

# Enhancing Capital Flows in COMSEC Countries

Case Study of The Gambia

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# Overview of The Gambia



- Smallest country on mainland Africa
- Gained independence on 18 February 1965 from the United Kingdom
- Capital City: Banjul
- Currency: Dalasi
- Official Language: English

# Macroeconomic Indicators

Indicator	2012	2013
GDP (US\$ Billions)	0.908	0.896
GDP per Capita (US\$)	497.3	477.7
GDP growth rate		
Population	1.82	1.87
Inflation (%)	4.6	5.9

- Agriculture is the main economic activity in terms of GDP share and employment
- Services continue to be the largest driver of the economy, contributing to over 60% of GDP in 2011
  - Re-export, Trade and Tourism, as well as Transport and Telecommunication are the major drivers of growth

# Facts about the Gambian Economy

## *Private Sector*

- The private sector participates extensively in economic activity. The sector is liberalized, as there is little outright intervention in goods markets; labor and capital regulations are also flexible

## *Financial Sector*

- The financial sector is stable. Gambian banks do not seem to have significant exposure to financial problems in Europe. In addition, the fundamentals of the banking industry remain strong: Banks are generally well capitalized and liquid

## *Public Sector Management, Institutions & Reform*

- The Gambia Government has made significant reforms in the past few years in the fiscal, financial and economic areas which have resulted in broad macroeconomic stability, and also provided the necessary investments required for growth and development in the country

# Investment Promotion

- The Gambian government publicly espouses a **liberal, open economic environment** and **free-market pricing**, with a firm commitment to private sector participation in all sectors of the economy
- February 2002:
  - Launching of the Gambia Gateway Project funded by the World Bank
  - To implement the project, the government set up The Gambia Investment Promotion and Free Zones Agency (GIPFZA),
  - Primary task was to establish and manage Free Economic Zones (FEZs) around Banjul International Airport to promote private-sector development coupled with the core functions of an investment promotion agency to promote and facilitate investment
- July 2010:
  - GIPFZA was restructured and transformed into the Gambia Investment and Export Promotion Agency (GIEPA)
  - with an extended mandate to include export promotion and support for small and micro enterprise (SME) development.

# Capital Flows in The Gambia

- **Laws regulating Capital Flows (Investment laws and Regulations)**
  - **The Gambia Investment & Export Promotion Agency Act 2010 and Regulations 2012** are the main law governing investment in The Gambia.
  - Free Zones Act 2001
  - Fair Competition Law 2007
- **Other laws and regulations that impact on businesses in The Gambia**
  - Environment Act 1994
  - Value Added Tax Act 2012
  - Business Registration Act 2004
  - National Environment Management Act – NEMA 1994
- **Institutions overseeing Capital Flows**
  - Central Bank of The Gambia (Regulation)
  - Gambia Investment and Export Promotion Agency – GIEPA (Promotion)
  - Ministry of Finance and Economic Affairs
  - Ministry of Trade, Regional Integration and Employment
  - Office of The President
  - Ministry of Justice (judicial system upholds the sanctity of contracts and there is no obvious discrimination against foreign investors)
  - Gambia Competition Commission

As a signatory to Article 8 of the International Monetary Fund, The Gambia operates a **fully liberalized capital account**. However, under the Money Laundering Act of 2003, the authorities may investigate any suspicious transactions

# Private capital flows; total (BoP; US dollar) in Gambia



\*Private capital flows consist of net foreign direct investment and portfolio investment.



# Capital Flows Policies

- **Efficient Capital Markets and Portfolio Investment**
  - **There are no policies in place that impede the free flow of financial resources in the product and factor markets**
  - Foreign investors can acquire credit on the local market at prevailing interest rates if they are able to provide the requisite collateral or guarantee
- **Conversion and Transfer Policies**
  - No restrictions on the conversion of funds into any freely usable currency or their transfer of investment-related funds into and out of The Gambia\*
  - Investors may repatriate profits and dividends through commercial banks or licensed money transfer agencies at prevailing exchange rates
- **Expropriation and Compensation Policies**
  - The Gambian Constitution of 1997 provides the legal framework for the protection of private ownership of property and only provides for compulsory acquisition by the state if this is found to be necessary for defense, public safety, public order, public morality, public health, town and country planning
  - Both the Constitution and the Compulsory Acquisition Act require the state to effect adequate and prompt compensation

# Capital Flows Policies

- As part of the country's privatization program, **foreign investors are treated equally with local investors**
  - Foreign investors are not denied national treatment (i.e. the same treatment as domestic firms) or MFN treatment
- There are **no limits on foreign ownership or control of businesses**
  - except in the operations of foreign exchange bureaus, television broadcasting, and defense industries (television and defense are closed to all private sector participation irrespective of nationality)
- There is no mandatory screening of foreign investment
  - but such screening may be conducted if there is suspicion of money laundering or terrorism financing
- The only tax that specifically applies to foreign investors is the Payroll Tax, which is paid for every expatriate employee of the company
- **Foreign investors are encouraged to participate in privatization programs**

# Conclusions

- **Opportunities**
  - Tax Holiday
  - Tariff and Sales Tax Incentives
  - Export Promotion Incentives
  - Zone Investor Incentives
  - SME Support
  - Competitive Labor Costs
  - Business Friendly Environment
  - Market Access