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GAMBIA | ECONOMIC UPDATE - SPRING 2024

Jumpstarting Inclusive and Sustained Growth

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Abbreviations and Acronyms

AES	Alliance des Etats du Sahel”
ASYCUDA	Automated System for Customs Data
CAD	Current Account Deficit
CBG	Central Bank of The Gambia
CPF	Country Partnership Framework.
CPI	Consumer Price Index
ECOMIG	ECOWAS Military Intervention in The Gambia
ECOWAS	Economic Community of West African States
FDI	Foreign Direct Investment
GBOS	The Gambia Bureau of Statistics
GDP	Gross Domestic Product
GERMP	The Gambia Electricity Restoration and Modernization Project
GGC	The Gambia Ground Corporation
GNI	Gross National Income
GSRB	Gambia Strategic Review Board
GRA	The Gambia Revenue Authority
HCI	Human Capital Index
ICT	Information and Communication Technology
IMF	International Monetary Fund
MOA	Ministry of Agriculture
MOBSE	Ministry of Basic and Secondary Education
MOFEA	Ministry of Finance and Economic Affairs
MOH	Ministry of Health
MOTIE	Ministry of Trade, Industry, Regional Integration and Employment
MOTWI	Ministry of Transport, Works and Infrastructure
MPR	Monetary Policy Rate
MPC	Monetary Policy Committee
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NPL	Non-Performing Loan
ODA	Official Development Assistance
OIC	Organization of Islamic Cooperation
OMVG	The Gambia River Organization for Development (Organisation pour la Mise en Valeur du Fleuve Gambie)
PPP	Purchasing Power Parity

PV	Present Value
R&D	Research and Development
ROA	Return On Assets
ROE	Return On Equity
SCD	Systematic Country Diagnostic
SOE	State-Owned Enterprises
SSA	Sub-Saharan Africa
TFP	Total Factor Productivity
TRRC	Truth, Reconciliation and Reparations Commission
VA	Value-Added
VAT	Value-Added Tax
WAP	Working Age Population

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The Gambia Economic Update monitors significant recent economic developments in the country, highlighting the key structural challenges The Gambia faces in its pursuit of inclusive and sustained growth, and analyzing policy options. This report is prepared by the World Bank's Macroeconomics, Trade and Investment (MTI) Global Practice team led by Ephrem Niyongabo (Economist, EAWM1) and Wilfried A. Kouame (Senior Economist, EAWM1), and comprised of Sering Touray (Economist, EAWPV) and Miodrag Petkovic (Consultant). The team benefited from the guidance of Keiko Miwa (Country Director, AWCF1), Hans Anand Beck (Practice Manager, EAWM1), Daniela Marotta (Lead Economist, EAWM1, AFCE1), Feyi Boroffice (Resident Representative, ACWF1) and Edouard Al-Dahdah (Lead Country Economist, EAWDR). We also thank the peer reviewers Mamadou Ndione (Senior Economist, EAWM2), Kemoh Mansaray (Senior Economist, EEAM1) and Rachel K. Sebudde (Senior Economist, EAEM1) for their comments and suggestions. Sincere appreciation goes to Oscar Parlback (Consultant) for editing the report. Theresa Adobea Bampoe (Senior Program Assistant, EAWM1) and Aji Oumie Jallow (Administrative Assistant, AWMGM) provided outstanding administrative support.

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Comments and questions on the content of this report are welcome. Please contact Ephrem Niyongabo (eniyongabo@worldbank.org) and/or Wilfried A. Kouame (wkouame@worldbank.org).

Executive Summary

Jumpstarting sustained and inclusive growth is the only way to improve the living conditions of the Gambians. Heightened global and regional uncertainties coupled with vulnerability climate shocks cloud the economic outlook, making efforts to improve the living conditions of the Gambians more challenging. The tightening of financing conditions has led to higher borrowing costs, exacerbating debt vulnerability although increased grants financing helped mitigate fiscal risks while supporting economic activity. The Gambia needs to maintain prudent macro-fiscal policies to build fiscal space, enhance its capacity to absorb shocks, especially in the context of the end of the debt deferral and overlapping external shocks. Fiscal consolidation efforts started in 2023 should be maintained with accelerated revenue collection measures and rationalization of public spending, while preserving much-needed public services provision, investment and pro-poor spending. Structural issues such as reliance on low-value added tourism, limited private sector development, and low productivity continue to affect the Gambia growth potential – calling and new growth model to enable economic opportunities for all Gambians.

Recent economic developments

The Gambia's economy continued its recovery in 2023, driven by public consumption and investment spending. Economic growth accelerated at 5.3 percent – 2.7 percent in per capita terms in 2023 – from 4.9 percent (2.4 percent in per capita terms) in 2022. On the supply side, growth was mainly supported by improved agricultural and industrial production, while growth in services was subdued as higher inflation, monetary tightening and economic slowdown in advanced economies disrupted the tertiary sectors and slowed private consumption although it remained relatively high . On the demand side, growth was supported by public consumption spending and investment spending from both private and public sectors. Private investment and consumption were supported by remittances flows, while public investment was driven by the completion of infrastructure projects related to the hosting of Organization of Islamic Cooperation (OIC) conference.

Decade-high average inflation in a context of monetary policy tightening increased poverty despite rising per capita income. Headline inflation averaged 16.9 percent (year-on-year) in 2023, from 11.5 percent (year-on-year) in 2022, primarily driven by as external factors, such as the depreciation of the Dalasi against the US dollar and its passed-through by imported prices and the positive domestic output gap. The latter likely captures the impact of fiscal and monetary policies, in a context of heightened domestic government borrowing with a monetary policy that remained largely accommodative to support the financing of the fiscal deficit despite recent monetary tightening. By eroding households purchasing power, persistent inflation – notably food price inflation which increased at 22.2 percent (14.5 percent a year before) is estimated to have pushed additional Gambians in extreme poverty (international poverty line of $2.15, in 2017 PPPs) – a 0.5 percentage point increase in poverty to 16.9 percent in 2023. Some of the administrative measures to combat inflation and ease the cost of living for its citizens remain in place. Pressures from energy prices, especially electricity, weighed heavily on inflation, with an average 10 percent increase in 2023. To curb persistent inflation, the Central Bank of the Gambia (CBG) raised policy interest rates by a cumulative of 400 basis points since December 2022 to 17 percent in December 2023 from 13 percent a year before. However, the effect of monetary tightening seems limited due to weak transmission channels as inflation was driven by external factors.

The fiscal deficit decreased while remaining in 2023 as increased tax collection and higher levels of grants failed to fully offset the rising expenditure. Supported by continued economic recovery and the implementation of revenue boosting measures, total revenue increased from 17.7 percent of GDP in 2022 to 20.6 percent of GDP in

2023. Tax revenue rose by 0.5 ppts of GDP in 2023 thanks to new administrative measures and strengthened collection efforts. At the same time, grants increased by 2.5 ppts to 8.1 percent of GDP, driven by both budget support and project investment as development partners maintained strong support to the Gambia democratic transition. Total expenditure increased from 22.7 percent of GDP in 2022 to 24.7 percent in 2023, driven primarily by infrastructure projects related to the preparation of the OIC Conference but its increase was offset by revenue performance. As a result, the fiscal deficit declined from 5.0 percent of GDP in 2022 to 4.1 percent. With lower net domestic borrowing, public and publicly guaranteed debt is estimated to have declined to 76.7 percent of GDP in 2023, from 83.4 percent in 2022. The Gambia remains at high risk of debt distress with its debt deemed sustainable. Limited margins to absorb potential future shocks calls for accelerated efforts to build fiscal buffers.

Pressure from imports led to a slight deterioration of the external position despite higher exports of goods and services. The current-account deficit (CAD) is estimated at 4.2 percent of GDP in 2023, similar to its level in 2022, on the back of the recovery in tourism and increased exports of goods combined with the uptick in imports related to large infrastructure projects. The CAD was financed through foreign direct investment (FDI), donor support, external government borrowing, and international reserves, which declined from 5.4 to 4.9 months of imports, alongside a depreciation of the nominal exchange rate of 10.5 percent.

Outlook, risks and challenges

The outlook is positive supported by the implementation of the Recovery-Focused National Development Plan (RF-NDP) 2023–2027 but it hinges on a continuous commitment to macro-fiscal stability. Real GDP growth is projected to strengthen around 5.6 percent in 2024–2026 (3.2 percent in per capita terms), supported by increased economic activity in all sectors. Agriculture is expected to continue to grow, assuming favorable rainfall alongside with an efficient use of fertilizers, continued seeds improvements and support from development partners. Industry growth will be boosted by ongoing large infrastructure projects, sustained public and private construction, and improvements in the business environment. Services are expected to continue to grow assuming higher tourist arrivals as global economic recovery and trade resume while regional and global geopolitical tensions tame. Efforts to building fiscal buffers through revenue-based consolidation and rationalization of public spending should be maintained to enhance debt sustainability.

The outlook is clouded by significant downside risks with rising regional and global uncertainties. Risks include the prolonged, regional, and global geopolitical tensions, debt vulnerabilities, reemerging forex pressures, extreme weather events, fiscal slippage, and continued financial tightening. The prolonged regional and global geopolitical tensions with Russia's invasion of Ukraine, the conflict in the Middle East and "Alliance des Etats du Sahel" (AES) withdrawal from ECOWAS could trigger a new increase in commodity prices and disrupt supply chains. A delayed recovery of the global economy could also lower tourist arrivals, undermine growth prospects and heighten fiscal and external imbalances. A persistently high import bill fueling inflation and a further decline in international reserves would potentially lead to severe shortages of essential imports and increased pressure on the domestic currency. Domestic and external fiscal risks include weaker-than-expected growth, pressures to clear state-owned enterprises' (SOEs) contingent liabilities, continued rise in the government's credit cost, weaker-than-expected grants, end-of-debt service deferrals in 2024, and other external price shocks. The Gambia is also highly vulnerable to climate shocks that impact agricultural output and household income.

Spotlight: Jumpstarting inclusive and sustained growth

The pace of economic growth has been declining and volatile since independence before regaining momentum with the democratic transition in 2017. From an average of 5.7 percent over 1968–1978, the average Real GDP growth gradually fell to 3.0 percent over 1979–2016 owing to the occurrence of climate events such as droughts, limited accumulation of capital (human and physic), reliance on low value-added tourism, weak governance, economic mismanagement, investment climate combined with poor infrastructure, which resulted in declining productivity. The economy has shown relative resilience since 2017 amid multiples global shocks (the COVID-19 pandemic, spillover from Russia's invasion of Ukraine and conflict in the Middle East), with real GDP growth averaging 4.8 percent over 2017–2023 thanks to improvements in macro-fiscal management and stability and increased donors' support. On the demand side, while its historical contribution was marginal, investment has become a major driver of economic activity, alongside private consumption while contribution from net exports remains negative due to a large trade deficit. On the supply side, services, and specially tourism, remain the main driver of growth, while the contribution of the agriculture sector to GDP has been declining, reflecting continuous productivity decline. Industry sector remains the smallest sector, although its share in the GDP has been moderately increasing, driven by construction activities in recent years. There is no evidence movement of labor towards more productive sectors, highlighting an absence of structural transformation and resources misallocation within the economy.

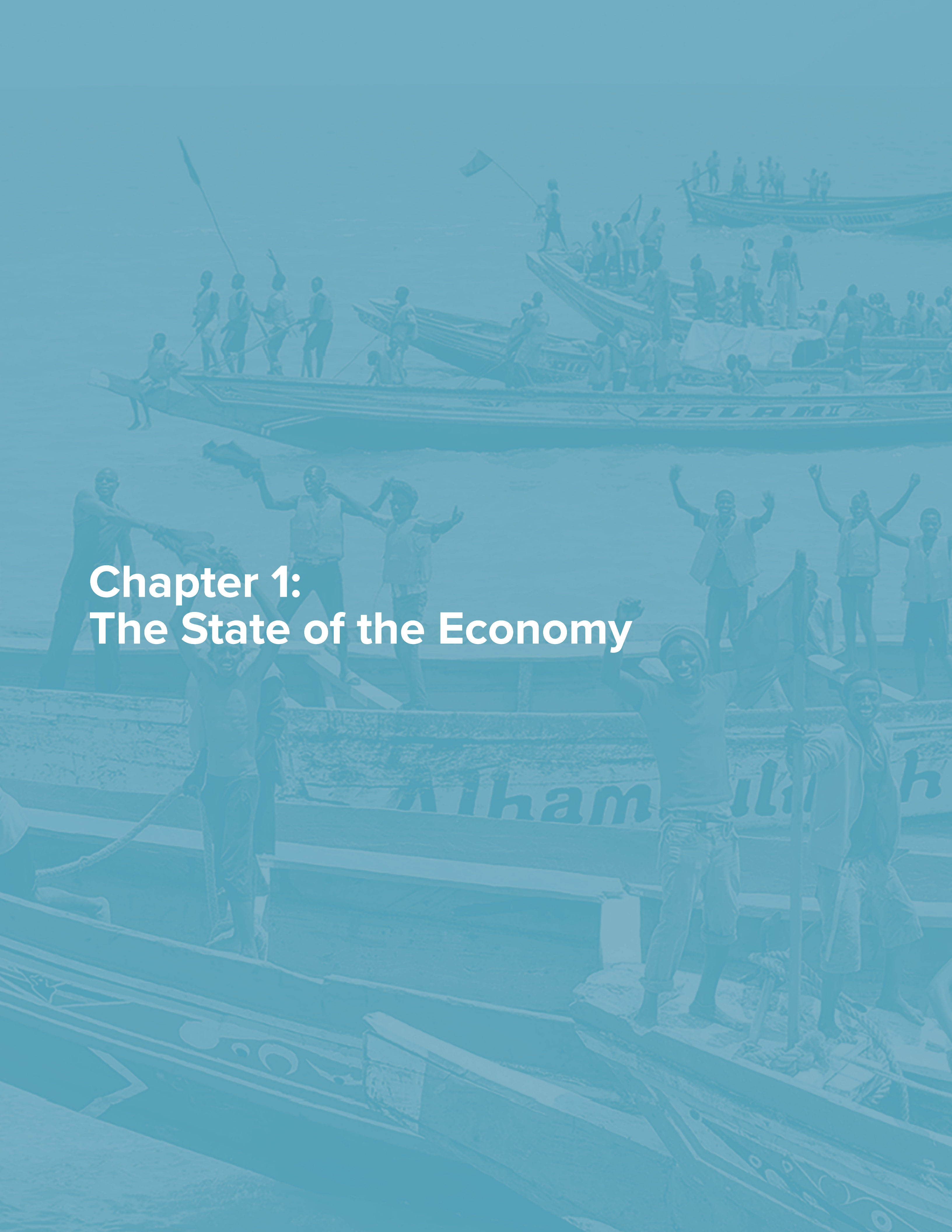
Limited long-term growth combined with high demographic growth and recent high-level of inflation have prevented strides in economic opportunity and poverty reduction. National poverty rate was estimated at 48.6 percent in 2015 before declining to 45.8 percent in 2019 thanks to a solid post-elections recovery. These hard-won gains were reversed with the succession of shocks since 2020 compounded with persistent high inflation, which has eroded households purchasing power over the past years. Poverty is mainly a rural phenomenon, with 7 out of 10 people being poor in rural areas compared to 3 out of 10 people in urban areas. Underemployment is high at 41.5 percent in 2022, while 63 percent of employment are informal. Growth incidence analysis reveals large per capita consumption growth declines, affecting disproportionately poor households, especially relying on the agriculture sector for substance. Limited and volatile growth has prevented the Gambia's ability to sustainably address social and regional disparities in access to basic services such as connection to roads, distribution of cell towers, access to primary and secondary schools as well as health facilities, with rural areas being the most underserved.

The Gambia needs a new growth model to promote sustained and inclusive growth. The country remains trapped by low productivity and the lack of transformative structural change, hampering job creation and inclusive growth. The consolidation of the democratic transition offers an opportunity to transform the growth model from reliance on low value-added tourism to a dynamic private sector that offers more economic opportunities to all Gambians, especially the youths. Strengthening macroeconomic policy buffers and fast-tracking structural reforms are needed to build resilience and support the government's inclusive growth agenda, as stated in the RF-NDP 2023–2027. Key short to medium terms reform options include: (i) strengthening domestic revenue mobilization to improve fiscal and debt stability and the provision of public goods and services, (ii) supporting capital accumulation and productivity growth by sustaining infrastructure investments, (iii) governance and business environment reforms to attract more domestic and foreign investment, (iv) sustaining investments in human capital to ensure that growth in the labor force translates more than proportionally in output growth and higher incomes per capita, (v) increasing public financing on research and development (R&D) to support agriculture productivity growth, and (vi) strengthening regional integration to increase the country's trade performance.

Table 1. Policy options to lay the foundations for higher and more inclusive growth

Reform Area	*Policy Option*	*Timeline*
Strengthen macro-economic stability	Implement the new foreign exchange policy that reaffirms commitment to a market-determined exchange rate. Accelerate revenue-driven fiscal consolidation efforts to build adequate fiscal and foreign exchange buffers. Address the drivers of inflation and roll out targeted social programs to support vulnerable population.	ST ST ST
Strengthen revenue collection, governance, and institutions	**Strengthen domestic revenue mobilization to improve fiscal and debt stability**: • Streamline tax incentives and exemptions by revising the exports and investments promotion framework • Conduct an overhaul review and cost-benefits analysis of subsidies and duty waivers to assess their socioeconomic impacts • Accelerate the digitization of tax and customs administrations process and payment **Develop a comprehensive approach to strengthen governance and tackle corruption, based on recent diagnostics and existing vulnerabilities** **Improve the competition, institutions, fight against corruption:** • Develop antitrust laws • Setup independent regulatory bodies for anti-corruption and competition with adequate resources to pursue anticompetition and anticorruption investigations with judicial support	 ST ST MT ST MT MT
Invest in infrastructure and human capital	Address Banjul port's institutional and physical capacity limitations to smooth international trade and improve international connectivity Improve digital connectivity and digital financial services **Improve service delivery in health and education:** • Increase the efficiency of spending on inputs and learning materials • Rationalize the allocation of the health budget in favor of primary care • Tackle spending inefficiencies in those sectors. • Addressing the skills mismatches to support the shift of labor towards more productive sectors.	ST/MT MT ST ST MT MT
Increase agricultural productivity	Increase public financing for agricultural research and development to support agricultural innovations). Sustain support to technological adoption and productivity enhancements (improved seeds, improved fertilizer subsidies targeting, increased access to institutional private financing). Develop competitive agricultural value chains	MT ST MT
Increase trade performance	Developing a re-export trade hub and exploiting the high potential for regional integration.	MT

Note: Short term: ≤ 1 year; medium term: 2–3 years.



Chapter 1: The State of the Economy

1.1. Recent developments

Global and regional growth has been sluggish amid continued tightening of monetary policies and financing conditions

Global economic growth slowed for the second consecutive year in 2023 amid continued tightening of countries' monetary stance and credit conditions. Global economic activity slowed for a second consecutive year, from 6 percent in 2021 to 3 percent in 2022, before settling at an estimated 2.6 percent in 2023. Moreover, growth in advanced economies was downgraded to 1.5 percent in 2023, down from 5.5 percent in 2021 and 2.5 percent in 2022.[1] By contrast, aggregate growth moderately accelerated in emerging and developing markets from 3.7 percent in 2022 to 4 percent in 2023, almost entirely due to a rebound in China following the removal of strict pandemic-related mobility restrictions. Still, growth remained far below the 7 percent growth recorded in 2021 (World Bank 2024). The weak growth performance in the global economy is due to continued monetary tightening to rein in high inflation, further tightening of credit conditions, and weak global trade growth. After the sharp increase in global commodity prices and supply disruptions, which increased inflation to levels not seen in several decades, global headline inflation receded in 2023 because of base effects, abating supply chain pressures, and falling commodity prices. However, core inflation remained elevated in many countries and above target in most inflation-targeting economies. Global financial conditions have tightened due to policy rate hikes and, to a lesser extent, some bouts of financial instability, as several large banks experienced substantial mark-to-market losses due to the sharp rise in policy interest rates.

Economic growth in Sub-Saharan Africa (SSA) slowed for a second consecutive year in 2023 amid external headwinds, persistent inflation, higher borrowing costs, and rising insecurity and political instability. The economic recovery from the COVID-19 pandemic remains incomplete in many countries, with elevated costs of living tempering consumption growth. High debt burdens and interest rates have narrowed fiscal space, while surging import bills and higher debt burdens have heightened financing needs. Increased political instability has increased in parts of the region, weighing on economic activity. Weak growth in advanced economies has weakened their demand for SSA's exports, leading metal exporting economies to adjust to lower prices. Against this backdrop, economic growth in SSA slowed further to 2.9 percent in 2023, from 4.4 percent in 2021 and 3.7 percent in 2022 (World Bank 2024).

Economic activity increased in The Gambia despite global economic headwinds

The Gambia's economy continued its recovery in 2023, driven by public consumption and investment spending. Economic growth accelerated from 4.9 percent (2.4 percent in per capita terms) in 2022 to 5.3 percent in 2023 (2.7 percent in per capita terms)[2] (Figure 1). Growth was mainly supported by agriculture and industry, while growth in services was subdued. Public consumption spending as well as private and public investment spending also drove growth. Economic growth was stronger in the first quarter of each year (Figure 2), likely due to the induced effects of tourism, which peaks between November and April. While The Gambia's growth performance has historically been below the average of SSA and the Economic Community of West African States (ECOWAS) (see Chapter 2), the country has reversed the trend and outperformed regional peers since 2017, except in 2021–22 (Figure 5).

On the supply side, the agriculture sector grew by 7.2 percent in 2023, up from 3.6 percent in 2022, although its share in GDP has been continuing to decline due to low productivity. Growth in the agriculture sector was driven mainly by contributions from the crop as well as forestry and logging subsectors, while contributions from the livestock and fishing as well as

[1] World Bank (2024). Global Economic Prospects, January 2024. Washington, DC: World Bank. doi:10.1596/978-1-4648-2017-5.

[2] Official national accounts statistics had initially estimated growth at 4.3 percent for 2021 and 4.4 percent for 2022, which was subsequently revised to 5.3 percent for 2021 and 4.9 percent for 2022.

aquaculture subsectors fell. The increase in agricultural growth was primarily attributed to a good rainy season and improved agricultural practices with the use of improved seeds and increased fertilizer subsidies,[3] alongside an increase in investment in projects by international partners. While these recent improvements support the sector's output, over the long term, the agriculture sector has seen the slowest productivity growth while experiencing strong growth in its share of employment. Low productivity in the agriculture sector is due to several constraints, including a lack of adequate irrigation facilities and production machinery, limited access to institutional credit, difficulties in procuring inputs and storing products, the negative impact of climate change and variability, increasing soil salinity, and low public funding (World Bank 2023). The continuing decline in its productivity explains agriculture's limited contribution to economic growth, with its share of GDP falling from 35 percent in 2010 to 25 percent in 2023. This calls for continued efforts to sustain the recent positive developments in the sector and reverse its long-term productivity negative trend (more detailed analysis in next chapter).

Growth in industry accelerated from 3.1 percent in 2022 to 6.5 percent in 2023. The growth acceleration was due to improved performance in the electricity, mining and quarrying, and construction subsectors, while the manufacturing and water supply subsectors contracted or experienced limited growth. The performance of the sector remains heavily dependent on the construction subsector (Figure 3). Construction activities were fueled by robust remittance inflows. Growth in the electricity subsector was driven by improvements in service delivery, particularly with the addition of the OMVG infrastructure to the electricity network. In terms of access to electricity, a key investment, the GERMP Backbone Phase 1, Laminkoto and Diabugu Electricity Project in the Sami and Sandu Districts, was completed in 2023, which connected new communities to the grid for the first time[4]. The enhancement in electricity access lays foundation for stimulating growth across sectors. While the industry sector represents the smallest share of GDP, its share increased from 9.8 percent in 2010 to 15.3 percent in 2023. Further analysis shows that the industry sector has had the highest productivity growth in the Gambian economy, but it has the lowest level of employment growth compared to other sectors, which limits its contribution to economic growth.

Services growth slowed from 6 percent in 2022 to 4.1 percent in 2023, although services remained the principal sector in the economy. The following tourism-related subsectors drove services growth in 2023: (i) wholesale and retail trade as well as repair of motors and motorcycles; (ii) transport and storage; and (iii) accommodation and food services activities (Figure 4). The tourism sector remains a key driver of growth, contributing 8.5 percent of GDP (15.5 percent of GDP factoring in induced and indirect effects).[5] International tourist arrivals reached 206,936 visitors in 2023—a 13 percent increase from the level in 2022 and 2 times higher than in 2021. Despite the strong recovery, tourist arrivals remain below pre-pandemic levels, and tourism activity remains insufficient to offset the contraction in other subsectors (i.e., information and communication; financial and insurance; real estate; professional, scientific, and technical activities; administrative and support services; and arts, entertainment, and recreation). The slowdown in services while private consumption remained relatively high reflects a sort of "dual economy" in The Gambia where most of the consumption in the tourism sector is imported rather than locally grown. Moreover, the slow recovery of the tourism sector reflects

[3] Farmers across the country spent GMD 1,150 on a 50kg bag of fertilizer, GMD 850 less than in 2022. The price reduction was due to government subsidies on fertilizer. The Government of The Gambia paid a subsidy of GMD 1,384 for each bag of fertilizer purchased by farmers in an effort to make fertilizer affordable (Baldeh "Farmers to spend D850 less on 50kg fertilizer bag this year," https://fatunetwork.net/farmers-to-spend-d850-less-on-50kg-fertilizer-bag-this-year/).

[4] The GERMP is the Gambia Electricity Restoration and Modernization project, supported by the World Bank to improve the power generation and transmission capacity in the country. The GERMP Backbone Phase 1 involves the construction of a 30KV distribution network with secondary substations, including last mile connections (meter connections to households).

[5] World Bank 2022a.

Figure 1. The Gambian economy continued its recovery in 2023

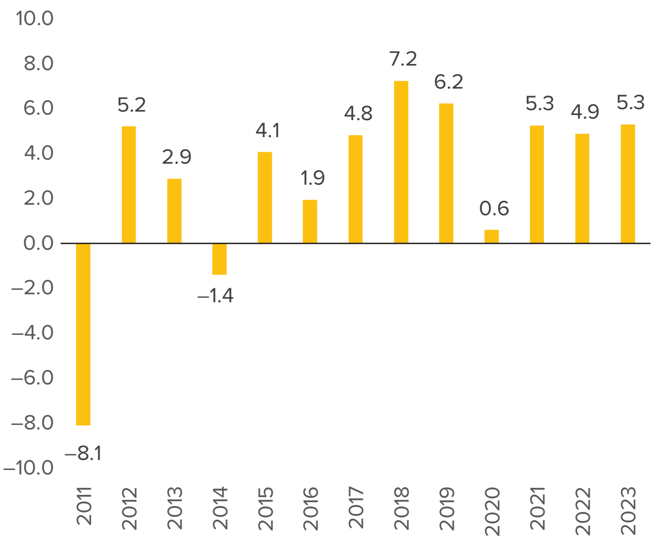


Figure 2. Growth has been stronger in the first quarter of each year, likely due to the tourism season

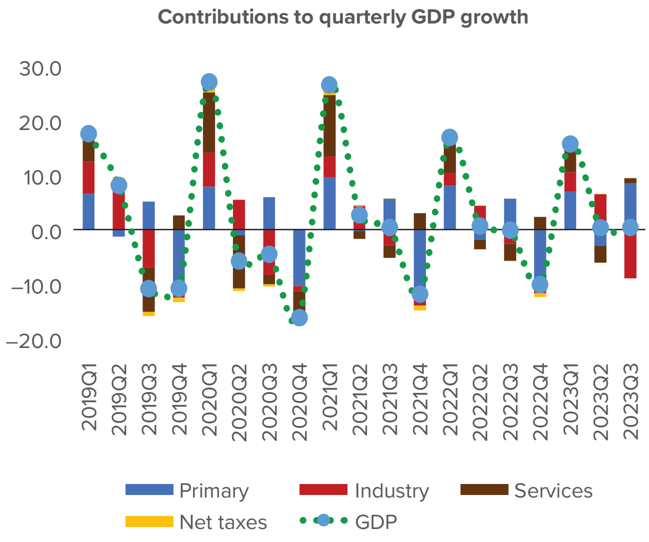


Figure 3. Industrial output heavily depends on the construction sector

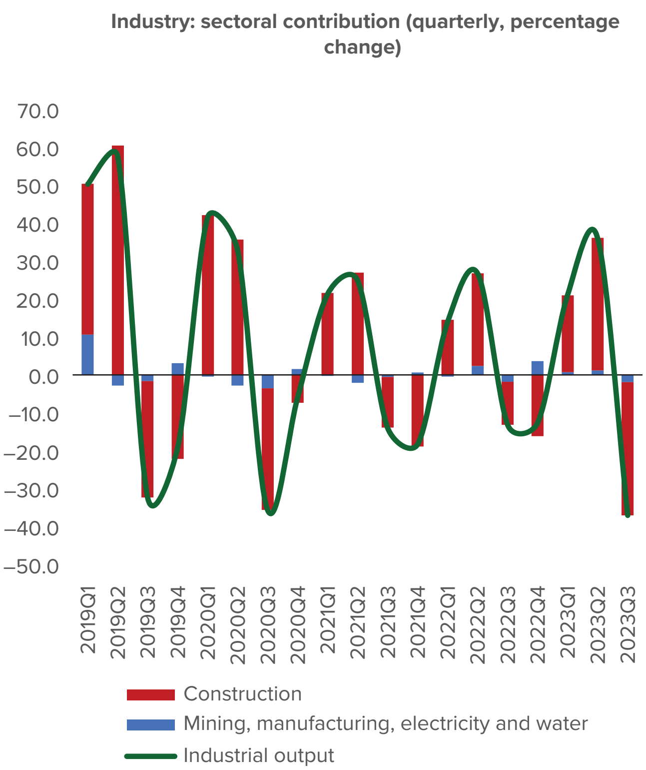
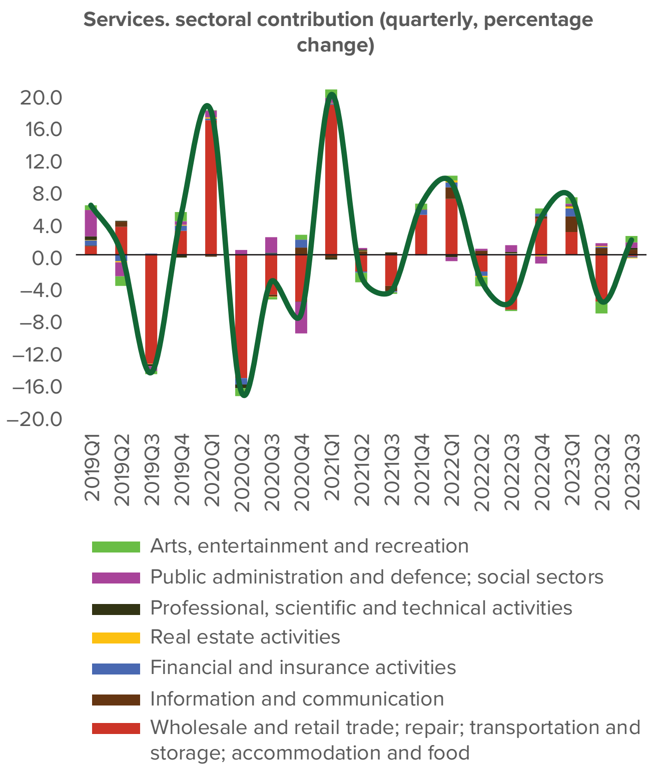


Figure 4. Services are driven by wholesale and retail trade as well as tourism-related activities

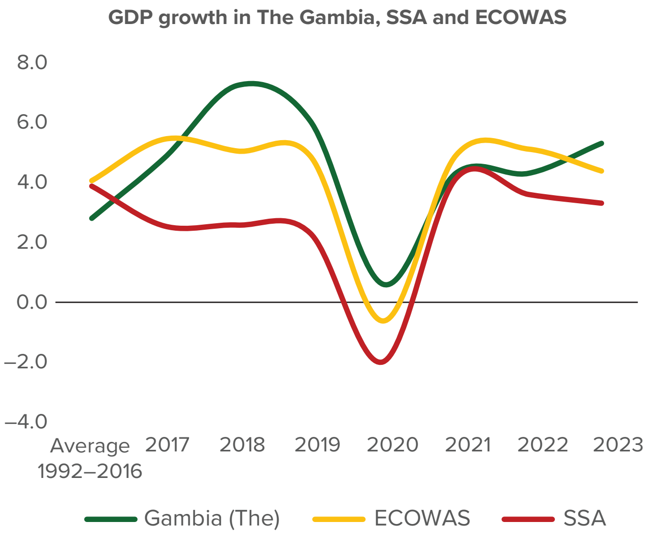


Source: World Bank staff using The Gambia Bureau of Statistics (GBoS) data.

Note: Industry is divided into: (1) mining and quarrying; manufacturing; electricity, gas, steam, and air conditioning supply; water supply; and sewerage, waste management, and remediation activities; and (2) construction.

Note: Services include: (1) wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; and accommodation and food service activities; (2) information and communication; (3) financial and insurance activities; (4) real estate activities; (5) professional, scientific and technical activities as well as administrative and support service activities; (6) public administration and defense; compulsory social security; education; and human health and social work activities; and (7) arts, entertainment and recreation; repair of household goods; and other services.

Figure 5. The Gambia's growth performance has been on par with that of the SSA and ECOWAS since 2017, reversing its historical low performance



Source: World Bank Staff using WDI data.

lingering global travel hesitancies due to the rising cost of living following shocks in the global economy, alongside regional competition, and weak marketing and tourism infrastructure in the country. Despite having the highest share of employment, the services sector continues to face low productivity growth, which explains the continuous decline in the share of the sector in GDP, from 60 percent the early 2000s to 51 percent in 2023.

On the demand side, economic activity was supported by private and public sector consumption and investment although private consumption slowed due to higher inflation. Growth was stimulated by high public spending to accelerate infrastructure projects related to the preparation of the Organization of Islamic Cooperation (OIC) conference, scheduled to take place in The Gambia in 2024 after many postponements. High public investment spending was combined with increased private investment in construction activities, supported by remittances inflows, which nominally increased by 3.5 percent, year-on-year, to US$737.12 million—32.1 percent of GDP—in 2023. Spurred by support from development partners, public investment boosted total investment, which reached 36.4 percent of GDP in 2023, well above the SSA average of 21.9 percent of GDP in 2022 (WDI 2022).

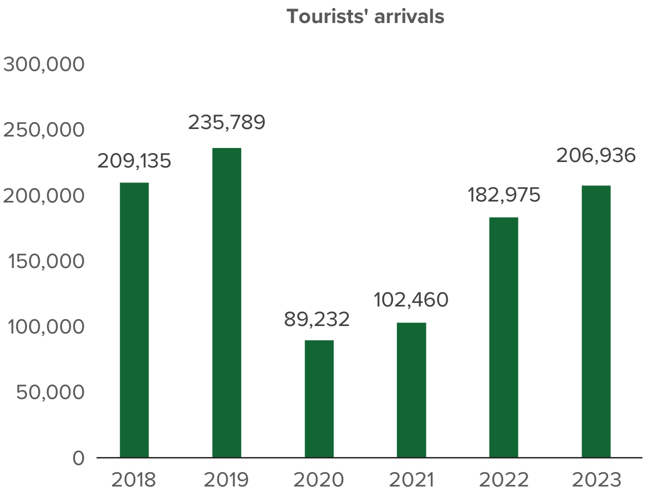
The contribution of net exports to growth remained negative in 2023 despite increased exports. The base of goods exports is narrow, and exports have been historically low as share of GDP, averaging 5 percent of GDP over 2017–2023. In addition, the ban on timber and cashew cross-border exports following security concerns at the border with Senegal since July 2022 continues to negatively affect goods exports. Nonetheless, the level of exports increased by an estimated 18.9 percent in 2023 (up from 8.5 percent in 2022), owing to a rise in services exports driven by a gradual recovery in tourism inflows, along with improvements in goods exports. Although exports grew faster than imports, the contribution of net exports to economic growth remained negative due to the large trade deficit, which increased from 29.6 percent of GDP in 2022 to 29.6 of GDP in 2022 to 32.3 percent of GDP in 2023.

Despite increased income per capita, poverty rates increased in 2023 due to rising inflation. Inflation continued its uptrend throughout 2023 to reach decade highs. Yearly inflation averaged 16.9 percent in 2023, up from 11.6 percent in 2022, when inflation reached double digits for the first time in almost three decades. Both food and nonfood inflation were high, averaging 22.2 percent and 10.9 percent, respectively in 2023, up from 14.5 percent and 8.6 percent, respectively, in 2022. By eroding the purchasing power of poor households, persistent inflation - notably food price inflation, is expected to have increase poverty to 16.9 percent in 2023, from 16.4 percent in 2022 - an increase of over 25,000 people, using the international poverty line of $2.15 (in 2017 PPPs).

Vulnerabilities persist in the external sector, but the current-account deficit has been relatively stable

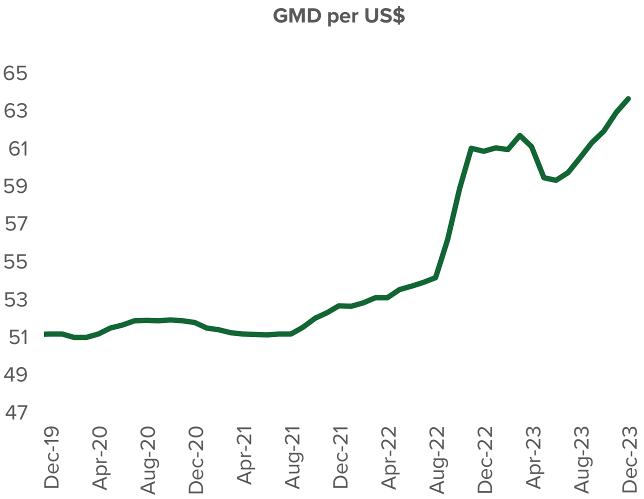
The current-account deficit (CAD) is estimated at 4.2 percent of GDP in 2023, similar to its level in 2022. Similar to in 2022, goods imports increased in 2023 due to persistently high world commodity prices, combined with an uptick in imports related to ongoing large infrastructure projects. While tourist arrivals increased, they remained

Figure 6. The number of tourist arrivals has continued to increase but remains below pre-pandemic levels



Source: World Bank Staff using data from the Gambia Tourism Board.

Figure 7. The depreciation of the dalasi against the US dollar that began in 2022 continued in 2023



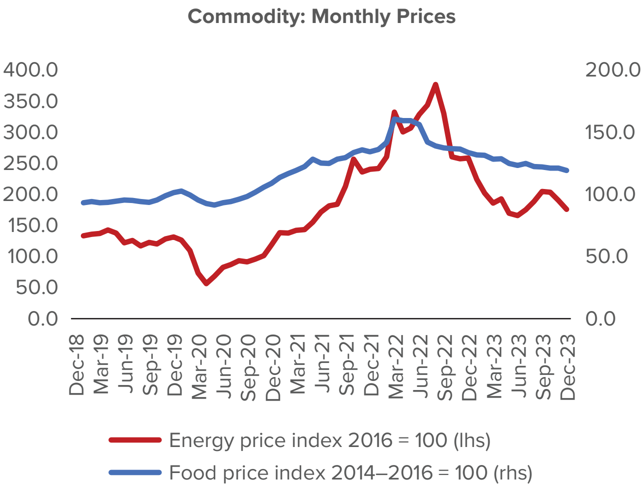
Source: World Bank Staff using Central Bank of The Gambia (CBG) data.

below pre-pandemic levels. The CAD is an estimated 4.2 percent of GDP in 2023, comparable to its level in 2022, driven by more dynamic tourism activity, combined with increased goods exports and robust current transfers (Figure 6). Despite narrow goods exports and high import pressures, The Gambia was among the group of countries in ECOWAS with a CAD below 5 percent of GDP in 2022–2023[6].

The trade deficit widened further in 2023 due to a higher import bill, despite the rise in goods and services exports. Merchandise trade registered a deficit of 32.4 percent of GDP in 2023, up from 29.6 percent of GDP in 2022, due to pressure on imports. The value of imports reached US$855.2 million (36.5 percent of GDP) in 2023, up from US$694.0 million (31.9 percent of GDP) in 2022.The composition of imports shows that they are not mainly oriented towards capital goods that support productivity and the structural transformation of the economy. Imports are dominated by mineral fuels, which total more than 40 percent of total imports and represent, together with electrical machinery and vehicles, the top three imports, accounting for almost 60 percent of total imports. The rest is spent mainly on consumer goods such as sugar, cereals, salt, and sugar, in addition to fertilizers (GBOS, 2024). The export of goods reached US$98.7 million (4.2 percent of GDP) in 2023, up from US$51.3 million (2.4 percent of GDP) in 2022. Exports are dominated by animal or vegetable fats, oil seeds and oleaginous fruits, and fish and crustaceans, with the three categories averaging 70 percent of total exports in the fourth quarter of 2022 and 2023, respectively. The absence of manufactured products within the export basket is an additional signal of weak competitiveness of the economy. With a restrained export basket, high global commodity prices although gradually declining, have triggered negative terms of trade for The Gambia, leading to a steadily rising trade deficit and depreciation of the currency (Figure 7 through Figure 10). With the gradual pickup in tourism resulting in higher services exports, the services trade balance recorded

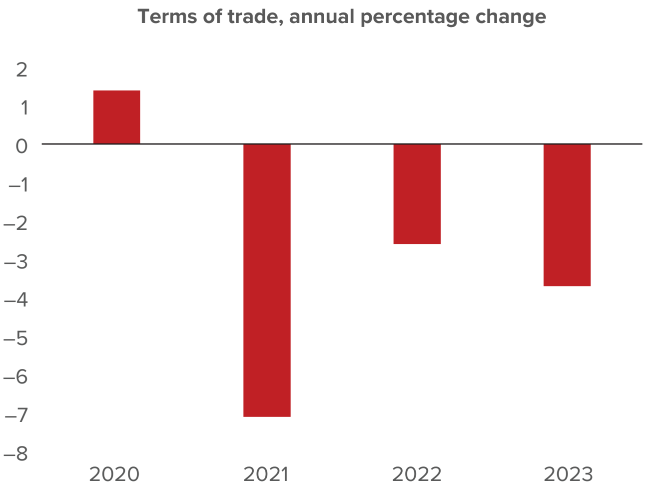
[6] The CAD averaged 2.5 percent of GDP in ECOWAS between 2022 and 2023. In terms of the CAD, ECOWAS is comprised of three groups of countries: (i) countries with a CAD below 5 percent of GDP (Cabo Verde, The Gambia, Ghana, Nigeria, and Togo); countries with a CAD between 5 and 10 percent of GDP (Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Guinea, Mali, and Sierra Leone); and (iii) countries with a CAD in the double-digits (Liberia, Niger, and Senegal) (IMF 2023; World Bank 2023a).

Figure 8. High, although declining international food and energy prices, compounded by the depreciation of the dalasi against the US dollar . . .



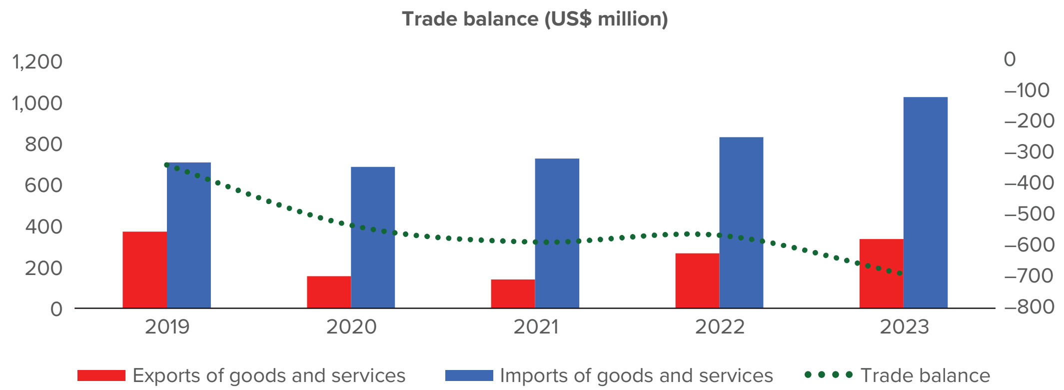
Source: FAO. Food Price Index; Federal Reserve Bank of Saint Louis. Global price of Energy index.

Figure 9 . . . have triggered a significant deterioration in terms of trade . . .



Source: International Monetary Fund (IMF) Terms of Trade Index.

Figure 10 . . . and steadily increased the trade deficit due to price effect and narrow exports



Source: World Bank Staff using CBG data.

a surplus of US$79.4 million in 2023, unchanged from 2022 but moderately down as a share of GDP (from 3.7 percent in 2022 to 3.4 percent in 2023).

The increase in current transfers and financial inflows helped contain the CAD in 2023. The secondary income account (current transfers) increased from US$503 million (23.2 percent of GDP) in 2022 to US$610.8 million (26.1 percent of GDP) in 2023. Budget support (official transfers) increased from US$40.0 million (1.8 percent of GDP) to US$ 64.8 million (2.8 percent of GDP) in the same period. Moreover, official remittances recorded by the central bank (comprising both current transfers and investments) increased from US$462 million (21.3 percent of GDP) in 2022 to US$531.8 million (22.7 percent of GDP) in 2023. Remittances constitute the majority of the secondary income account, and they average 545 percent of the CAD, i.e., the CAD is sensitive to movements in remittances. With a few commodities and sectors for exports, coupled with the highly seasonal nature of tourism, the country depends heavily on remittances to lower the current account deficit that would have been much wider otherwise. Remittances have played a substantial role in supporting private investment and consumption, their significant increase over the last years (from 14 percent of GDP in 2016) highlights their significant impact on economic activity and macroeconomic stability as well as households' welfare in The Gambia. Financial inflows increased, driven by development assistance and foreign direct investment (FDI). Net inflows in the capital account increased from US$82.7 million (3.8 percent of GDP) to US$159.9 million (6.8 percent of GDP) between 2022 and 2023. By contrast, net inflows in the financial account remained in negative territory over the same period, contracting by US$107.6 million (–4.6 percent of GDP) in 2023, almost comparable to 2022 with a contraction of US$101 million (–4.7 percent of GDP), due to the high rate of other investment outflows that offset FDI inflows.

The nominal exchange rate's depreciation continued alongside a decline in foreign exchange (forex) reserves. The CAD has been financed through FDI, donor support, external government borrowing, and partially international reserves, the latter of which continued to decline for a second consecutive year as months of next year's imports although they were moderately higher in amount, totaling 4.9 months of imports (US$474.3 million) in 2023 from 5.4 months of imports (US$454.7 million) in 2022 and 7.7 months of imports (US$530.4 million) in 2021. The Central Bank of The Gambia's (CBG) reference exchange rate depreciated by 10.5 percent on average, year-on-year, in 2023. The wedge with the parallel exchange rate stood at around 6.8 percent in the same year, reflecting the CBG attempts to restrict the fluctuations of the official exchange rate. The continued depreciation of the currency and persistent pressures on the foreign exchange market are cause for concern, given the pass-through of imported prices into the domestic economy and the pressures on the balance of payments due to heavy dependence on imports of priority goods. In 2022, the CBG intervened on the forex market by selling around US$139 million to cope with risks related to the availability of commodities following the rise in global commodity prices, combined with disruptions to certain cross-border exports, which resulted in a severe forex shortage in the second half of 2022. At end-2022, the high tourism season lessened the forex shortages, and the CBG significantly reduced its forex sales, becoming briefly a slight net buyer on the market in January 2023. Since March 2023, however, forex shortages have reemerged, and the CBG has resumed selling forex. Between January and end-September 2023, it sold on a net basis around US$35 million, exacerbating forex shortages.

Despite pressures on the forex market, the level of forex reserves remains comfortable, and the currency misalignment remains consistent with macroeconomic fundamentals. The sale of forex by the CBG to limit the risks of shortage of essential imported goods and restrict the fluctuation of the exchange rate is one of the reasons explaining the low amount of forex reserves over the last two years compared to 2021. However, although gross reserves declined from 5.4 months of prospective imports at end-2022 to 4.9 months at end-2023, they remain at a comfortable level. In addition, the external sector assessment revealed that the CAD at 4.2 percent of GDP, after adjusting for cyclical and transitory factors related to the COVID-19 pandemic, was 0.6 percent of GDP below the estimated norm, implying real effective exchange rate overvaluation of 3.7 percent in 2022, which was broadly in line with the level implied by medium-term fundamentals and desirable policies (IMF, 2023). The CAD in 2023 stayed similar to the level of 2022, likely remaining consistent with macroeconomic fundamentals, i.e., with an overvaluation of the real effective exchange rate of less than 5 percent[7].

Policy improvements are underway to address uncertainties and smooth the forex market. While The Gambia's de jure exchange rate regime is a free floating since 1986 and

[7] Recent research on the exchange rate misalignments has set the following classification based on country's misalignments: above –10% to –15% and more as a strong undervaluation, -5% to -10% as a moderate undervaluation, above +10% to +15% and more as a strong overvaluation, +5% to +10% as a moderate overvaluation, and between –5% and 5% as in line with macroeconomic fundamentals (Grekou 2019).

Table 2. Balance of payments, 2020–2023

	In USD Million				*In Percent of GDP*			
	2020	*2021*	*2022*	*2023*	*2020*	*2021*	*2022*	*2023*
1. Current account	**(68.2)**	**(86.8)**	**(91.2)**	**(97.1)**	**−3.8**	**−4.3**	**−4.2**	**−4.2**
A. Goods (net)	**(503.3)**	**(574.6)**	**(642.7)**	**(756.5)**	**−27.7**	**−28.7**	**−29.6**	**−32.3**
Exports, f.o.b.	71.2	32.4	51.3	98.7	3.9	1.6	2.4	4.2
Imports, f.o.b.	(574.5)	(607.0)	(694.0)	(855.2)	–31.7	–30.3	–32.0	–36.5
B. Services (net)	**(29.0)**	**(10.6)**	**79.9**	**80.1**	**−1.6**	**−0.5**	**3.7**	**3.4**
Services exports	81.7	109.1	215.4	239.8	4.5	5.5	9.9	10.2
of which: Travel income	46.6	58.0	154.0	159.7	2.6	2.9	7.1	7.5
Services imports	(110.6)	(119.7)	(135.5)	(160.4)	–6.1	–6.0	–6.2	–6.8
C. Income (net)	**(31.1)**	**(50.9)**	**(31.4)**	**(31.7)**	**−1.7**	**−2.5**	**−1.4**	**−1.4**
Income credits	2.4	4.0	13.2	13.1	0.1	0.2	0.6	0.6
Income debits	(33.5)	(54.9)	(44.6)	(44.8)	–1.8	–2.7	–2.1	–1.9
D. Current transfers	**495.2**	**549.3**	**503.0**	**610.8**	**27.3**	**27.4**	**23.2**	**26.1**
Official transfers	82.7	9.7	40.0	64.8	4.6	0.5	1.8	2.8
Remittances	400.2	527.0	462.0	531.8	22.1	26.3	21.3	22.7
Other transfers	12.3	12.6	1.0	14.2	0.7	0.6	0.0	0.6
2. Capital and financial account	**132.0**	**244.0**	**(18.3)**	**52.3**	**7.3**	**12.2**	**−0.8**	**2.7**
E. Capital account	**66.9**	**53.6**	**82.7**	**159.9**	**3.7**	**2.7**	**3.8**	**6.8**
F. Financial accounts	**65.1**	**190.4**	**(101.0)**	**(107.6)**	**3.6**	**9.5**	**−4.7**	**−4.6**
Foreign direct investment	66.8	99.3	99.7	102.4	3.7	5.0	4.6	4.4
Portfolio investment	3.8	3.9	4.1	4.5	0.2	0.2	0.2	0.2
Other investment	(5.5)	87.2	(204.8)	(214.5)	–0.3	4.4	–9.4	–9.2
3. Errors and omissions	**30.9**	**(35.0)**	**—**	**—**	**1.7**	**−1.7**	**0.0**	**0.0**
Overall balance (1 + 2 + 3)	**94.7**	**122.2**	**(109.5)**	(45.0)	**5.2**	**6.1**	**−5.0**	**−1.9**
Memorandum items								
International reserves in US$ million	*352.1*	*530.4*	*454.7*	*474.3*				
International reserves in months of imports	*5.8*	*7.7*	*5.4*	*4.9*				
Nominal GDP (US$ million)	1,814	2,001	2,170	2,339				

Source: CBG; IMF; World Bank staff calculations.

in accordance with Section 64 of the CBG Act 2018, its facto exchange rate regime is a managed float. The CBG Act 2018 provides that in the event of a foreign exchange crisis or misconduct by market participants, the CBG may temporarily restrict the purchase, sale, holding or transfer of foreign exchange. Any restrictions shall be for an initial period of not more than twelve months and may be extended for another period not exceeding twelve months. It is within the framework of these provisions that in addition to the sale of currencies to attenuate pressures on the forex market, the CBG introduced in late April 2023 a requirement for commercial banks, forex bureaus, and money transfer agencies to comply with its reference exchange rate in their transactions, which was perceived as an attempt to control the parallel exchange rate. As a result, the Association of Licensed Forex Bureaus, which has at least 119 forex bureaus approved by the CBG, threatened in early May 2023 to close all its forex bureaus, before finally reaching an agreement with the CBG. It argued that forex bureaus could not sustain the losses on their operations due to the implementation of the CBG reference rate. This type of currency control is criticized for its potential negative impact on the forex market, such as routing remittances through informal channels at the expense of the official market. In December 2023, the CBG has published a robust forex policy reaffirming the commitment to market-determined exchange rates and ensuring the smooth functioning of the forex market. Subsequently, the exchange rate depreciated by about 5 percent between end-December 2023 and mid-February 2024 and the wedge with the parallel market rate has broadly closed. These developments, combined with the large number of tourist arrivals, have eased pressures on the forex market. While the CBG was a net forex seller in 2023, no interventions took place in December 2023 under the new policy.

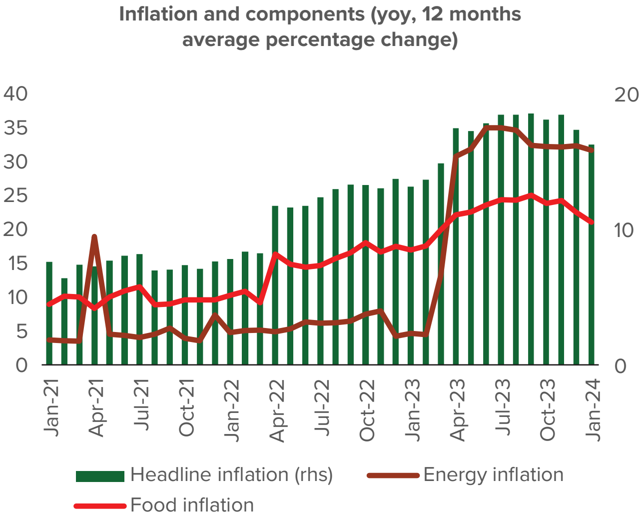
Monetary policy has been tightening to address mounting inflationary pressures

External factors play a key role in inflation affecting The Gambia. As mentioned early, inflation pursued its uptrend throughout 2023 to reach even higher levels in decades, averaging 16.9 percent in 2023 – far above the CBG's medium-term target of 5 percent (Figure 11). Inflation remains high at the start of 2024, reaching 16.2 in January 2024 (year-on-year) from 13.1 percent in January 2023 (year-on-year). Recent empirical analysis[8] highlights the decisive long-term role of the global price of commodities (food, oil, and fertilizer), the exchange rate, and the domestic output gap. The short-run dynamics of inflation point to the roles of global food prices and the second-round effects of changes in food prices and the output gap (Nachega et al. 2023). The Gambia is a net importer of essential foods and energy. The weight of food items in The Gambia's consumer price index basket is around 50 percent, leading to co-movement between global food inflation and headline inflation. The transmission of movements in international energy prices into domestic prices is somewhat complex, as the price of fuel products (and transport services) is highly administered in the country. The co-movement between currency depreciation and domestic inflation, which is also impacted by the high dependence on imports, appears stronger. The co-movement between headline inflation and the domestic output gap captures the impact of fiscal and monetary policies or remittances, a key determinant of private consumption and investment in the country. In addition, inflation is highly persistent, with the coefficients of the first and fourth lags of inflation highly significant, suggesting the existence of inertial factors. The increase in utility tariffs also fueled inflation in 2023, by 41 percent (per kilowatt) and 28 percent (per cub metric) for electricity and water tariffs, respectively, after remaining stable for more than 5 years.

The CBG further tightened its monetary policy stance to tackle inflation, but its effectiveness has proved relatively limited. To curb rising inflationary pressures, the monetary policy rate (MPR) was increased at each monetary policy committee (MPC) meeting, from 10 percent in April 2022 to 17 percent December 2023 (Figure 12). The CBG has maintained the reserve requirement for commercial banks steady at 13 percent and the standing deposit facility interest rate at 3 percent. The standing lending facility was increased to from 11 to 18 percent

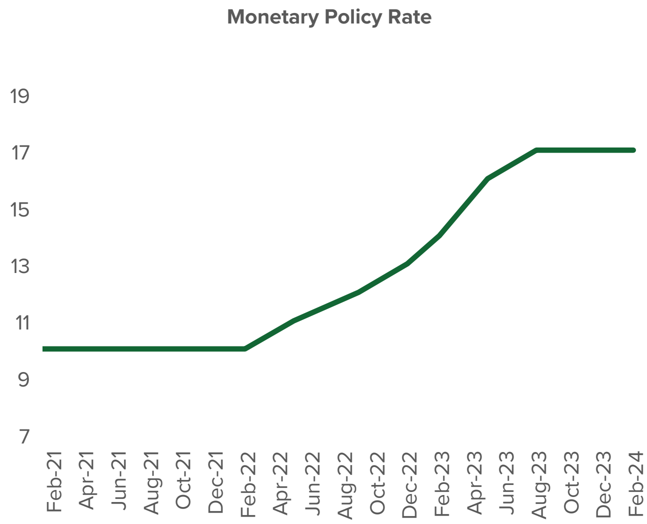
[8] IMF Article IV – Staff report No EBS/23/153.

Figure 11. Food and energy prices have been the main driver of inflation . . .



Source: World Bank Staff using GBoS data.

Figure 12. . . . leading to further tightening of the monetary policy stance.

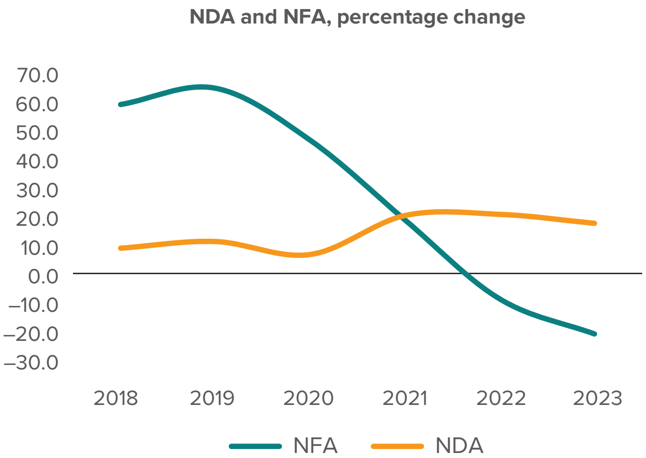


Source: World Bank Staff using CBG data.

(MPR plus 1 ppt point) between April 2022 and December 2023. As bank excess reserves increased in Q3 2023, the MPC at a meeting in late November announced a plan to issue central bank bills to mop up excess liquidity. However, the effect of monetary tightening has been limited due to: (i) inflation being essentially imported; (ii) monetary policy having been slow to react to the rise in domestic inflation, with the CBG keeping the policy rate at 10 percent—a level reached in March 2020 during the deflationary shock of the COVID-19 pandemic—until May 31, 2022, when the MPC raised the policy rate to 11 percent; and (iii) the magnitude of the adjustments in the policy rate being limited, such that the policy rate in real terms fell into negative territory in Q2 2022. From June 2022 to June 2023, the real policy rate was, on average, −0.9 percent, reflecting a still very accommodating monetary policy. An analysis of inflation drivers reveals a negative and statistically significant correlation between inflation on the one hand and the combined effect of the rate of change of the policy rate and its square on the other hand, suggesting that monetary policy has the potential to tame inflation in the short run provided that the monetary policy rate is adjusted rapidly and boldly (Nachega et al. 2023).

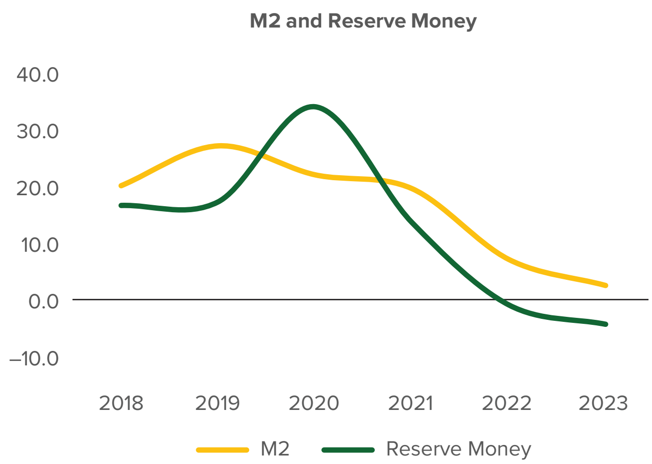
Growth in monetary aggregates continued to decelerate, reflecting the impact of global shocks on the balance of payments and the banking system's net foreign assets. Annual growth in broad money decelerated sharply from 7.1 percent, year-on-year, at end-December 2022 to 2.5 percent in the same period in 2023. This marks a second consecutive annual decline (from 19.5 percent, year-on-year, in 2021) and reflects a continuing contraction in net foreign assets (NFA) of both the CBG and commercial banks. Following 19.5 percent growth in 2021, NFA contracted by 8.9 percent in 2022, before contracting by 21 percent in 2023. The decline in NFA in the banking system reflects the impact of adverse external shocks on the balance of payments. Growth in the banking system's net domestic assets (NDA) remained the main source of liquidity despite a moderate deceleration. NDA grew by 17.5 percent in 2023, down from 20.7 percent in 2022 (Figure 13), supported by increased government and private sector borrowing (16 percent of increase, respectively), despite the CBG's continued monetary policy tightening. On the liability side of the CBG's balance sheet, the sharp deceleration in money supply growth reflected an even greater contraction in reserve money than in 2022 (Figure 14), despite 9.5 percent growth in commercial banks' reserves.

Figure 13. In 2023, NFA contracted further . . .



Source: World Bank Staff using CBG data.

Figure 14. . . . and the money supply continued to fall

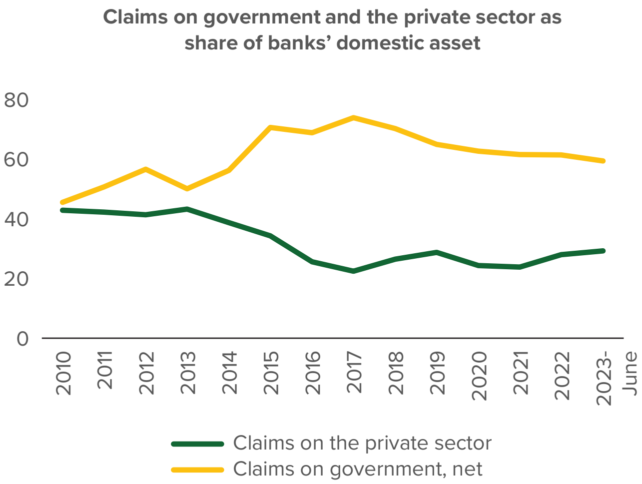


Source: World Bank Staff using CBG data.

Public and private sector borrowing slowed but remained high despite further monetary tightening. Credit expansion to the private sector registered annual growth of 16 percent in 2023, lower than 25 percent recorded in the previous year. Two factors can help explain the high, albeit declining, level of private sector borrowing: (i) the distribution of credit across sectors; and (ii) banks' reluctance to fully pass on the effects of monetary tightening because of the already high cost of private sector credit. On the one hand, consumer credit is not affected by monetary tightening, unlike other sectors such as agriculture, construction, distributive trade, and tourism, for which credit drops significantly after tightening (Momodou 2021). The Gambia's banks focus on financing consumer goods and tend not to engage in investment financing (Bukhari 2005), which could explain the rise in private borrowing despite monetary tightening. On the other hand, banks may have been reluctant to fully pass on the higher policy rate to lending rates, which were already high, with a maximum of 19 percent and a minimum of 10 percent. The minimum rate was increased by 1 ppt in August 2022 for some sectors such as retail trade, manufacturing, and construction. Interest rates on government securities rose following the monetary tightening. However, they declined in late 2023, reversing the rising trend observed at the beginning of the year. The weighted average yield on government short-term securities rose from 2.2 percent in May 2022 to 11.3 percent in May 2023, before dropping to 8.8 percent in October 2023 (Figure 18). Increased liquidity in the banking system drives the fall in interest rates.

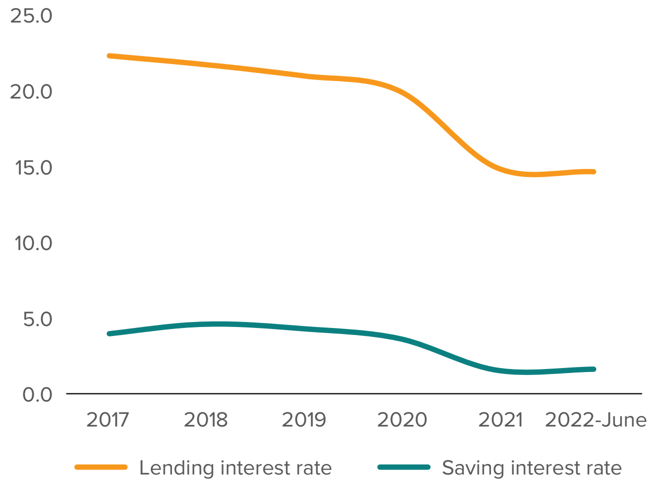
The banking system remains stable, with robust financial soundness indicators, but is highly exposed to government borrowing. As of December 2023, the risk-weighted capital adequacy ratio was 28.7 percent, well above the regulatory requirement of 10 percent. The liquidity ratio of 82.3 percent was also above the prudential requirement of 30 percent. The banking sector's asset quality continued to improve, with non-performing loans (NPLs) falling from 5.2 percent of gross loans in December 2021 to 4.6 percent in December 2022, 3.3 percent in December 2023. The results of stress tests of the banking sector done by the CBG indicate that it remains resilient, well-capitalized, and liquid enough to absorb future shocks. The sector is also profitable, with return on assets (ROA) and return on equity (ROE) reaching 2.6 percent and 23.1 percent, respectively, as of June 2023 (Figure 17). However, the banking sector remains significantly exposed to government indebtedness. As in previous years, banks' assets are increasingly held in government debt, with claims on the government reaching 58.8 percent of banks'

Figure 15. Banks' assets are increasingly dominated by government debt



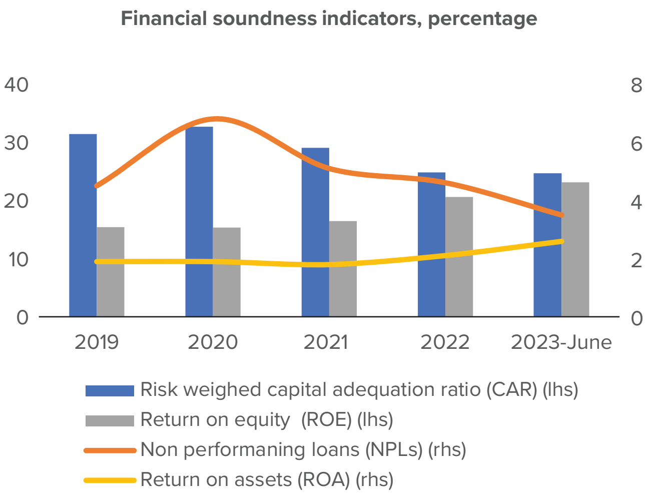
Source: World Bank Staff using CBG data.

Figure 16. The interest rate spread remains high, although it has been declining



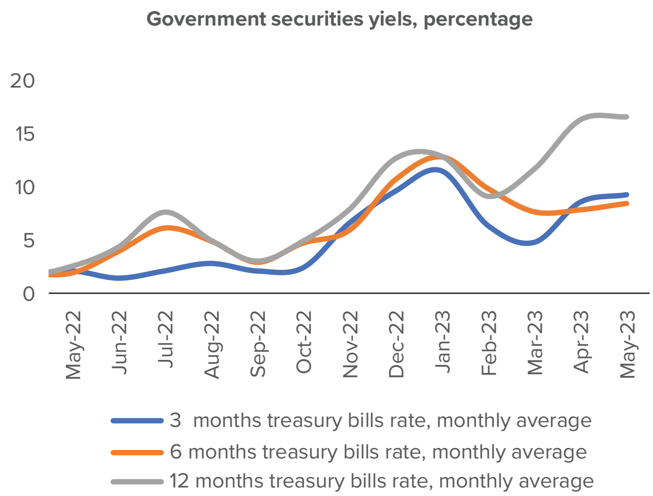
Source: World Bank Staff using CBG data.

Figure 17. The financial sector remains sound



Source: World Bank Staff using CBG data.

Figure 18. The cost of government domestic borrowing has increased



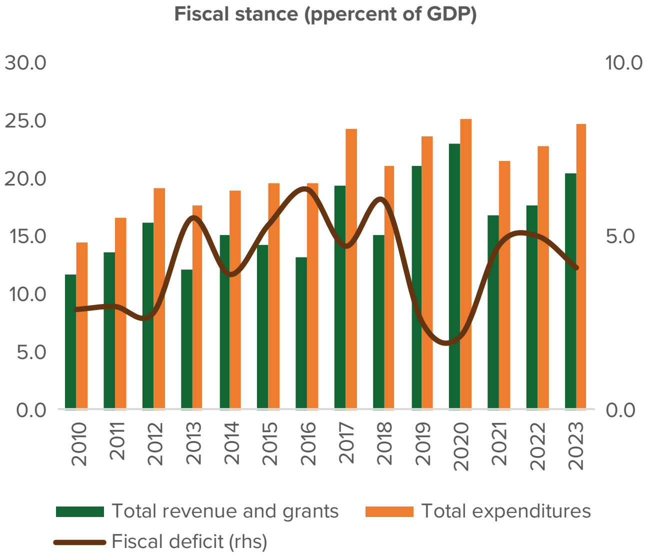
Source: World Bank Staff using CBG data.

domestic assets as of June 2023, higher than 28.9 percent for claims on the private sector (Figure 15). Although private sector credit increased by 16 percent in 2023, it continues to be crowded out by heightened government borrowing. The cost of private sector credit remains high, with a wide interest rate spread above 10 percent and low-interest rates on savings, which likely disincentivized savings mobilization (Figure 16). Therefore, The Gambia's financial sector is not fulfilling its role of financing the economy adequately (Bukhari 2005). In addition, the large exposure of banks to the government and the heavy dependence of their income on government securities could have an impact on the stability of the banking system in case of a rapid fall in rates on government securities, as highlighted in The Gambia Financial Sector Assessment Program of June 2022. This adds to other vulnerabilities in the banking sector, such as: (i) the systemic risk posed by the high concentration of deposits in funding portfolios; (ii) liquidity risks, as government securities are not particularly liquid due to the lack of a secondary market; and (iii) longstanding structural issues that hinder bank financial intermediation, including information asymmetries, weak contract enforcement, and foreclosure issues (World Bank 2022b).

The fiscal deficit decreased while remaining high, and the country continues to face fiscal vulnerabilities and high public debt

The fiscal deficit decreased while remaining high at 4.1 percent of GDP in 2023 as increased tax collection and higher levels of grants failed to fully offset the rising expenditure. Supported by the continued economic recovery and implementation of revenue-boosting measures, total revenue rose from 17.7 percent of GDP in 2022 to 20.6 percent of GDP in 2023. Domestic revenue reached 12.5 percent of GDP in 2023, up from 12.1 percent in 2022, driven by increased tax revenue (Table 1), as a result of new administrative measures and strengthened collection efforts. Meanwhile, grants increased by 2.5 ppts to 8.1 percent of GDP, driven by budget and project support. Total expenditure increased from 22.7 percent of GDP in 2022 to 24.7 percent in 2023, driven primarily by infrastructure projects related to the preparation of the OIC conference. Despite the rise in total spending, a faster increase in revenues helped reduce the fiscal deficit, from 5.0 percent of GDP in 2022 to 4.1 percent in 2023—below the ECOWAS average of 5.1 percent of GDP in 2023[9] (Figure 19). However, the fiscal deficit excluding grants remains high, reaching 12.2 percent of GDP in 2023 and 9.5 percent of GDP on annual average 3 years before.

Figure 19. The fiscal deficit widened in 2022



Source: MOFEA; IMF; World Bank staff.

Tax collection increased with the help of several revenue-boosting measures. Tax revenue increased from 9.3 percent of GDP in 2022 to 9.7 percent in 2023, driven by higher tax collection on goods and services and international trade (reflecting increased economic activity and elevated imports). It also increased due to the adoption of several revenue-boosting measures, including a series of customs reforms aimed at improving the tax administration and process, notably the rollout of Asycuda World and the implementation of the Single Window platform, e-tracking, and the digital weighbridge, along with the creation of a rent tax office to effectively collect rental income tax and the completion of the taxpayer update for larger taxpayers. While revenues and overall fiscal outturn remain dependent on grants, progress made in domestic revenue mobilization

[9] ECOWAS is comprised of countries with deficit of: (i) around 3 percent of GDP (Cabo Verde, The Gambia, Guinea, and Liberia); (ii) around 5 percent of GDP (Benin, Cote d'Ivoire, Mali, Niger, Nigeria, and Senegal); or (iii) above 5 percent of GDP (Sierra Leone, Togo, Ghana, Guinea Bissau, and Burkina Faso) (IMF 2023; World Bank 2023a).

thanks to ambitious reforms, should ground fiscal consolidation[10]. A revenue mobilization strategy is still under preparation, which should be aligned with the priorities of the national development plan (NDP 2023–2027) and encompass the reforms underway in revenue collection. **The government has abolished large portions of the country's fuel subsidies, but challenges persist in duty exemptions, causing a notable increase in revenue loss in 2023.** Fiscal measures adopted in 2022 to mitigate the impact of higher international energy, fertilizer, and food prices on Gambians included reducing the passthrough of rising international oil prices on the domestic market, implementing a partial price subsidization to offset the rising input cost of fertilizer, and removing taxes on food products. The total fiscal cost of price subsidies averaged 2.2 percent of GDP in 2022, of which the cost of fertilizer and food items represented 1.4 percent and 0.3 percent of GDP, respectively. In 2023, while remaining concerned to attenuate the transmission of international price shocks to the national economy, the government minimized fuel subsidies by incrementally adjusting domestic pump prices. Fuel subsidies averaged 0.4 percent of GDP from January to October 2023, while fertilizer subsidies were kept at almost the same level as in 2022 (0.5 percent of GDP by end-October 2023). However, challenges persist in duty exemptions, causing a notable increase in revenue loss reaching GMD 3.09 billion, or 2.4 percent of GDP, in the first nine months of 2023, up from 1.7 percent of GDP over the entire year in 2022. This was largely due to duty waivers granted by the government for the implementation of ongoing road works as well as agriculture, energy, and education projects. To ensure fiscal improvement, the authorities need to accelerate reforms that target fertilizer, fuel, and food subsidies.

Nontax revenue was stable in 2023, supported by revenue-boosting measures. Nontax revenue stood at 2.7 percent of GDP in 2023, similar to 2.8 percent in 2022. The relatively unchanged level of nontax revenue was due to several measures supporting non-tax revenue collection that targeted, for example, bridge tolls, airport concession fees, and SOE dividends. A central bank dividend of 0.6 percent of GDP also contributed to nontax revenue.

Current spending increased moderately while externally financed capital spending accelerated to complete infrastructure projects. While current spending increased nominally in 2023, it declined as a share of GDP from 14.3 percent in 2022 to 13.0 percent in 2023. The nominal increase was due to a large increase in allowance payments (rising by 0.1 ppt to 4.8 percent of GDP), including payments to diplomatic staff and their movements, and increased interest payments because of tighter monetary policy (almost unchanged to 2.1 percent of GDP). Capital expenditure increased by 3.4ppts to 11.8 percent of GDP in 2023, mainly financed by external resources, representing 84 percent of financing in 2023 (increase of 11 percentage points compared to the average of 4 previous years previous years). Capital spending was mainly driven by investment spending to accelerate the completion of infrastructure projects related to the preparation of the OIC conference.

The fiscal deficit was primarily financed through external borrowing. In 2023, net external borrowing accounted for 81 percent of total deficit net financing and 3.4 percent of GDP, increasing sharply from 33 percent (1.6 percent of GDP) in 2022. The share of domestic

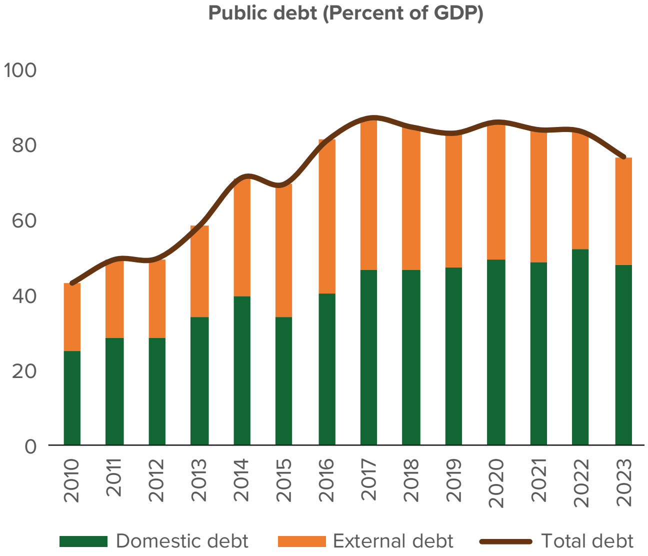
[10] The Gambia Revenue Authority (GRA) exceeded its 2023 target (+4 percent), collecting GMD 15.7 billion, or 23 percent more than in 2022. This performance is attributed to a series of customs reforms aimed at improving tax administration and process, as highlighted above. The government set a more ambitious target of GMD 19 billion for 2024 (+21 percent compared to 2023), emphasizing further reforms and digitization to broaden the tax base, facilitate trade and enhance compliance. These include the implementation of digital excise stamps for excisable products, the introduction of fuel marking, the implementation of the revenue assurance system for the telecoms sector, and the introduction of a web-based Integrated Tax Administration System (ITAS) to automate the national tax collection system, as well as the commissioning of a tax court as part of the government's efforts to foster the tax environment. During the first quarter of 2024, The Gambia Revenue Authority (GRA) collected GMD 5.2 billion (27.4 percent of the 2024 target) exceeding by 49 percent and 74 percent revenue collected in 2023Q1 and 2022Q1, respectively.

financing fell from 67 percent (3.2 percent of GDP) in 2022 to 19 percent (0.8 percent of GDP) in 2023, reflecting efforts to contain the rise in domestic debt. To reduce the cost of domestic financing and refinancing risk, the government has focused on issuing longer-dated securities, with T-bonds representing 50.6 percent of domestic debt by September 2023, up from 49.7 percent in 2022 and 45.3 percent in 2021. External financing included 3 concessional loans and International Monetary Fund (IMF) Extend Credit Facility resources. However, higher reliance on domestic borrowing crowds out private sector credit, as most bank credit is made up of claims on the government.

The public debt stock continues to be high but declined due to lower net domestic borrowing. Total debt fell from 83.4 percent of GDP in 2022 to a still high of 76.7 percent in 2023 (Figure 20). Between 2022 and 2023, external debt fell from 51.8 percent to 47.7 percent of GDP, while domestic debt fell from 31.6 percent to 29.0 percent of GDP. As of September 2023, total external outstanding debt reached US$1,125 million, of which 67 percent was owed to multilateral creditors, 32 percent to bilateral creditors, and 2 percent to private creditors. Over the same period, outstanding public domestic debt reached US$683 million, which was held in T-bonds (51 percent), T-bills (45 percent), and SAS bills, or Islamic bills (4 percent). Public debt is dominated by external debt, which accounted for 62 percent of the total stock of public debt in 2022 and 2023. The Gambia's public debt level remains above the ECOWAS average of 50.4 percent of GDP in 2023.[11]

The country remains at high risk of debt distress, but debt is deemed sustainable. The joint IMF-World Bank Debt Sustainability Assessment (DSA) published in December 2023 shows that The Gambia is at high risk of external and overall public debt distress. Three out of four external debt indicators (present value of external debt-to-exports, debt-service-to-exports ratio, and external debt service-to-revenue ratio) breach the threshold for varying periods within the forecast horizon under the baseline. These breaches reflect continued weaknesses in projected exports in the early years and rising debt service commitments in the medium term, with the end of debt-service deferrals negotiated with some creditors expected in 2024. The present value of the overall public debt-to-GDP ratio is on a downward sloping path. It drops below its benchmark of 55 percent by 2025, indicating that the public debt outlook remains sustainable. The sustainability of the country's public debt is due to factors such as the country's fiscal consolidation efforts, its reliance on grants and concessional loans, and support from development partners. However, predicting public debt sustainability based on grants shows that underlying tensions could remain high.

Figure 20. Public debt remains high



Source: MOFEA; IMF; World Bank staff.

[11] ECOWAS is comprised of countries with public debt levels: (i) below 50 percent of GDP (Guinea and Nigeria); (ii) around 50–60 percent of GDP (Benin, Burkina Faso, Cote d'Ivoire, Liberia, Mali, Niger, and Nigeria); or (iii) above 60 percent of GDP (Cabo Verde, Gambia, Ghana, Guinea Bissau, Sierra Leone, and Togo) (IMF 2023; World Bank 2023).

Table 3: Summary of fiscal operations, 2020–2023

	Dalasi (million)				*Percent of GDP*			
	2020	***2021***	***2022***	***2023***	***2020***	***2021***	***2022***	***2023***
Total revenue and grants	***21,584***	***17,587***	***21,287***	***29,415***	**23.1**	**16.8**	**17.7**	**20.6**
Domestic revenue	*13,677*	*14,939*	*14,497*	*17,843*	14.7	14.3	12.1	12.5
Tax revenue	*10,326*	*10,771*	*11,159*	*13,916*	11.1	10.3	9.3	9.7
Tax on goods and services	*4,934*	*4,776*	*4,667*	*6,145*	5.3	4.6	3.9	4.3
Direct revenue	*2,803*	*3,254*	*3,901*	*4,311*	3.0	3.1	3.2	3.0
Tax on international trade	*2,588*	*2,803*	*2,596*	*3,460*	2.8	2.7	2.2	2.4
Non-tax revenue	*3,351*	*4,168*	*3,338*	*3,927*	3.6	4.0	2.8	2.8
Grants	*7,907*	*2,648*	*6,790*	*11,572*	8.5	2.5	5.6	8.1
Budget support	*4,604*	*722*	*2,300*	*4,082*	4.9	0.7	1.9	2.9
Project	*3,303*	*1,926*	*4,490*	*7,490*	3.5	1.8	3.7	5.2
Total expenditures	***23,477***	***22,676***	***27,354***	***35,325***	**25.2**	**21.6**	**22.7**	**24.7**
Current	*16,877*	*16,139*	*17,214*	*18,521*	18.1	15.4	14.3	13.0
Wages and compensation	*4,055*	*4,593*	*5,627*	*6,805*	4.3	4.4	4.7	4.8
Goods and services	*3,850*	*3,985*	*4,057*	*3,902*	4.1	3.8	3.4	2.7
Subsidies and transfers	*6,011*	*4,381*	*4,913*	*4,790*	6.4	4.2	4.1	3.4
Interest payments	*2,967*	*3,179*	*2,617*	*3,024*	3.2	3.0	2.2	2.1
External	*548*	*709*	*553*	*678*	0.6	0.7	0.5	0.5
Domestic	*2,419*	*2,470*	*2,064*	*2,346*	2.6	2.4	1.7	1.6
Capital	*6,600*	*6,537*	*10,140*	*16,804*	7.1	6.2	8.4	11.8
Externally financed	*4,837*	*3,363*	*7,859*	*14,143*	5.2	3.2	6.5	9.9
Gambia locally financed	*1,763*	*3,174*	*2,281*	*2,661*	1.9	3.0	1.9	1.9
Fiscal balance including grants	***−1,893***	***−5,089***	***−6,067***	***−5,910***	**(2.0)**	**(4.9)**	**(5.0)**	**(4.1)**
Fiscal balance excluding grants	***−9,800***	***−7,737***	***−12,857***	***−17,482***	(10.5)	**(7.4)**	**(10.7)**	**(12.2)**
Deficit financing	*2,030*	*5,027*	*6,062*	*5,988*	2.2	**4.8**	**5.0**	**2.6**
Net acquisition of financial assets	*–180*	*0*	*165*	*0*	(0.2)	—	0.1	0.0
Net incurrence of liabilities	*1,595*	*5,092*	*5,828*	*5,988*	1.7	4.9	4.8	2.6
Domestic	*741*	*4,553*	*3,904*	*1,160*	0.8	4.3	3.2	1.4
External	*854*	*539*	*1,924*	*4,828*	0.9	0.5	1.6	1.2
Statistical discrepancy	*409*	*-65*	*69*	*78*	0.4	(0.1)	0.1	0
Memorandum items:								
Nominal GDP (million)	93,330	104,812	120,240	142,968				

Source: MOFEA; IMF; World Bank staff calculations.

1.2. Outlook, risk and opportunities

The medium-term outlook is positive with a solid recovery driven by a commitment for macro-fiscal stability and the implementation of RF-NDP 2023–2027 and rebound in all sectors

The macroeconomic outlook foresees consolidation of the recovery in the medium term. Real GDP growth is projected to strengthen to around 5.6 percent in 2024–26 (3.2 in percent per capita terms), driven by increased activity across the economy (Figure 22 and Figure 23)

The agriculture sector is expected to continue to grow, assuming favorable rainfall, alongside the continuation of fertilizer subsidies and seeds improvement as well as increased investment. More investment is expected in projects supported by international partners, and The Gambia aims to complete the construction of storage facilities to reduce loss from spoilage and the new Gambia Ground Corporation (GGC) factory in 2024 to increase capacity. The agriculture sector should also be revitalized by the issuance of regulations aimed at reducing aflatoxin exposure in the groundnut, maize, and rice value chains and reinforcing compliance with safety standards by operators in the food sector, all of which will boost agricultural exports. All agricultural subsectors are expected to grow, except for forestry and logging.

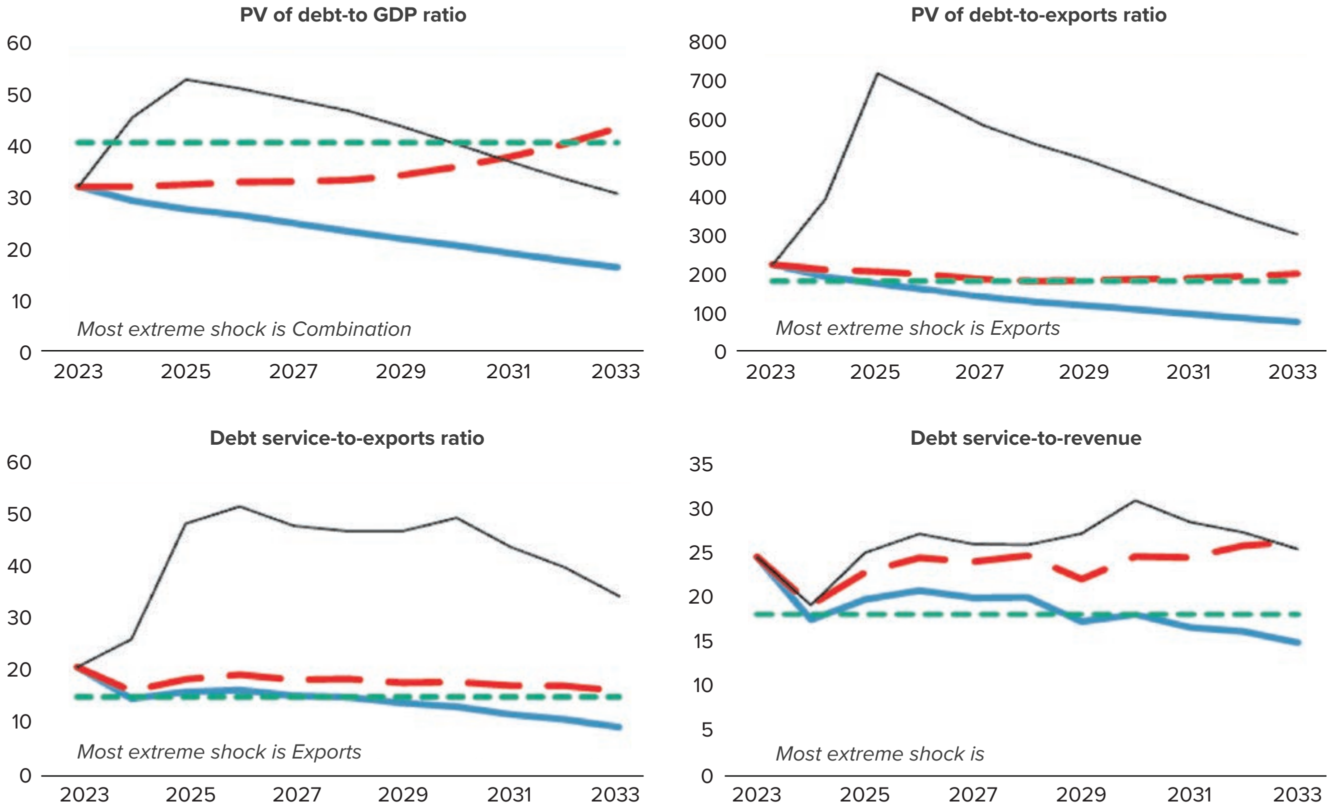
Services are expected to continue to grow, assuming higher tourist arrivals. Tourism activity is set to grow further in the medium term, thanks to the effects of the OIC conference scheduled to take place in The Gambia in 2024 and the accelerated implementation of a World Bank-supported investment project. Induced by continued tourism recovery, most service subsectors are expected to grow, with higher growth rates in: (i) accommodation and food service activities; (ii) financial and insurance activities; (iii) wholesale and retail trade; (iv) real estate activities; and (v) information and communication.

A recovery in private consumption and investment, supported by more robust remittances and resilient public consumption and investment, is projected to support growth in the industry sector. The industry sector will be boosted by ongoing large infrastructure projects (urban and rural road construction, port expansion, energy projects, etc.), sustained public and private construction, improvement in the business environment (bolstered by the vast judicial reform agenda, updated regulations to improve access to finance, upcoming digitalization of the business registration process, etc.), and the continuation of strong policies started after the democratic transition (targeting SOEs, governance, etc.). The issuance of regulations to facilitate private sector participation in the energy sector and the penetration of renewable energies should help boost energy production. The subsectors that are expected to drive growth in industry are mainly: (i) construction, (ii) mining and quarrying, and (ii) electricity, gas, steam, and air conditioning.

Inflation pressures are predicted to persist in 2024, before gradually easing to converge to the CBG's target in the medium term. Inflation is projected to remain in double digits in 2024, reflecting persistently high global supply conditions. In the context of restrictive monetary policy and easing global supply conditions, price pressures are expected to ease in the medium term, and inflation is projected to decrease to 6.6 percent by 2026, close to the CBG's target of 5 percent (Figure 24).

The fiscal deficit is expected to narrow thanks to fiscal consolidation efforts. The fiscal deficit is projected to average 1.4 percent of GDP in 2024–26 (Figure 25), supported by domestic revenue mobilization efforts and spending measures, which are also expected to lower the fiscal deficit excluding grants to 7.1 pent of GDP in 2026. Revenue measures will concentrate on the digitization of the tax administration and customs (deployment of ASYCUDA World and an integrated tax administration system, the latter of which is under preparation); implementation of digital excise stamps for excisable products; introduction of fuel marking; adoption of reforms to broaden the tax base (streamlining tax exemption and cleansing and maintaining accurate tax ledgers for large taxpayers) and improve the tax environment; consolidation of toll bridge collection; and adjustment of domestic fuel prices to reflect passthrough from international prices. Furthermore, efforts are underway to collect additional

Figure 21. Selected public debt indicators under baseline and alternative scenarios, 2023–2033



Source: Joint World Bank-IMF DSA December 2023.

revenues, including through the privatization and the sale of stolen assets under the Janneh Commission.[12] Spending measures include the completion of major infrastructure projects related to the OIC conference; phasing out of spending related to Russia's invasion and the COVID-19 pandemic; and expansion of the investment prioritization and selection tool by the Gambia Strategic Review Board to domestically financed and PPP projects, with the aim to enhance efficiency and contain spending. Furthermore, over the long term, the authorities intend to overhaul the SOE sector to reduce their dependence on the budget and turn them into income-generating assets. Finally, the authorities plan to expand the social registry and use it to design and roll out targeted support to the vulnerable population.

Public debt remains sustainable despite high risk of external and overall debt distress. Public debt is projected to average 68 percent of GDP in 2024–26, supported by economic growth and fiscal consolidation (Figure 27). However, The Gambia is expected to remain at high risk of debt distress, although debt is deemed sustainable. The expiration of the debt-service deferrals negotiated with some creditors in 2024 will potentially lead to higher debt service payments due in those years and tighter liquidity. The resumption of external debt servicing obligations is expected to absorb significant resources from much-needed social and infrastructure expenditures. The December 2023 DSA shows that The Gambia remains at high risk of debt distress, in terms of both external and overall public debt. Temporary breaches of the indicative thresholds for the

[12] The Janneh Commission was initiated by President Adama Barrow in July 2017 and investigated the financial and other related activities of certain public bodies, enterprises, and offices in terms of their dealings with former President Yahya Jammeh and his close associates.

Figure 22. Services will continue to drive growth

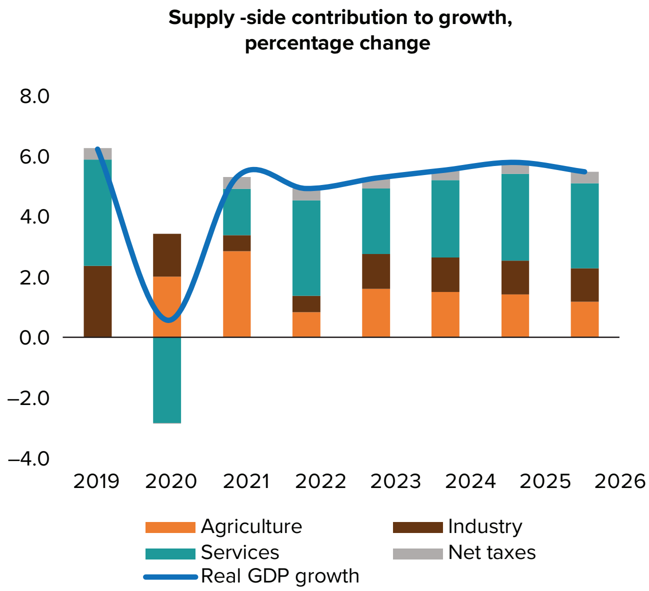


Figure 23. Private-sector demand will continue to support growth

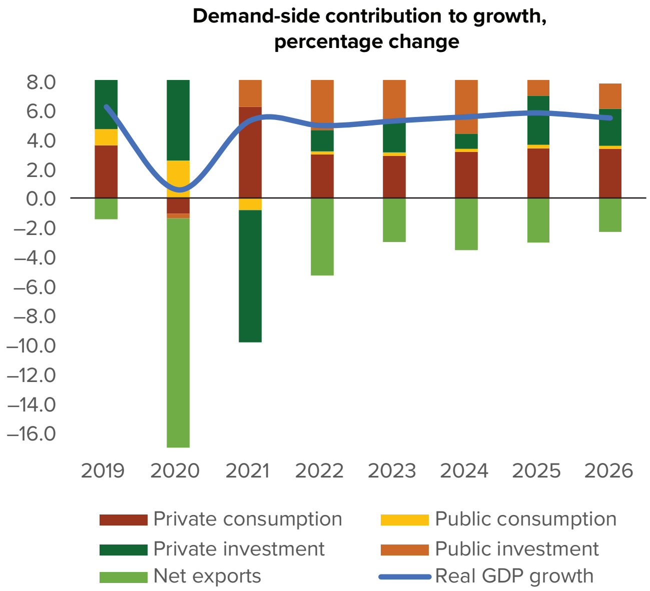


Figure 24. Inflation should gradually ease toward the CBG's target beginning in 2026

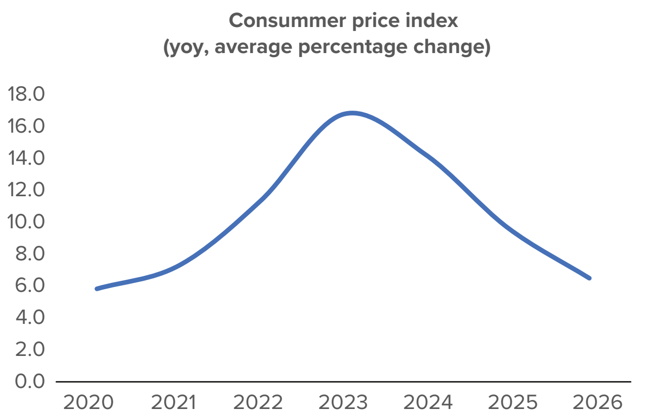


Figure 25. The CAD should remain under control in the medium term

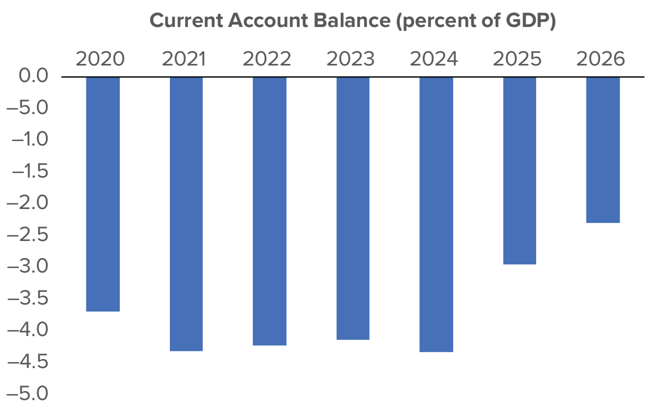


Figure 26. The fiscal deficit expected to narrow, leading to a primary balance surplus in the medium term

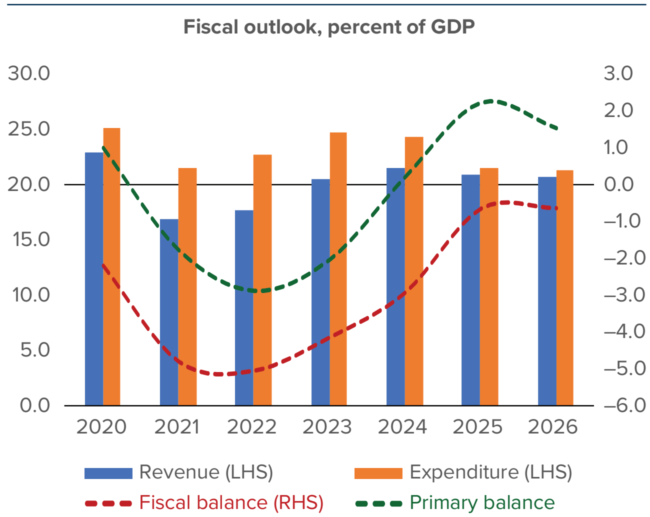
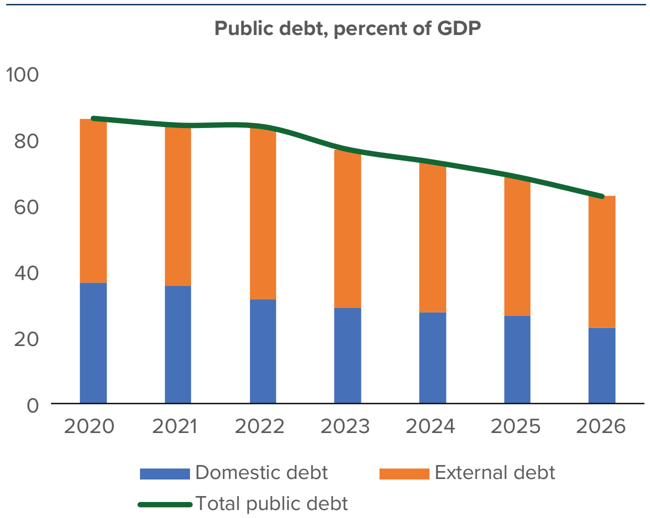


Figure 27. Public debt levels are expected to decline



Source: World Bank staff; IMF; Gambian authorities.

present value (PV) of external debt-to-exports, external debt service-to-exports, and external debt service-to-revenue continue. Still, the PV of the overall debt-to-GDP ratio remains on a downward sloping path and will drop below its threshold by 2025, indicating that the public debt outlook remains sustainable (Figure 21). The breaches highlight The Gambia's limited space for additional borrowing in the near term and emphasize the need to continue to build ample buffers to face the increased debt service burden that lies ahead.

Balance-of-payment pressures are expected to persist in 2024, but the CAD is projected to improve in the medium term. Pressures on the balance of payments and forex are likely to continue in 2024 due to the fallout from the protracted war in Ukraine and regional and global geopolitical tensions related to the uncertainty within ECOWAS and the conflict in Gaza. The CAD is projected to remain high at 4.4 percent of GDP in 2024, before narrowing to an average 2.6 percent in 2025–26, as OIC-related investment projects diminish, exports strengthen (especially in tourism and agriculture), and cross-border exports disruptions dissipate (Figure 25). Growth in remittances is likely to remain moderate due to subdued economic growth expected in advanced economies in the near term, which will continue to affect migrants' incomes. The deficit will be financed through capital transfers (development aid), foreign investment, and public-sector debt financing. Forex reserves, in months of imports, are projected to decline in the medium term, due partly to the expiration of debt service deferrals, but remain at an adequate level (around 4 months), supported by disbursements from development partners.

Rising regional and domestic risks cloud to the outlook

The outlook continues to be clouded by significant downside risks. While the baseline projects a continued economic recovery, persistent external shocks related to Russia's prolonged invasion of Ukraine, regional and global geopolitical tensions, debt vulnerabilities, reemerging forex pressures, weather events, fiscal slippage, and continued financial tightening are serious risks to the outlook.

Protracted regional and global geopolitical tensions cloud medium–term growth prospects. The Gambia depends heavily on imports of essential goods such as food,[13] fuel, fertilizer, and medicines. With the prolonged Russia's invasion of Ukraine[14] and the conflict in Gaza, along with its subsequent consequences on trade through the red sea, persistent high global commodity prices will continue to undermine the country's growth and fiscal and external balances, with a persistent high import bill fueling inflation and putting further pressure on forex reserves and exchange rate policy. The Gambia is also dependent on Senegal and ECOWAS for some of its imports and food supplies, with Senegal and ECOWAS accounting for 6.8 percent and 39.6 percent, respectively, of The Gambia's total imports in 2022 (GBoS 2023). The intra-regional market therefore represents a development opportunity for The Gambia. The region has also become an important source of tourists for The Gambia, driving the recovery of the tourism sector after the COVID-19 pandemic.[15] There is, however, uncertainty around the political developments within ECOWAS. The announced withdrawal of Burkina Faso, Mali, and Niger from ECOWAS opens a period uncertainty and puts into question the free movement of people, goods, and services in the region, which could have repercussions on The Gambia's growth prospects. Furthermore, The Gambia depends on remittances and tourist arrivals from advanced economies, especially in Europe. Weaker-than-expected growth in Europe due to Russia's prolonged invasion of Ukraine and global geopolitical tensions following the conflict in Gaza, persistent inflationary pressures, and tighter financial conditions in international markets could undermine the recovery in the tourism sector and keep the level of capital and remittances inflows low.

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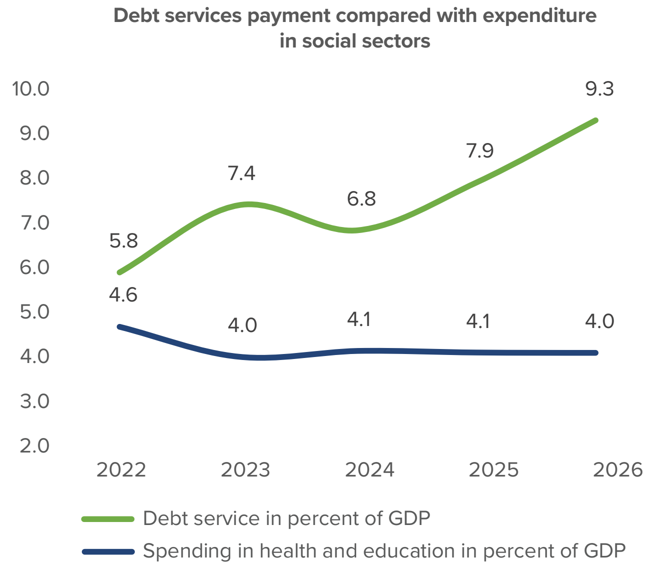
[13] Over 50 percent of the food supply is imported.

[14] Wheat imports from Ukraine represented 84 percent of The Gambia's total wheat imports between 2018 and 2020 (FAO).

[15] The recovery of the tourism sector is driven by increased arrivals from non-traditional markets (Nigeria, Senegal, and other African countries with a large Gambian diaspora, as well as to a lesser extent Western countries such as the US and France), representing 63 percent of arrivals. The share of tourists from traditional markets (Scandinavian countries, Germany, Belgium, and Spain) declined from 71 to 37 percent of arrivals between 2019 and 2023.

Fiscal risks could materialize in the short to medium term, weakening fiscal management and macroeconomic stability. These risks could come from internal and external sources, worsening the fiscal deficit and public debt. Internal fiscal risks include weaker-than-expected growth, pressures to clear SOEs' contingent liabilities with public utilities, and a continued rise in the cost of domestic debt service. Further increases in inflation and negative real interest rate yields would compromise the profitability of the banking sector and overall financial stability. External fiscal risks include weaker-than-expected grants; higher interest rates relative to previous external borrowing options that would increase external debt servicing costs; the end of debt services deferral negotiated with some creditors in 2024; and other external price shocks. The resumption of external debt servicing obligations, following the end of the debt-service deferrals negotiated with bilateral creditors, in 2024, is expected to absorb significant resources from much-needed social and infrastructure investment expenditure. With the resumption of external debt service obligations, total debt service costs are expected to increase from 6.8 percent of GDP in 2024 to 7.9 percent in 2025 and 9.3 percent in 2026, which is about twice the level of social expenditures expected in 2025 and 2026 (Figure 28).[16] Resource scarcity could trigger liquidity pressure and new financing needs, but The Gambia has limited space for additional borrowing in the near term. Heightened domestic government borrowing would further raise banks' exposure to government debt, heighten the risk of public insolvency (as the country is at high risk of debt distress), further crowd out private sector credit, and jeopardize macroeconomic stability.

Figure 28. Debt service spending is expected to outpace social sector spending beginning in 2025



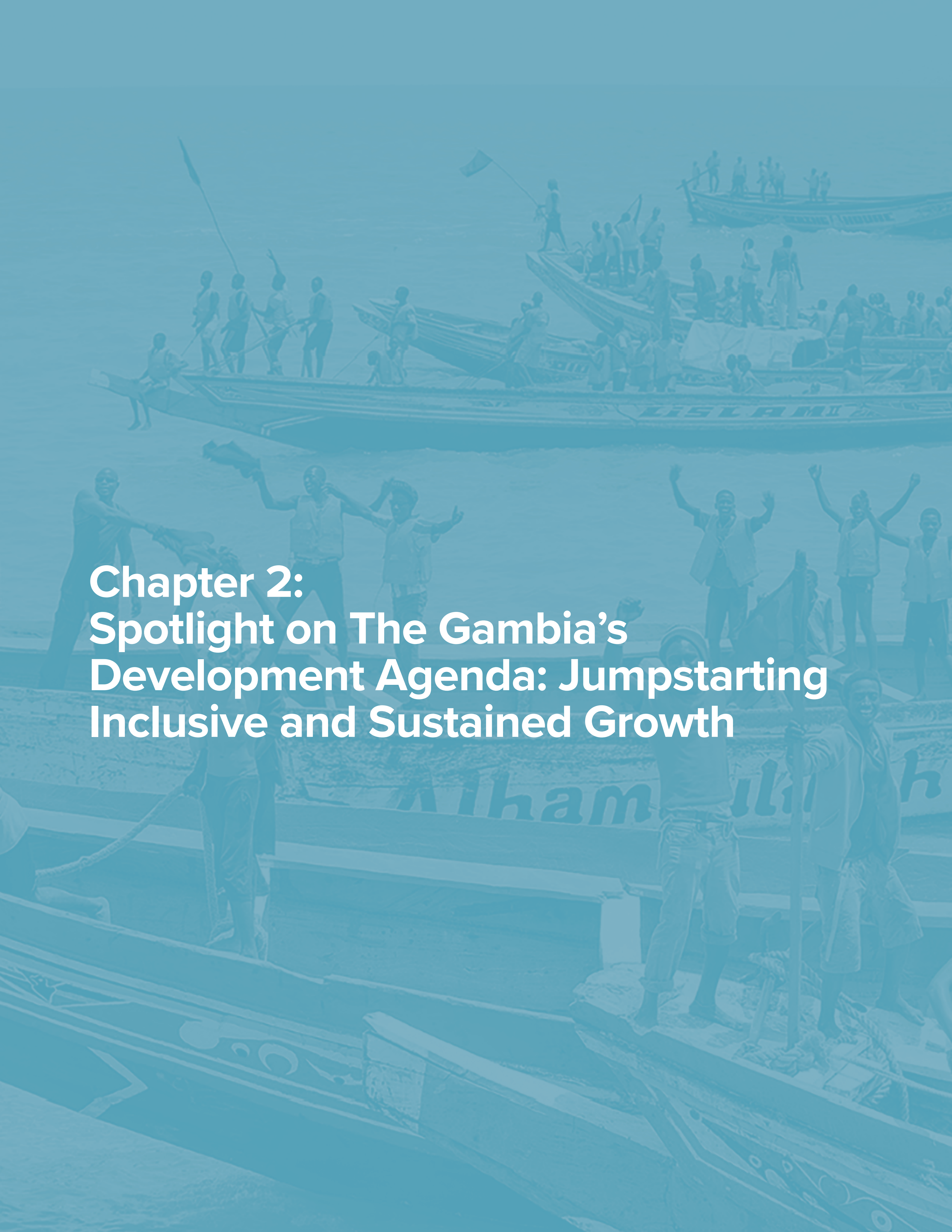
Source: IMF; World Bank staff estimates.

Continued tightening of financial conditions poses an additional threat to the outlook. Following monetary policy tightening, The Gambia's Treasury bill yields have rapidly and significantly risen, increasing fivefold, on average, after a long period of low interest rates. Yields on the country's 3-month Treasury bill rose from 2.1 percent in May 2022 to 9.2 percent in May 2023, while yields increased from 1.9 percent in May 2022 to 8.4 percent in January 2023 for its 6-month Treasury bill, and from 2.5 percent in May 2022 to 16.5 percent in May 2023 for its 12-month Treasury bill. As a result, interest payments increased from GMD 2.6 billion (2.2 percent of GDP) in 2022 to GMD 3.0 billion (2.1 percent of GDP) in 2023, of which 75 percent were dedicated to domestic interest payments. Domestic debt service expenditure reached GMD 4.9 billion (3.5 percent of GDP) between January and November 2023, an increase of 23 percent from GMD 3.9 billion (3.3 percent of GDP) in the same period of the previous year and 14 percent higher than planned in the 2023 budget. The transition phase to higher yields and, consequently, to higher domestic debt service could continue if inflation is not significantly reigned in, adding to already high macro-fiscal and financial risks (e.g., higher debt levels and the country's rating of high risk of debt distress, higher bank exposure to government debt, and pressure on reserves).

[16] Estimated expenditures for the Ministry of Basic and Secondary Education, Ministry of Health, and Ministry of Higher Education, Research, Science, and Technology in 2025 and 2026 were based on the assumption that they would increase nominally by 10 percent each year compared to 2024 expenditures.

Extreme whether events are a significant threat to the country's growth prospects and long-term poverty reduction. The Gambia is highly vulnerable to climate shocks. Reports of natural disasters increased from 6.3 percent in 2015 to 11.8 percent in 2020. Natural disasters have consistently been a key factor responsible for pushing vulnerable households into poverty and keeping them poor. The poor, women, and female-headed households are disproportionately affected by climatic shocks, as they are mostly involved in agriculture and livestock activities, with limited or no access to protection mechanisms. The floods of July 2022 were illustrative of the country's climate change vulnerability, as they affected over 15,000 individuals and destroyed infrastructure and food stock. Most of the affected households had low capacity to cope with and/or mitigate the impact of these events, increasing their risk of sliding back or falling deeper into poverty.

Nevertheless, there are also upside risks. The main upside risks to the country outlook include: (i) sustained donor support to the National Development Plan 2023–2027, with a program under implementation by the Millennium Challenge Corporation that supports the work of other partners; and (ii) higher-than-expected tourist arrivals.



Chapter 2: Spotlight on The Gambia's Development Agenda: Jumpstarting Inclusive and Sustained Growth

2.1. The Gambia's economy has been caught in a low and volatile growth trap

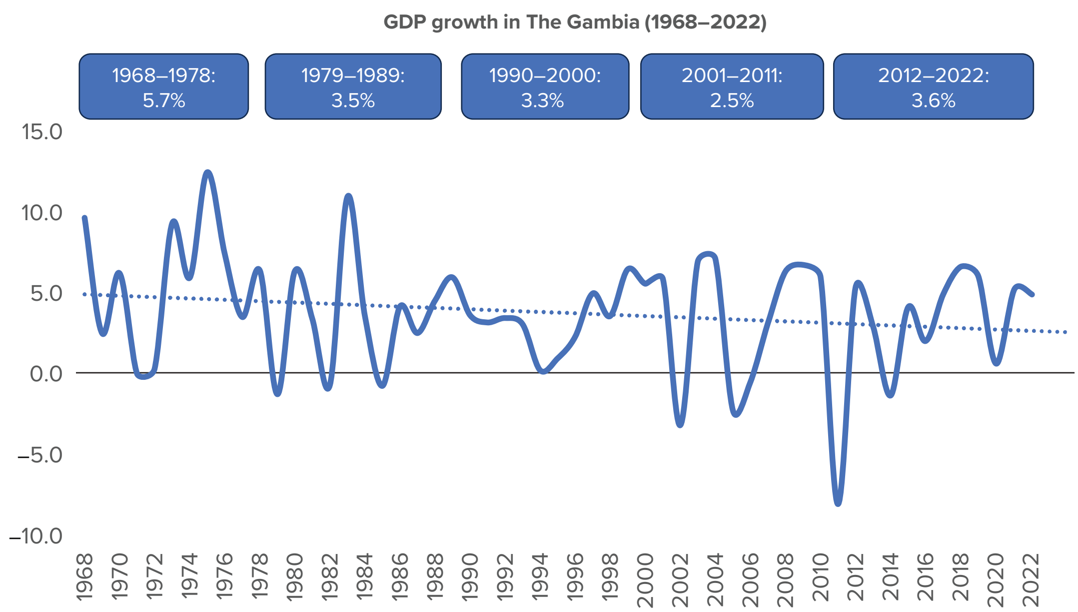
This section provides an analysis of The Gambia's growth history and its drivers at both the micro and macro level. Micro drivers decompose growth into capital, labor, and total factor productivity (TFP), while macro drivers examine the extent to which growth can be traced to structural factors (e.g., infrastructure, human capital, size of government, financial deepening, and trade openness), stabilization policies (e.g., inflation and the exchange rate), and external conditions (e.g., terms of trade and export commodity prices).

Growth in The Gambia has been low and volatile since independence in 1965, with a continuous downward trend decade after decade. Apart from a few years of record growth, which led to an average real GDP growth rate of 5.7 percent over 1968–1978, economic growth subsequently declined, falling below 4 percent over the following decades (Figure 29). Over the period 1968–2022, annual real GDP growth averaged 3.7 percent. Weak growth performance was due to the occurrence of droughts, economic mismanagement, and weak governance during the 22 years of dictatorship following the coup d'état of 1994, combined with poor infrastructure and other structural constraints, all of which have resulted in negative long-term productivity growth.

The Gambia's economic growth is lagging both the average of SSA and ECOWAS. Real GDP growth averaged 3.1 percent in 1990–2022—less than 0.5 percent in per capita terms—lower than the SSA and ECOWAS average of 3.6 percent and 4.1 percent, respectively (Figure 30 . The growth path also displayed cyclical fluctuations (Figure 31), mainly reflecting frequent droughts (World Bank 2019). Growth recovered in 2017–19, averaging 6.1 percent, mainly supported by externally financed public investment to support the democratic transition. The Gambia's per capita income has stagnated, barely increasing over the last three decades from US$667 in 1990 to US$682 in 2022 (constant 2015 US$) (Figure 32). The economy has been caught in a low and volatile growth trap for several decades.

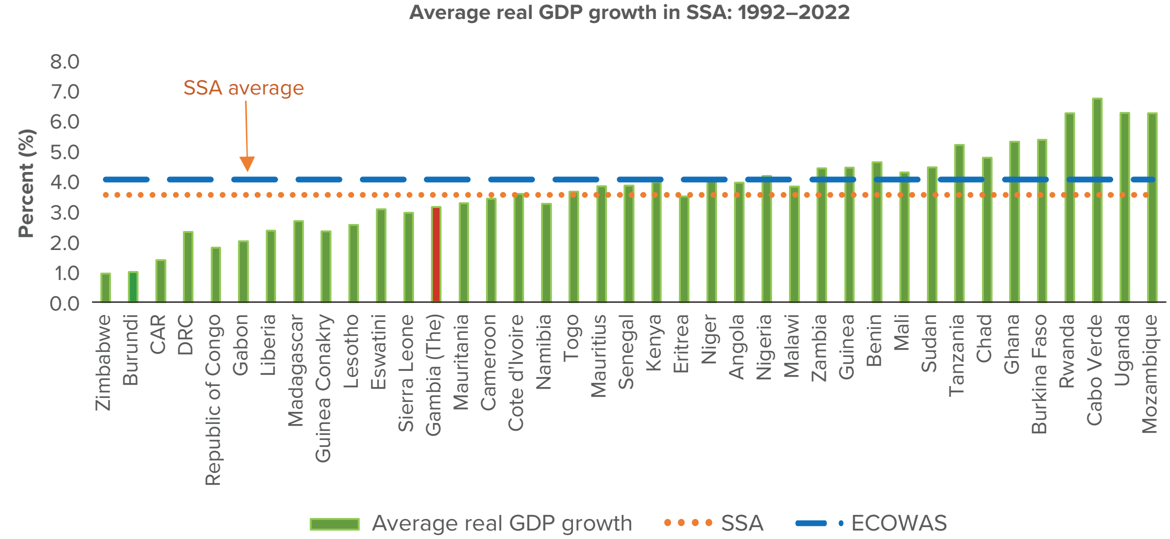
Following its democratic transition, The Gambia recorded resilient growth amid a sequence of global shocks, suggesting that the country can grow faster. Thanks to relative improvements in macroeconomic and fiscal management and stability as well as increased support

Figure 29. The stop-start nature of The Gambia's growth



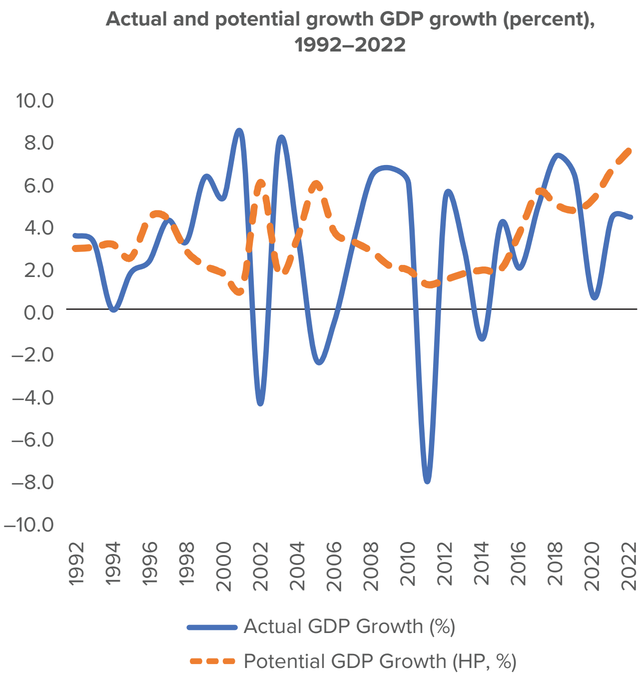
Source: World Bank.

Figure 30. Between 1992 and 2022, The Gambia's growth rate was one of the lowest in SSA and ECOWAS



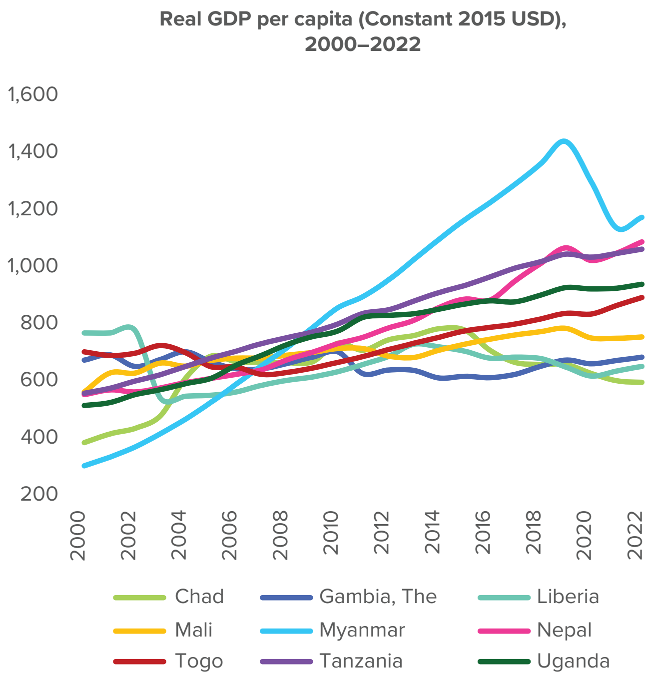
Source: World Bank.

Figure 31. Growth has been moderate and volatile, marked by periods of timid economic growth and punctuated by deep downturns



Source: WDI and authors calculations.

Figure 32. The Gambia's GDP per capita remains low



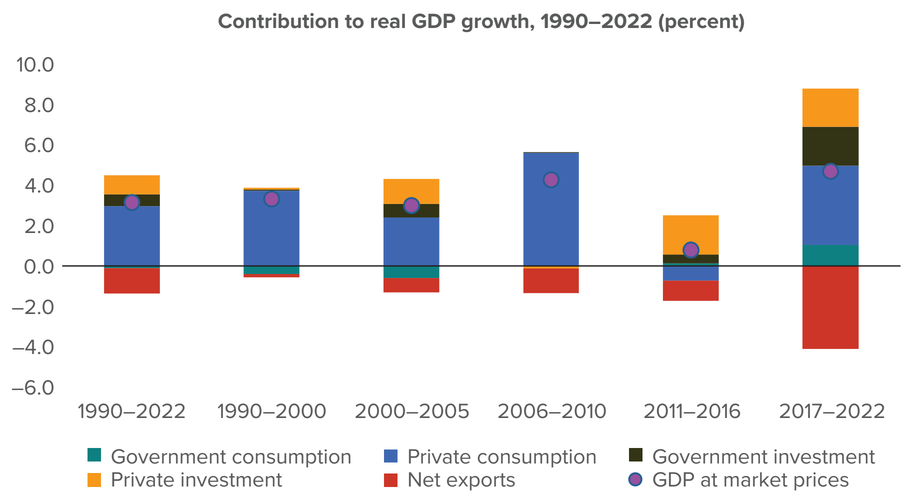
Source: WDI.

from development partners following 2017 democratic transition, real annual GDP growth averaged 6.1 percent from 2017 to 2019, higher than the SSA average of 2.6 percent and the ECOWAS average of 5.1 percent. The Gambia attracted large flows of official development assistance, helping real GDP growth per capita grow by 3.3 percent, on average, per year. In 2020, the COVID-19 pandemic caused a drastic drop in tourist flows and led to a sharp growth deceleration, with real GDP growth at just 0.6 percent (–2 percent in per capita terms). The economy recovered in 2021, with real GDP growth of 5.3 percent (2.7 percent in per capita terms). It has continued its post-pandemic recovery, despite a moderate slowdown in global economic growth following the spillovers of Russia's invasion of Ukraine, with real GDP growth of 4.9 percent (2.4 percent per capita) in 2022. Growth accelerated to an estimated 5.3 percent in 2023, continuing the post-pandemic recovery. Over the period 2017–2022, real annual GDP growth averaged 4.8 percent (2.2 percent in per capita terms).

2.2. Weak foundation for structural transformation

On the demand side, while its historical contribution was marginal, investment has become a significant growth driver, alongside private consumption, but the contribution from net exports remains negative. Gross capital formation increased from 20.3 percent of GDP in 2015 to 34 percent in 2022, driven by accelerated government spending on infrastructure programs and private investment in construction activities. Private investment and consumption were supported by robust remittance inflows, which rose from US$206 million (14 percent of GDP) in 2016 to US$712 million (33 percent of GDP) in 2022. FDI inflows remained moderate, averaging 4.9 percent of GDP over 2017–2022. Since the beginning of the country's democratic transition, public investment has been supported by substantial support from development partners, with grants averaging 7.1 percent of GDP over 2017–2022, higher an average of 2.5 percent of GDP over 2010–2016. This helped economic growth reach an average of 4.8 percent in 2017–2022, despite the sharp deceleration due to the pandemic in 2020. The goods export base is narrow, averaging 5.5 percent of GDP over 2017–2022, dominated by fish and crustaceans, groundnuts, cashews, and oil seeds (GBoS 2020). Services exports are dominated by tourism, which is highly seasonal. The contribution of net exports has been historically negative, with import growth systematically outstripping export growth (Figure 33). As seen in the previous chapter, dependence on a few commodities

Figure 33. Contribution to real GDP growth, 1990–2022



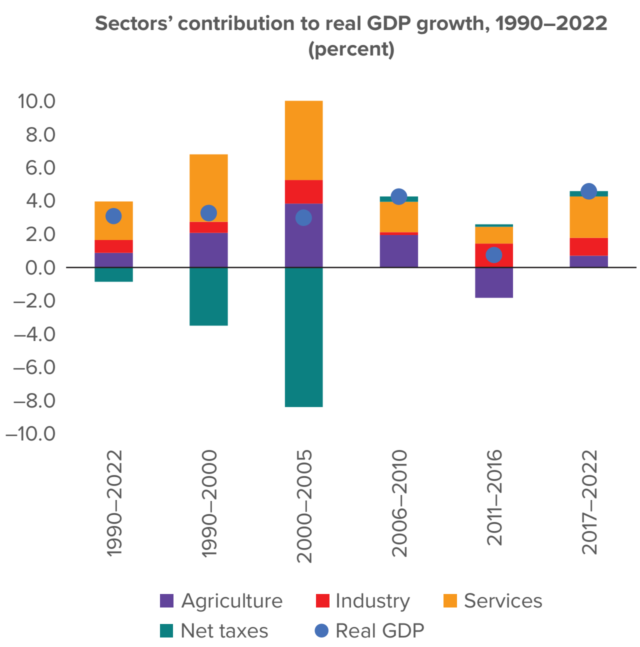
Source: Staff estimates based on WDI and GBoS data.

and sectors for exports, coupled with the highly seasonal nature of tourism, poses risks to economic stability, which are only partly mitigated by large amounts of remittances.

On the supply side, services have become the economy's largest sector. Agriculture's contribution to GDP declined from 35 percent in 2010 to 21 percent in 2022. Between 2017 and 2022, growth in the agriculture sector averaged 3.6 percent and was volatile, influenced by climatic hazards. The sector contributed a modest 15 percent to growth over this period. The industry remains the smallest sector, although its share in the GDP has been increasing, reaching 19 percent in 2022, up from 12 percent in 2012. Moreover, between 2017 and 2022, industry consistently recorded significant growth, averaging 6.3 percent per year, contributing about one-fifth to growth. Industry is mainly driven by the construction subsector, averaging 67 percent of the industry sector. Services represent a relatively large share of total output, accounting for 52 percent of GDP in 2022 and representing 54 ppts of the 4.8 percent growth recorded in 2017–2022 (Figure 34). More recently, growth in the services sector has been sluggish, reflecting the slow recovery of tourism due to global economic shocks. The tourism sector is a key growth driver, contributing 8.5 percent of GDP directly and 15.5 percent if induced and indirect effects are factored in (World Bank 2022a). Over the long term, the services sector has been mainly driven by wholesale trade, repair, accommodation, and food-related services (which are also related to tourism), accounting for 33 percent of GDP in 2017–2022 (Figure 35).

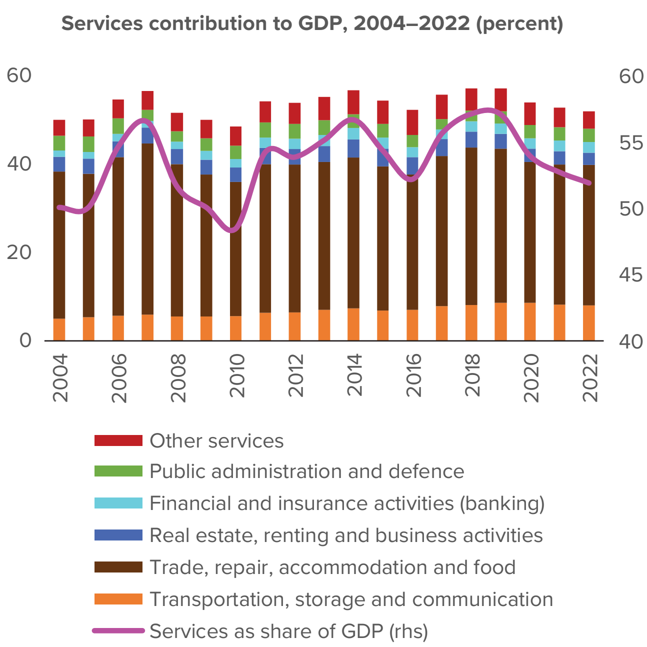
All the sectors of the economy face significant constraints, hindering their performance. As highlighted above, agricultural productivity has been declining due to several constraints related to equipment, finance, input markets, extension services, storage and climate change and land degradation and scale (World Bank 2023d). The small share of industry in GDP is due to a lack of investment in the sector, which is hampered by limited access to finance, poor access to and unreliable electricity, and several supply-side constraints. Although services remain the largest sector in the economy, the share of services in GDP has declined since its peak of 60 percent of

Figure 34. Services continue to be the main growth driver



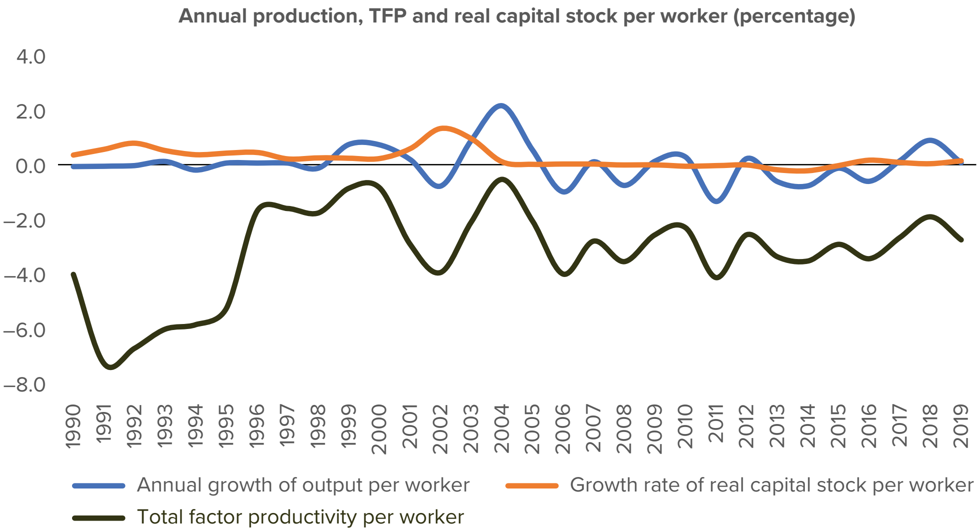
Source: Staff estimates based on WDI and GBoS data.

Figure 35. . . . especially services related to trade, repair, accommodation, and food



Source: Staff estimates based on the National Accounts Statistics Survey.

Figure 36. Long-term productivity growth has been negative, with limited capital stock per worker



Sources: Authors based on PWT 9.1 (Freensta, Inkaarand Timmer 2015).

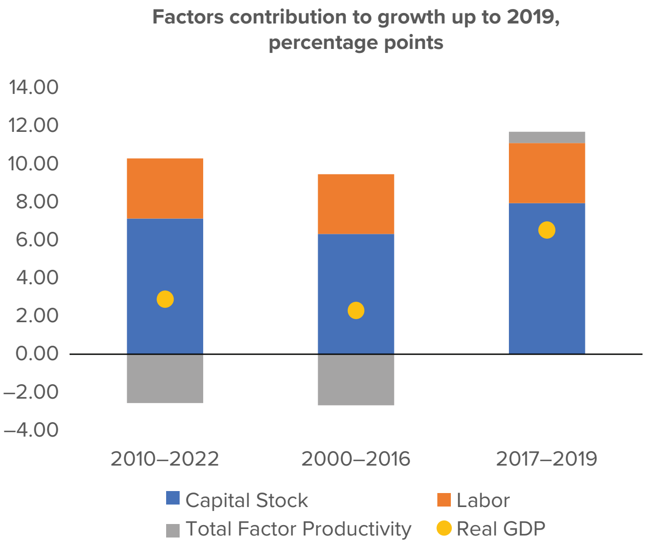
GDP in the early 2000s. This reflects several constraints, including deficiencies in infrastructure, need for a sufficiently large pool of skilled and well-trained workers to meet labor market demand, and high dependence on a low value-added tourism. The Gambia's tourism industry relies heavily on a few tour operators, and it is focused on the winter season and accommodation near the sea and Banjul airport. Moreover, visitors are primarily seeking relaxation tourism, their length of stay is short, and there is relatively limited travel within the country (Ceesay 2020).

The Gambia's productivity growth has been low. Productivity growth per worker was negative between 2000 and 2022 , when labor accumulation and capital accumulation accounted for 60 percent and 57 percent of GDP growth, while the contribution of TFP to growth was negative (Figure 37 and Figure 38). Low productivity growth per work, combined with low productive capacity utilization, which has resulted in rising potential output relative to actual output[17] over the past decade, explains the moderate Gambia's economic growth (Figure 31), lagging behind SSA and ECOWAS (Figure 30). Gross capital formation has increased over the last decade, becoming the main driver of growth. However, capital accumulation per worker has remained weak over the years, suggesting that investments have not translated into a proportionate increase in capital available per worker, possibly due to high population growth or misallocation of capital (Figure 36). The driving role of investment in growth does not reflect strong capitalization of the economy. Instead, it partly reflects the constraints of the labor market, such as high underutilization of labor and low labor force participation. While TFP's contribution to GDP growth was positive from 2017 to 2019 (Figure 37), it was a negative between 2020 and 2022 (Figure 38). The reversal of productivity gains since 2020 can be attributed to macroeconomic headwinds due to global shocks, leading to a weak national, regional, and global economic environment. This reflects the sensitivity of The Gambia's productivity gains on external conditions, highlighting a fundamental challenge in The Gambia's economic structure.

Capital accumulation and productivity growth have been consistently low for the past two decades. An analysis of the country's performance since the beginning of the democratic transition reveals modest but positive

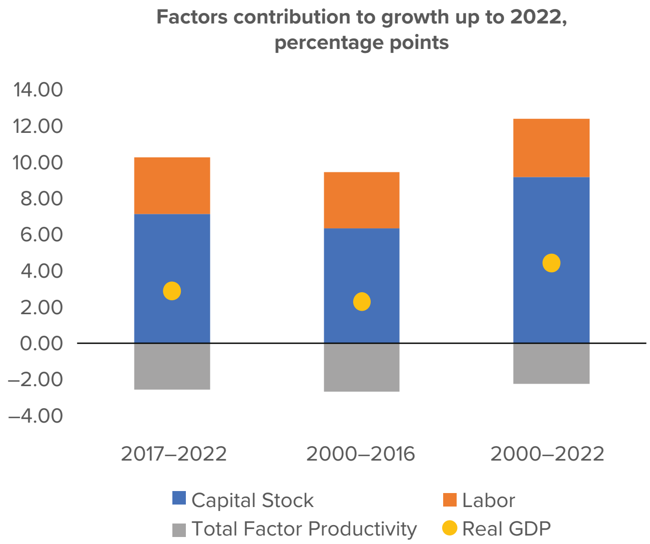
[17] This translate into negative output gap, emphasizing that high inflation is essentially imported.

Figure 37. Growth has recently stemmed from increases in the capital stock, with productivity growth increasing in 2017–2019



Source: Authors based on WDI.

Figure 38. but productivity growth has been falling since 2020



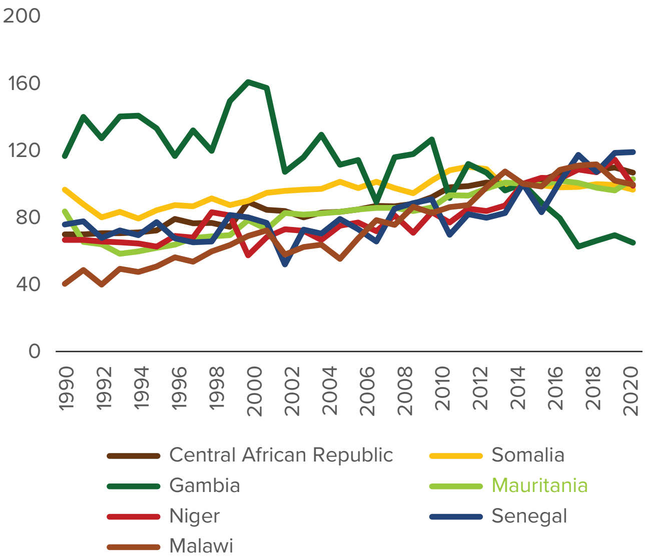
Source: Authors based on WDI.

productivity growth in 2017–2019, which was subsequently reversed, resulting in negative productivity growth between 2000 and 2022 (Figure 38). The reversal could be attributed to spillover effects of global economic shocks. Moreover, capital accumulation per worker has remained weak (Figure 36).

Agricultural productivity has been declining. The agriculture sector plays a crucial role in terms of its share of overall output and the large proportion of the population relying on it. The sector generates about 40 percent of foreign exchange earnings, provides 75 percent of household earnings, employs 70 percent of the labor force, and accounts for 21 percent of GDP (MOFEA 2022). Therefore, the productivity of the sector is crucial. However, agricultural productivity declined during the last two decades, with value-added falling to US$1,562 per worker (in constant 2015 dollars) in 2019, which is 44 percent lower than the level in 2010 (Figure 40). The Gambia was one of the SSA countries with the highest agricultural productivity in the early 1990s, but the level of productivity has since declined (Figure 39). Significant constraints facing the agriculture sector include lack of irrigation facilities and production machinery, limited access to credit, difficulties in procuring inputs and storing products, negative impact of climate change and variability, and increasing soil salinity. In the absence of mechanisms to mitigate shocks and strengthen resilience, climate-related vulnerabilities reduce agricultural production. As a ratio of GDP, budget allocation to the sector was limited at 0.2 percent in 2023, with almost no spending on research and development (R&D). Increased public investment in R&D is key to supporting agricultural innovation and, in turn, is needed to address the growing challenges facing the sector, such as climate change and air pollution (Beegle and Christiansen 2019).

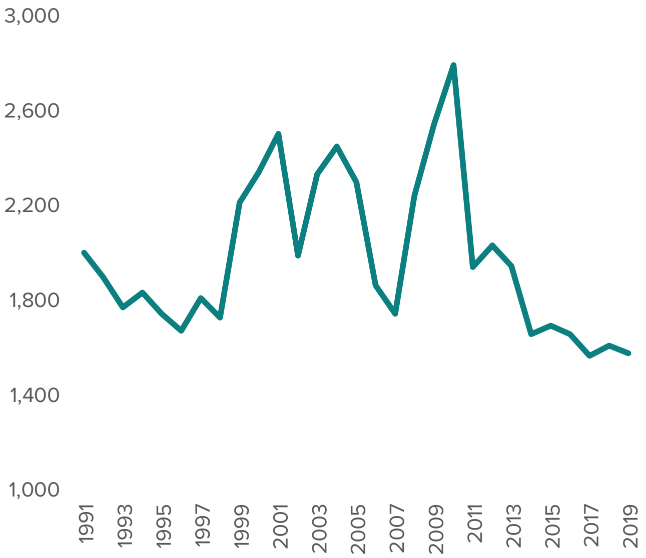
Further analysis shows that structural rather than external factors have hampered growth. This section presents an analysis that examines the extent to which per capita growth can be traced to structural factors (infrastructure, human capital, size of government, financial deepening, and trade openness), stabilization policies (inflation and real exchange rate), and external conditions (terms of trade and export commodity prices). It combines country-specific data with the results of a

Figure 39. Agricultural total factor productivity index (2015 = 100)



Source: United States Department of Agriculture.
Note: See Fuglie 2015 for more details on the United States Department of Agriculture methodology.

Figure 40. Agriculture value-added per worker (constant 2015 $)



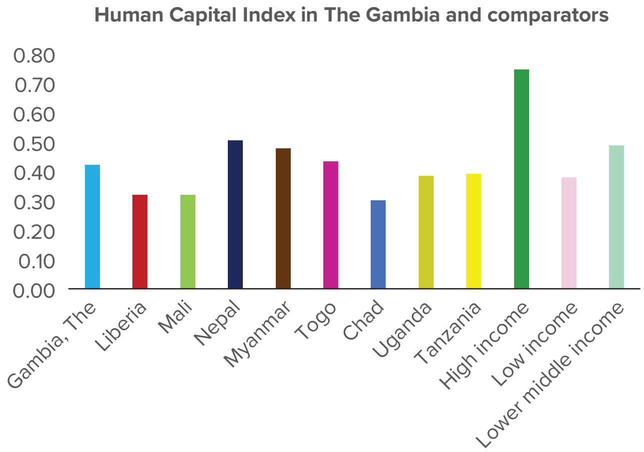
Source: WDI.

cross-country regression model.[18] The determinants of per capita growth over 2003–2022 can be divided into three subperiods: 2003–2009, 2010–2016, and 2017–2022. Per capita growth was negative over the 2003–2009 and 2010–2016 periods, adversely affected by most structural factors (Figure 42 and Figure 43). Increased government spending is reflected in the rising share of government consumption in GDP, from an average of 7.25 percent in 2003–2009 to 8.7 percent in 2010–2016. According to the cross-country regression model, this kind of government behavior contributed to the average annual GDP reduction by 1.35 ppts, likely reflecting a crowding-out effect of private sector investment (this also coincides with the time when TFP growth was negative). During the period 2003–2016, the trade deficit had a negative contribution to GDP growth, while infrastructure development remained at the same level as in the late 2000's, having no effect on economic activity in 2010–2016. By contrast, human capital development had a positive impact on GDP growth, reflecting increased secondary school enrolment, while stabilization policies and external factors had a slight positive effect.

[18] The empirical analysis mainly uses the cross-country growth regression model initially built to investigate structural growth in Latin America and the Caribbean (Brueckner, 2014). See also Moller and Wacker (2015), Araujo et al. (2014), and Haile (2016) for applications in the context of Ethiopia, Latin America, and Tanzania, respectively. This model explains GDP growth per capita as a function of several growth drivers (structural, stabilization, and external). The persistence effect captures the impact of previously undertaken measures and policies on the current economic performance. Structural factors encompass infrastructure, expressed as a composite infrastructure index based on the three indices capturing progress in power generation capacity (measured by electric production kWh per capita), roads (measured by km of road per 100 sq. km of land area), and phone lines (measured by fixed telephone subscriptions per 100 people and mobile cellular subscriptions per 100 people); human capital (measured by secondary school enrollment); government size (expressed as a share of government consumption in GDP); trade openness (approximate by trade to GDP ratio, whereas trade is calculated as a sum of exports and imports of a country); and financial development (measured by domestic credit to GDP ratio). Stabilization policies take into account inflation and real exchange rate movements. External factors are approximated by net barter terms of trade (calculated as the percentage ratio of the export unit value index to the import unit value index, measured relative to the base year 2000) and by country-specific commodity export price index (based on the international price of commodities and relative importance of the export of a specific commodity to a country's GDP).

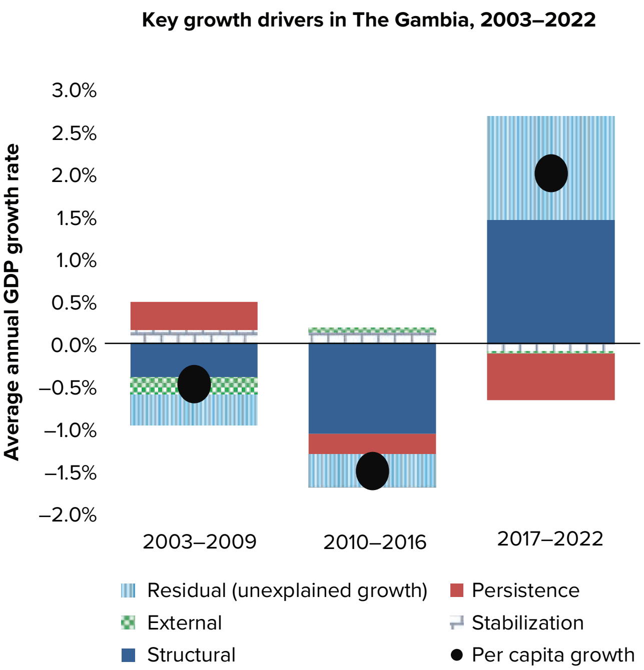
The Gambia trails far behind in human capital development. Human capital is a crucial determinant of economic development through its impact on production and services output (Eggoh and Sossou 2015). The stock and quality of human capital impacts growth and productivity, both at the macro and firm level. According to the World Bank's Human Capital Index (HCI),[19] which measures countries' contribution of health and education to estimate the productivity of the next generation of their workers, The Gambia scored 0.42 in 2020, which is relatively low but slightly higher than that of some regional peers such as Liberia, Mali, Chad, Uganda, and, Tanzania (no data available for Guinea Bissau) (Figure 41). It indicates that, on average, children born in the country today will only be 42 percent as productive when they grow up as they could be if they enjoyed complete education and total health. The social protection system is still in its infancy (World Bank 2022c). Over 60 percent of

Figure 41. The Gambia's level of human capital is low



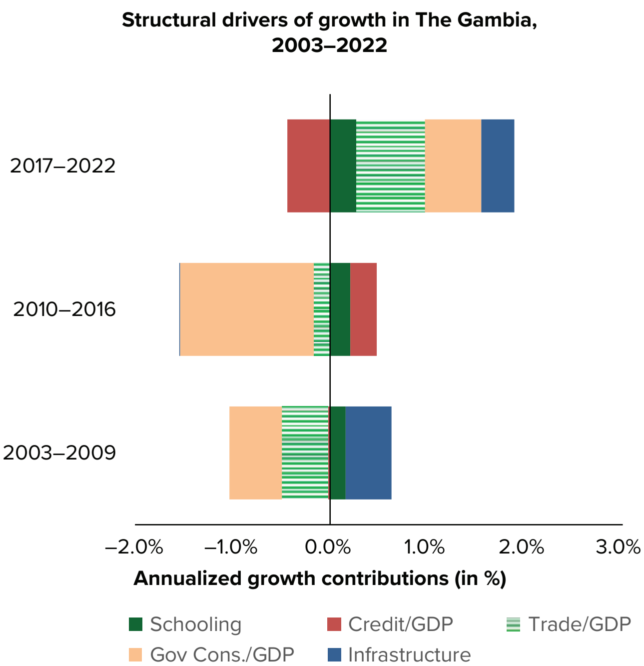
Source: World Bank (2020), Human Capital Project.

Figure 42. Structural factors held back growth in 2003–16 . . .



Source: Authors based on WDI data.

Figure 43. . . . while they contributed to growth in 2017–22



Source: Authors based on WDI data.

[19] The index tracks the future trajectory, from birth to adulthood, of a child born today. It quantifies the level of human capital that a child can expect to attain by the end of secondary school, given the risks of poor health and education at the time of the child's birth.

the Gambian workforce has no formal schooling, while almost 50 percent of the adult population (aged 15 and above) is estimated to be illiterate (World Bank 2020c). In 2023, budget allocation to education and health amounted to 2.7 percent and 1.4 percent of GDP, respectively, with most spending being recurrent. The country's public expenditure on education and health is low compared to that of peers, and it is highly inefficient. Despite very low teacher salaries, the wage bill makes up three-fourths of school-related education expenditure. The execution of the non-salary education budget is mainly focused on expenses unrelated to learning outcomes. The Gambia's health expenditure is largely recurrent (95 percent) and concentrated on goods and services. Budget allocations are skewed toward tertiary and secondary care at the expense of primary care, contributing to inefficiency in health service delivery. The country's efficiency score is an estimated 82 percent for primary education and 72 percent for 11 health facilities, which means that, on average, the same level of services can be provided with 18 and 28 percent fewer resources in primary education level and health facilities, respectively (World Bank 2020b).

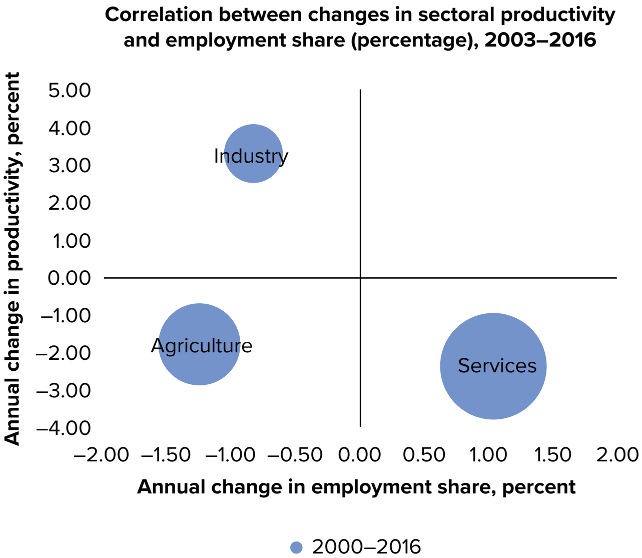
Improvements in GDP per capita growth over 2017–2022 were mainly driven by structural rather than external factors. GDP per capita growth averaged 1.8 percent over 2017–2022, despite the deceleration of economic growth in 2020 due to the COVID-19 pandemic. The main growth drivers were structural factors, including reduced government consumption and increased trade openness. Infrastructure development recorded improvements across all observed indicators, and an increase in secondary education enrolment had a moderate but positive effect on per capita GDP growth. Credit variables exerted a negative effect, which illustrates the lack of access to appropriate financing. The Gambia's banks focus on financing consumer goods and tend not to engage in investment financing, which is a constraint for productivity. CBG statistics show that loans to productive sectors as share of total loans in 2022 accounted only for 6.5 percent for agriculture, 10 percent for construction, 1.7 percent for manufacturing, 0.5 percent for energy, 1.4 percent for transport and 1.3 percent for tourism. The impact of stabilization policies turned slightly negative, as the real exchange rate adversely affected economic performance, while external factors had a negligible effect on growth.

The Gambia's economy suffers from a lack of structural change, despite an increase in productivity following the country's transition to democracy. Between 2000 and 2016, the services sector was the country's main employer, despite recording negative productivity growth, while agriculture, with its negative productivity growth, was the second-largest employer (Figure 44). Industry, which is characterized by higher productivity, accounted for the lowest employment growth. While the beginning of the democratic transition in 2017 was accompanied by macroeconomic stabilization and a rise in productivity across sectors, it failed to trigger an incipient structural change. There has been no shift in labor despite changes in sectors' productivity levels. The services sector almost doubled its level of productivity, going from negative to positive productivity between the two subperiods, while its share of employment in the economy has remained virtually unchanged. Industry has almost doubled its level of productivity since 2017, which was already positive in the previous subperiod, while keeping its share of employment virtually unchanged (Figure 45). Productivity in the agriculture sector has also begun to enter positive territory, but its share of employment has also remained unchanged.

Per capita value-added growth in 2017–2019 was driven by increased productivity within sectors rather than a nascent structural change. The increase in productivity is corroborated by a Shapley decomposition[20] that shows that value-added per capita grew by an average of 4 percent

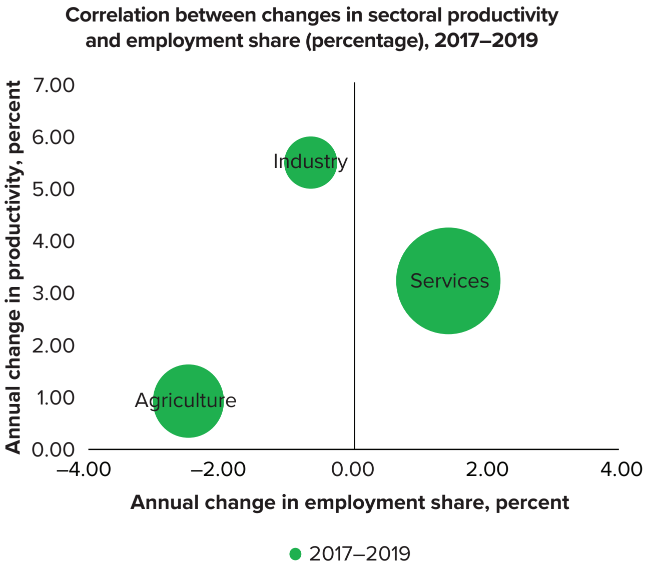
[20] The Shapley decomposition is a methodology that decomposes growth in GDP per capita in two consecutive periods, in its employment, productivity, demographic components and structural changes to disentangle the sources of output per worker growth. Static gains (or losses) in productivity occur due to labor shifts from below to above-average productivity level sectors (or vice versa), while dynamic gains (or losses) in productivity stem from relocation of workers from below- to above-average productivity growth sectors (or vice versa). The growth in value-added per worker can increase for various reasons, such as rising labor productivity within sectors (if each worker produces more), structural change (if workers move from low- to higher-productivity activities), demography (if the relative share of WAP rises), and employment (if a larger share of WAP is employed).

Figure 44. Productivity remained negative over 2000–2016 period except in industry . . .



Source: Authors based on WDI data.

Figure 45. . . . but all sectors have experienced an increase in productivity since the Gambia's democratic transition, although there has been no shift in labor to more productive sectors



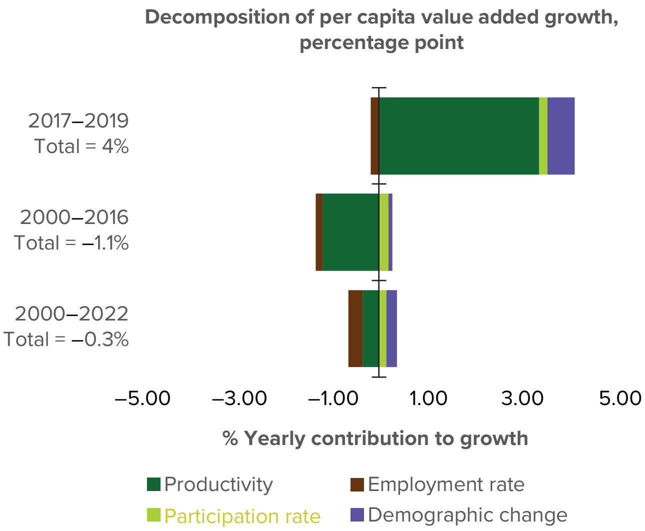
Source: Authors based on WDI data.

in 2017–2019, after having contracted over 2000–2016, with aggregate productivity contributing most of the growth (Figure 46). Productivity growth stemmed from labor shifts within sectors, with both a static and dynamic reallocation of resources remaining marginal (Figure 47), reflecting the absence of structural change.[21]

Consistent with evidence for a lack of structural change, limited resources may have moved toward more productive firms. Productivity growth was driven by within-sector labor shifts in 2017–2019, which supported an increase in per capita value-added in the industry and services sectors and moderately in agriculture and accounted for 95 percent of per capita value-added growth. The weak contribution of intersectoral growth suggests a limited reallocation of resources to the most productive firms, apart from a marginal movement in the services sector (Figure 48). Lack of reallocation of resources from less productive to more productive firms can be explained by barriers such as obstacles to competition, red tape, an overbearing presence of SOEs, and limited access to credit. While entering the market doesn't seem too difficult, limited access to finance, unfair competition from the informal sector and SOEs, and several other constraints on the business environment make it difficult for new firms to perform well (Box 2.2). The limited movement of employment to higher-productivity sectors and firms has negatively impacted growth and restricted job creation. Indeed, an economy grows and creates more jobs when the labor shifts to sectors with higher levels or growth of productivity. The strong improvement in productivity within the service sector is not attracting factors from agriculture, likely due to skills mismatches.

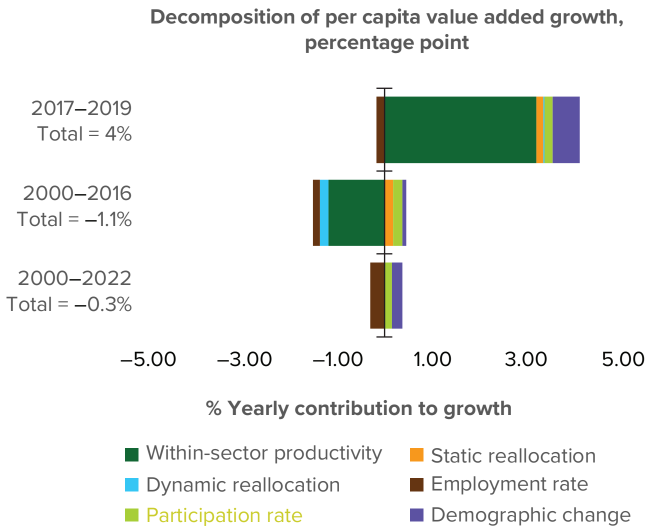
[21] Structural change promotes static gains when sectors with above-average productivity levels increase their share in total employment, while dynamic gains occur if sectors with above-average productivity growth experience an increase in their employment share, irrespective of their initial productivity levels.

Figure 46. The Gambia has experienced an increase in productivity since 2017. . .



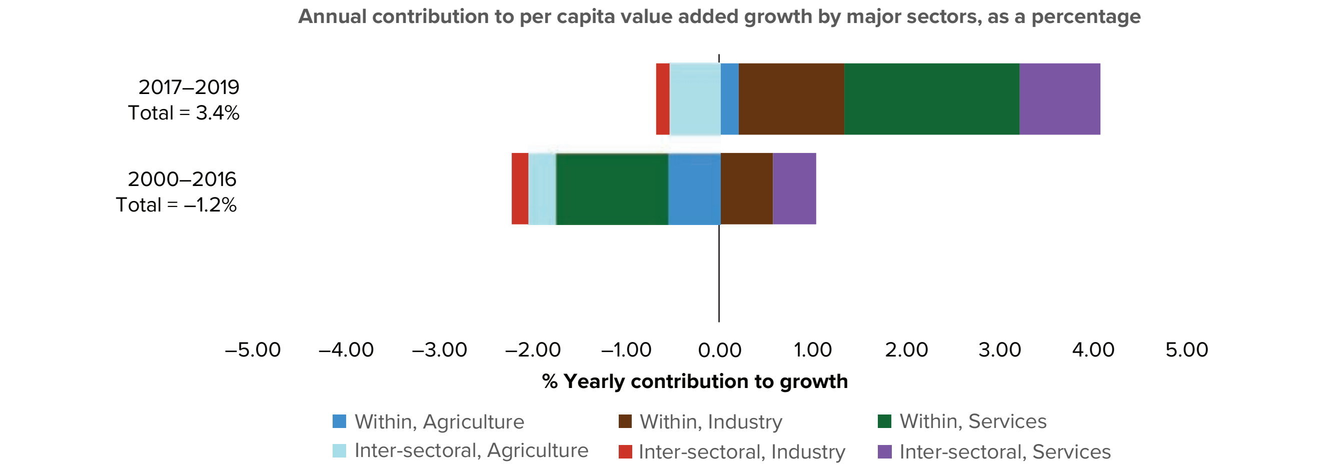
Source: Staff estimates using WDI data.

Figure 47. . . . driven by within-sector productivity in a context of weak resource reallocation



Source: Staff estimates using WDI data.

Figure 48. Growth was driven by within-sector productivity in a context of limited intersectoral growth



Source: Staff estimates using WDI data.

2.3. Economic growth has not been inclusive despite progress

This section examines to which extent growth has translated into improving the lives of people in The Gambia. It analyzes poverty trends, access to basic infrastructure services, and employment dynamics (employment per sector, transition of labor, and productive employment).

Poverty and inequality remain high despite recent resilient growth

Prior to the pandemic-induced crisis, poverty was declining at a slow pace. The national poverty rate fell from 48.6 percent in 2015 to an estimated 45.8 percent in 2019, due to low and volatile economic growth. Data collected in 2020 shows that national poverty increased to 53.4 percent, instead of declining to a projected 44.9 percent based on the pre-COVID-19 economic growth rate. This implies that about 1.1 million Gambians were poor in 2020.

Poverty rates are higher in rural areas, where the poor typically work in the agriculture sector, while the largest share of the poor in urban areas participate in the informal services sector. The poverty rate (based on the national poverty line) in rural areas was an estimated 76 percent in 2020, much higher than 34 percent in urban areas. However, a high share of the poor lives in densely populated urban settlements such as Brikama, which is home to over 300 thousand poor people, the highest number in the country. The increasing urban-rural divide also resulted in an increase in inequality, which increased from an estimated Gini index of 36 in 2015 to 39 in 2020.

Despite the post-pandemic recovery, additional shocks continue to undermine progress in poverty reduction. GDP per capita growth reached an estimated 2.7 percent in 2023—up from 2.4 percent in 2022—driven by agricultural production (given favorable rains) and the continued recovery of the tourism sector. However, high inflation continues to dampen private demand—averaging 17 percent in 2023—driven by rising food prices, utility tariff increases, currency depreciation, and fertilizer prices.

Poverty (using the international poverty line of US\$2.15 in 2017 PPP)[22] increased from an estimated 16.4 percent in 2022 to 16.9 percent in 2023—equivalent to an increase of over 25,000 extreme poor people. The increase in poverty was driven by high inflation despite positive agricultural growth. The sharp increase in poverty (0.5 ppts increase in 2023, up from an increase of 0.3 ppts in 2022) reflects high prices that are eroding the purchasing power of households, especially the poor, who spend a large share of their consumption basket on food. Household survey data for 2020 show that poor households spent 65 percent on food in 2020—more than 10 ppts higher than what non-poor households spent. Food prices spiked, averaging 22.2 percent in 2023 (up from 14.5 percent in 2022), higher than an average of 10.9 percent (up from 8.6 percent in 2022) for non-food prices, exposing the poor to the risk of sliding deeper into poverty. Rising food prices (especially of imported staples such as rice, oil, and sugar in a context where over 50 percent of the food supply in The Gambia is imported) limit the ability of vulnerable households to increase their already weak per capita income. Although more robust projected growth in agriculture and the expansion of cash transfers are expected to have a positive effect on poverty reduction, these gains will be tempered by continued high food prices.

The incidence of growth reveals significant declines in per capita consumption growth

All households suffered reductions in per capita consumption growth between 2015 and 2020, with households in the bottom 20 percent of the income distribution experiencing the most significant reduction.

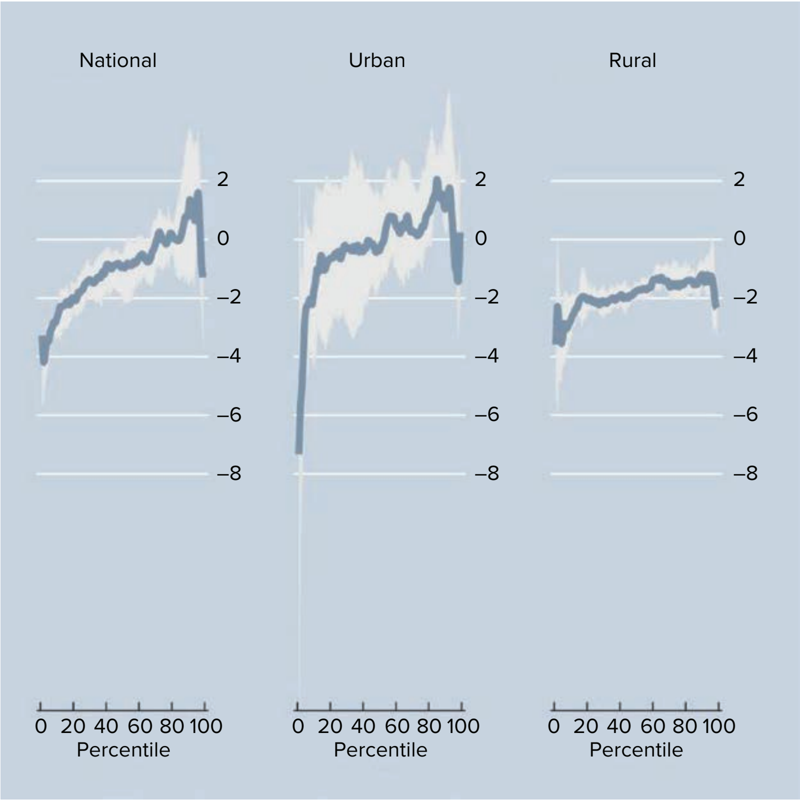
[22] The International Poverty line is estimated by the World Bank and allows for cross-country comparison. The poverty estimates reported here are based on simulations using the 2020/21 his survey, sectoral GDP per capita growth rates, and food and non-food price data.

According to an analysis of the growth incidence curve between 2015 and 2020, annualized growth in consumption per capita declined by about 3 percent per year for the poorest households (Figure 49). It rose by nearly 2 percent annually for households in the 80th to 95th percentile. Moreover, consumption levels fell by about 1 percent per year for households at the very top of the distribution, although growth at the top is difficult to accurately measure.

The more significant decline in per capita consumption growth among the poor is linked to employment. The bottom 20 percent of households are mainly employed in agriculture (55 percent), which only grew by 0.6 percent, on average, between 2015 and 2019, before increasing significantly in 2020, which mitigated the overall impact of the pandemic on some poor households. Meanwhile, the middle class was also affected by the large (7 percent) contraction of the services sector in 2020.

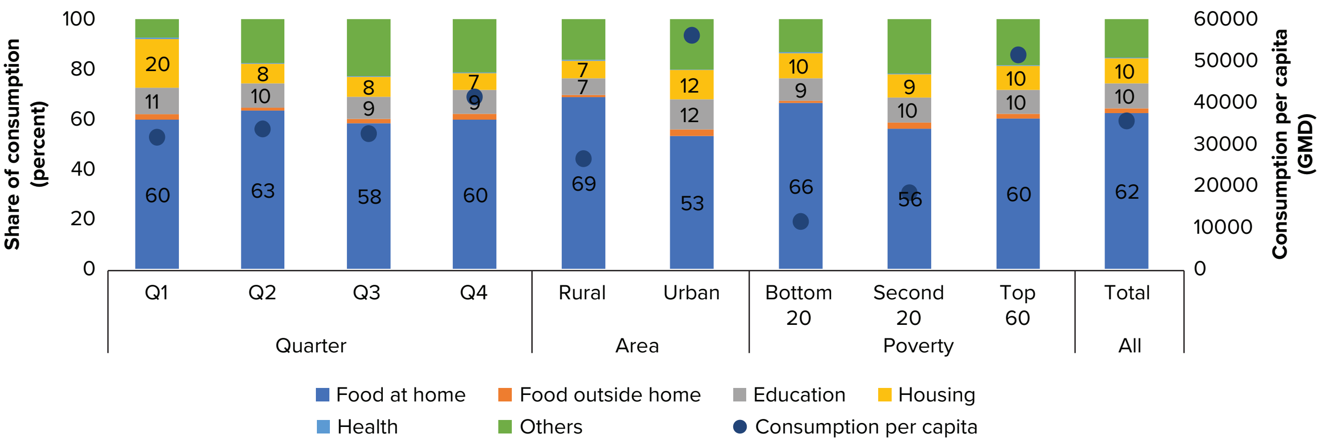
Poor households spend nearly 90 percent of their budget on food, education, and housing and remain highly vulnerable to food price increases. Overall household expenditure is lower among rural than urban households, as well as among poorer than richer households (Figure 50). A closer look at the composition of household expenditure shows that poorer households spend more on food than richer households and those in the urban areas. However, the onset of the pandemic in the second quarter of 2020 reduced the share of expenditure on housing while increasing the share spent on food, suggesting that households spent more on food due to the associated uncertainty of the pandemic and lockdown.

Figure 49. Growth incidence curves, 2015–2020



Source: Integrated Household Surveys (IHS) 2015/20.
Note: Y-axis plots the annualized consumption growth rate in percentage.

Figure 50. Consumption patterns



Source: Integrated Household Surveys (IHS) 2020.

Social disparities prevail in access to essential service[23]

Most of the country still needs to be better connected by roads, and the distribution of cell towers is uneven (Figure 51). Outside of Banjul, there are only a few roads that connect the North and South Bank roads. Connectivity remains much better for households in urban areas. For instance, coastal areas near the capital appear to be well covered by both roads and cell towers, as indicated by relatively higher road density and lower distance to the nearest cell tower. While the areas with worse access have lower population density, they are also poorer and more likely to be engaged in agriculture. In rural areas, where agriculture is the primary source of livelihood, limited connectivity, both in terms of roads and cell towers, has potentially large effects on agricultural development, possibly restricting or even preventing households' access to markets.

Despite recent improvements, significant spatial disparities in access to secondary schools and health facilities exist. Results from using small area estimation techniques—combining survey data and geospatial data—to estimate distance to key facilities at the district level show significant spatial variation in access to secondary schools and health facilities (Figure 52).[24]

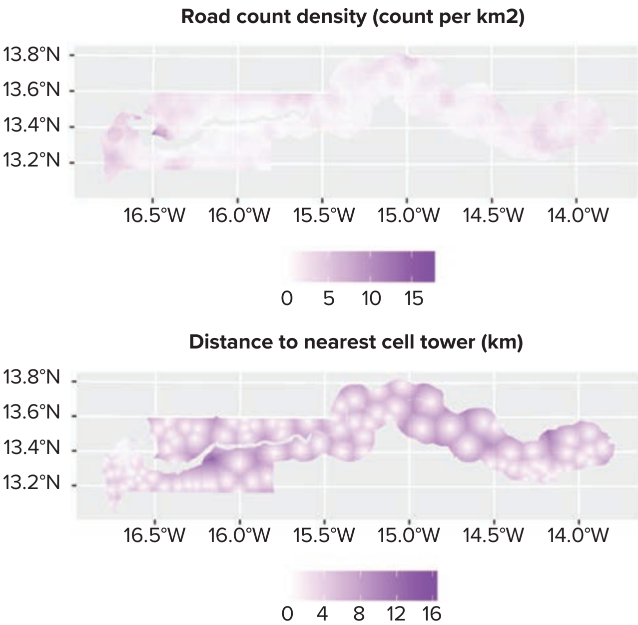
Gambian children generally do not have to travel far to attend primary school. While there is a clear difference across districts in the distance to the nearest primary school, the highest average is only around 1.24km (Niani district). Moreover, some of the poorer areas—like the North Bank districts—show relatively good access to primary schools, especially compared to other services, possible due to the recent government push to build primary schools in poorer areas of the country.

There are, however, considerable spatial disparities in access to secondary school. While some peri-urban areas near Banjul and Kanifing have relatively high access to secondary schools, the North Bank districts have noticeably worse access (Figure 53). People living in the middle

[23] The analysis relies on small area estimates. Estimates are population weighted allowing for the extrapolation from sample to population and hence capturing differences in population densities. Additionally, the small-area estimates combine survey and geospatial data (including population data) to allow for estimation at lower administrative units – such as districts.

[24] District-level results are evaluated as sufficiently precise to present. The mean and median coefficients of variation are 0.116 and 0.112 for primary school, 0.092 and 0.086 for secondary school, 0.124 and 0.105 for health clinics, and 0.169 and 0.154 for hospitals. The highest 90th percentile CV is for hospitals, at 0.227, which is still below commonly accepted international standards of precision.

Figure 51. Road count density and distance to nearest cell tower



Source: Road counts come from OpenStreetMap —information on cell towers provided by PURA.

regions of the country appear to be located farthest from secondary schools.

There are also significant spatial disparities in accessing health clinics and hospitals. People living in districts in the middle regions are located particularly far from health clinics. By contrast, people living in the far eastern corner of the country, in the Upper River districts, are particularly far from hospitals. Moreover, many households living in the eastern half of the country have poor access to health services. Given the difficulties associated with traveling long distances in rural areas, some households have considerable distances to traverse to access health services. In the east, the average person lives quite far from the nearest tertiary care hospital.

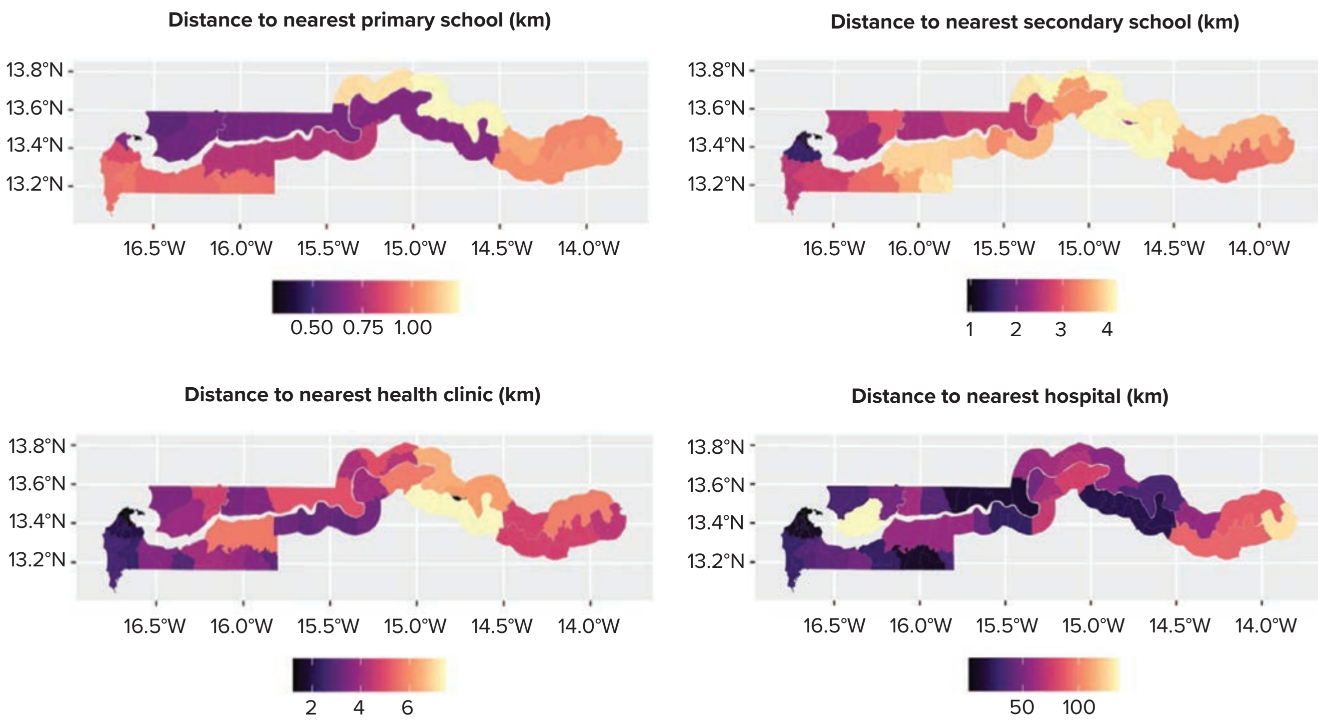
Poorer wards live far from secondary schools, health clinics, and hospitals. An analysis of the relationships between estimated absolute and extreme poverty rates and distance to primary and secondary schools as well as clinics and hospitals shows a clear positive relationship between the poverty rate—whether absolute or extreme—and distance to the nearest facility (Figure 52). All households are generally located close to a primary school and, as such, the increase in distance with the poverty rate is smaller in magnitude. However, there are noticeable differences in access to secondary schools and health clinics based on estimated poverty rates. The relationship with extreme poverty shows that distance increases very rapidly at small levels of poverty, before leveling off at higher rates. This relationship is even more pronounced with hospitals: only individuals living in the least poor wards have decent access to tertiary care at hospitals.

Across households, poorer households report longer distances to health and education facilities. Given that these facilities are important inputs for human capital—and, as such, outcomes later in life—this is suggestive evidence that the poorest households do not just lack access to services that richer households have access to, they may also face persistent disadvantages later in life due to this lack of access.

The Gambia's labor market suffers from significant underutilization, low labor force participation, and high informal employment, with large gender disparities

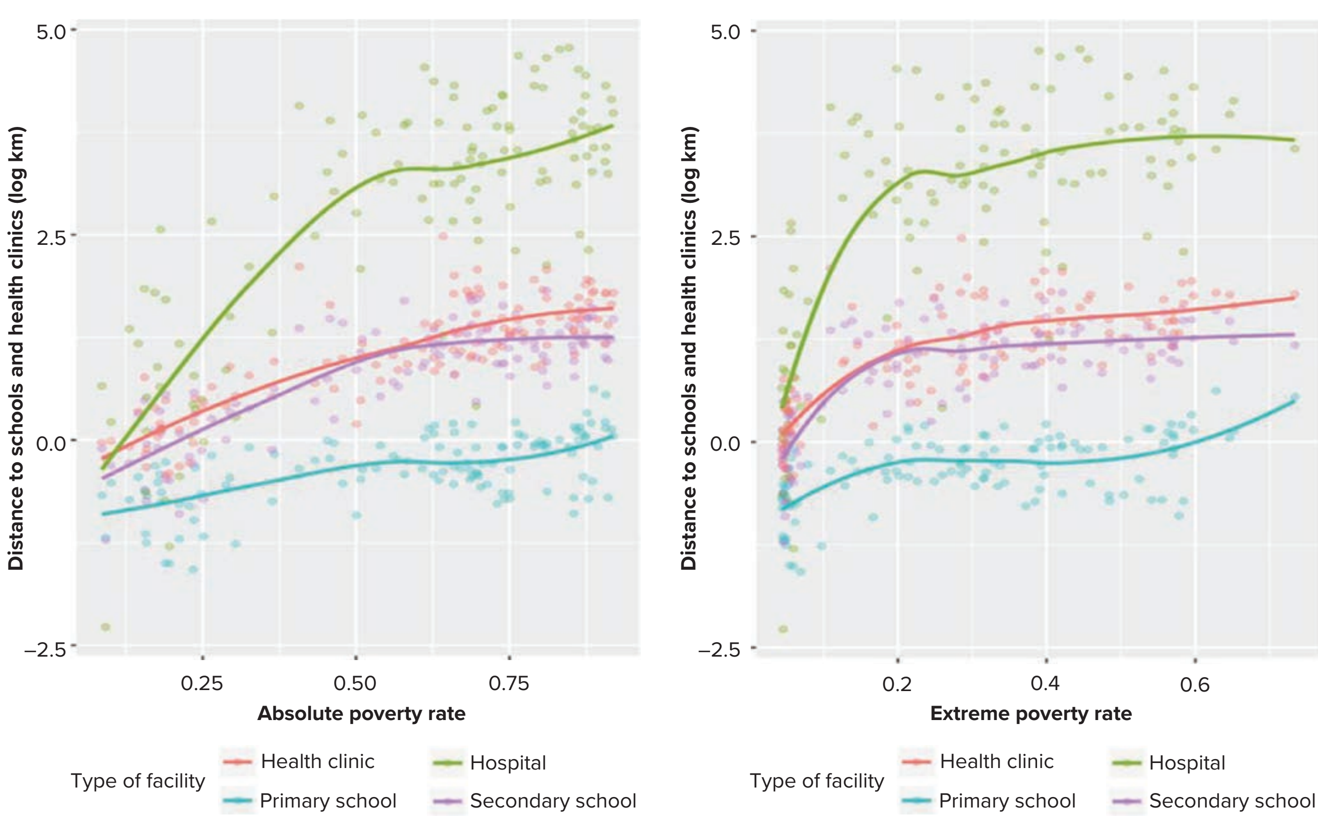
The shrinking share of the working age population (WAP) hampers income per capita growth. While WAP increased from 0.5 million in 1990 to 1.3 million in 2021, its share in the total population declined from 56.1 percent in 1965 to 50.4 percent in 2000, before gradually rising to 53.7 percent in 2021. Growth in WAP can affect economic prosperity in several ways, notably by raising incomes, savings, investment, and productivity. In the case of The Gambia, the lack of growth in the share of WAP means that there has not been an increase in people able to produce goods and services in the economy. This hinders the possibility of generating more income and savings as well as reducing poverty. The child dependency ratio is persistently high, averaging 82 percent in 2021. Furthermore, a large proportion of working-age youth (aged 15–24) is left behind by the labor market. Only 38.9 percent of people in this age group were actively

Figure 52. Small area estimates of the average distance to the nearest education and health facility (district level)



Source: Small area estimates based on 2020 HIS and geospatial indicators.

Figure 53. Estimated poverty rates and distance to health and education facilities



Note: The lines are smoothed means based on small area estimates.

engaged in the labor market by working in 2021, far lower than 66.3 percent in early 1983. As a result, employment opportunities have declined considerably in The Gambia over the years.

The labor market faces a low labor force participation rate. According to the recently completed Gambia Labor Survey (GLFS 2022–23), the labor force participation rate is 43.6 percent of WAP, divided between 47.9 percent for men and only 39.6 percent for women (Figure 54). This means that 56.4 percent of WAP are outside the labor market. Therefore, contribution of the labor force participation rate in per capita value-added growth is marginal as highlighted by the growth accounting.

There are also many underemployed workers. The unemployment rate was 7.6 percent in 2022–23, while the labor underutilization rate—which combines unemployment, time-related underemployment, and persons who are outside the labor force but are considered as potential labor force—was 41.5 percent (50.5 percent among women and 31.8 percent among men) in the same period (Figure 55). Underemployment translates into low productivity and low wages.

Employment is mainly informal and unwaged in The Gambia. The services sector employs most of the country's workforce (57.7 percent of workers), ahead of both industry (21.2 percent) and agriculture (21 percent) (Figure 56). However, 79.4 percent of all workers are engaged in informal employment, ranging from 84.7 percent of female workers to 74.7 percent of male workers (Figure 57). Moreover, employment is concentrated in low or non-wage-paid agriculture. In 2019, only 27.9 percent of workers had waged jobs, ranging from 15.7 percent of female workers to 35.7 percent of male workers.

Wide gender gaps in labor market outcomes are notably attributed to wide gaps in educational attainment. Large gender gaps remain in educational attainment and access to land and productive inputs. Among adults aged 15–64 in 2018, 46 percent of women did not complete elementary school, higher than 36 percent of men. Together with traditional gender norms, this contributes to significant gender gaps in labor market outcomes, including among the self-employed. Three out of four women of working age have no access to their own earnings, as opposed to nearly half of men. Women's lack of economic empowerment weakens their position in both the household and political life. Men are 2.3 times more likely to be wage-employed and 42 percent more likely to run their own businesses than women. By contrast, women are 3.7 times more likely to be unpaid family workers and 26 percent more likely to be engaged in subsistence agriculture. Moreover, self-employed women suffer worse labor market outcomes and are much less likely to obtain financial assistance from friends and family than their male counterparts. On average, female-run business profits are 60 percent of those of male-run businesses. While female businesses represent 44 percent of all businesses in The Gambia, they account for only 8 percent of businesses with paid employees. Compared to men, women also have less access to financial services. Only 15 percent of women have an account at a formal bank, which is half the rate of men (World Bank 2022c).

The combination of a low share of WAP, strong child dependency, low youth employment, and low wage employment has perpetuated low per capita income growth. In 2022, real per capita GDP growth reached 2.4 percent. This is insufficient to significantly raise per capita GDP, which stood at US$798 in 2022 in nominal terms and US$682 in real terms (in constant 2015 dollars).

2.4. Other structural constraints have impaired The Gambia's growth dynamics

Structural constraints impair The Gambia from expanding its productive base and diversifying its economy. These findings are highlighted in The Gambia's 2020 Systematic Country Diagnostic (World Bank 2020a) and the 2022 Country Partnership Framework (World Bank 2022d). Low revenue collection hinders the provision of public goods and fiscal and debt sustainability. The weak business environment and governance as well as institutional challenges limit private sector development, hampering efforts to attract investment and accelerate job creation. An overreliance on agriculture, which suffers from declining productivity, and increasing environmental

Figure 54. The Gambia faces low labor force participation . . .

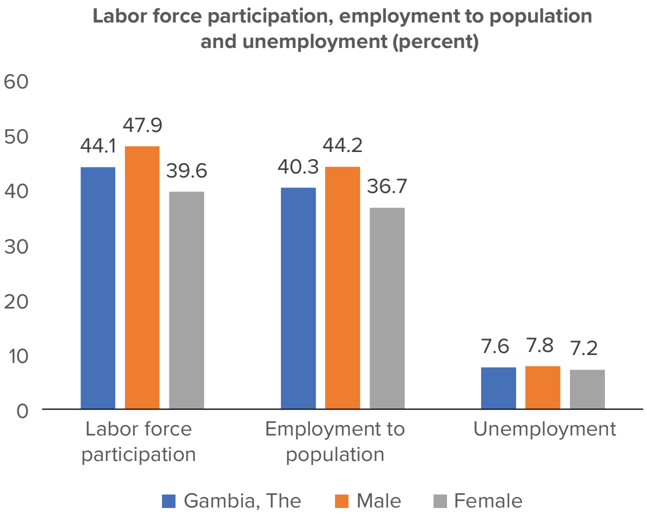


Figure 55. . . . and high underemployment

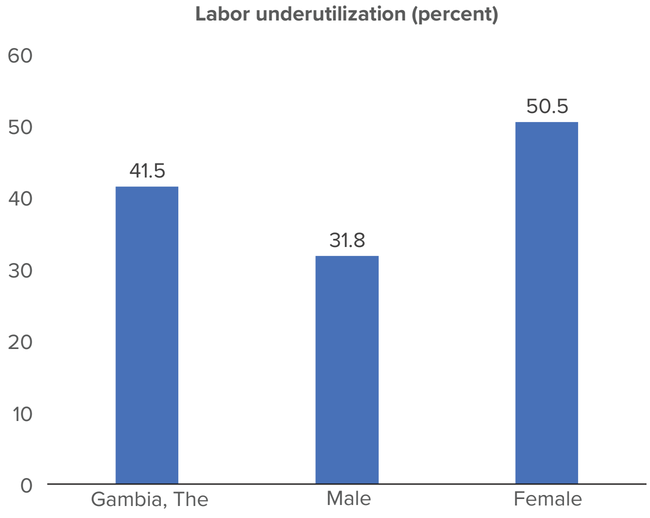


Figure 56. Employment is concentrated in services . . .

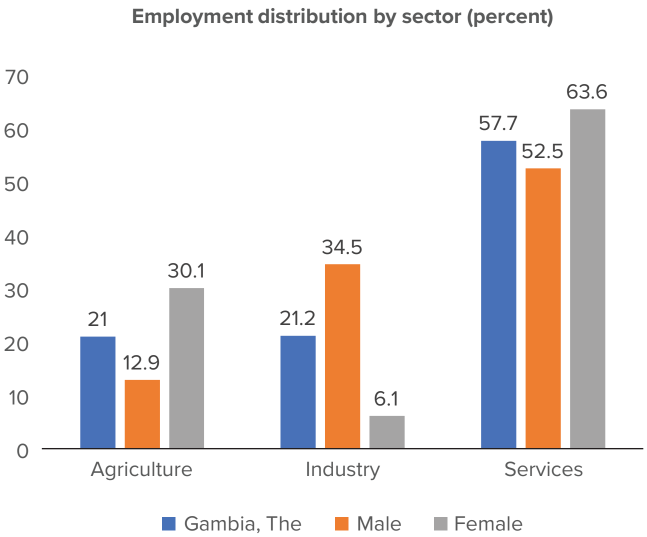
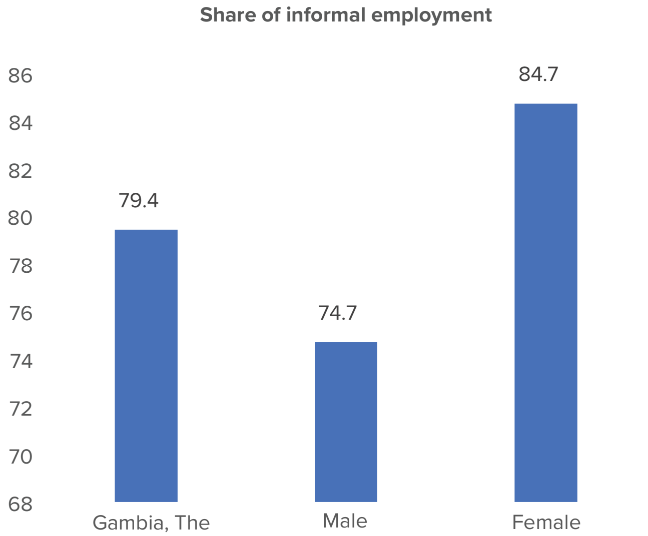


Figure 57. . . . but is mainly informal



Source: The Gambia Bureau of Statistics 2023.

degradation and climate vulnerability contribute to food insecurity. These challenges are compounded by low levels of infrastructure and limited human capital development, all of which impede productivity growth, limit structural transformation of the economy, and hinder poverty reduction (World Bank 2023d). These constraints explain why growth has not been inclusive, with significant disparities and low levels of access to essential services, limited access to quality jobs and poverty rates that remain high.

Low revenue collection hampers the provision of public goods and fiscal and debt sustainability

In recent years, efforts have been made to strengthen tax policy reforms and tax administration. Reforms include the introduction of the value-added tax (VAT) in 2013, the introduction of reporting obligations in 2019 to enhance the transparency and administrability of the small taxpayer regime as well the informal sector tax regime, the adoption of a series of tax reforms in 2021,[25] and the introduction of revenue measures in the 2023 budget.[26] There are also ongoing reform efforts at the Gambia Revenue Authority (GRA) to strengthen the tax administration, including isolating the tax agency from political interference to help reduce corruption and establishing the Commission of Inquiry into Tax Evasion and other Corrupt Practices to investigate tax evasion and identify those who owe back taxes. The GRA upgraded its customs management system to ASYCUDA World in June 2022 to ease the payment of import and export duties. In addition, a customs and inland border control policy was adopted for all border stations in 2023 to standardize border clearance procedures and establish a new risk management system for all border and in-land control posts. Recent reform efforts adopted in 2023 in customs administration include launching the Single Window, setting up electronic excise stamps for key manufacturing businesses and importers, creating the fuel marking process, and developing a telecom measurement system.

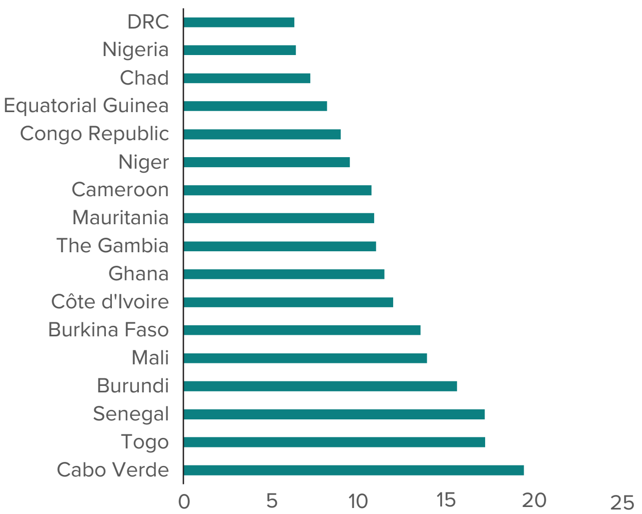
Despite reform efforts, tax revenue mobilization remains inadequate to meet the country's socioeconomic development needs. Tax revenue mobilization averaged an estimated 10.1 percent of GDP over 2017–2023, below the SSA average of 18.9 percent and the average of many peer countries (Oxford Economics 2022) (Figure 58). Tax revenue collection is below the level needed to perform most basic state functions and finance development programs, as it is below the so-called 'tipping point' of a tax-to-GDP ratio of 15 percent, at which a country can start making the critical investments needed to accelerate growth (Vitor et al. 2016). Existing estimates show that the overall tax gap is estimated at 4–6 percent of GDP, indicating that the government can increase its fiscal capacity by expanding its tax revenues (World Bank 2020b). The tax gap is due to generous tax incentives (which narrow the corporate tax base), the proliferation of VAT exemptions, difficulties in taxing government institutions, and the prevalence of zero-rated goods.

Revenue and fiscal outturns are increasingly dependent on external financing. Since the country started its democratic transition, grant support has increased significantly, from an annual average of 1.7 percent of GDP in 2013–2016 to 7.1 percent in 2017–2023. This increase in development assistance reflects the willingness of development partners to accompany the transition and help The Gambia reach its development objectives. However, revenues and overall fiscal outturn have become dependent on grant support, which averaged 31 percent of total revenue over the past six years (Figure 59). The country's

[25] Effective January 1, 2021, The Gambia introduced various tax reforms, including: increasing the capital gains tax threshold; reducing the fringe benefits tax rate; repealing the environmental tax payable by employees and the air transport levy; increasing the threshold for voluntary VAT registration; and introducing the requirement for large taxpayers to submit audited financial statements with their annual tax returns.

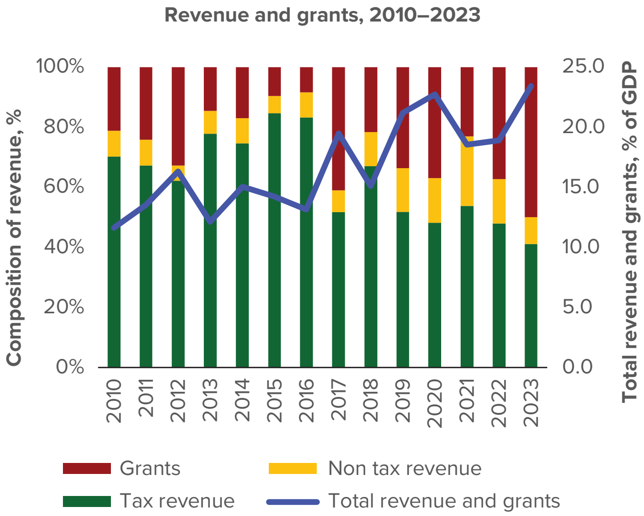
[26] Revenue measures introduced in 2023 included: increasing the excise tax on tobacco; revising the immigration fees of non-Gambians in line with regional benchmarks; introducing an ad-valorem tax on used tires; revising duty waiver application fees; introducing an environmental tax on second-hand goods that do not currently attract an environmental tax and security levy on all insurance premiums (funds will be collected by insurance companies); allowing for deduction of rental income tax at source for all commercial rental properties; and increasing the Expatriate Quota tax for non-ECOWAS residents.

Figure 58. Tax-to-GDP ratio, 2020 (percent)



Source: International Financial Statistics.

Figure 59. Revenues are increasingly dependent on external financing



Source: MOFEA; IMF; World Bank staff calculations.

dependence on grants is a challenge to implementing development programs and ensuring debt and fiscal sustainability. Therefore, the authorities need to accelerate reforms to strengthen domestic revenue collection.

Poor and inadequate infrastructure is a major barrier to private sector-led growth

The private sector in The Gambia faces a wide array of constraints. As seen previously, most households are faced with large disparities **in access to essential infrastructur**e. The country suffers from an infrastructure gap, particularly in the energy, transport, and information and communication technologies (ICT) sectors. Poor coverage and low-quality infrastructure increases costs in terms of both time and resources, which lower the return on capital and work, discourage domestic and foreign investment, and constrain economic growth.

Deficiencies in the country's electricity infrastructure are a crucial barrier to private sector-led growth. Only 62 percent of Gambians had an electricity connection in 2020, although people in urban areas had much better access (81 percent) than their rural counterparts (32 percent) (Table 4). Even though the electricity access rate is better than the SSA average (48 percent), lack of access to reliable, low-cost, and sustainable energy has been an enduring challenge in The Gambia. The electricity sector has historically suffered from a lack of financial viability. Plagued by poor financial performance, the National Water and Electricity Company (NAWEC) has been unable to adequately maintain and expand energy infrastructure, making it challenging to increase access, which has constrained growth and the country's competitiveness (World Bank 2022c).

Digital infrastructure remains underdeveloped despite high cell phone penetration. Mobile phone penetration

Table 4. Access to electricity in The Gambia and SSA, 2020 (percent)

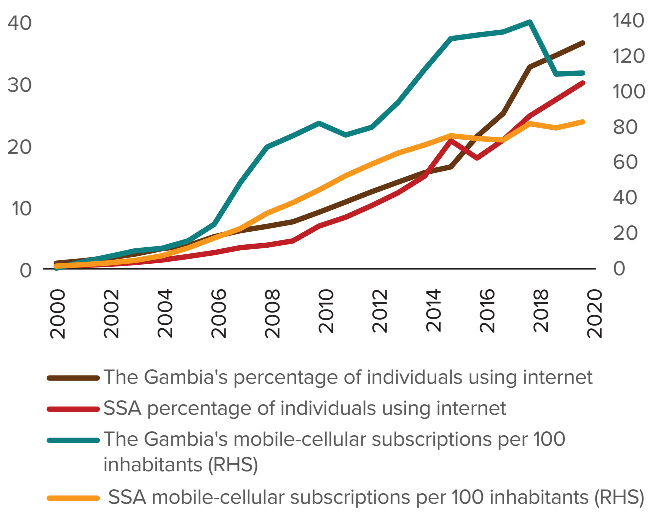
	The Gambia	*SSA*
Population with access to electricity (% of population)	62	48
Population with access to electricity, rural (% of rural population)	32	29
Population with access to electricity, urban (% of urban population)	81	78

Source: World Development Indicators (WDI).

is high, with mobile-cellular subscriptions per 100 inhabitants averaging 111 percent in 2020, almost 30 ppts higher than the SSA average, ranking The Gambia 7th on the continent in mobile tele-density (Figure 60). However, the country's digital infrastructure still encounters several constraints. The internet usage rate is low at 37 percent (although higher than the SSA average of 30 percent). Mobile internet penetration is also relatively low, and most coverage is low bandwidth. While the number of active sim cards per 100 inhabitants is beyond 100 percent, only 66.5 percent of mobile phone users use mobile internet. Similarly, 88 percent of the population has access to 3G+ broadband, but only 36.5 percent of them are using broadband services. This internet usage gap highlights underlying factors other than coverage, such as broadband affordability and quality on the supply side and literacy and digital skills on the demand side. Digital infrastructure is also hampered by weaknesses in the regulatory environment (World Bank 2020c). The uptake of 4G cellular data services is deficient, with 4G subscribers accounting for only 4.5 percent of all data subscribers. Access to fixed broadband remains well below 0.19 per 100 inhabitants, and the distribution of cell towers is uneven.

Financial inclusion and access to digital financial services remain low. The Gambia has one of the lowest levels of access to formal financial services in SSA (World Bank 2023a). According to the 2021 Global Findex Database, only 29 percent of Gambian adults are served by the formal and informal financial sector, while almost 70 percent of adults are financially excluded. Financial inclusion is much lower in The Gambia than in peer countries such as Togo (45 percent), Benin (43 percent), and Burkina Faso (40 percent) as well as the average of LICs (35 percent) and SSA (43 percent) (Figure 61 and Figure 62). The share of Gambian adults excluded from the financial sector is more pronounced in rural areas (75 percent) and among youth (77 percent) and women (64 percent). This hampers The Gambia's socioeconomic development, as it affects a large proportion of WAP in a country where the adult population (aged 15 and over) is 52 percent female, 64 percent young, and 57 percent rural. While high mobile penetration would be expected to spur mobile-based financial solutions, the adoption and usage of digital financial services (DFS) remains low, with only 2 percent of Gambian adults using these services.

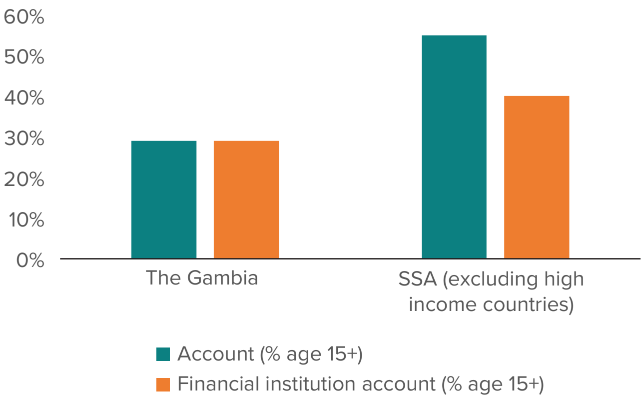
Figure 60. ICT usage in The Gambia and SSA, 2000–2020 (percent)



Source: WDI.

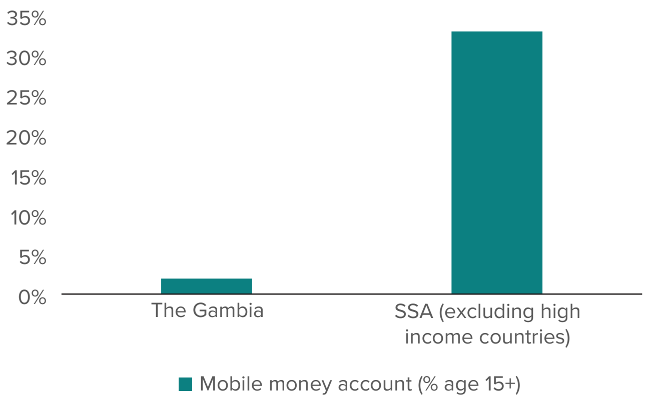
The Gambia's transport and planning sectors are underperforming (World Bank 2023b). While road infrastructure in terms of coverage (road density of 34.7 km/100 km^2) is above the average of most SSA countries, there is a big challenge in terms of infrastructure quality, especially in rural areas, where 95 percent of classified networks are categorized as being in poor or very poor condition. In addition, the distribution of roads is uneven, with only a few roads that connect the North and South Bank regions. The deplorable conditions of the secondary and the rural feeder road networks constrain rural access to agricultural inputs, extension services, markets, economic opportunities, and social services. Urban transport is also underperforming in the face of rapid urbanization. As for maritime transport, the Port of Banjul, which accounts for over 90 percent of The Gambia's international trade, suffers from inefficiency and capacity limitations. Those deficiencies have led to large volumes of goods being transited through Dakar and limited re-exports, reducing foreign exchange earnings and contributing to currency depreciation and inflation. Regarding air transport, the current capacity at Banjul International Airport is only optimally utilized during the tourist season (November

Figure 61. Financial inclusion in The Gambia and SSA



Source: Findex data 2017 (last year of available data) for The Gambia and 2021 for SSA.

Figure 62. Mobile money usage in The Gambia and SSA



Source: 2019 Finscope Consumer Survey for The Gambia and 2021 Findex data for SSA.

to April). In addition, The Gambia's logistics sector is limited in size due to the small overall local demand for logistics services. The performance of the logistics sector is reflected in low scores and rankings in the Logistics Performance Index in 2020, with The Gambia ranking 125th out of 140 economies, with an overall score of 2.3.

The Gambia's business environment remains unconducive to private sector development. According to The Gambia Enterprise Survey 2023, The Gambia is doing well in the areas of tax administration (thanks to the upgraded customs management software), customs clearance, and exports. However, the country is faced with significant challenges related to accessing electricity connections, quality of transportation infrastructure, access to finance, corruption in the public sector, weak spending on research and development, and lack of quality certifications (World Bank, 2023) (Box 2.2). Moreover, Tha

Box 2.1. Ongoing projects contributing to narrowing the infrastructure gap

Certain ongoing projects are expected to help reduce the infrastructure gap that has affected the business environment and have had harmful effects on firm-level productivity and competitiveness.

In the **energy sector**, The Gambia could achieve universal access at end-2024 thanks to a series of ongoing investment projects: (i) The Gambia Electricity Restoration and Modernization Project (GERMP), co-funded by World Bank and European Union; (ii) the Electricity Expansion Project (EEP), funded by India Exim Bank; (iii) the Gambia Electricity Access Project (GEAP), funded by the African Development Bank (AfDB); (iv) the ECOWAS Regional Electricity Access Project, funded by the World Bank; (v) The OMVG Regional Interconnection Project that will connect The Gambia to the West Africa Power Pool (WAPP); and (vi)The Solar Development in SSA Project supporting the development of a regional solar park in The Gambia.

On **transport infrastructure**, as part of the preparation of the OIC conference, the government plans to expand the Bertil Harding Highway, which stretches from the airport to Sting Corner, to a dual carriage of six lanes. It also involves building 20 new urban roads of a single carriage of two lanes. The roads are expected to improve traffic circulation and improve mobility.

Box 2.2. Some key features of the business environment in The Gambia

According to The Gambia Enterprise Survey 2023, The Gambia is doing well in the areas of tax administration (thanks to the upgraded customs management software) and custom clearance, and exports. Percent of firms identifying tax administration as a major constraint stands at 9.6 percent against 26.7 percent as average in SSA. Clearing imports from customs requires five days compared to 16.6 days as average in SSA. Firms exporting directly or indirectly (at least 10 percent of total sales) reach 18.6 percent of survey firms in The Gambia compared to 13.8 percent as average in SSA.

Contrarily, the country faces challenges related to accessing finance and infrastructure, corruption in the public sector, unfair competition from a large informal sector, cost of licensing, among key constraints.

Lack of adequate financing of investments is identified as a top constraint. Only 4 percent of firms rely on bank loans to finance investments. Investments are heavily dependent on firms' internal sources at 71 percent, which reflects inefficient financial intermediation. The rest of investments are financed by credit supplier (17 percent), equity (7 percent) and other sources (1 percent).

Deficiency of electricity supply generates costs and disrupt of production, with 87 percent of firms experiencing electrical outages.

Unfair competition from a large informal sector and SOEs. The informal commonly does not abide rules and regulations, constrains the private sector development. A large number of firms are subject to incidence of informality in the private sector with 70.5 percent of firms competing with informal firms. In addition, as highlighted by the Integrated SOE Framework report (WB, 2022), SOEs are not subject to similar market rules as the private peers. There is no legal requirement or systematic separation between commercial and non-commercial activities of SOEs. This means that some SOEs are in charge of providing 'public service' obligations for which they get a compensation from the government, while they operate simultaneously in commercial activities under market conditions (World Bank 2022e).

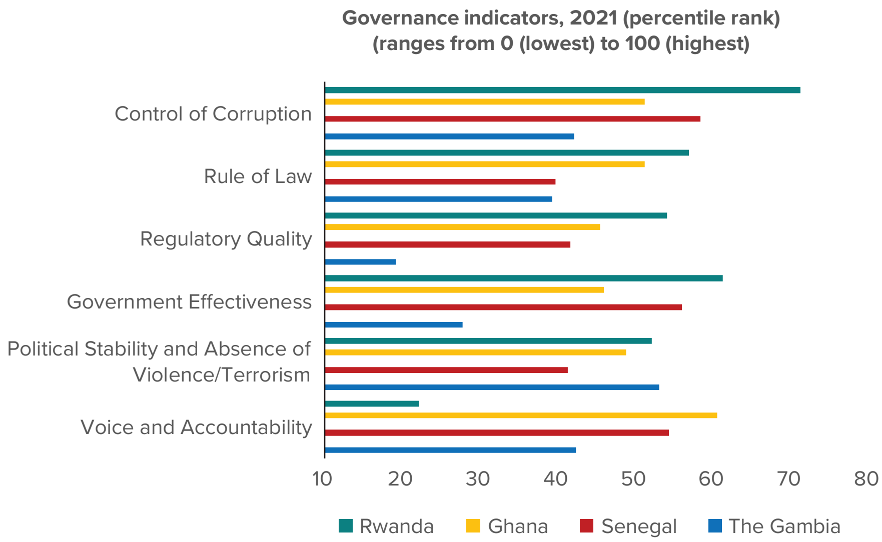
Costs related to delays to get business licensing and permits weigh heavily on operations of Gambia firms. The number of days to get an import license stands at 33 in The Gambia, against 17 in SSA.

Corruption by public officials is a major burden on Gambian firms, with 20 percent of them experiencing at least one bribe payment request to get different transactions done including paying taxes, obtaining permits or licenses, and obtaining utility connections.

The top ten business environment constraints affecting the private sector include access to finance; corruption; tax rates; practices of informal sector; electricity; transportation; labor regulations; access to land; customs and trade and crime, theft, and disorder.

Gambia suffers from the lack of a robust competition policy framework. While the Competition Act 2007 continues to be implemented by the Ministry of Trade and Commerce, there is need for effective implementation of this critical legal reform to ensure the proper functioning of the competition policy framework. According to the latest Bertelsmann Stiftung's Transformation Index (BTI), the fundamentals of market-based competition and antimonopoly policy are significantly less developed in The Gambia than in regional peers. In the World Economic Forum's Global Competitiveness Index 2019, the country ranked 48th out of 141 countries on the extent of market dominance. Recent IMF research on SSA found that an improvement in domestic competition is associated with a significant increase in real GDP per capita growth. This would mainly be achieved through higher

Figure 63. The Gambia underperforms regional peers on governance effectiveness



Source: WDI 2021.

export competitiveness and productivity growth, lower price levels (including of essential items), an increase in firms' investment levels, and a rise in labor's share in output. An effective competition policy framework requires the development of antitrust laws, independent and well-functioning enforcement agencies (with adequate financial resources and suitably qualified staff to pursue anti-competition investigations), independent regulatory bodies, and judicial support (Cherif et al. 2020).

The quality of governance effectiveness has improved, but The Gambia still underperforms the best-performing countries in the region. Since the democratic transition in 2017, the country has made progress on most of the Worldwide Governance Indicators, although its scores remain low, ranking behind the region's best performers such as Ghana, Rwanda, and Senegal (Figure 63). A governance diagnostic mission conducted by the IMF in January 2023 commended the Gambian authorities on progress made in implementing governance reforms while noting that significant challenges remain, including lack of administrative capacity, limited digitization, and persistent weaknesses in the legal framework, all of which foster corruption and hamper the delivery of quality public services.[27] Poor governance undermines investor confidence in the public administration and efforts to ensure ease of doing business.

2.5. Policy options for laying the foundation for higher and more inclusive growth

The government needs to strengthen macroeconomic policy buffers and fast-track structural reforms to build resilience and support its inclusive growth agenda, as stated in the 2023–2027 National Development Plan. This section summarizes the key policy measures around macroeconomic policies and structural reforms that can support the country's national development agenda. They aim to address the structural constraints facing The Gambia by strengthening domestic revenue mobilization,

[27] Reforms achieved include the adoption of new laws aligned with best practices (e.g., Central Bank Act, Access to Information Law, and Public Procurement Act). Additional measures relate to efforts to develop an e-procurement platform and bring the banking sector regulatory and supervisory framework closer to international standards.

accelerating capital accumulation and productivity growth, improving governance and the business environment, sustaining investments in human capital development, and supporting increasing agricultural productivity. The policy options are primarily focused on the short term with practical recommendations, given the urgency of reform, but they will need to be complemented by broader medium- to long-term reforms.

The Gambia could consider:

- **Strengthening domestic revenue mobilization to improve the provision of public goods and fiscal and debt stability.** These efforts would include reducing tax incentives and exemptions; streamlining subsidies by targeting the most vulnerable rather than generalized subsidies through the deployment of the social registry; streamlining duty waivers; accelerating digitization of tax and customs administrations to permit electronic tax registration (electronic filing and electronic payments); and reducing budget allocations to SOEs as part of their reforms. Electronic tax registration requires accompanying policy, legislative, and administrative reforms and the availability of adequate digital connectivity. Infrastructure investment needs to be prioritized to spur growth, along with improvements in expenditure efficiency. The implementation of these reforms could yield significant potential revenue gains.
- **Accelerating capital accumulation and productivity.** Weak growth in capital accumulation per worker reflects subdued investment in infrastructure, machines, and structures, while poor productivity growth in the long term reflects persistent and growing constraints in technology access, institutions, and macroeconomic conditions. To increase capital accumulation, The Gambia will need to boost infrastructure investments. An immediate reform could focus on addressing the institutional and capacity constraints of the port of Banjul to facilitate international trade and improve international connectivity.
- **Implementing governance and business environment reforms to accelerate economic and productivity growth.** The challenges in advancing policy and institutional reforms are reflected in The Gambia's low score on the Country Policy and Institutional Assessment in areas such as macroeconomic policy and public sector governance. The authorities need to urgently focus on developing a comprehensive national strategy for good governance, addressing governance and corruption vulnerabilities, and implementing a solid competition policy framework. This would require the development of antitrust laws, an independent and well-functioning enforcement agency, independent regulatory bodies, and judicial support (Cherif et al. 2020).
- **Sustaining investments in human capital to ensure that labor growth translates into output growth and higher incomes per capita that benefit all Gambians.** The Gambia will need to spend more and better on health, education, and social protection to boost human capital and accelerate growth. However, these efforts face financing challenges, including a budget skewed toward recurrent expenditures at the expense of development expenditures, which undermines education and health outcomes, with considerable efficiency losses. Short-term reforms would target improving service delivery through increased investment spending on inputs and learning materials, rationalizing the allocation of the health budget in favor of primary care, and tackling spending inefficiency in the health, education, and social protection sectors.
- **Addressing the skills mismatches to support the shift of labor towards more productive sectors.** Skills mismatch is one reason why labor shift to more productive sectors did not happen following the productivity growth in 2017–2019. A skills mismatch occurs when workers have either fewer or more skills than jobs require. This discrepancy can occur at different levels, including educational qualifications, technical expertise, or soft skills. Several factors can contribute to skills mismatch, including (i) rapid technological advancements that render certain skills obsolete, (ii) educational system if educational institutions fail to adapt their curricula to meet evolving industry needs; (iii) labor market information gaps, and (iv) economic downturns and industry restructuring (ILO, 2020). For The Gambia, the Human Capital Review highlighted most of the issues above, including: (i) a disparity between what is taught in schools and Technical and Vocational

Table 5. Potential gains from domestic revenue mobilization reforms

Policy measure	*Revenue gains (% of GDP)*	*Source*
Reduce tax incentives, exemptions, and duty waivers	4–6	• A study by Oxford Economics Africa in 2022 on The Gambia's tax expenditure found that the country had foregone potential revenue in tax relief averaging 4.95 percent of GDP over 2028–2020 (6.96 percent in 2018, 3.98 percent in 2019, and 3.93 percent in 2020) through tax incentives for investment in priority sectors and aid-funded projects (Oxford Economics 2022). • The Gambia Public Expenditure Review 2020 found that tax revenues are about 4–6 percent lower than the country's potential due to generous tax incentives, multiple tax rates, difficulties in taxing government institutions, and the prevalence of zero-rated goods (World Bank 2020b).
Introduce electronic tax registration (electronic filing and electronic payments)	1.6	The introduction of e-filing and e-payment would help streamline the tax process. It increases the share of on-time payments, reduces tax compliance costs and, ultimately, increases tax revenue. Raising the adoption of e-filing by 50 percent of total tax filing in low-income countries could boost tax revenues by 1.6 percent of GDP (Manabu and Andualem 2023). In Burkina Faso, the adoption of tax e-filling and e-payment in 2020 helped increased the number of taxpaying firms and individuals recorded in the government's taxpayer database by 76 percent over 5 years, from 95,515 in 2017 to 168,623 in July 2023 (World Bank 2023c). In The Gambia, the Integrated Tax Administration System is being prepared. However, the revenue administration has so far not enabled electronic filling for any of its core taxes or taxpayer segments.
Improve expenditure efficiency	4.9	The Gambia Public Expenditure Review 2020 found that tackling spending efficiency in education, health, and security, which are among the sectors that account for the largest share of public spending, could potentially generate fiscal savings of about 4.9 percent of GDP (World Bank 2020b).
Reduce budget allocations to SOEs		Government transfers to SOEs, which are unbudgeted, is estimated at 5–6 percent of GDP (World Bank 2020d; World Bank 2021).

Education and Training (TVET) centers and what the labor market actually needs, (ii) the absence of labor market intermediation services; (iii) lack of highly skilled personnel at the managerial level in the tourism sector; (iv) shortage of top-level employees with the requisite managerial competence to drive growth and innovation in businesses (World Bank 2023f). Skills mismatchs can lead to various negative consequences, such as unemployment, underemployment, and reduced productivity, all of which impede economic growth. Government policies and initiatives are crucial to bridge the skills mismatch. These encompass several policy areas including: (i) education and training reforms to equip individuals with the necessary skills for the evolving job market, which includes revamping curricula to align with industry needs, and promoting vocational education programs; (ii) labor market information systems to gather data on current and future skill demands; and (iii) public-private partnerships to develop industry-specific training programs, apprenticeships and internships. For The Gambia, the Human Capital Review identified selected policy measures to bridge the gaps, including (i) diversifying and deepening skills through quality TVET training designed to meet labor market demands, (ii) setting up labor-market information systems and collecting data on graduates' transition from school to work so as to improve the effectiveness of training programs, (iii) improving foundational learning and learning outcomes, (iv) improving practical elements of learning to enable young graduates' employability; (v) connecting skills centers with the private sector (World Bank 2023f). The private sector has a role to play through collaboration with educational institutions and policymakers. Key strategies that employers can adopt include (a) investing in training and development programs to enhance employees' skills, and (b) collaborating with educational institutions to ensure that the curriculum aligns with industry needs. As part of human capital development strategy, the Government will need to work with the private sector and education institutions to identify skills gaps and develop appropriate policies and initiatives to bridge the gaps.

- **Increasing public financing on R&D to support agricultural productivity growth.** Boosting agricultural production will require improving agricultural innovation and increasing the use of technology among farmers, which in turn would require significantly increased public investment in R&D, along with increased market links and rural infrastructure (Beegle and Christiansen 2019). The Gambia devoted only 0.3 percent of GDP of government spending to the agriculture sector in 2022, with almost zero spending on R&D. Short-term reforms should focus on increasing financing in R&D to support agricultural innovation needed to address the growing challenges facing the sector (climate change, air pollution, etc.).
- **Developing a re-export trade hub and strengthening regional integration.** The Gambia's top export destinations are China, India and Vietnam, accounting for more than 70 percent of Gambia's exports in the fourth quarter of 2023, with the bulk going to China totaling 61 percent. On the other hand, while ECOWAS represents an important source of imports, accounting for 39.6 percent of total imports in 2023, including 6.8 percent from Senegal, The Gambia's intra-regional exports remain low, with 11 percent of its total exports directed to ECOWAS in 2022 of which 6.6 percent to Senegal. This calls upon to further develop The Gambia's exports to the regional market from two perspectives. First, develop The Gambia's role as a strategic hub for re-export trade with Senegal, taking advantage of its geographical position. Re-exports are currently low at 3.6 percent of total exports in 2022 (GBOS 2023). Second, take advantage of the opportunities offered by trade opening in the context of the trade liberalization within ECOWAS and the African Continental Free Trade Area (AfCFTA). The Gambia has implemented since January 2017, the five-tiered ECOWAS Common External Tariff (CET). In August 2018, The Gambia became the 14th West African country to have signed the region-to-region Economic Partnership Agreement (EPA) with the European Union. In April 2019, The Gambia became the 22nd nation to ratify the AfCFTA. Full implementation of the AfCFTA will result in the creation of a single market for goods and services of about $1.3 billion people and a combined GDP of around $3.4 trillion. The World Bank estimates that lowering or removing tariffs and non-tariff barriers on trade in goods and services has the potential to raise the continent's GDP by 9 percent by 2035 and help lift about 68 million people out of extreme poverty (those living on less than $5.50 per day – estimated at 70.7 percent for The Gambia), mainly through expanding trade and employment creation (World Bank 2020e). In view of its weak exports, The Gambia will need to strengthen internal capacity to increase its trade performance and take advantage of the potential offered by ECOWAS and AfCFTA. To this end, the country will need to implement development and industrialization policies focusing on certain targeted levers, which would at the same time address certain constraints identified in the 2023 enterprise survey: (i) increase FDI inflows to import technologies; (ii) strengthen R&D to learn and assimilate imported technologies; (iii) design policy for adequate financing of companies; (iv) overhaul education to developing human resources and industrial infrastructure; (v) develop a

favorable environment for SMEs promotion; (vi) invest in regional industrial value chains.

- **Complementing policy measures with medium- to long-term reforms to continue advancing the economic reform agenda.** Increasing capital accumulation will require continued efforts to reduce energy, transport, and digital infrastructure gaps. In addition to implementing reforms aimed at improving governance and macro-fiscal sustainability, The Gambia needs to continue improving the quality of fiscal policy and debt management, including the performance of SOEs. In the business environment, there is a need to pursue reforms that reduce supply-side constraints to private investment, including increasing access to finance, improving regulations affecting factor markets, providing support to technology imports for productive sectors, and expanding and protecting property rights. Increased investment in human capital would need to be complemented by continued measures aimed at reducing child mortality and expanding access to family planning and women's education. To spur agricultural productivity growth, spending on R&D should be complemented by the development of competitive agricultural value chains focused on agribusiness.
- **Addressing financing needs as well as institutional challenges and committing to reforms.** The Gambia's development financing poses significant financing needs given the constrained domestic resource mobilization and the current gap in financing the NDP 2023–2027, with US$0.7 billion of available funding as of December 2023 out of total cost estimated at US$3.5 billion. Implementing the proposed policy options will thus require strengthening the link between policies with the Medium-Term Expenditure Framework (MTEF) and annual budgets to ensure that development priorities are appropriately financed, and continuing revenue mobilization efforts including preparation of a domestic revenue mobilization strategy and an integrated national financing framework. Implementing reforms also poses a challenge in terms of institutional framework and public administration capacity for the coordination and monitoring. A reform monitoring committee has recently been set at the Ministry of Finance and Economic Affairs. The authorities will need to ensure that this committee functions effectively, with adequate resources and back up at high level of State apparatus. Limited administrative capacity has been identified as hampering the delivery of timely and quality public services. The authorities will need to pursue efforts in strengthening the capacity of public administration in terms of processes and human resource qualifications. The implementations of the suggested policy options will also require strong political commitment to reforms. This will need to be accompanied by the ability to preserve the momentum from development partners' support, engage national stakeholders including the private sector and civil society, and align adequate sectoral experts within the different policy priorities.

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