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06554

Distr.
RESTRICTED

UNIDO/IPPD.184
14 May 1975
ORIGINAL: ENGLISH

UNITED NATIONS INDUSTRIAL
DEVELOPMENT ORGANIZATION

INDUSTRIAL STRATEGY AND DEVELOPMENT 1/

THE GAMBIA.

Project findings and recommendations.

(IS/GAM/74/006/11-01/12)

Terminal Report prepared for the Government of The Gambia

by

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as executing agency for the
United Nations Development Programme

1/ The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO.

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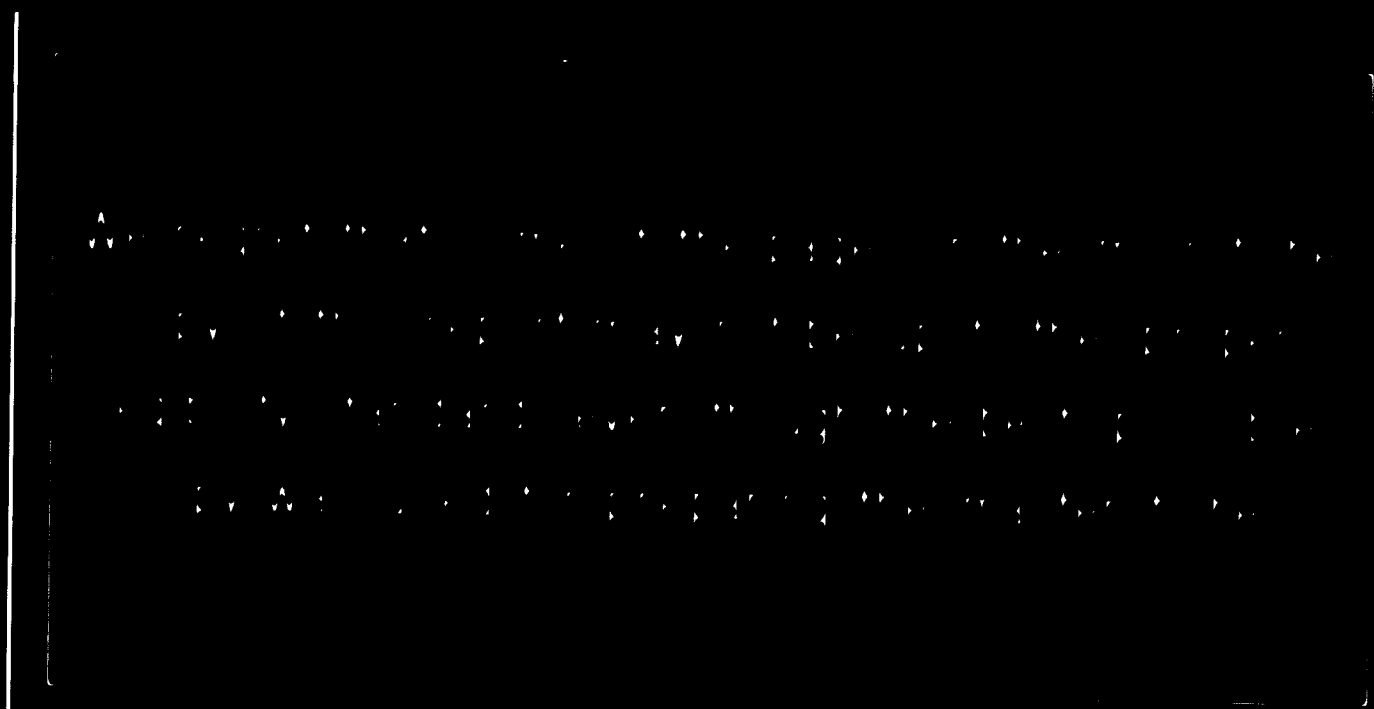

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1. Introduction

1.1. Project background

The Government of The Gambia decided to take a more active role in the economic development of the country. A Ministry of Economic Planning and Industrial Development has been established recently. This Ministry is in the process of formulating the First Five-Year National Development Plan scheduled to commence in July 1975. It is the intention of the Ministry to "undertake a fundamental review of all sectoral policies, to crystallise national objectives, to identify constraints and feasible remedies and to establish targets where possible".

A planning machinery has been set up designed to ensure widespread national participation at all levels of the planning process.

Some time before setting up the new Ministry of Economic Planning and Industrial Development, the Government requested UNIDO to assist in particular the Secretary-General of the President's Office and its Planning Secretariat in defining a strategy for the future development of the Gambian industrial sector. The project data sheet was signed in August 1974. The project comprised:

- one industrial economist for 4 months; and
- one industrial engineer for 2 months.

The duration of the mission of the industrial economist was reduced from originally 4 months to two months after consultation with a representative of the Government of The Gambia, who furthermore expressed his wish to decide on the remaining portion of the project after completion of the first two months.

The two experts were not considered as a team. They worked independently and submitted separate reports, but nevertheless they discussed most of the problems together.

Starting and completion dates: The industrial economist reported at the duty station on 4 January and left it on 20 February 75.

1.2. Objectives of the project

The industrial economist was expected to:

- take stock of the current situation and problems in the industrial sector, in particular the present industrial structure;
- assess the performance of the current development programme in the industrial sector;
- form an opinion of the industrial potential and define alternative paths of industrial development;
- define the policies and practical regulations for promoting selected alternatives, for instance tax concessions, sectoral expansion objectives, employment policy, industrial incentives;
- prepare a selection of industries and related ventures to be especially promoted or assisted by the Government;
- draft an industrial investment schedule (programming of investments over time) for the public and private sectors to serve as guidelines for the priority programme to be worked out within the plan targets and objectives;
- select industrial promotion and investment techniques for attracting domestic and foreign investments in the industrial sector with the inflow of technology, skills and prospects of training Gambian personnel;
- plan industrial relations and co-operation with other countries, subregional and international organisations.

1.3. Organisation of the expert's work and of the present report

During the first phase much time was spent on:

- reading reports (the most comprehensive and recent list of the relevant reports is attached to the report by Sistrunk which was prepared on 4 February 1975);
- discussing problems with officials and private entrepreneurs; and
- visiting plants, workshops and other installations all over the country.

During the second phase the report was conceived, partly in The Gambia and partly in Vienna.

In the chapter following the introduction, a short analysis of the industrial sector is given. It is far from being comprehensive and should only give an idea of the economic situation, the recent development, the problems encountered and the chances offered by the

country. The next chapter outlines the proposed development programme.

In chapter 4 the economic policy is outlined.

Chapters 5 and 6 contain recommendations and a summary.

The report covers most of the objectives of the project.

Differences are mainly due to changes in requirements. Owing to the limited time available, various issues could not be elaborated in all necessary details.

1.4. Acknowledgement

The expert wishes to express his sincere gratitude for the kind support and co-operation extended to him by the Ministry of Economic Planning and Development and other ministries, as well as other institutions and private entrepreneurs. The expert also highly appreciated the good co-operation with the office of the UNDP Resident Representative, various UNIDO experts and staff members in Banjul and Vienna.

2. Analysis of the industrial sector

2.1 Definition

The industrial sector as delt with in the following comprises mining, manufacturing and construction.

2.2. Contribution to GDP

The contribution of the industrial sector to the GDP is extremely small (about 6 per cent), but it has been increasing since 1968.

Table 1: Current value of GDP and of the contribution of industries at current prices

(Million dalasis)

	1964/1965	1965/1966	1966/1967	1967/1968	1968/1969	1969/1970	1970/1971	1971/1972	1972/1973
GDP (factor cost)	56.9	65.5	68.2	66.6	75.9	76.8	85.9	92.8	93.7
Mining	0.2	0.5	0.2	0.3	0.3	0.3	0.3	0.3	0.4
Manufacturing	1.2	1.4	1.6	1.6	1.8	2.0	1.9	2.1	2.5
Construction	0.5	0.4	0.2	2.6	1.6	1.4	1.9	2.2	2.9
Industrial sector	1.9	2.3	2.0	4.5	3.7	3.7	4.1	4.6	5.8
Percentage - industrial sector of GDP	3.4	3.5	2.9	6.7	4.9	4.8	4.8	5.0	6.2

Sources: 1964-1967: IBRD - The Economic Development of The Gambia, March 1973, Table 2.1.

1967-1973: Economic Commission for Africa: Summaries of Economic Data, August 1974, p.16.

2.3. Employment

The available statistics are very poor and unreliable. However, they are used to show at least roughly the industrial sector's share in the total employment (table 2). Assuming that the total employment of 88,000 did not decrease from 1969 to 1973, the share of manufacturing amounts to about 4 per cent of the total employment. This compares with a contribution of manufacturing of 2.5 per cent to GDP.

Agriculture is by far the most important sector giving employment to 61,000 self-employed farmers representing 70 per cent of the total employment.

Employment in industries is furthermore highly seasonal and shows great fluctuation over the year.

More and better statistics are necessary to come to some conclusions.

Table 2: Population, total employment, employment groups

(Thousands)

	1963	1969 1/	1970	1973	1980
Population	315 2/	...	367 3/	494 4/	465 3/
Total estimated employment	...	88	...	88 5/	...
Wage earners	...	16	...	17 6/	...
Manufacturing	3	...	...	3.5 6/	..
Self-employed	...	72	...	...	...
Farmers	...	61	...	...	...
Merchants	...	9	...	...	...
Oysterers	...	1.5	...	...	...

Sources: 1/ Third Development Programme 1971/1972 to 1973/1974
2/ 1963 census
3/ Estimates based on 1963 census
4/ 1973 census
5/ Assumption
6/ Computation

Population, total employment, employment groups

(Percentage)

	1963	1969	1970	1973	1980
Total estimated employment	100	100		100	
Wage earners		18		19	
Manufacturing	1			4	
Self-employed		82			
Farmers		70			
Merchants		10			
Oysterers		1.7			

2.4. Structure

The analysis of the industrial sector of The Gambia is facilitated by the fact that there are only about 15 establishments with more than 10 employees, out of which one has more than 200, and another two have more than 100 employees. Nevertheless, gathering of the desired data has to be organised (establishing questionnaires, etc.) and will take some time (perhaps one month). It could not be done during the present mission, but is suggested to be done as soon as possible.

The actually available data show the highest activity according to the number of establishments and employment in food industry, much less in wood industry and wearing apparel, while chemical industry and metalworking as well as building materials play a very modest role.

Table 3: The Gambian Industry

	Number of establishments
Food industry	
Meat (slaughter)	1
Fruit (lime juice)	1
Fish (freezing)	1
Vegetable oil (ground-nuts)	2
Grain mill (cenowa)	1
Bakery	12
Confectionery	1
Distilling	1
Soft drinks	12
Wearing apparel and footwear (including plastic sandals)	3
Wood industry	
Saw mill	1
Furniture	7
Paperboard containers (suitcases)	1
Printing	3
Chemical industry	
Soap and toiletry	2
Candles	2
Tyre retreading	1
Painting	1
Metalworking	
Furniture	1
Transport equipment	1
Building material (concrete blocks)	2

2.5. Problems

Most of the larger establishments were visited. The following observations may be made:

- The installed capacities are used at a very low rate (2.5 to about 70 per cent).
- No factory looks really prosperous and flourishing.
- More scientific management including reorganisation, appropriate investment, better marketing and higher intra-enterprise incentives could probably lead to much better results in most of the companies.

Though there are no data available, it may be asserted that the value added in most companies is low. It would be of great interest to elaborate the necessary data to compare the value added in the various industries (for example fish processing plants, oil

mills, soft drink factories, etc.) with the consumer price of the final product or some similar price.

Several reports mention the widespread underutilisation of the installed capacities as a main problem of the industrial sector. The reasons are in some cases:

- lack of raw material (fish processing, cassava processing); and in other cases
- over-estimation of outlets (soft drinks); or
- insufficient marketing; and/or
- the price policy.

The market size of The Gambia cannot be the real reason, because everybody knew the market size before implementing a new factory. Generally speaking, projects were not well prepared, and little effort is made to enlarge the outlet.

Closely related to the underutilisation of the installed capacities are heavy fluctuations in employment. Seasonal supply of raw materials and insufficient sales are the main causes for employment fluctuations. It is for sure that continuous operations would substantially improve the results. Possibilities to minimise the fluctuations are to be studied thoroughly in each case and may certainly be identified.

S.M.B. Fye raises two other problems in his paper on the industrial sector in the economy of The Gambia: the overconcentration in the Banjul-Kombo area and the lack of linkage among Gambian industries. In fact, there is no real overconcentration. There is only a relative concentration in comparison with more remote areas. The reasons for the relative concentration are only partly of economic nature. From the standpoint of the firm it is clear that location in Banjul is advantageous as long as locational benefits such as lower transport costs, better infrastructure, positive effects of an agglomeration of industries, etc. are higher than locational costs such as taxes, manpower, land, etc. Non-economic factors have also their price and may be counterbalanced by economic advantages or disadvantages.

As important regional development may be, it should not be over-emphasised at the present stage. Regional policy should be

based on cost-benefit analysss and help to avoid real distortions from the very bsginning. It is inconsistent to speak on the one hand of overconcentration in an area and at the same time to give on the other hand incentives to attract new industries to the same area.

The lack of linkage among industries is not a real problem sither, but an opportunity for further development. Systematic identification of new project ideas will lead to economic utilisation of promising linkage effects.

2.6. Performance of the current development programme

The expiring third development programme reflects the Government's intention not to enter industrial fields for which the private sector is supposed to cater adequately.

Table 4 on development expenditure estimates 1974/1975 for construction, manufacture and commerce shows the allocation of public funds during the period 1971 to 1975. The Government's participation in construction comes first, followed by printing, fish processing and a mechanical workshop.

The Commercial and Development Bank approved and disbursed two loans amounting together to about D30,000 for two steel workshops (table 5).

No figures are available for private investment in the industrial sector which is low anyway and only concerns very small projects.

The industrial sector played only a minor role in the third development programme. Priority was given to infrastructure and agricultural development which may be considered as a prerequisite for future development in the industrial sector.

Table 4: Development expenditure estimates 1974/1975

(Dalasis)

Project title	Total estimated cost	Actual expenditure 1971/1972	Actual expenditure 1972/1973	Estimated expenditure 1973/1974	Revised estimate 1973/1974	Estimate 1974/1975	Balance	Remarks
Construction, manufacture and commerce								
Printing office extension	144,838	125,096	18,342	-	-	-	-	Completed
Main store reconstruction	96,000	?	19,562	(82,000)	50,000	26,431	-	Approval by donor of $23,500
Construction plant	912,235	757,913	272	(145,000)	154,050	-	-	Assumed that only 1973/1974 expenditure from EX 4b and up to 1972/1973 from RL
Construction vehicles	358,000	215,899	53,515	(84,000)	134,000	-	-	As for head 52/5
Equity - Gambia Fisheries Ltd.	75,000	50,000	25,000	-	-	-	-	
Mechanical workshop Kanoumbonko	35,000	-	31,630	(10,000)	3,370	-	-	No increase
Banjul abattoir improvements	100,000	-	-	(100,000)	-	100,000R	-	Re-vote - approval awaited
Printing machines and equipment	122,000	-	-	-	-	122,000R	-	To replace old machines and expand capacity
National Trading Corporation	130,000	-	-	-	130,000	-	-	Formerly 55/94
Tourism - bandales for handicraft sales	68,000	-	-	-	-	34,000	34,000	Two blocks of 20 selling units to be rented to craftsmen
Equity - Commercial and Development Bank	191,200	155,000	-	-	36,200	-	-	Formerly 55/92
Equity - Gambia Airways Ltd.	100,000	-	100,000	-	-	-	-	formerly 55/93
Unallocated reserve	-	-	-	-	-	8,400	-	3% of 1974/1975 estimated expenditure on head 52
Total construction, manufacture and commerce	-	-	248,291	(421,000)	507,620	288,831	34,000	

Table 5: List of projects financed by the Development Bank as of 30 April 1973

(Dalasis)

Project title	Sector	Loan objectives	Loan amount approved	Loan amount disbursed
Fruit and palm-oil plantation at Abuko and Brikama	Agriculture	Land and plantation development, irrigation	15,000	9,990.28
Orange plantation in Kotu	Agriculture	Irrigation equipment	25,000	8,859.12
Rice plantation in Bwiam	Agriculture	Irrigation equipment	10,000	7,830.66
Piggy farm in Latrikunda	Agriculture	Development of poultry scheme, etc.	12,500	4,247.91
Steel workshop - manufacture of furniture, etc.	Industry	Plant and machinery	15,000	12,502.62
Steel workshop - windows, agriculture tools, structural steel, etc.	Industry	Plant and machinery	15,000	14,969.02
Electrical shop	Commerce	Electrical equipment	1,500	1,265.19
Cinema/restaurant in Serekunda	Commerce	Building	13,000	5,016.96
Cinema at Barra Point	Commerce	Building	20,000	5,274.00
Hotel/restaurant in Banjul	Tourism	Building and equipment	25,000	17,289.00
Total			152,000	87,304.44

2.7. Industrial potential of The Gambia and alternative paths of industrial development

At the present stage of development the industrial potential of The Gambia has to be looked for in the fields of processing of fish, agro-products and the few minerals known in The Gambia. One might add typically local industries, the possibilities of which are entirely determined by the local demand and therefore limited though necessary for sound development.

As far as fish processing is concerned, essential issues have to be dealt with. The main issue is the fishing potential. The actually existing fish processing plants are not working at full capacity. The reason is lack of raw material (caught fish). As a matter of fact, fishing is not developed in The Gambia. The opportunities offered by the sea could be better used. Ongoing projects in the fishery department will hopefully lead to appropriate results and to the supply of fish, crustacea, etc. in quantities approaching the figures corresponding to the capacity of natural reproduction of sea-life. An appropriate Gambian fishing fleet should be established.

On the other hand, the existing fish processing plants probably do not make full use of value added. Further processing should be possible. Appropriate investigation is recommended. It should cover:

- an analysis of the value added at the various stages of fish processing and marketing:
  a) fishing;
  b) actual fish processing in the country;
  c) wholesale price;
  d) retail price;
- an analysis of the structure of the present customers (by countries, etc.) of fish and fish products of Gambian origin;
- an analysis showing whether the market indicates and allows more sophisticated processing of fish and which kind of processing would best meet the demand.

The agro-based industry represents the greatest potential because of the quite evident advantages of the country. The agricultural sector of The Gambia is producing or able to produce a number of crops with absolute and/or comparative advantages, but

the opportunities are far from being used. Most of these crops are very suitable for further processing, but at present few crops are produced in quantities (and qualities) required for industrial processing.

Mining in The Gambia is limited to small-scale quarrying. Nevertheless, recent studies by UNIDO subcontractors indicate promising opportunities in ilmenite mining, kaolin mining and processing, as well as production of bricks, tiles, etc. of laterite. While ilmenite mining is entirely export oriented and will therefore heavily depend on the world market, kaolin mining and processing and particularly tile and brick production are mainly oriented towards the home market and of strategic importance.

Paths of industrial development

The outcome of our short analysis of the recent development and the present situation of the industrial sector of The Gambia may be summarised as follows:

- The industrial sector is under-developed in absolute as well as relative terms.
- The main reasons are:
  a) lack of private entrepreneurships; and
  b) lack of managerial skills.
- There are promising development opportunities, but there is no private initiative to make use of them.

In order to overcome the difficulties and obstacles of industrial development, it is recommended that the Government assumes all the development functions private entrepreneurs have failed to fulfil.

In a highly developed industrial society of some kind of market economy type, which corresponds the most to the Gambian system, thousands of ambitious entrepreneurs and would-be entrepreneurs are looking day and night for new investment opportunities. Altogether, they represent a powerful "development instrument" which can hardly be replaced by a planning institution, because most of the private entrepreneurs or would-be entrepreneurs dispose of excellent knowledge in technology, markets, organisation, management of specific industries and are led by their personal interest pushing them to maximise profits and to minimise risks: very important elements for economic development. One could, of course, not employ as many

planners as entrepreneurs. Even if the planners were highly qualified, their limited number could not have the efficiency of thousands of highly motivated and knowledgeable entrepreneurs. Therefore, any economy is well advised not to weaken, but to strengthen such forces of private enterprises. But in most developing countries these forces are weak, inexistent or not developed. Foreign entrepreneurs and central planners have to substitute them at least partly and temporarily.

With regard to foreign investors, the role of planners becomes a special and even more important one, because the planners can look after the national interest and use the services of foreign investors to the best benefit of the country.

The main functions to be assumed are:

- systematic search for new project ideas;
- providing pre-feasibility studies;
- providing feasibility studies;
- evaluation and selection of projects;
- implementation of projects;
- monitoring of companies with public participation;
- post-investment development.

In the following chapter the functions will be described in more details.

3. Development programme for the industrial sector

Systematic development implicates a number of successive steps which are repeated periodically: search for new project ideas, pre-feasibility studies and/or feasibility studies, evaluation and setting of priorities, investment decision, implementation, post-investment development. Each step may take a few months depending on the number of projects studied simultaneously, the thoroughness of the studies and the capacity of the development staff. For practical reasons it is advantageous to synchronise at least the systematic project preparation including all steps from systematic search for project ideas to the investment decision with the financial year.

For certain projects, a one-year cycle may be too short. Whichever be the necessary cycle for the various projects, it is desirable to have

the possibility to screen and choose at the end of each stage among a certain number of feasible projects the best for the following stage. Only in such a case some kind of optimising is possible which is not evident as long as all feasible projects are followed up and finally implemented.

Drawing up a development programme, we have to take into consideration that early results are expected. By results we mean:

- employment effect;
- investment effect;
- production effect;
- income effect.

Consequently, priority has to be given to the most advanced promising projects. But a great effort should be made to assure all development functions.

In the following chapters we describe the development programme in natural order.

3.1. Systematic search for new projects

It is a well recognised fact that private searching for new industrial opportunities does not take place successfully in The Gambia. This is due to the lack of industrial entrepreneurs with enough business and technical knowledge to recognise specific possibilities and even more to test their feasibility.

Therefore systematic search for new projects is one of the most important functions which the Ministry of Planning can undertake. It is also one of the simplest, cheapest and quickest things which can be done when it has been decided to embark on a comprehensive industrial development programme. Even absence of qualified staff need not hinder the start of this important work, for this is an area where experienced outside experts can be called upon to apply their knowledge of industry to identify the projects which are worth further examination.

In screening possibilities which may be worth listing for further investigation, various criteria may be applied. At the present stage of development, the most promising opportunities must be looked for in the field of processing of locally available low cost raw materials. The starting point is the whole range of

raw materials which may be supplied (including crops not yet grown) in the first place by agriculture, in the second place by fishery and mining. A comprehensive list has to be established. It should comprise:

- denomination of the raw material;
- short description of the quality
- quantity produced annually;
- period of harvesting (possible supply);
- place or region of production;
- value added per unit of soil.

If a crop could be grown with advantage, but is not yet grown at all or only in quantities too small for industrial processing, it has to be indicated how long it would take from the decision to grow the crop until the first harvest.

The list of production possibilities is to be completed by market and other data such as:

- world market price;
- eventually some criteria on The Gambia's advantages in producing the very crop and raw material respectively.

Screening industrial opportunities is a process of elimination. Starting with even hundred or more animal, vegetable and mineral resources in The Gambia, the process of screening reduces gradually by applying successively relevant criteria, the number of possibilities to one tenth or so of the original number.

Ranking of opportunities might be used instead of screening. According to the available development research capacity, the highest ranking opportunities are selected for further investigation which comprise:

- a market survey for semi-finished and finished products of the materials selected in the previous process;
- a survey of technologies used in processing the selected materials.

Both market survey and survey of technology provide additional criteria for further screening or ranking. An appropriate number of the highest ranking opportunities is then identified as new project ideas for further investigation: pre-feasibility or feasibility studies. A project proposal including all gathered

information should be made for each project idea. The process of screening for industrial opportunities based on animal, vegetable and mineral resources implies particularly close co-operation between the Ministry of Planning and the Ministries of Agriculture and Mineral Resources respectively during the first phase. Only close co-operation will lead to an optimum use of resources.

It has to be stressed that the exercise proposed should be the basis for all kinds of further decisions on land use, etc. The problem is not to find an opportunity but to find the better opportunity.

The search for new project ideas is to be repeated (every year) regularly using new (other) criteria and starting lists.

The method of screening and ranking may be improved continually. The simplest approach of systematic screening is better than no screening at all.

3.2. Pre-feasibility and feasibility studies

The difference may mainly be seen in the thoroughness of the studies. The purpose of a pre-feasibility study is to allow elimination of an unfeasible project before incuring the much higher costs of a thorough feasibility study. Both are in the first place means to continue the screening process. A feasibility study is furthermore an analysis of all aspects of a project thought to be necessary for an investment decision.

At present there are only three projects at an advanced stage: kaolin, ilmenite and oil refinery.

A fourth project idea is very promising: brick and tile manufacturing of laterite.

A project proposal was recently elaborated by UNIDO on a free zone.

One very much striking opportunity seems to be the so-called ground-nut complex.

Finally, one project idea concerns industrial centres.

The following observations should help to identify priorities among the six project ideas:

Kaolin processing and brick production

Two alternatives are analysed:

- an industrial plant;
- a pilot plant.

The production programme of the industrial plant comprises:

- 100,000 m^2 of wall tiles;
- 100,000 m^2 of mosaics; and
- 50 tons of gift items.

The authors of the feasibility study do not recommend the industrial plant but a pilot plant with the following production programme:

- 1,000 m^2 of wall tiles;
- 1,000 m^2 of mosaics; and
- 25 tons of gift items.

The authors of the feasibility study were requested in February to analyse the production of sewerage pipes as well as of bricks and tiles.

Only then the various possibilities will be evaluated. It is evident that sewerage pipes and bricks seem to be promising opportunities. They certainly deserve further investigation. In order to come rapidly to a result, it is recommended:

- to make a first market survey of:
  a) bricks and their substitutes;
  b) tiles (roofing) and their substitutes;
  c) sewerage pipes and their substitutes;
- to contact possible suppliers of machinery and know-how and to ask for their proposals for alternative production units.

Ilmenite

A feasibility study is under way and should be available soon.

Oil refinery

A feasibility study was elaborated and reviewed by VOEST and UNIDO experts respectively. Further steps will depend on the outcome of the evaluation of the various projects kept in view.

Free zone

At present, a free zone project must be considered as not being of high priority for the following reasons:

- The development act already provides most of the incentives a free zone would give.
- The establishment of a free zone implicates the allocation of important funds and scarce managerial staff without having a direct impact on industrial development and without having any production effect.

It is therefore recommended to shelve the project.

The ground-nut complex

Ground-nuts are at present the sole raw material produced in quantities large enough to allow any industrial processing. About 50 to 65 per cent of the ground-nut crop are processed in two oil mills; a small quantity of the crude oil is refined (about 1,000 tons), the rest is exported. Value added is supposed to be very low. It was not possible to obtain figures.

Ground-nuts not processed in the local oil mills are exported in decorticated form without further processing. It is recommended to make or have made a thorough study of the ground-nut complex before looking for any other export-oriented industrial opportunity.

The study should comprise:

- a list of ground-nut products;
- a market study for ground-nut products;
- a short description of the ground-nut products technology;
- identification of production opportunities for The Gambia;
- economic analysis and evaluation of the present operations of the oil mills;
- (pre-)feasibility studies of selected opportunities.

Taking into account the dominant role of ground-nuts for the Gambian economy, further processing of the raw material should be considered as a "national obligation".

Small industrial activities centre

It is proposed to establish in the most important towns all over the country small industrial activities centres starting with one pilot centre. An industrial activities centre consists of

several production units (small-scale workshops) located in one building or place.

The purpose is manifold:

- to overcome certain obstacles to self-sustained industrial development such as:
  a) lack of identified markets and effective marketing systems for products to improve the daily life;
  b) social and cultural attitudes which hamper a professional orientation towards entrepreneurial involvement;
  c) absence of local industries or industrial activities;
- to manufacture and consequently offer some of the most important kinds of goods and services of the daily life (especially durable goods):
  a) improved housing: masonry, carpentry;
  b) sanitary installations;
  c) (improved) furniture for offices and households;
  d) metal products used in daily life;
  e) others to be identified;
- to directly introduce industrial activities in the daily life of the community:
  a) challenging demand by displaying products of good quality adapted to the local requirements;
  b) demonstrating the professional activities and creating a good image of artisans;
- to satisfy the already existing demand;
- to contribute to the manpower development.

Location

The centres should be located nearest to the potential customers (perhaps near the centre of agglomeration) and form a real centre of economic activities.

Staff

Each unit should comprise:

- one expatriate professional;
- three to seven apprentices.

Equipment and machinery

Each unit should dispose of good standard equipment and machinery.

Buildings

All the units should dispose of appropriate buildings which form together the industrial activities centre.

Financing

The following financing is suggested for the pilot centre:

- building and infrastructure: local Government;
- machinery and equipment: foreign aid;
- expatriate professionals: The salary of the expatriate professionals should be paid by UNIDO or through other assistance.

Principles of operation

The centre, respectively each unit, should be run like a private enterprise:

- repay the invested capital;
- pay an economic rent for buildings and other facilities;
- pay appropriate wages and salaries according to local standards;
- pay taxes;
- make profit.

Industrial activities centre fund

As far as capital, obtained through foreign aid or the Government, is repaid, it should be accumulated in a so-called industrial activities centre fund which may be used to establish and finance new centres.

Implementation

1) The Government might request UNDP/UNIDO or other development organisations' assistance:
   - to elaborate the project in all details:
     a) identify the basic units of the pilot centre;
     b) elaborate a list of required buildings, machinery and equipment, infrastructure, etc.;
     c) draft blueprints of the pilot centre;
     d) expenditure;
     e) evaluate the project;
   - to provide the required professionals for the actual establishment.
2) The Government raises funds for buildings, etc.
3) The Government requests foreign assistance to finance machinery and equipment or raises the necessary funds.

4) UNDP recruites the international personnel.

5) Construction and installation of the pilot centre.

6) Start-up and recruitment of local personnel.

Gathering of additional information and experience

The expatriate staff in co-operation with UNDP/UNIDO may collect more information on the role of the centre, additionally required units and all kinds of problems in order to improve the pilot centre and further similar centres.

3.3. Evaluation and selection of projects

Evaluation and selection of projects should be institutionally separated from the functions of project preparation.

It will very soon be necessary to evaluate the projects of kaolin, ilmenite and brick-tile manufacturing. Some evaluation is also needed to execute the development act. A national evaluation system should be elaborated based on one of the actually available standard manuals:

- UNIDO: Guidelines for Project Evaluation, New York, 1972,
- Little, Jan M.D. and James A. Mirrlees: Manual of Industrial Project Analysis in Developing Countries, Volume II: Social Cost-benefit Analysis, Paris, 1968.

3.4. Implementation and monitoring of companies with public participation

These functions will have to be assured or supervised (if a private company is in charge of implementation) as soon as ongoing projects with Government participation reach the implementation stage.

Monitoring of operating companies could contribute essentially to efficiency and have an excellent effect on planning efficiency through the obtained feedback.

3.5. Post-investment development

Monitoring of operating companies should occasionally be completed by post-investment development. It consists of analysing operations and deciding and implementing necessary changes. Post-investment development is of first priority. It is expected to lead

to considerable results with little input. Post-investment development may concern: expansion, reorganisation, changes of production programme, changes of the distribution system, etc.

Three production units seem to need urgently post-investment development:

- the two oil mills and
- the public works department.

An economic analysis of the three units is recommended. Such an analysis may include:

- basic analysis:
  a) complete process flow diagramme including all functions;
  b) organisation chart;
  c) detailed inventory of capital and labour (classified quantities and values);
- analysis of operations:
  a) quantities of production over time;
  b) costs (very detailed);
  c) sales;
  d) value added;
  e) cash flow;
  f) profits;
- identification of opportunities for expanding profitability, increasing efficiency or solving management, financial and operating problems.

Economic policy to accelerate industrial development

4.1. Actual economic policy

Industry is mainly concerned with the following regulations:

- the development act 1973;
- the income tax act;
- foreign exchange regulations;
- regulations on the acquisition of land;
- labour and building regulations.

As the most relevant policy instruments may be identified:

Indirect taxes

The development act provides a relief from the payment of purchase tax on materials obtained from local sources and a refund of up to 90 per cent of the duty element on materials purchased locally.

Tariffs

The development act may give the following concessions:

- a reduction or elimination of excise or export duty for the development product for a prescribed period;
- a reduction or elimination of duty on raw materials or semi-processed materials for a maximum period of eight years;
- duty relief on plant machinery and all construction materials utilised in a factory.

Instruments such as exemption of import duties on raw materials, machinery, etc. (all kind of indirect taxes) are appropriate, but they must be seen in a more general context which we call investment conditions and incentives and which will be treated in the following section.

Direct taxes

The development act provides the following concessions: an income tax holiday up to a maximum period of eight years. After the expiry of the tax holiday period, the holder of a Development Certificate may carry forward and set off any net loss incurred during his tax holiday period against chargeable income in respect six succeeding years of assessment.

- Development Incentives under the income tax act

(i) With regard to machinery and plant, an initial capital allowance of 40 per cent and an annual allowance of about 12 per cent on the average is allowed on costs for the first year and on the written down value for the subsequent years. With respect to buildings, the initial allowance is 10 per cent and the annual allowance 4 per cent.

(ii) Companies which are granted development certificates enjoy tax holiday for the period shown in the development certificate for a maximum period of eight years. In such cases, the accumulated capital allowances are admissible against the taxable profits arising after the tax holiday period and adjusted loss, if any, carried forward for subsequent assessments. Dividends declared and paid out of the profits of the tax holiday period would also be relieved from income tax to the maximum of company rate.

(iii) At present there is no withholding tax on dividends in addition to tax payable by the company. Moreover, where dividends are grossed up and included in the assessment, credit for tax is given in respect of the

amount deemed to have been deducted or deductible by the company paying the dividend at the company rate.

(iv) Under the double tax agreement of Gambia with some other countries like U.K., Sweden, Norway, Denmark, Nigeria, Sierra Leone, Ghana and the USA, profit arising from the operation of ships and aircrafts by these countries are at present not taxable in The Gambia. Similarly, dividends earned or accrued in The Gambia to the resident of these countries are at present not taxable in The Gambia under the above agreements, even if the company paying dividends is resident in The Gambia.

(v) Even without any development certificate, small companies having an income of less than D15,000 a year and engaged in manufacturing industries prescribed under the development act enjoy tax holiday period for the first two years. For the next two years they pay tax at one third of the company rate and for the subsequent two years at two thirds of the company rate. Thus they get a graduated relief for the first six years of their existence.

(vi) Losses of one assessment year is allowed to be carried backward and set off against the profits of the previous assessment year or carried forward and set off against the profits of the following six assessment years, provided the same business was continued to be carried on by the same person in such subsequent year.

(vii) With respect to petroleum and mining companies, in addition to the usual capital allowance mentioned above, a special initial and annual allowance is admissible on the pre-production exploration cost.

Tax exemption, the most important instrument of the actual policy package, may be a crucial element to add if the other elements are right, but will not attract investment to a country where the other factors influencing the investment climate are unfavourable. Investors are often more concerned about the political and economic stability of a country, the size of its market and other factors effecting manufacturing costs than they are about tax exemption.

As far as income tax exemption is concerned, one may object that it gives the greatest benefit to the companies which need it the least, because their profits are the highest. It further misleads enterprises to pay higher dividends than what is "sound". Projects which deserve subsidy are mostly those which are unprofitable, at least for some time. Such projects receive no benefits from income tax exemption.

Foreign exchange control

Exchange control policy is made by the Minister of Finance. The day-to-day administration of exchange control is carried out by the Central Bank. The commercial banks, which have been appointed as authorised dealers, may authorise sales of currencies outside the Sterling area for imports from outside the area that are covered by specific licenses and, up to specified amounts, for travel expenses and sundry payments outside the Sterling area. All other sales of non-Sterling area currencies are subject to the authorization of the Central Bank. The Ministry of Finance is responsible for the issue of import and expert licenses.

The Gambia is a member of the Sterling area, and settlements with other Sterling area countries may be made and received freely in Sterling or in any other Sterling area currency. Settlements with countries outside the Sterling area may be made and received in any non-Sterling area currency other than Rhodesian currency or in Dalasis or Sterling from non-resident sources.

Banking accounts held by authorised dealers in The Gambia on behalf of residents of countries outside the Sterling area other than Rhodesia may be designated external accounts. These may be credited with authorised payments from residents of the Sterling area with transfers from other external accounts and with the proceeds of sales of non-Sterling area currencies. They may be debited for any payments to residents of the Sterling area for transfers to other external accounts and for purchase on non-Sterling area currencies. In addition, there is legal provision for authorised dealers to maintain blocked accounts under the direction of the Central Bank.

Import of certain specified goods is prohibited from all sources, predominantly on social, health, and moral grounds. Import from any country of rice and wheat flour is subject to specific licensing in order to ensure the adequacy of such imports and their fair domestic pricing. The Gambia Produce Marketing Board is responsible for rice imports. All other imports are freely permitted under an Open General License if imported from the following countries, but are subject to specific licensing

if imported from other countries:

- all countries within the Sterling area;
- Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Greece, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, and the United States, together with the overseas territories of these countries; and
- Argentina, Brazil, Chile, Egypt, Iran, Iraq, Lebanon, Mali, Morocco, Paraguay, Peru, Senegal, the Syrian Arab Republic, Thailand, Uruguay, Venezuela, and Yugoslavia.

Imports from Sterling area countries may be paid for freely in Dalasis or in any other currency of the Sterling area. Settlement for imports from outside the Sterling area may be approved by an authorised dealer on production of evidence of importation for any commodity that is covered by a valid specific import license. For imports from outside the Sterling area which do not require specific licensing, payment authorisation is given by the Central Bank on production of evidence of importation or shipment. Advance payments for imports whether covered by specific licenses or not are approved by the Central Bank in all cases where the payment is considered genuine and in accordance with the normal practice of the trade. Payment for imports from outside the Sterling area may be made in Dalasis or Sterling to an external account or in any non-Sterling area currency other than Rhodesian currency.

Payments for invisibles to Sterling area countries may be made freely. Payments in currencies of countries outside the Sterling area require permission from the Central Bank except where authorised dealers have been delegated powers to authorise travel expenses and sundry payments. Such permission by the Central Bank is liberally given in all genuine cases. Irrespective of the purpose of the journey, authorised dealers may authorise a basic exchange allowance up to D750 for each journey but not exceeding D1,500 in any one calendar year for travel outside the Sterling area.

For business, professional, or official purposes, authorised dealers may provide residents with exchange facilities up to D1,750 for any one journey at a rate not exceeding D125 a day

subject to a maximum of D3,500 in any one calendar year. Any excess over these allowances requires permission from the Central Bank. Of the above amounts, up to D250 may be taken in currency notes and coins of countries outside the Sterling area. Irrespective of destination, each traveller leaving The Gambia may also take out with him on departure any other currency notes declared by him when entering the country.

Because of needs for local consumption, export to any destination of charcoal, firewood, and crustaceans is subject to specific licensing, as is the export of all goods to Bulgaria, Mainland, China, Rumania, Czechoslovakia, German Democratic Republic, Hungary, Poland, USSR, and Yugoslavia. Export of all other goods to any other destination is freely permitted under the Open General License. Payment for exports to countries outside the Sterling area must be received within six months from the date of export in non-Sterling currency other than Rhodesian currency or in Dalasis or Sterling from an external account.

Receipts from invisibles in currencies of countries outside the Sterling area must be offered for sale to authorised dealers. There is no restriction on the import of Gambian or other currency notes.

Inward transfers of capital are not controlled. Outward transfers may be effected freely to countries within the Sterling area but are subject to control for countries outside the area. At the time of making investments in The Gambia, non-residents investors may apply for an undertaking as to the authorisation of applications for the subsequent repatriation of capital; the remittance of profits is freely allowed after provision has been made for local taxation. All other applications to transfer capital outside the Sterling area are dealt with by the Central Bank. Loans and advances by the commercial banks to non-residents are subject to the authorisation of the Central Bank; such authorisation is normally given freely for the purpose of providing working capital to companies registered outside The Gambia for their operations in The Gambia.

Import of gold coins minted in the United Kingdom requires licensing by the Ministry of Finance; otherwise gold coins and bullion may be imported freely. All internal dealings in gold and the export of gold require the permission of the Central Bank. Neither the Central Bank nor the commercial banks deal in gold. The few restriction have no serious negative impact on industrial development.

Immigration control

A "reasonable" expatriate quota is assured if this is essential for the successful implementation of a project. Immigration control should therefore not be considered as an obstacle to development, but conditions might be improved.

Other regulations

Among other regulations, only the Labour Administration Act deserves some attention. It regulates labour conditions for workers and defines minimum wages for artisans.

It must be admitted that the actual policy package has not led so far to the desired result. Most of the employed instruments have a positive effect on investment, but they do not lead to it directly.

4.2. General remarks on the improvement of investment conditions and incentives

Economic development means better utilisation of resources for increased satisfaction of unlimited wishes. Industrialisation is part of the economic development process during which an increasing part of resources is shifted to industrial activities. If industrial activity is sufficiently attractive, entrepreneurs will make use of the opportunities, if it is not, there will not be any development.

Every developing country such as The Gambia has inherent negative features which limit or discourage industrial development such as limited market size, lack of industrial skills, lack of raw materials and so on. If natural resources are available other conditions may discourage industrialisation, for example, political and legal conditions within which industry has to operate, the

attitude of the Government towards private investment and towards foreign investors, laws discouraging certain investors, prevailing attitudes and feelings like national attitudes, etc.

Such conditions may be changed (improved) easily without involving any costs, but they require a clear choice between political ends and economic development goals.

It is quite evident that a higher risk has to be counterbalanced by a higher profit margin to attract an investor. It is also obvious that an entrepreneur engaged in an insecure business wants to repay the invested funds (recover the invested funds) as rapidly as possible without reinvesting them in the same insecure business. One could say that unsound conditions lead to unsound, often short-term, business. But industrial development cannot really be based on rapidly money-making ventures. The core of industry of highly industrialised countries consists of establishments set up for a long period of operation. Reinvestment, expansion and continuous perfection are the main features of "sound" establishments. And such establishments require a sound and stable environment. To create such an environment is one of the main responsibilities and contributions of the Government to economic development. The following factors may be considered in general:

- political and economic stability;
- attitude towards local and foreign investors;
- honesty and efficiency of administration (the less arbitrary decisions the better);
- Government behaviour with respect to nationalisation and localisation of industries;
- principles of competition between state industries and private industries;
- anti-dumping laws;
- foreign exchange policy;
- interference in manpower policy of companies (to which extent can the management hire and dismiss labour and employees?);
- labour legislation;
- control of immigration (employment of expatriates);
- price controls (including minimum wages, etc.);

- guarantees against adverse changes in taxes, tariffs and other fields.

It should be part of the development strategy of The Gambia to permanently check possibilities of improvement of the above-listed industrial environment factors.

Though one should not overlook the importance of the above factors in industrial development, it has to be pointed out that they may have a great negative impact, the may discourage any private investment, but they do not lead to investments by themselves. They are just necessary conditions.

In order to actively influence investment, the Government may offer incentives which, however, generally involve costs. Subsidisation of new industries means diverting resources from other uses such as consumption or investment in the non-industrial sectors of the economy to the industrial sector.

Subsidisation of (new) industry is made because it is thought that it will bring a surplus of social benefits over social costs. Such a surplus should be used as criterion in establishing the total package of subsidy (incentives) for attracting investors in industry. In order to achieve the desired development of the industrial sector, incentives may be raised to the point where social costs counterbalance social benefits. Considering the difficulties of cost-benefit analysis, it is recommended to keep a sufficiently high margin to be sure that incentives will not increase the social costs beyond the social benefits taking into account all kinds of uncertainties.

It has to be said that subsidies (incentives of any kind) contribute to the wealth (enrichment) of the new industrialists who may be citizens or foreigners. The Government may or may not accept the principle, but subsidies represent some kind of price to be paid in certain situations to the private investors for accelerated development. There is only an alternative public investment.

Considering the fact that incentives in any form of subsidy represent public funds for private persons, it should be

provided that:

- the costs of incentives are always covered in advance or by simultaneously realised social benefits (taking into account at least the employment and foreign exchange impact).
- the incentives are equally obtainable for everyone within distinguishable categories like citizens, non-citizens, etc. (no discrimination within groups).
- any arbitrary allocation through administration should be avoided.

Evaluating the benefits of a new industry, the following items may be relevant:

- total value added;
- better use of labour;
- better use of natural resources;
- training effect;
- foreign exchange effect;
- modernization of the economy;
- attraction of capital from less productive uses;
- improvement of national security.

Incentives should be temporary in order to allow administration necessary adaptations and because they should serve only to overcome difficulties of infant industries.

Subsidies represent a very aggressive instrument to accelerate industrial development, but their application is a delicate one.

In the case of The Gambia, preference should be given to public investments dealt with in the following chapter.

4.3. Public investment

Taking into account the absence of private initiative in industrialisation of the country, the most direct participation of the Government in the process seems to be the best and only way out. The most reliable instrument is "public investment".

Opportunities which are not taken advantage of by private entrepreneurship should be realised by the Government through public investment. Public investment makes systematic project

development more realistic and should obviously be based on thoroughly prepared and properly evaluated feasibility studies. It is evident that public investment in the industrial sector will lead to new institutional requirements. This issue will be treated in a separate section.

Companies established by public investment may either be sold at "market price" to private entrepreneurs as soon as they show profitability or remain public companies.

Public investment handled in a proper way may be considered as fully compatible with the prevailing economic system. It should not substitute private investment for ever, but proceed in fields where pioneer entrepreneurs are needed but not available.

4.4. Requirement for new development institutions

Let us reconsider the development functions which should be urgently assumed by the Government, the Ministry of Planning or any other institution.

Systematic search for new investment opportunities

The main prerequisites are:

- skilled staff (economists and technologists);
- good contacts with various ministries;
- authority.

The Ministry of Planning is supposed to have the necessary authority and contacts to other ministries. The personnel is not yet available, could be obtained through foreign assistance (UNIDO), and local personnel could be trained later on.

Elaboration of pre-feasibility and feasibility studies

Qualified staff is the main requirement and may be obtained from abroad (UNIDO, consulting firms, etc.).

Evaluation and selection of projects

This function requires mainly highly qualified staff to prepare decisions and hould be at least administered by the Ministry of Economic Planning.

Implementation and monitoring of companies with public participation

Requirements are:

- qualified staff;
- management authority.

Post-investment development

This function requires experienced staff for analysing operating companies and decision-making.

Investment

The critical points are raising of funds and risktaking.

In principle, all the functions could be assumed by the Ministry of Economic Planning and Development if the necessary staff and additional funds are made available. The functions mentioned in 4.4. except investment could also be assumed by the recently established development bank. Here again, the necessary staff would have to be recruited, but it would be recommended that function "investment" be assumed by another institution.

Last not least, a new development institution could be established to take over all or some of the development functions. This could be some kind of "development corporation" similar to the ones operating in many developing countries.

BUT: In order to avoid any waste of high level manpower, it seems to be advisable to accumulate all development activities within the Ministry of Economic Planning and Development to organise the development work, to recruit the necessary staff (local and international) and to start working within the Ministry.

The creation of new institutions is not necessary at present and would only cause considerable additional costs (new offices, cars, etc.), promotion of executives to high "representatives", etc. without any result which could not be obtained without the new institution. After some years of experience of development work within the Ministry a more rational decision on the issue may be made.

5. Recommendations

It is recommended:

1. that the Government of The Gambia assumes all the development functions which private entrepreneurs have failed so far to fulfil (see development programme for the industrial sector);

Long-termed

2. that the development functions are concentrated in the Ministry of Planning temporarily and no new institution is created for the very purpose before having experienced positive development achievements within the Ministry;
3. that the organisational structure and management procedures for the Ministry of Planning are elaborated immediately;
4. that a guide covering all phases of envisaged development work be elaborated for the use of the Ministry;
5. that appropriate local and international staff according to the necessary organisation structure be recruited:

Short-termed

6. that industrial data collection and research be intensified.
7. that feasibility studies on:
   a) ilmenite exploitation
   b) kaolin exploitation (evaluating sewerage pipes)
   c) brick and tile manufacturing of laterite
   d) refinery.

   be finalised and evaluated so that a final decision may be made on investment.
8. that a ground-nut complex study is made by one or even two independent working groups.
9. that an industrial activity pilot centre is implemented.
10. that an economic analysis of the two oil mills and the public works department is made.
11. that the Government looks continually to improve the investment climate (see 4.2.).
12. that the Government decides to make public investments in the industrial sector if no private entrepreneur is willing to invest.

6. Recommended co-operation with UNDP/UNIDO

UNDP/UNIDO could be requested to assist in the following fields:

1. elaboration of the organizational structure and management procedures for the Ministry of Planning;
2. elaboration of a guide on development work;
3. provision of international experts for all kinds of development work;
4. provision of an expert in industrial data collection and research;
5. elaboration of feasibility study of brick and tile manufacturing;
6. evaluation of investment projects;
7. ground-nut complex study;
8. preparation and implementation of industrial activities centres;
9. analysis of operating companies such as the two oil mills and the public works department.

7. Summary

1. The purpose of the present project was the definition and elaboration of a strategy for the future development of the Gambian industrial sector.

2. The analysis of the recent development and the present situation show:

a) Industrial data collection and research do not meet the requirement for rational decision-making.

b) The main bottlenecks of development are lack of private entrepreneurship and managerial skills.

c) The greatest industrial development potentials of The Gambia lie in processing of:

- fish;
- agro-products;
- a few known minerals (ilmenite, kaolin, laterite for bricks).

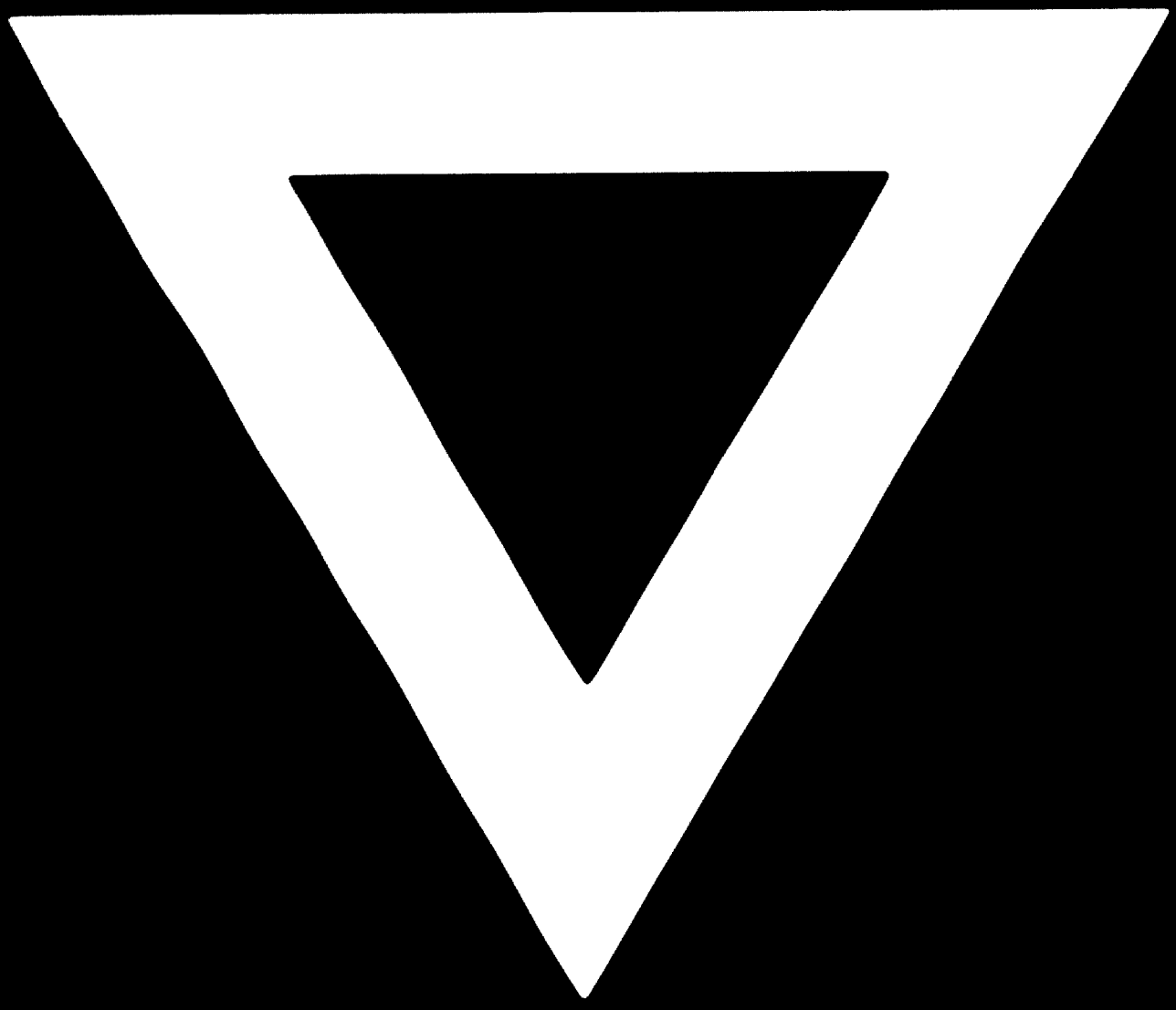
d) The development effort has been concentrated on infrastructure and agriculture; industrial development has rather been neglected.

3. A programme for systematic development of the industrial sector was outlined. It includes activities which are supposed to lead rapidly to results and activities which are necessary for systematic development leading to results in the long run only. The first ones concern:
   a) operating companies which show opportunities for improvements of any kind: oil mills and public works department;
   b) promising projects which are already at an advanced stage: kaolin, mining and processing (sewerage pipes) and ilmenite mining;
   c) promising projects which might be prepared rapidly: manufacturing of bricks and tiles of laterite;
   d) industrial activities centres to stimulate the development from the bottom;
   e) ground-nut processing.

4. The present industrial policy does not give enough incentives to accelerate industrialisation. More aggressive instruments are proposed:
   a) direct participation of the Government in the development process by assuming the development functions which are not fulfilled by private entrepreneurs;
   b) public investment.

5. The present report can only lead to results if the recommendations are followed, criticised or replaced by better ones. It is of great importance for all concerned parties (Government, UNDP, UNIDO and the expert) that the outcome of the present project is checked about 6 months after the date of submission to the Government and that some follow-up is guaranteed.

The author of the report will be grateful for any constructive comment.



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