 2010, equalling the MDG target.

There has been some progress in the fight against HIV/AIDS and malaria. The National Sentinel surveillance study conducted among pregnant women aged 15-49 years shows that the increasing trend of HIV-1 was reversed in 2007 after peaking in 2006. In addition, 2008-09 figures from the National Malaria Sentinel surveillance study suggest that malaria has started to decline too. Moreover, efforts to ensure access to safe drinking water have been effective. The proportion of the population with access to safe drinking water increased to 87% in 2009 from 69% in 1990, exceeding the MDG target of 84.5%.

The Gambia is also on track to achieve education MDG targets. Enrolment in primary education increased from 46.3% in 1991 to 77% in 2008, while the proportion of pupils who complete all grades in primary school rose from 88.1% in 1992 to 96.6% in 2006. The literacy rate among 15-24 year-olds increased from 48% in 1991 to 62.9% in 2003, compared with the MDG target of 72% in 2015.

The secondary school enrolment ratio increased from 34.9% in 2000 to 50.8% in 2008. The gap between male and female secondary school gross enrolment ratio narrowed from 7.0 percentage points in 2000 to 1.5 percentage points in 2008. According to the government's Education Sector Strategic Plan 2006-2015, development partners have contributed to this achievement through a number of projects. The share of basic and secondary education on average in the 2008 and 2009 budgets was 15.6% while the share of education in bilateral official development assistance was 10% in the same period. The quality of education, despite these improvements, remains a challenge.