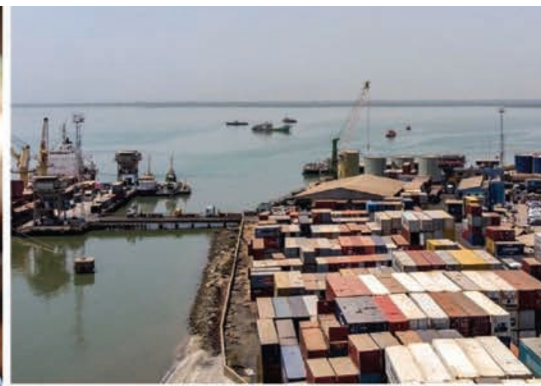
Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

People First

Third Gambia Economic Update

Accelerating Financial Inclusion to Unleash The Gambia's Growth Potential



© 2023 The World Bank
1818 H Street NW, Washington DC 20433
Telephone: 202-473-1000; Internet: www.worldbank.org

Some rights reserved

This work is a product of the staff of The World Bank. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of the Executive Directors of The World Bank or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Rights and Permissions

The material in this work is subject to copyright. Because The World Bank encourages dissemination of its knowledge, this work may be reproduced, in whole or in part, for noncommercial purposes as long as full attribution to this work is given.

Attribution—Please cite the work as follows: "World Bank. 2023. Third Gambia Economic Update: Accelerating Financial Inclusion to Unleash The Gambia's Growth Potential. © World Bank."

All queries on rights and licenses, including subsidiary rights, should be addressed to World Bank Publications, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2625; e-mail: pubrights@worldbank.org.

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

Third Gambia Economic Update

Accelerating Financial Inclusion to Unleash The Gambia's Growth Potential

Acknowledgements

This update was prepared by the Macroeconomics, Trade and Investment Global Practice under the guidance of Keiko Miwa (Country Director, AWCF1), Theo David Thomas (Practice Manager, EAWM1), Daniela Marotta (Lead Economist, EAWM1, AFCE1), and Feyi Boroffice (Resident Representative, ACWF1).

The report was prepared by a core team led by Ephrem Niyongabo (Economist, TTL, EAWM1) and comprised of Wilfried Anicet Kouame (Economist, EAWM1), Rafael Pardo (Financial Sector Specialist, EAWF1), Holti Banka (Senior Financial Sector Specialist, EFNFI), and Sering Touray (Economist, EAWPV).

The report benefited from comments provided by Edouard Al-Dahdah (Program Leader, EAWDR), Daniela Marotta (Lead Economist, EAWM1, AFCE1), Theo David Thomas (Practice Manager, EAWF1), and Consolate Rusagara (Practice Manager, EAWF1). We also wish to thank the peer reviewers Katie Kibuuka (Financial Sector Specialist, ELCFN) and Mehwish Ashraf (Senior Economist, EEAM2) for their comments and suggestions. Sincere appreciation goes to Oscar Parlback (Consultant) for editing the report. Maude Jean Baptiste and Theresa Adobea Bampoe (Program Assistants, EAWM1) as well as Aji Oumie Jallow (Administrative Assistant, AWCF1) provided outstanding operational support and formatted the report.

Preface

This Third Edition of The Gambia Economic Update continues the practice of providing an annual assessment of recent economic developments in The Gambia, with a focus on a special topic. The objective is to inform the Government of The Gambia, the academic community, the public, the World Bank's senior management, and development partners of the state of the country's economy and the structural reforms required to address development challenges facing The Gambia. It contributes to the dialogue on policy options to enhance macroeconomic management and accelerate progress on the twin goals of eliminating extreme poverty and promoting shared prosperity in a context of state fragility.

The first edition focused on 'preserving gains' in the context of the COVID-19 pandemic, while the second focused on 'data for better human capital.' The third Economic Update provided an assessment of recent economic developments, with a special focus on 'driving financial inclusion' in The Gambia. The focus on financial inclusion is justified by the low level of access to financial products and services in the country, and access to finance has been recognized as a key enabler for growth, employment, and poverty reduction. The report focused particularly on the constraints and opportunities of digitalization because digital financial services (DFS) have proven to be catalysts for financial inclusion, as recently highlighted in several countries.

The report begins with a chapter on economic developments, with sections on growth, fiscal policy, public debt, the external sector, monetary developments and inflation, and poverty. Chapter 1 also provides a medium-term macroeconomic outlook and describes the risks facing the country that could adversely affect the growth outlook. Moreover, the chapter reviews the structural constrains that impede the productive capacity and diversification of the Gambian economy. Chapter 2 analyzes the status of financial inclusion, with a focus on DFS as an essential component to boost financial inclusion. Finally, Chapter 3 proposes policy actions that can help attenuate the structural weaknesses faced by the Gambian economy to accelerate growth as well as policy measures to spur the growth and development of DFS.

Abbreviations and Acronyms

AML/CFT	Anti-money laundering and combating terrorism financing
CAD	Current account deficit
CBG	Central Bank of The Gambia
DFS	Digital financial services
FDI	Foreign direct investment
FinTech	Financial technology
GBoS	Gambia Bureau of Statistics
ICT	Information and communication technologies
ID	Identification
IMF	International Monetary Fund
LGA	Local government area
ML	Money laundering
MPR	Monetary policy rate
MSME	Micro, small, and medium enterprise
NBFI	Non-bank financial institution
NFIS	National financial inclusion strategy
PPT	Percentage point
PSP	Payment service provider
R&D	Research and development
SME	Small and medium-sized enterprise
SOE	State-owned enterprise
SSA	Sub-Saharan Africa
WDI	World Development Indicators

Table of Contents

List of Figures ... 6
List of Boxes ... 6
List of Tables ... 7
Executive Summary ... 8

I. State of the Economy and Context ... 12
1. Recent Economic Developments ... 13
   1.1. Global and Regional Growth Weakened in 2022 Amid Global Commodity Markets Shocks, Trade Disruptions, Tightening Financial Conditions and Covid Restrictions in China ... 13
   1.2. The Gambia's Economic Recovery Continued in 2022 Despite an Unfavorable Context Related to the Lingering Impacts of the COVID-19 Pandemic and Uncertainties in the Global Economy ... 13
   1.3. External Sector Vulnerability and Current Account Deficit Increased due to Global Commodity Market Shocks ... 15
   1.4. Monetary Policy has been Tightened to Tackle Mounting Inflationary Pressures ... 18
   1.5. The Fiscal Deficit Increased, Maintaining High Levels of Public Debt ... 21
   1.6. Low Economic Growth Led to Stagnating GDP per Capita and High Poverty Trends ... 24
2. Outlook and Risks ... 26
   2.1. Outlook ... 26
   2.2. Risks to the Outlook ... 26

II. Driving Financial Inclusion in The Gambia: Constraints and Opportunities of Digitalization ... 30
1. Role of Financial Development, Financial Inclusion, and Digital Financial Services ... 31
2. The Gambia's Financial Sector: Structure and Performance ... 32
3. Financial Inclusion in The Gambia ... 34
4. Key Constraints for Digital Payments and Financial Inclusion in The Gambia ... 35
   4.1. Gaps in the Legal/Regulatory Framework for Digital Financial Services ... 35
   4.2. Inadequate Underlying ICT Infrastructure ... 37
   4.3. Constraints Related to Access, Eligibility, Affordability, and Market Development ... 38
5. Payment Infrastructure Upgrades to Strengthen Financial Inclusion in The Gambia ... 39
   a) Automated Clearing House (ACH) ... 39
   b) GamSwitch ... 39
   c) Regional Payment Systems/Infrastructure Aspects ... 40
6. Digital Financial Services: Products, Participants, and Opportunities ... 41
7. Policy Options to Accelerate Digital Payments Access and Usage for Increased Financial Inclusion ... 44

References ... 47

Annex ... 48

Table of Figures

Figure 1. Public Investment and Private Consumption Continue to be the Main Growth Drivers on the Demand Side 13
Figure 2. The Service Sector Continues to be the Main Growth Driver on the Supply Side 13
Figure 3. The Gambia's Growth Rate was one of the Lowest in SSA between 1991 and 2020 17
Figure 4. The Number of Tourist Arrivals has been Increasing but Remains Below Pre-Pandemic Levels 18
Figure 5. The Dalasi has Depreciated Against the US Dollar 18
Figure 6. Food Inflation has been Main Driver of Inflation 20
Figure 7. The Policy Rate has been Gradually Raised Since May 2022 20
Figure 8. Net Foreign Assets have Contracted 20
Figure 9. The Money Supply has Fallen Sharply 20
Figure 10. Banks' Assets are Dominated by Government Debt 21
Figure 11. The Interest Rate Spread Remains High, Although it has been Declining 21
Figure 12. The Fiscal Deficit Widened in 2022 22
Figure 13. Public Debt Remains High 22
Figure 14. The Gambia's Real GDP per Capita has Stagnated. 24
Figure 15. . . . Lagging Behind the Average Real GDP per Capita in SSA 24
Figure 16. Evolution of the National Poverty Rate 25
Figure 17. Gambia's Financial Inclusion is Low Compared to the SSA Average and 49
Figure 18. . . . and Its Mobile Money Usage is Very Low Compared to the SSA Average 49
Figure 19. Productivity Growth has been Negative with Limited Accumulation in Capital Stock per Worker 49
Figure 20. Agricultural Productivity Continuously Declined in The Gambia 49

Table of Boxes

Box 1. Key Structural Issues Facing the Current Growth Model 15
Box 2. Ghana's Policy on Digital Financial Services 32
Box 3. Example from Côte d'Ivoire on E-money Regulation and Application 36
Box 4. Examples of Consumer Protection Mechanisms in African Countries 37
Box 5. Pix: The Instant Payment System in Brazil 41
Box 6. Digitizing Government Payments in Indonesia 43
Box 7. Financial Literacy in Zambia 44

Table of Tables

Table 1. Main Policy Options to Accelerate Digital Payments for Increased Financial Inclusion 10
Table 2. Balance of Payments 19
Table 3. Summary of Fiscal Operations 23
Table 4. Medium-Term Outlook 27
Table 5. Structure of the Financial Sector 33
Table 6. Volume and Value Processed through ACH 40
Table 7. Development Stages for Financial Inclusion and Digital Financial Services 45
Table 8. Complementary Enablers to Accelerate the Development of Digital Payments for Increased Financial Inclusion 45

Executive Summary

State of the economy and context

The Gambia's economy continued to recover in 2022, albeit at a subdued pace in a sluggish global economic environment. Real GDP increased by 4.3 percent (1.8 percent in per capita terms) in 2022, unchanged from 2021, when economic growth was recovering from the COVID-19 pandemic following a sharp deceleration to 0.6 percent in 2020. On the supply side, growth was supported by improved agricultural production, which benefited from a relatively rainy season. A deceleration of growth in industry and subdued growth in the services sector explain The Gambia's weak growth performance. Rising world commodity prices and trade disruptions weighed on the economy, as the country is a net importer of oil and food commodities and has experienced negative terms of trade. Growth in industry was affected by rising prices and limited availability of manufacturing and construction inputs. Weak growth in services was linked to a weaker-than-expected recovery in tourism, which, although the number of arrivals increased, was not sufficient to offset weak growth in other subsectors. On the demand side, growth was driven by increased public consumption and infrastructure investment, while private consumption slowed, and exports contracted. Economic growth was 1.3 percentage points (ppts) below initial projections, owing to the spillover effects of Russia's invasion of Ukraine.

The external sector accounts deteriorated in 2022 due to global commodity price shocks. The current account deficit (CAD) widened from an estimated 8 percent of GDP in 2021 to 14.6 percent of GDP in 2022, driven by a widening trade deficit due to higher global commodity market prices and lower remittances. The CAD was financed through foreign direct investment (FDI), donor support, and external government borrowing, as well as by international reserves, which declined from 7.0 to 4.8 months of imports. There was also a nominal exchange rate depreciation of 15.6 percent, year-on-year, in 2022.

Monetary policy tightened in 2022, with the policy rate increasing substantially to curb mounting inflation due to shocks in global commodity markets. Headline inflation reached decade highs, averaging 11.6 percent (year-on-year) in 2022, with food and non-food inflation at 14.5 percent and 8.6 percent, respectively. The pass-through effects of the currency depreciation, together with structural challenges at the Port of Banjul and wage increases in the public sector, also fed inflation. To curb inflation, the Central Bank of The Gambia (CBG) raised its policy rate by 1 percent in May, September, and December to 13 percent. However, the effect of monetary tightening seems limited, as inflation is essentially imported.

The fiscal deficit deteriorated in 2022 due to lower domestic revenue collection and increased spending. Amid the unfavorable context related to the war in Ukraine, total revenue only moderately increased from 16.8 percent of GDP in 2021 to 17.8 percent in 2022, driven by an increase in grants, which overcompensated for the decline in domestic revenue. To mitigate the effects of the war in Ukraine, the Government of The Gambia has provided fuel, fertilizer, and food subsidies worth 2.2 percent of GDP in lost tax revenue. The increase in subsidies weighed on tax mobilization, as The Gambia already has limited tax revenue, averaging a mere 10.4 percent of GDP in 2017–2022. Total public expenditure increased by 1.2 ppts to 22.6 percent of GDP in 2022, driven primarily by spending on infrastructure projects. As a result, the fiscal deficit increased from 4.6 percent in 2021 to 4.8 percent of GDP in 2022. The total debt stock remained relatively unchanged at 83.9 percent of GDP in 2022 (83.8 percent in 2021), and The Gambia remains at high risk of debt distress.

The modest growth in per capita income has been insufficient to reduce the high poverty rate. Using the international poverty line of US$2.15 (in 2017 purchasing power parity), the poverty rate increased from an estimated 18.4 percent in 2021 to 20.3 percent in 2020, reflecting weak per capita GDP growth and higher food prices that eroded the purchasing power of households.

The economic outlook remains favorable, although growth is projected to remain below the pre-pandemic level in the medium term. GDP is projected to grow by 5.5 percent in 2023–25, supported by increased economic activity across sectors, with relatively higher performance in industry and services. Services and agriculture are expected to continue to grow, assuming respectively higher tourist inflows as advanced economies recover and favorable rainfall. Growth in the industry sector will be supported by public infrastructure programs and stronger remittances to support private investment. The subsectors that are expected to drive growth in industry are mainly construction and electricity, gas, steam, and air conditioning. Still, growth projections are below the pre-pandemic level of 6.2 percent in 2019, reflecting the lingering effects of overlapping crises related to COVID-19 and the war in Ukraine.

The outlook is subject to uncertainty and downside risks. Risks include a prolonged war in Ukraine, fiscal slippage, climate change, continued financial conditions tightening, and political uncertainty. A prolonged war in Ukraine and continued high global commodity prices would continue to undermine The Gambia's growth as well as its fiscal and external balances, with a persistently high import bill fueling inflation and a further decline in international reserves potentially leading to severe shortages of essential imports and increased pressure on the domestic currency. Weaker-than-expected growth in Europe could undermine the recovery in the tourism sector and maintain low levels of capital and remittance inflows. Both domestic and external fiscal risks could materialize in the short to medium term, worsening the fiscal deficit and public debt. These risks include weaker-than-expected growth, pressures to clear state-owned enterprises' (SOEs) contingent liabilities, continued rise in the cost of credit to the government, 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. Political instability, such as the attempted coup in December 2022, would negatively affect ongoing efforts to boost domestic revenue mobilization and streamline current expenditures.

Driving financial inclusion in The Gambia: Constraints and opportunities of digitalization

Financial inclusion is an important driver of the digital economy. Increased financial inclusion translates into individuals and businesses having more access to useful and affordable financial products and services that meet their needs (e.g., transactions, payments, savings, credit, and insurance) and are delivered in a responsible and sustainable way (World Bank 2016). Being able to have access to a transaction account is a first step toward broader financial inclusion, as it allows people to store their money and send and receive payments. A transaction account also serves as a gateway to other financial services.

Financial access facilitates day-to-day living and helps families and businesses make long-term plans and manage unexpected emergencies. As account holders, people are likely to use financial services such as credit and insurance to start and expand businesses, invest in education or health, manage risk, and weather financial shocks, which can improve the overall quality of their lives. The COVID-19 crisis reinforced the need for increased digital financial inclusion, which involves the deployment of cost-saving digital means to enable financially excluded and underserved populations access formal financial services suited to their needs. These services need to be responsibly delivered at a cost both affordable to customers and sustainable for providers.

Access to transactional services and credit remains a challenge in The Gambia, both for households and micro, small, and medium enterprises (MSMEs). Various supply and demand-side constraints hamper financial inclusion. On the supply side, key constraints are uneven legal and regulatory frameworks, limited infrastructure, and challenges related to access, eligibility, and affordability of financial services. On the demand side, people's low income (which makes it difficult to see the purpose of having an account), inadequate financial literacy, and lack of information on different digital financial services (DFS) constitute some of the main constraints.

Low access and use of digital payments hinders the growth of DFS, which are at the heart of financial inclusion and the digital economy. In The Gambia, about 69 percent of adults (15 years and older) do not have access to a transaction account. Among the youth (aged 15–35), 77 percent do not have a transaction accounts, while same is true for 75 percent of people living in rural areas.

Low access to transaction accounts has contributed to the low use of digital payments. The use of digital payment instruments, such as debit cards, credit cards, credit transfers, direct debit, and mobile money, is limited in The Gambia, with only 5 percent of adults using banking-related products (including digital payment instruments) and only 2 percent of adults using mobile money. The low use of digital transactions is driven primarily by the lack of innovative market players, which in turn stems from legal/regulatory gaps and uncertainty, high fees due to lack of competition and innovation by new types of payment service providers (PSPs), lack of modernization in underlying information and communication technologies (ICT) and payments infrastructure, lack of interoperability in digital payment instruments and access channels, government reliance on paper-based payment instruments for collections, and low levels of financial literacy.

Limitations in the legal and regulatory framework hamper the growth of DFS. The regulations that cover the payments market include CBG statutes, mobile money regulations, the anti-money laundering and combating terrorism financing (AML/CFT) act, the consumer protection, payment systems, and non-bank financial institution laws. However, the legal and regulatory framework suffers from several limitations, hindering the payment system and DFS. Among others, the payment systems law lacks significant clarity and misses

key nuance in concepts such as interoperability, disputes, and privacy, and important concepts are missing such as agent banking, payment instruments, and account interoperability. Mobile money regulations focus on mobile money, leaving out other forms of e-money. Moreover, the AML/CFT act is limited by regulation and capacity constraints in addressing money laundering (ML).

Weak underlying energy and ICT infrastructure hinders the development and use of DFS. A significant proportion of Gambians (about 38 percent) are not yet covered by the country's electricity grid. Internet access is still low in the country, and mobile money usage remains very low at 2 percent. In addition, not everyone has a national identification (ID), and establishing a unified digital ID system would be costly. Lack of energy and ICT infrastructure disproportionately impacts poor households and those living in rural areas. The lack of registration of SIM cards is another obstacle to increase financial inclusion.

Efforts to improve financial inclusion are hampered by constraints related to access, eligibility, and affordability. Inability to meet hard immovable collateral requirements is part of the country's eligibility constraints. In addition, the high cost of financial services is a barrier to financial inclusion for small and medium-sized enterprises (SMEs) and low-income households. Low income, the high cost of financial services, the long distance to a financial access point, and information asymmetry are important barriers to access financial services. Moreover, there is limited offering of financial products and services, and asset-based lending and other financial technology (finTech), such as factoring, leasing, and microinsurance, are non-existent.

Policy options to accelerate digital payments for financial inclusion

Policies aimed at accelerating the use of digital payments are essential to increase financial inclusion, which in turn is key to reduce poverty and boost shared prosperity. Financial development plays a key role in stimulating economic growth. The development of DFS can stimulate financial inclusion, which is critical to economic growth, employment creation, and poverty reduction. To stimulate DFS, the authorities need to implement policies that aim to develop: (i) a conducive legal framework; (ii) enabling financial and digital infrastructure; and (iii) ancillary government support systems. Table 1 includes a list of key reforms that can be implemented in the near term, while Table 8 presents complementary enablers. On the legal side, the authorities should consider creating a facilitative regulatory environment for non-bank financial institutions (NBFIs) and updating the Payment Systems Act to include the full scope of electronic payments and payment services. On the infrastructure side, it will be important to incorporate NBFIs into existing credit reporting and payment infrastructure and upgrade the automated clearing house[1] (or GamSwitch) and convert it into a fast payment system.

TABLE 1
Main Policy Options to Accelerate Digital Payments for Increased Financial Inclusion

Objective	Policy Option	Time Frame	Responsibility
Conducive legal framework for DFS	Revise the NBFI act to create a facilitative and risk-based regulatory environment for NBFIs, including non-deposit taking institutions like factoring and peer-to-peer lending platforms.	ST	CBG
	Update the Payment Systems Act to incorporate emerging business models and new types of payment service and infrastructure providers (FinTech).	ST	CBG
Enabling financial and digital infrastructures	Incorporate the NBFIs sector into credit reporting and payments infrastructure.	ST	CBG
	Upgrade GamSwitch to convert it into an instant payment system.	ST	CBG

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

[1] The automated clearing house is the primary system for electronic funds transfers between financial institutions participating in the system. Funds are deposited electronically, and payments are made online.

© Cristelle Kouame

CHAPTER I

State of the Economy and Context

1. Recent Economic Developments

1.1. Weakening of Global and Regional Growth amid Global Commodity Price Shocks, Trade Disruptions, Tightening Financing Conditions, and Pandemic-Restrictions in China

Global economic growth decelerated in 2022 due to the spillover effects of the war in Ukraine. Russia's war in Ukraine has led to high food and commodity prices and supply disruptions, increasing inflation to levels not seen in several decades. In response, centrals banks have tightened their monetary policy to curb inflationary pressures. These adverse macroeconomic developments were combined with the lingering impacts of the COVID-19 pandemic and pandemic-related lockdowns in China. As a result, global economic growth slowed from a 5.8 percent in 2021 to an estimated 2.8 percent in 2022. Moreover, growth in advanced economies was downgraded from 5.2 percent to 2.5 percent in 2021, and in emerging and developing markets from 6.6 percent to 3.4 percent in the same year (World Bank 2023a).

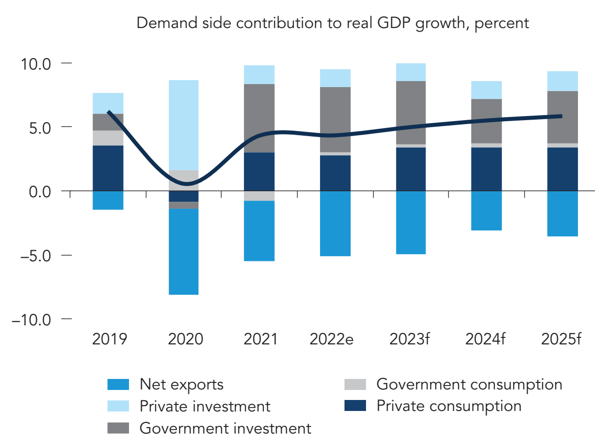
Sub-Saharan African (SSA) economies experienced shocks from slowing global growth, tightening global financial conditions, rising global inflation, and rising risk of debt distress. Weak growth in the euro area, China, and the United States weakened their demand for SSA's exports. Central banks tightened monetary policy to curve inflationary pressures and prevent massive capital outflows associated with widening spreads. Efforts to mitigate the effects of high inflation with fiscal policy (e.g., regulating fuel price movements, waiving import duties on cereals, and subsidizing fertilizers) weighed on public finances, with increased fiscal deficits and the resulting rise in public debt. Against this backdrop, economic growth in SSA slowed from 4.3 percent in 2021 to 3.5 percent in 2022.

1.2. Continuing Economic Recovery despite an Unfavorable Context Related to the Lingering Impacts of the Pandemic and Global Economic Uncertainties

The Gambia's recovery continued in 2022, although weaker than initially projected. Economic growth was steady at 4.3 percent in 2022 (1.8 percent in per capita terms), supported by improved agricultural production (Figure 1 and Figure 2). Growth was 1.3 ppts lower than expected before the war in Ukraine. A deceleration of growth in industry and subdued growth in the service sector explain

FIGURE 1

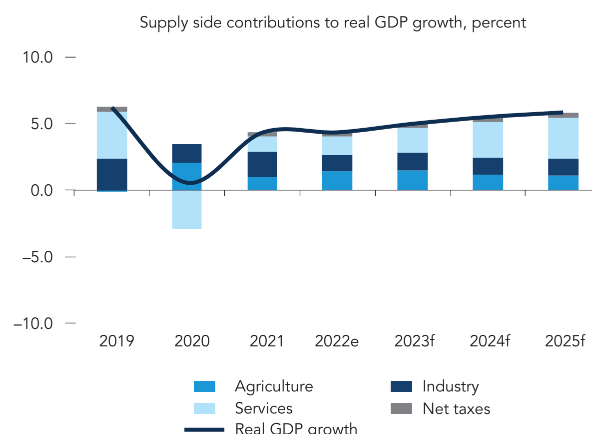
Public Investment and Private Consumption Continue to be the Main Growth Drivers on the Demand Side



Source: Gambia Bureau of Statistics (GBoS), International Monetary Fund (IMF), and World Bank staff estimates.

FIGURE 2

The Service Sector Continues to be the Main Growth Driver on the Supply Side



Source: GBoS, IMF, and World Bank staff estimates.

the country's weak growth performance. Higher global commodity prices and trade disruptions weighed on the Gambian economy, which is a net oil and commodity (food) importer and recorded negative terms of trade in 2022.

Growth was supported by high public investment and consumption in a context of declining private demand. Economic growth in The Gambia was stimulated by increased public spending on investment and consumption due to: (i) the implementation of infrastructure projects related to the preparation of the Organization of Islamic Cooperation conference; and (ii) increased salary expenditure as part of a civil service reform agenda. Demand for private sector investment and consumption was dragged down by higher inflation and lower remittances, as the economic slowdown and high inflation in major economies eroded migrants' incomes. Government investment spending and private consumption are expected to be the main growth drivers on the demand side in the medium term.

The contribution of net exports to growth remained negative in 2022. With an already narrow base of goods exports, the level of goods exports contracted by an estimated 0.4 percent in 2022, a reversal from 5.7 percent growth in 2021, owing to the ban on timber and cashew exports by the Senegalese government following security concerns at the borders. Due to trade disruptions and declining foreign exchange reserves, growth in goods imports decelerated from 13.3 percent in 2021 to 10.9 percent in 2022, although the value of imports continued to increase due to higher global prices. However, imports grew at a higher rate than exports, resulting in net exports having a negative contribution to growth.

The agriculture sector grew by 6.9 percent in 2022, up from 4.7 percent in 2021, but its share in GDP has been continuously declining due to low productivity. The increase in agricultural growth was primarily attributed to a relatively good rainy season and fertilizer subsidies. However, the sector is subject to several constraints that hamper agricultural productivity, resulting in its share of GDP declining from 35 percent in 2010 to 21 percent in 2022, even though the agriculture sector continues to employ 70 percent of the country's labor force (MOFEA 2022). Major constraints affecting agricultural productivity include 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 and increasing soil salinity, and low public funding. As a share of GDP, budget allocations to the agriculture sector constituted a mere 0.3 percent in 2022, with almost no spending on research and development (R&D). Yet, R&D is critical to support the agricultural innovation needed to address the growing challenges facing the sector (climate change, air pollution, etc.) (Beegle and Christiansen 2019).

Industry sector growth declined from 10.4 percent in 2021 to 6.1 percent in 2022, but its share in GDP has gradually increased. The growth deceleration was due to the contraction in the water supply and manufacturing industries and a subdued recovery in construction, as supply chain disruptions affected the price and availability of manufacturing and construction inputs. While the industry sector represents the smallest share of GDP, its share increased from 12 percent in 2012 to 19 percent in 2022, mainly driven by the construction industry. The small share of industry as a share of GDP is due to lack of investment in the sector, which is faced with limited access to finance, poor access to and unreliable electricity, and several supply-side constraints.

Growth in the services sector increased slightly from 2.1 percent in 2021 to 2.7 percent in 2022, remaining the principal sector in the economy. Sluggish growth in the sector reflects the slow recovery in tourism, with international tourist arrivals remaining below their 2021 level, due to the rising cost of living in partner countries following the economic fallout of the war in Ukraine (Figure 4). The better-than-expected number of tourist arrivals was not strong enough to make up for the relatively poor performance in wholesale and retail trade and finance and insurance, as well as for the modest performance in transport and storage and communication. Growth was mainly driven by the accommodation industry. Nevertheless, the tourism sector is a key growth driver, contributing 8.5 percent of GDP (15.5 percent of GDP if induced and indirect effects are factored in) (World Bank 2022a). Despite weak growth, the services sector remains the principal sector in the economy, accounting for an estimated 52 percent of GDP in 2022. Over the long term, the sector has been mainly driven by wholesale and retail trade, followed by information and communication, public administration and defense, transport and storage, real estate, and financial and insurance activities. However, the share of services in GDP has declined since its peak of 60 percent of GDP in the early 2000s, reflecting constraints such as deficiencies in infrastructure, lack of 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 is focused on the winter season and accommodation near the sea and Banjul airport. Moreover, visitors are mostly focused on relaxation tourism, their length of stay is short, and there is relatively limited travel within the country (Ceesay 2020).

Economic growth in The Gambia continues to be hampered by several structural constraints. As highlighted in the Systematic Country Diagnostic 2020 and the Country Partnership Framework 2022–2026, low revenue collection hinders the provision of public goods and fiscal and debt sustainability (World Bank 2022b). In addition, the country's weak business environment and governance challenges hamper private sector-led growth, and an overreliance on low-productivity agriculture, which accounts for 75 percent of household earnings and employs 70 percent of the labor force, contributes to food insecurity and high poverty rates (MOFEA 2022). These challenges are compounded by low quality infrastructure and limited human capital development, all of which impede productivity growth, limit structural transformation of the economy, and hinder poverty reduction (Box 1). As a result, between 1991 and 2020, real GDP growth averaged a mere 3 percent, one of the lowest rates in SSA and below the SSA average of 3.4 percent (Figure 3).

1.3. Global Commodity Market Shocks and Worsening External Sector Vulnerability and Current Account Deficit

The current account deficit (CAD) worsened in 2022, driven by global commodity prices and lower remittances. The CAD widened from 8 percent in 2021 to 14.6 percent of GDP in 2022, reflecting a deteriorating trade balance due to lower exports, relatively higher imports, and lower remittances.

BOX 1

Key Structural Issues Facing the Current Growth Model

Low revenue collection hampers fiscal and debt sustainability. Despite efforts made in recent years to strengthen tax policy reforms and the tax administration, tax revenue remains low, averaging 10.4 percent of GDP in 2017–2022, which is inadequate to meet the country's development needs. The tax gap is estimated at 4–6 percent of GDP, driven by generous tax incentives and exemptions (World Bank 2020b).

Poor and inadequate infrastructure is as a major barrier to private sector-led growth. Only 62 percent of Gambians had an electricity connection in 2020 (World Bank 2022a). Digital infrastructure remains underdeveloped due to several constraints, including low internet usage and the weak regulatory environment (World Bank 2020c). Moreover, financial inclusion is low, with only 29 percent of Gambian adults having access to a transaction account and only 2 percent using mobile money (Figure 17 & Figure 18). The transport sector is also underperforming, especially in terms of infrastructure road quality (World Bank 2023b). The Port of Banjul, which accounts for over 90 percent of The Gambia's international trade, faces inefficiency and capacity limitations, resulting in a large volume of goods being transited through Dakar.

The poor business environment and slow progress in consolidating governance hamper private investment. While The Gambia has made progress in improving the business environment, a major persistent issue is the lack of implementation of a robust competition policy framework, as highlighted in the latest Bertelsmann Stiftung's Transformation Index (BTI). Strengthening the framework would

(*continued on next page*)

BOX 1

Key Structural Issues Facing the Current Growth Model *(Continued)*

include the development of antitrust laws, an independent and well-functioning enforcement agency, and independent regulatory bodies as well as judicial support (Cherif et al. 2020). The country faces persistent challenges to adopt governance reforms, including limited administrative capacity, low digitization, and weaknesses in the legal framework (IMF 2023). Challenges in advancing policy and institutional reforms are reflected in The Gambia's low score on the Country Policy and Institutional Assessment (CPIA), especially related to macroeconomic and public sector management.

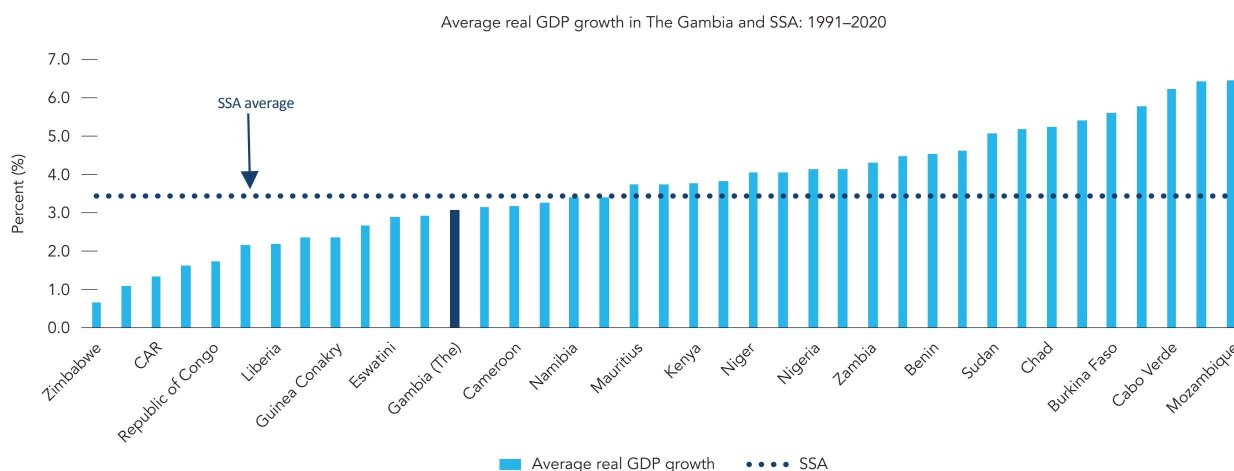
Growth in output per worker and economic growth are dampened by limited capital accumulation and lack of gains in productivity. Productivity growth has been consistently negative for the past decade and half, along with limited capital accumulation per worker (Figure 19). Despite the recent increase in investment, as reflected in its increased contribution to real GDP growth, capital accumulation per worker remains limited and has hardly increased.

Agricultural productivity declined during the last decades (Figure 20). Major 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. As a ratio of GDP, budget allocation to the sector was limited at 0.3 percent in 2022, with almost zero spending on research and development (R&D). Increased public investment in R&D is key to support agricultural innovation, which in turn is needed to address the growing challenges facing the sector such as climate change and air pollution (Beegle and Christiansen 2019).

The Gambia is lagging behind in human capital development. The Gambia's Human Capital Index (HCI) score was 0.42 in 2020, indicating that, on average, children born the country will only be 42 percent as productive as adults as they could have been had they enjoyed complete education and full health. In 2022, budget allocation to education and health amounted to 2.9 percent and 2.1 percent of GDP, respectively, with most spending being recurrent. The country's public spending on education and health is low compared to peers and is highly inefficient. The wage bill makes up three-fourths of school-related education expenditure, despite very low teacher salaries. The execution of the non-salary education budget is mainly focused on expenses not related to learning outcomes. The Gambia's health expenditure is largely recurrent (97 percent) and concentrated on goods and services. Budget allocations are skewed toward tertiary and secondary education at the expense of primary care, contributing to inefficiency in health service delivery. The country's efficiency score is an estimated 82 percent at the primary level and 72 percent for 11 health facilities, which means that, on average, the same services can be provided with 18 and 28 percent fewer resources at the primary level and in health facilities, respectively (World Bank 2020b).

FIGURE 3

The Gambia's Growth Rate was One of the Lowest in SSA between 1991 and 2020



Source: World Development Indicators (WDI).

A rising imports bill and decreasing exports further widened the trade deficit in 2022. Rising global commodity prices pushed import payments to US$761.1 million in 2022, an increase of 15.4 percent compared to 2021, despite a relative decline in import volumes. The trade deficit deteriorated from 29.9 percent in 2021 to 34.5 percent of GDP in 2022. With an already narrow goods export base, goods exports decreased from US$70.1 million in 2021 to US$48 million in 2022, owing to a suspension of timber and cashew exports following security concerns at the borders (GBoS 2022). While the number of international tourist arrivals increased by 78 percent to 182,795 in 2022, it remains 45 percent below the pre-pandemic level, as the repercussions of the war in Ukraine continue to cloud the tourism outlook due to the high cost of living in partner countries (Figure 4). With only marginal growth in services exports compared to imports (reflecting a slow recovery in tourism), the services trade deficit widened from 0.5 percent of GDP in 2021 to 1.5 percent in 2022.

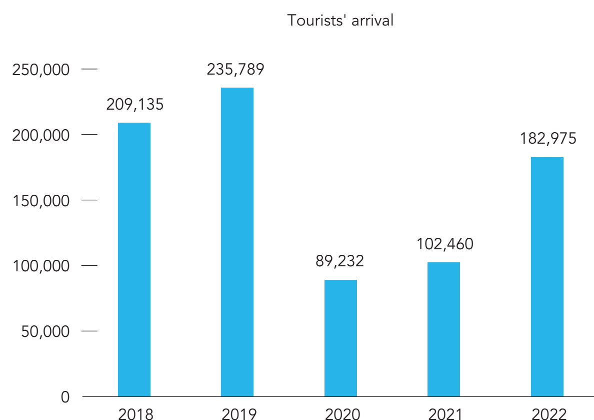
The decline in current transfers contributed to the widening of the CAD. Budget support (official transfers) increased from 0.7 percent of GDP in 2021 to 1.9 percent in 2022. By contrast, official remittances recorded by the central bank (comprising both current transfers and investments) declined by 4.5 percentage points (ppts) to 34.2 percent of GDP in 2022, as the economic slowdown and high inflation in major economies eroded migrants' incomes.

Financial inflows have declined, reflecting tightened global financing conditions. Net inflows in the capital account decreased from US$103.6 (5.1 percent of GDP) in 2021 to US$82.7 million (3.9 percent of GDP) in 2022. The financial account deteriorated in the same period, declining from US$224 million (11 percent of GDP) to US$97 million (4.5 percent of GDP), mainly channeled through foreign direct investment (FDI).

Along with a depreciation of the nominal exchange rate, foreign exchange reserves have declined. The CAD has been financed through FDI, donor support, external government borrowing, and partially international reserves, which declined from US$ 530.4 million (7.0 months of imports) in 2021 to US$454.7 million in 2022 (5.1 months of imports). Moreover, the nominal exchange rate depreciated by 15.6 percent in 2022 (Figure 5). Ad hoc information on foreign exchange rates reveals a gap of 11 percent from the official exchange rate in October 2022. In response to the significant fall in international reserves, the Central Bank of The Gambia (CBG) intervened in the foreign exchange market on the sale side to facilitate imports. Moreover, it adopted measures in May 2022 to mitigate the decline in foreign exchange reserves, including adopting a directive requiring holders of foreign currency deposits to make withdrawals in local currency and a requirement for money transfer agencies to send their proceeds to banks and control shipments. These measures were, however, lifted later in August 2022, and the CBG took steps in early October 2022 to address the wedge between its published exchange rate and the parallel market rate, clarifying to banks and foreign exchange bureaus that they can officially transact at a market-based exchange rate to dissipate any potential concern about CBG policies.

FIGURE 4

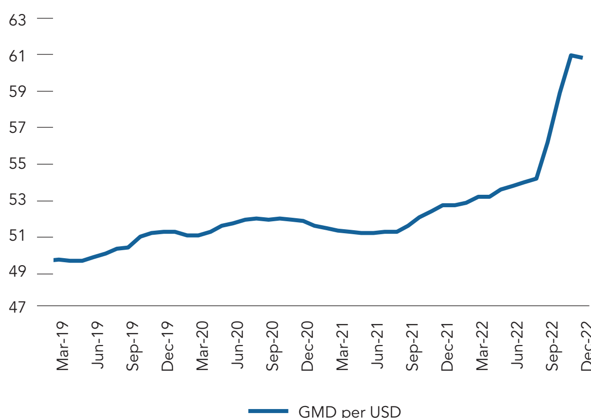
The Number of Tourist Arrivals has been Increasing but Remains Below Pre-Pandemic Levels



Source: Gambia Tourism Board.

FIGURE 5

The Dalasi has Depreciated Against the US Dollar



Source: Central Bank of The Gambia.

1.4. Tightening Monetary Policy to Address Mounting Inflationary Pressures

Inflation has reached decades-high levels, driven by global commodity price shocks. Yearly inflation averaged 11.6 percent in 2022, up from 7.4 percent in 2021, reaching double digits for the first time in almost three decades and far above the CBG's medium-term target of 5 percent. Both food and nonfood inflation were high, averaging 14.5 percent and 8.6 percent, respectively (Figure 6). Inflation was mainly driven by global commodity price shocks and domestic factors, including local currency depreciation, salary increases in the civil service, and structural issues at the Port of Banjul. Headline inflation continued its upward trend in the first four months of 2023, peaking at 17.4 percent (year-on-year) in April 2023, while food and non-food inflation reached 21.5 percent and 12.3 percent, respectively, in the same period.

The CBG has tightened its monetary policy in response to high inflation. The country's central bank manages reserve money as an operational target and broad money as an intermediate target, with the goal of ensuring price stability. The level of reserve money is controlled through open market operations as the major tool for liquidity management, supplemented by foreign exchange market interventions, the statutory reserves requirement ratio, and an interest rate corridor to manage liquidity. To curb inflation, the monetary authority continued the issuance of CBG bonds to reduce excess liquidity and raised the monetary policy rate (MPR) to 13 percent in December 2022, following a 1 ppt increase in May, September, and December 2022. The CBG continued monetary tightening in the early months of 2023 by raising the MPR to 14 percent in February 2023 (Figure 7). It kept other policy instruments unchanged, maintaining the required reserve of commercial banks at 13 percent, the interest rate on standing deposit facility at 3 percent, and the standing lending facility at 15 percent (MPR plus 1 ppt). However, the effect of monetary tightening seems limited, as inflation is essentially imported.

Growth in monetary aggregates has decelerated, reflecting the impact of the crisis on the balance of payments and the resulting effects on the banking system's net foreign assets. Money supply growth slowed from 19.5 percent (year-on-year) at end-December 2021 to 7.1 percent in the same period in 2022, owing to a contraction in net foreign assets of both the CBG and commercial banks. The banking system's net domestic assets remained the main source of liquidity that continued to drive growth in the money supply. Growth in net domestic assets remained robust, increasing by 21.6 percent (year-on-year) in end-December 2022, up from 20 percent a year earlier (Figure 8), driven by increased government and private sector borrowing (13 and 25 percent, respectively), despite the CBG's monetary tightening. On the liability side of the CBG's balance sheet, the slowing growth in the money supply reflected a contraction of reserve money due to commercial banks' reserves falling by 27.3 percent in December 2022 (Figure 9).

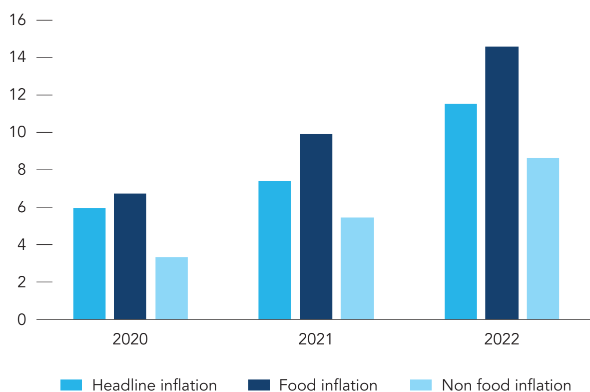
Borrowing increased despite monetary tightening. Two factors can help explain the increase in private sector

TABLE 2
Balance of Payments

	US$ million				Percent of GDP			
	2019	2020	2021	2022	2019	2020	2021	2022
1. Current account	**(96.4)**	**(68.2)**	**(159.3)**	**(316.2)**	**−5.3**	**−3.7**	**−8.0**	**−14.6**
A. Goods (net)	**(453.6)**	**(503.3)**	**(589.2)**	**(713.3)**	**−25.1**	**−27.5**	**−29.4**	**−32.9**
Exports, f.o.b.	142.7	71.2	70.1	47.8	7.9	3.9	3.5	2.2
Imports, f.o.b.	(596.2)	(574.5)	(659.3)	(761.1)	–33.0	–31.4	–32.9	–35.1
B. Services (net)	**116.4**	**(29.0)**	**(22.7)**	**(33.3)**	**6.4**	**−1.6**	**−1.1**	**−1.5**
Services exports	226.6	81.7	102.8	118.9	12.5	4.5	5.1	5.5
of which: Travel income	181.3	46.6	58.0	71.5	10.0	2.5	2.9	3.3
Services imports	(110.2)	(110.6)	(125.5)	(152.2)	–6.1	–6.0	–6.3	–7.0
C. Income (net)	**(30.0)**	**(31.1)**	**(32.1)**	**(32.4)**	**−1.7**	**−1.7**	**−1.6**	**−1.5**
Income credits	2.3	2.4	2.4	2.5	0.1	0.1	0.1	0.1
Income debits	(32.4)	(33.5)	(34.5)	(34.9)	–1.8	–1.8	–1.7	–1.6
D. Current transfers	**270.8**	**495.2**	**484.7**	**462.8**	**15.0**	**27.0**	**24.2**	**21.3**
Official transfers	55.8	82.7	16.2	43.8	3.1	4.5	0.8	2.0
Remittances	202.7	400.2	456.0	406.1	11.2	21.8	22.8	18.7
Other transfers	12.3	12.3	12.5	12.9	0.7	0.7	0.6	0.6
2. Capital and financial account	**184.3**	**132.0**	**328.0**	**180.3**	**10.2**	**7.2**	**16.4**	**8.3**
E. Capital account	**73.5**	**66.9**	**103.6**	**82.9**	**4.1**	**3.7**	**5.2**	**3.8**
F. Financial accounts	**110.8**	**65.1**	**224.4**	**97.4**	**6.1**	**3.6**	**11.2**	**4.5**
Foreign direct investment	93.9	66.8	99.3	99.7	5.2	3.6	5.0	4.6
Portfolio investment	4.1	3.8	3.9	4.1	0.2	0.2	0.2	0.2
Other investment	12.8	(5.5)	121.2	(6.4)	0.7	-0.3	6.1	-0.3
3. Errors and omissions	**(13.6)**	**30.9**	**(128.8)**	**—**	**−0.8**	**1.7**	**−6.4**	**0.0**
Overall balance (1+2+3)	**74.3**	**94.7**	**39.9**	**(135.9)**	**4.1**	**5.2**	**2.0**	**−6.3**
Memorandum items								
Gross international reserves in US$ million	225.0	352.1	530.4	424.6				
Gross international reserves in months of imports	3.9	5.8	7.0	4.8				
Nominal GDP (million US$)	1,806	1,833	2,003	2,168				

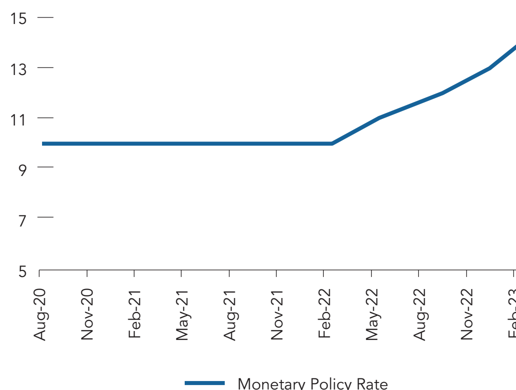
Source: CBG, IMF and World Bank staff calculations.

FIGURE 6
Food Inflation has been Main Driver of Inflation



Source: GBoS.

FIGURE 7
The Policy Rate has been Gradually Raised Since May 2022.

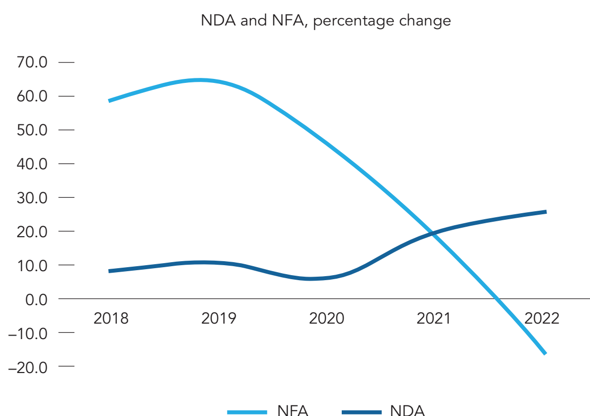


Source: CBG.

borrowing: (i) credit sectoral distribution, and (ii) banks' reluctance to fully pass on 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. Unlike private lending interest rates, interest rates on government securities, which were initially low, increased significantly following the monetary tightening, from an average of 2.2 percent in May 2022 to 11.7 percent in February 2023. Furthermore, credit to the private sector contracted by 4.5 percent in January 2023 and 4 percent in February 2023 on monthly basis, likely reflecting a lagged transmission of monetary tightening to private sector credit.

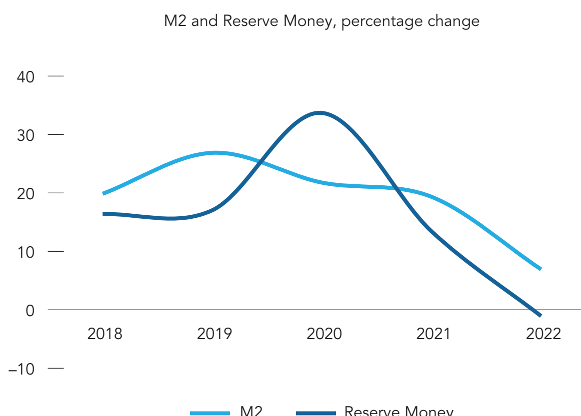
The banking system continues to be stable, with robust financial soundness indicators, but it is highly exposed to government borrowing. As of December 2022, the capital adequacy ratio stood at 24.8 percent, well above the regulatory requirement of 10 percent. The liquidity ratio of 63.7 percent was also above the prudential requirement of 30 percent. Asset quality continued to improve, with

FIGURE 8
Net Foreign Assets have Contracted



Source: CBG

FIGURE 9
The Money Supply has Fallen Sharply



Source: CBG

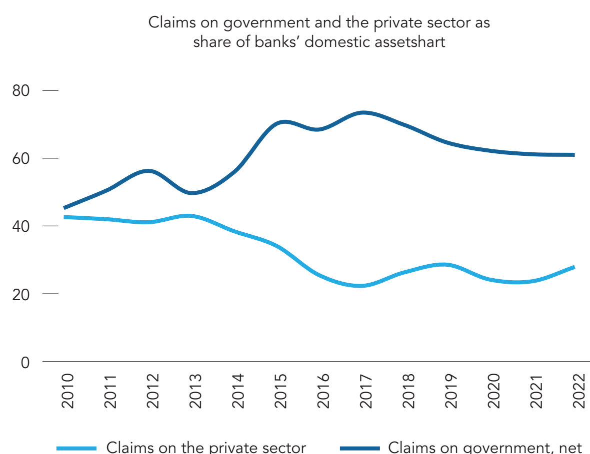
non-performing loans (NPLs) falling from 5.2 percent of gross loans in December 2021 to 4.6 percent in December 2022, and banks continued to maintain an adequate level of provisioning. However, the banking sector is significantly exposed to government indebtedness. As in previous years, nearly two-thirds of commercial banks' domestic credit was provided to the government. As a result, banks' assets are increasingly held in government debt, with claims on the government reaching 60.7 percent of banks' domestic assets in 2022, higher than 27.8 percent for claims on the private sector (Figure 10). Although private sector credit increased by 25 percent in 2022, it was crowded out by increased government borrowing, partly because of an unfavorable business environment that increased banks' risk aversion. The cost of private sector credit is high, and the interest rate spread is wide, above 10 percent, with low-interest rates on savings, which likely disincentivized savings mobilization (Figure 11). A study on banking in The Gambia reveals that the financial sector is not fulfilling its role of financing the economy adequately (Bukhari 2005). 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, as highlighted in The Gambia Financial Sector Assessment Program of June 2022. Bank profitability could decline in case of a rapid fall in rates on government securities, as they did in 2020 when negative real interest rates on government securities reduced earnings from the bulk of banks' assets. 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.

1.5. Maintaining High Levels of Public Debt amid a Worsening Fiscal Deficit

The fiscal deficit deteriorated due to lower domestic revenue collection and increased spending. Amid an unfavorable context due to the war in Ukraine, total revenue only moderately increased from 16.8 percent of GDP in 2021 to 17.8 percent of GDP in 2022, falling short of the budgeted target by 8.1 ppts of GDP. Domestic revenue declined by 2.4 ppts to 11.9 percent of GDP in 2022, driven by a decrease in both tax and non-tax revenue (Table 1). Nevertheless, grants increased by 3.4 ppts to 5.9 percent of GDP, overcompensating for the decline in domestic revenue. However, grant revenue was weaker than expected, as some development partners deferred their budget support to 2023. Total expenditure increased by 1.2 ppts to 22.6 percent of GDP in 2022, driven primarily by infrastructure projects related to the preparation of the Organization of Islamic Cooperation conference. Actual total spending was 4.5 ppts below the budgeted target, reflecting an adjustment to account for the shortfall in revenue. With revenues growing less than expenditures, the fiscal deficit widened from 4.6 percent of GDP in 2021 to 4.8 percent in 2022 (Figure 12).

FIGURE 10

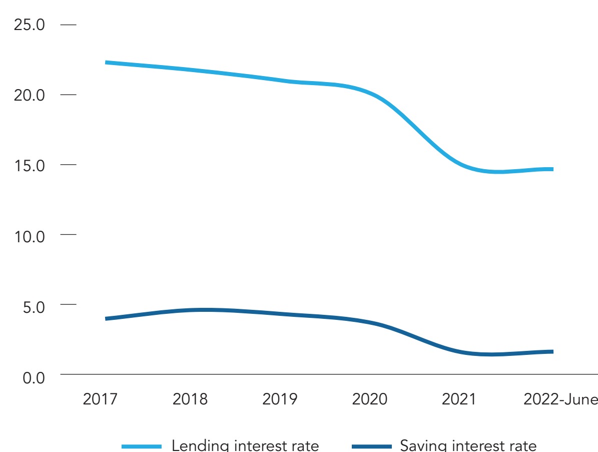
Banks' Assets are Dominated by Government Debt



Source: CBG.

FIGURE 11

The Interest Rate Spread Remains High, Although it has been Declining



Source: CBG.

Most tax collection declined. Tax revenue declined from 10.3 percent of GDP in 2021 to 9.7 percent in 2022, driven by lower tax collection on international trade as well as on goods and services due to disruptions in international trade and weak growth in the service sector, the main sector of the economy. Only direct taxes recorded a marginal increase, supported by taxes on income due to the increase in civil service salaries.

Tax revenue collection was hampered by duty waivers and increased subsidies adopted to mitigate the pass-through of higher import prices. The government provided fuel, fertilizer, and food price subsidies to reduce the pass through of rising international commodity prices on the domestic market. In 2022, the fiscal cost of subsidies averaged 2.2 percent of GDP in lost tax revenue, with fuel, fertilizer, and food subsidies representing 1.4, 0.5, and 0.3 percent of GDP, respectively. Duty waivers also undermined tax collection on materials imported for road construction, amounting to 1.7 percent of GDP. The cost of The Gambia's fiscal response to the impact of the war in Ukraine underscores its fiscal vulnerability to external shocks.

Non-tax revenue fell in 2022 after performing relatively well a year before. Non-tax revenue fell below expectations to 2.3 percent of GDP in 2022, down from 4 percent in 2021. This was due to the non-realization of one-off revenue worth 1.5 percent of GDP expected from a dispute settlement in the petroleum sector and delays in proceeds from the privatization of Megabank.

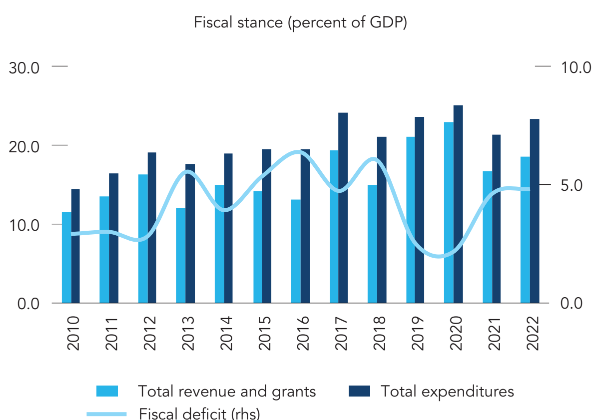
Current spending declined to adjust to the revenue shortfall, while externally financed capital spending accelerated. Despite an increase in wage expenditure by 0.3 ppts of GDP, as part of a long-term civil service reform agenda, current spending decreased by 1.4 ppts to 13.8 percent of GDP in 2022, as the government reallocated or cut current expenditures. Indeed, there has been a fall in expenditure on goods and services, current transfers, and interest expenses. By contrast, externally financed capital expenditure increased by 3.2 ppts to 6.4 percent of GDP in 2022, reflecting increased project support, complemented by external borrowing.

The fiscal deficit has been primarily financed through domestic borrowing. In 2022, net domestic borrowing accounted for 64 percent of total deficit net financing and 3.5 percent of GDP, well above the limit set under the International Monetary Fund (IMF) program, which was revised upward by 0.4 percent of GDP in September 2022 to 2.9 percent of GDP at end-December 2022 to adjust for the shortfall in revenue related to the delay in the privatization of Megabank. To reduce the rollover risk of domestic debt financing, the government has emphasized issuing longer-dated securities, with T-bonds representing 53 percent of domestic debt by December 2022, up from 47 percent a year before. External financing included 4 concessional loans and IMF Extend Credit Facility resources. A higher reliance on domestic borrowing is likely to crowd out private sector credit, as most bank credit is made up of claims on the government.

The stock of public debt remains high. The total debt stock remains relatively unchanged at 83.9 percent of GDP in 2022, up slightly from 83.8 percent in 2021 (Figure 13). External debt increased from 48.4 percent of GDP in 2021 to an estimated 52.1 percent of GDP in 2022, and domestic

FIGURE 12

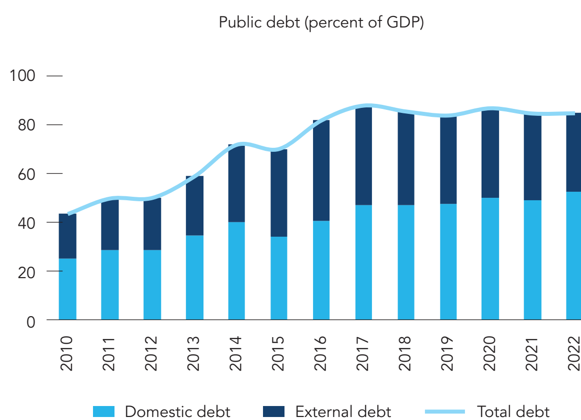
The Fiscal Deficit Widened in 2022



Source: MOFEA; IMF; World Bank staff.

FIGURE 13

Public Debt Remains High



Source: MOFEA; IMF; World Bank staff.

TABLE 3
Summary of Fiscal Operations

	Dalasi (million)				Percent of GDP			
	2019	2020	2021	2022	2019	2020	2021	2022
Total revenue and grants	**19,222**	**21,584**	**17,649**	**21,421**	21.2	22.9	16.8	17.8
Domestic revenue	12,737	13,677	15,001	14,338	14.0	14.5	14.3	11.9
Tax revenue	9,962	10,326	10,833	11,616	11.0	11.0	10.3	9.7
Tax on goods and services	4,840	4,934	4,837	4,854	5.3	5.2	4.6	4.0
Direct revenue	2,625	2,803	3,224	3,953	2.9	3.0	3.1	3.3
Taxes on international trade	2,499	2,588	2,788	2,729	2.8	2.7	2.7	2.3
Non-tax revenue	2,775	3,351	4,168	2,722	3.1	3.6	4.0	2.3
Grants	6,485	7,907	2,648	7,037	7.1	8.4	2.5	5.9
Budget support	2,790	4,604	722	2,471	3.1	4.9	0.7	2.1
Project	3,695	3,303	1,926	4,566	4.1	3.5	1.8	3.8
Total expenditures	**21,552**	**23,636**	**22,496**	**27,182**	23.7	25.1	21.4	22.6
Current	13,287	17,036	15,959	16,569	14.6	18.1	15.2	13.8
Wages and compensation	3,955	4,049	4,593	5,621	4.4	4.3	4.4	4.7
Goods and services	3,179	3,850	3,985	3,894	3.5	4.1	3.8	3.2
Subsidies and transfers	3,310	6,170	4,291	4,323	3.6	6.5	4.1	3.6
Interest	2,843	2,967	3,180	2,761	3.1	3.1	3.0	2.3
External	371	548	709	605	0.4	0.6	0.7	0.5
Domestic	2,472	2,419	2,470	2,156	2.7	2.6	2.4	1.8
Capital	8,265	6,600	6,537	10,613	9.1	7.0	6.2	8.8
Externally financed	7,584	4,837	3,363	7,707	8.4	5.2	3.2	6.4
Gambia local fund	681	1,763	3,174	2,906	0.8	1.9	3.0	2.4
Fiscal balance	**−2,330**	**−2,051**	**−4,847**	**−5,761**	(2.6)	(2.2)	(4.6)	(4.8)
Deficit financing								
Net acquisition of financial assets	*–329*	*–180*	*–180*	*1,000*	(0.4)	(0.2)	(0.2)	0.8
Net incurrence of liabilities	*2,866*	*1,595*	*5,092*	*4,797*	3.2	1.7	4.9	4.0
Domestic	452	741	4,553	3,506	0.5	0.8	4.3	2.9
External	2,414	854	539	1,291	2.7	0.9	0.5	1.1
Statistical discrepancy	*–207*	*409*	*–65*	*–36*	(0.2)	0.4	(0.1)	(0.0)
Nominal GDP (Dalasi)	90,794	94,269	104,903	120,090				

Source: MOFEA; IMF; World Bank staff calculations.

debt increased from 35.3 percent of GDP in 2021 to an estimated 31.8 percent of GDP at end-2022. In 2022, total external outstanding debt reached US$1,029 million, of which 68 percent was owed to multilateral creditors, 29 percent to bilateral creditors, and 3 percent to private creditors. Outstanding public domestic debt reached US$640 million in the same year, held in T-bonds (53 percent), T-bills (44 percent), and SAS bills or Islamic bills (3 percent).

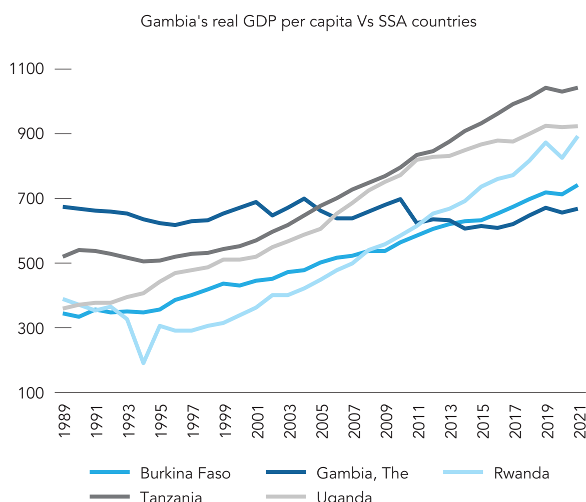
The country remains at high risk of debt distress. The May Debt Sustainability Assessment shows that The Gambia remains at high risk of both external and overall public debt distress. Three out of four external debt indicators (present value of external debt-to-exports, debt-service-to-exports ratio, and external debt service-to-revenue ratio) temporarily breach the threshold for varying periods within the forecast horizon under the baseline. The reason for the breaches can be attributed to lower export growth in the near term and higher 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 remains on a downward sloping path and drops below its benchmark by 2025, indicating that the public debt outlook remains sustainable. The sustainability of the country's public debt is due to factors such as fiscal consolidation efforts, a reliance on grants and concessional loans, and support from development partners.

1.6. Stagnating GDP per Capita and High Poverty Trends

The Gambia's real GDP per capita has been stagnant for more than three decades. In the early 1990s, 14 countries in SSA had a per capita income lower than that of The Gambia, with 6 of them having a per capita income between one-half and one-third that of the country. The Gambia's per capita real GDP has stagnated and been overtaken by several other countries on the continent that started from much lower levels, even when excluding some fast-growing countries with large natural resources (Figure 14). In 2021, while 10 SSA countries had a per capita income below that of The Gambia, only 2 had a per capita income between one-half and one-third that of the country, illustrating that many African countries are growing at a faster rate than that of The Gambia. As a result, the gap in real GDP per capita between the SSA average and The Gambia widened from US$642 in 1988 to US$931 in 2021 (Figure 15).

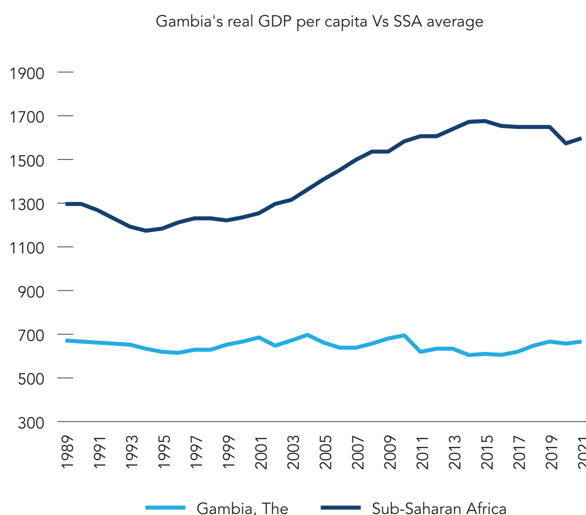
Low real GDP per capita growth results in high poverty rates. There were an estimated 1.1 million poor Gambians in 2020, representing 53.4 percent of the population and a 4.8 ppts increase compared to 2015, driven largely by the COVID-19 pandemic[2] (Panel A in Figure 16). The Gambia's poverty reduction trends before the pandemic can be divided into two distinct periods. The first period, prior to 2015, was characterized by slow economic growth, resulting

FIGURE 14
The Gambia's Real GDP per Capita has Stagnated. . . .



Source: WDI.

FIGURE 15
. . . Lagging Behind the Average Real GDP per Capita in SSA.

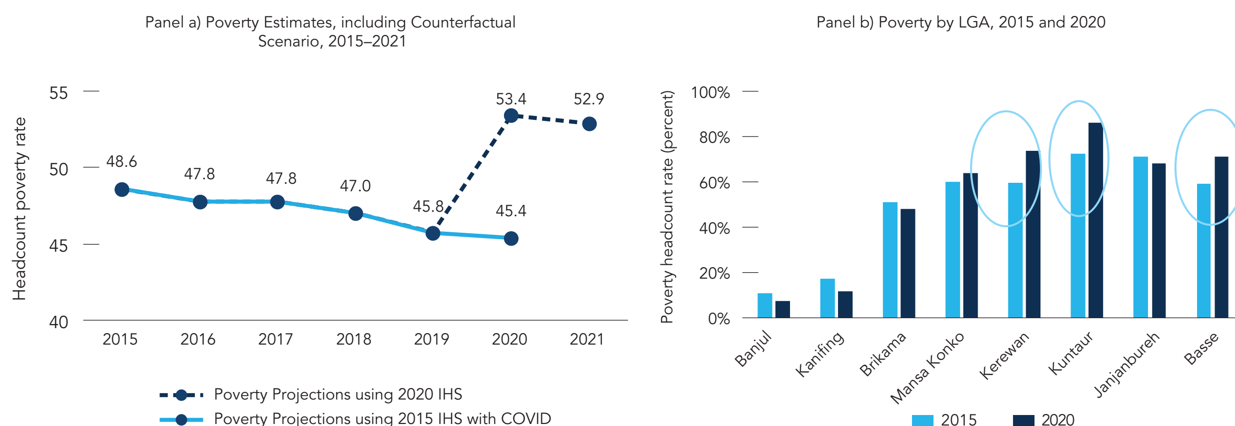


Source: WDI.

[2] A counterfactual analysis conducted as part of a recent poverty assessment shows that in the absence of the COVID-19 pandemic, the national poverty rate in The Gambia would have declined by about 3 percentage points from its 2015 level.

FIGURE 16

Evolution of the National Poverty Rate



Source: Staff estimates based on data from the 2015 and 2020 Integrated Household Surveys and WDI.

in stagnant poverty reduction. The second period, between 2015 and 2019, was marked by modest economic growth that led to a gradual decline in poverty. During this period, access to basic services such as education and health care improved markedly, which was reflected in significant improvements in non-monetary indicators of well-being. However, the COVID-19 pandemic reversed these gains by increasing poverty, disrupting learning and access to health care, and constraining the fiscal space needed to make further progress. Despite a rapid government response through the implementation of social assistance programs that reached a large share of the population, households were adversely affected by the pandemic through reduced employment, near-universal loss of income, and increased cost of living due to disruptions in global supply chains. Due to the spillovers of the war in Ukraine, poverty, measured using the international poverty line of US$2.15 (in 2017 purchasing power parity), increased from 18.4 percent in 2021 to an estimated 20.3 percent in 2022. The increase in poverty was largely due to weaker growth in per capita GDP and higher prices, eroding the purchasing power of households

Poverty remains 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. Across local government areas (LGAs), the poverty incidence varies from about 8 percent in Banjul and 12 percent in Kanifing, which are predominantly urban, to 86 percent in Kuntaur, which is predominantly rural. Poverty declined in only 4 out of 8 LGAs between 2015 and 2020. Some of the poorest LGAs, such as Kerewan, Kuntaur, and Basse, experienced the largest increase in poverty (more than 10 ppts) (Panel B in Figure 16). Further disaggregation shows wide disparities in the incidence of poverty within LGAs. Out of the 10 poorest wards, all of which have estimated poverty rates of 88 percent or higher, 7 are in Kuntaur: Njaw, Nyanga, Panchang, Ballangharr, Kaur, Pachonki, and Kuntaur. The other 3 wards in the top 10 are Misera, Foday Kunda in the Basse LGA, and Sanjal in the Kerewan LGA, although these sparsely populated wards are not home to the largest number of poor people. The largest share of poor people continues to live in urban areas such as Kanifing and Brikama, the latter of which is home to 307,501 poor people—the largest poor population in the country.

The spillovers from the war on Ukraine weighed on the most vulnerable. Data from the 2020 household survey show that poor households spend 65 percent of their income on food—over 10 ppts higher than the non-poor. The spike in food prices has worsened food insecurity and exposed the poor to the risk of falling deeper into poverty, compounding an already aggravated situation due to the COVID-19 pandemic. Rising food prices limit the ability of vulnerable households to increase their already low incomes.

2. Outlook and Risks

2.1. Country Outlook

The Gambia's economic outlook remains favorable, although GDP growth is expected below the pre-pandemic level in the medium term. Real GDP growth is projected to average 5.5 percent in 2023–25 (2.6 in percent per capita terms), driven by increased activity across sectors. Services and agriculture are expected to continue to grow, assuming respectively higher tourist inflows as advanced economies recover and favorable rainfall. 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 subsectors that are expected to drive growth in industry are mainly: (i) construction, and (ii) electricity, gas, steam, and air conditioning. Growth projections are, however, below the pre-pandemic level of 6.2 percent in 2019, reflecting the lingering effects of overlapping crises (i.e., the COVID-19 pandemic and the war in Ukraine). Although stronger projected growth in agriculture and an 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 international poverty rate is expected to increase by 1.5 ppts in 2023 and remain high at nearly 22 percent through 2025.

Inflation is expected to be high in 2023, before easing in the medium term. Inflation is projected to remain in double digits in 2023 (largely unchanged from 2022), reflecting persistently high global food and energy prices. In response, the CBG stated on February 6, 2023, its intention to tighten its monetary policy, with further increases in the policy rate to rapidly bring it into positive territory in real terms. In the context of tight monetary policy and easing of global supply conditions, price pressures are expected to ease in the medium term, and inflation is projected to average 7.3 percent in 2024–25.

The fiscal deficit is expected to narrow thanks to fiscal consolidation efforts. The fiscal deficit is projected to average 2 percent of GDP in 2023–25, supported by higher revenue mobilization and moderation in spending. Revenue measures will concentrate on strengthening the tax administration; maximizing efficiency in revenue collection through the implementation of ASYCUDA World and the preparation of an integrated tax administration system; cleansing and maintaining accurate tax ledgers for large taxpayers; consolidating toll bridge collection; and developing a national mandate and a policy document for customs border and inland controls. Some revenue measures underpinning fiscal consolidation are underway, such as the launch of ASYCUDA World in June 2022. Spending measures include the completion of major infrastructure projects related to the Organization of Islamic Cooperation conference and the phasing out of war- and pandemic-related spending. The authorities also plan to expand the social registry and use it to design and roll out targeted support to the vulnerable population. Public debt is projected to average 75 percent of GDP in 2023–25, supported by economic growth and fiscal consolidation.

The CAD is projected to remain high in 2023, before declining in the medium term. Pressures on the balance of payments are expected to ease only moderately in 2023 due to the spillovers from the protracted war in Ukraine. The CAD is projected to remain high at 12.2 percent of GDP in 2023, before narrowing to 8.1 percent in 2024–25, reflecting falling investment-related imports and robust export growth, especially in tourism. The growth in remittances is likely to remain moderate due to weak economic growth expected in advanced economies in 2023, before accelerating modestly in 2024, which will continue to affect migrants' incomes. The deficit will be financed through capital transfers (development aid), foreign investment, and public-sector debt financing.

2.2. Risks to the Outlook

Significant downside risks cloud the outlook. While the baseline projects a continued economic recovery, persistent external shocks related to the prolonged war in Ukraine, fiscal slippage, climate change, continued financial tightening, and political uncertainty are serious risks to the outlook.

The protracted war in Ukraine could affect medium–term growth prospects. The Gambia depends heavily on imports of oil, fertilizer, and Ukrainian wheat,[3] and persistent high global commodity prices continue to undermine the country's growth as well as fiscal and external balances, with a persistent high import bill fueling inflation. The Gambia

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

TABLE 4
Medium-Term Outlook

	2020	2021	2022 e	2023 f	2024 f	2025 f
Real GDP growth, at constant market prices	0.6	4.3	4.3	5.0	5.5	5.8
Private Consumption	–1.2	3.5	3.3	4.0	4.1	4.1
Government Consumption	20.1	–7.9	2.6	3.5	3.6	3.6
Gross Fixed Capital Investment	26.7	22.2	18.0	15.5	10.8	12.2
Exports, Goods and Services	–20.0	5.5	–0.4	14.7	16.0	16.0
Imports, Goods and Services	6.0	13.3	10.9	15.0	11.0	11.8
Real GDP growth, at constant factor prices	0.6	4.3	4.3	5.0	5.6	5.8
Agriculture	11.0	4.7	6.9	7.0	5.3	5.1
Industry	8.2	10.4	6.1	6.6	6.4	6.1
Services	–5.1	2.1	2.7	3.6	5.2	6.1
Inflation (Consumer Price Index)	5.9	7.4	11.5	11.1	8.4	6.1
Current Account Balance (% of GDP)	–3.8	–8.0	–14.6	–12.2	–10.0	–8.7
Fiscal Balance (% of GDP)	–2.2	–4.6	–4.8	–3.2	–2.0	–1.0
Revenues (% of GDP)	22.7	16.8	17.8	19.2	19.5	20.6
Debt (% of GDP)	85.1	83.8	83.9	77.7	73.6	66.8
Primary Balance (% of GDP)	1.0	–1.6	–2.5	–1.0	0.7	1.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	17.3	18.4	20.3	21.9	22.0	21.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	47.0	48.6	51.2	52.7	52.7	52.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	80.6	81.9	84.1	84.9	85.0	84.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Note: e = estimate, f = forecast. Poverty data are expressed in 2017 PPP, versus 2011 PPP in previous editions - resulting in major changes. See pip.worldbank.org
(a) Calculations based on 2015-IHS. Actual data: 2015. Nowcast: 2016–2021. Forecasts are from 2022 to 2024.
(b) Projection using neutral distribution (2015) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

is also dependent on remittances and tourist arrivals from advanced economies, especially Europe. Weaker-than-expected growth in Europe due to the prolonged war in Ukraine, 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.

Fiscal risks could materialize in the short to medium term, weakening fiscal management and macroeconomic stability. These risks could come from both internal and external sources, worsening the fiscal deficit and public debt. Internal fiscal risks include weaker-than-expected growth, pressures to clear state-owned-enterprises' (SOEs) contingent liabilities with public utilities, and a continued rise in the cost of credit to the government following an increase in the MPR (and thus 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 service deferrals negotiated with some creditors in 2024; and other external price shocks. Rising fiscal pressures could increase domestic government borrowing, which in turn 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.

Continued tightening of financial conditions poses an additional threat to the country 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 10.5 percent in January 2023, while yields increased from 1.9 percent in May 2022 to 12.6 percent in January 2023 for its 6-month Treasury bill, and from 2.5 percent in May 2022 to 12 percent in January 2023 for its 12-month Treasury bill. As a result, debt service expenditure reached GMD 416.1 million (0.3 percent of GDP) between January and February 2023, an increase of 92 percent from GMD 216.9 million (0.2 percent of GDP) in the same period of the previous year. Debt service costs are estimated at 6.6 percent of GDP in 2022 and are expected to increase to 8.2 percent of GDP in 2023. 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 higher macro-fiscal and financial risks (e.g., higher fiscal and current account deficits, higher debt levels and the country's rating to high risk of debt distress, higher bank exposure to government debt, and pressure on reserves).

Persistent pressures on the balance of payments due to the war in Ukraine could widen the external deficit. A further sharp rise in international commodity prices or a decline in international prices for The Gambia's primary commodity exports would widen the external deficit. Moreover, a continued decline in international reserves could trigger severe shortages of essential imports, especially of priority goods such as fuel, fertilizer, medicines, and food, which could put further pressure on the domestic currency and inflation, significantly worsening the welfare of the population. The adverse monetary and external environment remained during the first months of 2023. Foreign exchange reserves continued to decline and totaled 5 months of imports in April, the nominal exchange rate of the Gambian dalasi against the US dollar depreciated by 18 percent in March (year-on-year), and inflation reached 17.4 percent in April (year-on-year).

Climatic hazards are a significant threat to the country's growth prospects. As witnessed by floods in July and August 2022, The Gambia is highly vulnerable to climate shocks. Agricultural production is vulnerable to abnormal rainfall throughout the year, with less than normal amounts of water having immediate effects on growth and poverty reduction and exacerbating food insecurity throughout the country.

Political instability could negatively affect macroeconomic stability. Political instability, such as the attempted coup d'état in December 2022, could revert hard-won progress in macroeconomic management and negatively affect ongoing efforts to boost domestic revenue mobilization and streamline current expenditures. This, in turn, could hamper investment spending, economic growth, and poverty reduction.

Nevertheless, there are also upside risks. The main upside risks to the country outlook include: (i) above-average rain that supports a bountiful harvest; (ii) sustained donor support to the National Development Plan 2023–2027; (iii) higher-than-expected tourist arrivals; and (iv) a decline in global commodity prices for essential imports.

8B
9A

CHAPTER II

Accelerating Financial Inclusion to Unleash The Gambia's Growth Potential

This chapter provides an overview of financial inclusion and options to increase it in The Gambia. Financial inclusion is essential for the financial sector to spur economic growth and development. A review of the performance of the banking sector, which is expected to be the main driver of financial inclusion, and the state of financial inclusion in the country shows that overall financial inclusion is low and the country is at the very early stage of developing digital financial services (DFS). The chapter also identifies opportunities to further develop digital payment systems and DFS and proposes selected enabling policy actions to support growth and the development of DFS. Moreover, it includes experiences of countries that have been successful in boosting financial inclusion, as they can inform policy reforms in The Gambia.

1. Role of Financial Development, Financial Inclusion, and Digital Financial Services

Access to finance is key for economic growth, employment creation, and poverty reduction. A functional and efficient financial sector intermediates resources, allows for the exchange of information, facilitates the management of risk, and fuels the economy by unlocking resources for investment and business opportunities through the reallocation of capital. The availability of financial products is therefore necessary to reduce costs, minimize risks, manage the impact of crises, increase capacity, and support the viability of projects. An efficient financial sector requires institutions, instruments, frameworks, infrastructure, and markets relative to the size and needs of the economy. The breadth and depth of the financial sector is therefore relevant to achieve long-term economic growth and development (Cihák et al. 2012).

The literature on financial sector development has documented the sectoral contributions to sustainable and inclusive economic growth, employment generation, and poverty reduction. Stable, sound, and efficient financial systems channel resources by mobilizing and allocating savings via credit to more productive uses, thereby supporting economic growth. Financial systems also enable payments, provide collection mechanisms, and facilitate the working capital needed by corporations, businesses, and individuals. By attaining greater levels of inclusion, the financial sector also promotes poverty alleviation by: (i) providing savings and credit services for families and individuals, helping them attain higher incomes; (ii) facilitating personal investments; and (iii) reducing the financial effects of shocks through the provision of risk management tools.

Financial inclusion is essential for financial and economic development. The recent literature on financial inclusion reveals that even well-developed financial systems have not always been inclusive, with some population segments remaining excluded from formal financial systems. Broadly, financial inclusion refers to the level of access to a range of useful, sustainable, and affordable set of financial products and services for all members of an economy (Sarma 2008). The level of access is determined by: (i) the availability of adequate, useful, and affordable set of products and services; (ii) the use of financial products and services; and (iii) the quality of those products and services as well as their providers, ecosystem, and infrastructure. An inclusive financial system is critical to ensure financial products and services benefit the broadest population segments in terms of providing access to productive resources, reducing the cost of capital, improving day-to-day management of finances, and reducing people's reliance on informal sources of credit, which are often provided at exorbitant interest rates. An inclusive financial system thus increases efficiency and well-being by facilitating safe savings practices and a range of efficient financial services. Several African countries, such as Ghana (Box 2), have adopted comprehensive DFS policies and created national financial inclusion strategies, typically led by the central bank and the government. While they have typically spearheaded and catalyzed the process by developing a roadmap and a national digital agenda, they have also incorporated inputs from the private sector and other stakeholders (end-user groups) and assigning responsibilities across the public and private sector.

DFS, which consist of an array of financial products and services delivered through digital technologies, can act as catalysts for financial inclusion. The crisis triggered by the global COVID-19 pandemic highlighted the relevance of digital technologies to facilitate transactions. Technological solutions in the financial sector can be used to reach excluded or underserved populations. International experience demonstrates the positive effects of creating a favorable environment for the development of DFS. DFS offer the opportunity to reduce transaction costs, improve the customer experience, decrease processing times, and increase the efficiency and quality of formal financial services for communities untapped by the existing banking system.

BOX 2

Ghana's Policy on Digital Financial Services

In 2020, Ghana launched a DFS policy alongside its national financial inclusion strategy. The policy was born out of a need to specify how DFS could be deployed to support the country's financial inclusion goals. DFS have had a monumental impact on increasing financial inclusion in the country, with the share of people aged 15 and older with an active mobile money account rising from 2 percent in 2012 to 65 percent in 2018. The DFS policy—consisting of 43 actions to be taken by the public and private sector—serves as blueprint for achieving short- and medium-term progress in advancing Ghana's cash-lite vision, which lays out the country's efforts to build an inclusive digital payments ecosystem.

Source: https://mofep.gov.gh/sites/default/files/acts/Ghana_DFS_Policy.pdf

They also have the potential to address common demand-side barriers such as irregular and low-income levels, the absence of formal means of identification, the lack of trust in the formal financial system, and geographical and literacy-related barriers. However, the expansion of DFS is dependent on the quality and availability of enabling factors such as infrastructure (including identity and connectivity), the legal and regulatory framework, and financial consumer capacity (skills for using digital devices).

2. The Gambia's Financial Sector: Structure and Performance

The country's financial sector is very small and dominated by 12 commercial banks, whose assets account for most of the assets in the sector. As of December 2021, commercial banks represented 86.2 percent of total financial sector assets and 73.5 percent of GDP. Most of these banks are foreign and privately owned. Banking sector concentration is high, with only 4 banks comprising about 65 percent of total assets and about 68 percent of total deposits. Lending is also concentrated among only a few creditworthy firms, and the large deposits made by the Social Security & Housing Finance Corporation pose significant systemic risks to the banking sector.

Aggregate financial indicators point to a well-capitalized and liquid banking sector, although buffers could be limited by banks' exposure to the public sector. In December 2022, the capital adequacy ratio was 24.8 percent, well above the regulatory minimum of 10 percent. However, holdings on the banks' investment portfolio of zero-risk government securities may mask solvency vulnerabilities in some banks. While aggregate asset quality deteriorated because of the impact of the COVID-19 pandemic, it is showing signs of recovery. NPLs have been declining from 5.2 percent of total loans in December 2021 to 4.6 percent in December 2022.

Despite relatively a high banking penetration rate, financial intermediation and depth is significantly low and limited by structural factors. At end-2021, banking sector assets to GDP stood at 70.5 percent, higher than the SSA median of 53 percent, but intermediation is significantly low due to the high perception of credit risk, lack of investment opportunities, and heavy reliance on collateralized lending.

TABLE 5
Structure of the Financial Sector

	As of December 2021			
	Number of Institutions	Assets (millions of GMD)	Percent of Total Assets	Percent of GDP
Commercial Banks	**12**	**76,241**	**86.2%**	**73.5%**
Other Deposit Taking Financial Institutions	**126**	**4,786**	**5.4%**	**4.6%**
Finance Companies	3	2,393	2.7%	2.3%
Credit Unions	54	2,383	2.7%	2.3%
Village Savings & Credit Associations[1/]	69	10	0.0%	0.0%
Other Finance Corporations				
Pension Funds	**2**	**5,325**	**6.0%**	**5.1%**
Federated Pension Scheme (FPS)[2/]	1	2,366	2.7%	2.3%
National Provident Fund (NPF)[2/]	1	2,958	3.3%	2.9%
Insurance Corporations	**11**	**1,186**	**1.3%**	**1.1%**
Life Insurance	2	215	0.2%	0.2%
Non-life Insurance	9	651	0.7%	0.6%
Industrial Injuries Compensation Fund (IICF)[2/]	1	320	0.4%	0.3%
Other Finance Intermediaries	**1**	**605**	**0.7%**	**0.6%**
Housing Finance Fund[2/]	1	605	0.7%	0.6%
Financial auxiliaries	**156**	**347**	**0.4%**	**0.3%**
Foreign Exchange Bureaus[3/]	156	347	0.4%	0.3%
Money transfer organizations				
Other				
Fiduciary Financial Institutions	1			
Total	**309**	**88,490**	**100%**	**85.3%**
Memorandum Item				
Nominal GDP		103,700		

Source: CBG; IMF; World Economic Outlook; World Bank Financial Sector Assessment Program team estimates and calculations.
Note: 1/ Data for Village Savings and Credit Associations are as of December 2017. 2/ Data for pension funds, the Insurance Fund, and the Housing Finance Fund are as of December 2019. 3/ Data for foreign exchange bureaus are as of December 2020.

At end-2021, two-thirds of banks' balance sheets were made up of portfolio investments, primarily government securities (35.5 percent), and cash holdings (33 percent), with the loan portfolio making up a small share (12.4 percent). Lending is concentrated among a few creditworthy firms.

Credit to the private sector remains low, and bank credit is skewed toward the public sector. Total domestic credit to the private sector reached 8.07 percent of GDP in 2020, the fifth lowest in a sample of 35 SSA countries (where the average was 26.82 percent of GDP). Out of total domestic credit, bank credit to the private sector reached 7.58 percent of GDP in 2020, the fourth lowest in a sample of 38 SSA countries (where the average was 23.45 percent of GDP). By contrast, The Gambia's bank credit to the government was the fifth highest (21.81 percent of GDP in 2020) in a sample of 34 SSA countries (where the average was 12.59 percent of GDP).[4] Instead of financing investment, banks tend to focus on financing the consumption goods. Banks in The Gambia are not reaching the wider population, and they have no long-run private investment relationships (Bukhari 2005).

Despite declining banking sector profitability, there are no incentives to alter banks' balance sheets and increase lending and financial intermediation. Yields on Treasury bills have been falling from a high of 18 percent in 2016 to below 1 percent at end-2021. Falling government rates have greatly affected profitability. Banks' return on assets fell from 3.16 at end-2020 to 2.49 at end-2021, while their return on equity fell from 22.47 to 19.87 during the same period.

The country's non-bank financial institutions (NBFIs) are few and undiversified, although their share of financial institutions is growing. NBFIs are comprised of non-bank deposit-taking institutions (finance companies, credit unions, and village savings & credit associations, with the share of total assets equal to 4.6 percent of GDP and 5.4 percent of total financial sector assets), 2 pension funds (with assets representing 5.1 percent of GDP and 6 percent of total financial sector assets), 11 insurance companies (with assets representing 1.1 percent of GDP and 1.3 percent of total financial sector assets), and other financial intermediaries. The Gambia's total financial sector assets represent 85.3 percent of GDP.

3. Financial Inclusion in The Gambia

While progress has been recorded on certain indicators and a national financial inclusion strategy (NFIS) has been drafted, financial inclusion continues to be low in The Gambia. Structural constraints pertaining to limited accessibility, lack of diversity of products, and low affordability have limited the expansion of financial inclusion in The Gambia. Access to formal financial services remains among the lowest in the SSA region. The most recent FinScope survey (October 2019) shows that only 19 percent of Gambians have an account with a formal financial institution, while another 12 percent use informal savings, leaving 69 percent completely excluded from formal and informal financial services. Of the 19 percent with accounts at formal financial institutions, a mere 5 percent have a traditional bank account, and 14 percent use the services of an NBFI such as a deposit-taking microfinance company or credit union. About 12 percent of Gambians receive remittances, making this type of financial service some of the most used in the country. Access to formal financial services is much lower in rural (13 percent) than urban (24 percent) areas, for women (15 percent) than men (23 percent), and for people aged between 15 and 35 (14 percent) compared to their older counterparts (27 percent).

Access to transactional services and credit for MSMEs remains a significant challenge in The Gambia. According to the latest edition of the Enterprise Survey carried out in 2018, 72 percent of small and 40 percent of medium-sized firms identified access to credit as the main constraint to growing their business. Only 10.6 percent of surveyed firms reported having access to a bank loan and/or line of credit, and only 15.6 percent of firms reported not needing a loan. Investment in firms is financed mostly internally, with 84.6 percent of firms using internal resources and only 3.2 percent receiving financing from banks.

Most companies operating in The Gambia are micro-enterprises with limited capacity to demonstrate credit worthiness and meet banks' collateral requirements. Lenders typically require high-value immovable collateral (land and/or real estate), but the majority of MSMEs can only offer movable collateral. A total of 93 percent of loans in The Gambia require collateral, higher than an average of 85 percent in SSA, and Gambian lenders require a collateral value of 224 percent of the loan amount, also higher than the SSA average of 214 percent. While the CBG set up a secured transactions system for movable assets in 2014,

[4] https://www.theglobaleconomy.com/rankings/bankcredit_to_government/Sub-Sahara-Africa/ (consulted on February 26, 2023).

it is seldom used and constrained by a lack of secondary market for the re-sale of repossessed collateral.

The use of digital payments remains low, which impedes the development of DFS. Both access to and use of transaction accounts and associated digital payment instruments and services are critical components of financial inclusion. To expand access to transaction accounts and increase the use of digital payment instruments and services, the authorities need to promote the digital economy. The Gambian market is characterized by low levels of access to transaction accounts (in both banks and NBFIs), especially among the youth (aged 15–35) and people living in rural areas. According to the NFIS, about 69 percent of Gambian adults (aged 15 and older) do not have access to a transaction account, while the same is true for 77 percent and 75 percent of the country's youth and rural residents, respectively.

Low access to transaction accounts has also contributed to the low use of digital payments. Cash and cheques are the predominant payment instruments in The Gambia, while there is limited use of digital payment instruments such as debit cards, credit cards, credit transfers, direct debit, and mobile money. According to the NFIS and FinScope, only 5 percent and 2 percent of adults use banking-related products (including digital payment instruments) and mobile money, respectively. This also has implications for the informal economy and hold back the potential of DFS driving the development of the digital economy in The Gambia.

4. Key Constraints for Digital Payments and Financial Inclusion in The Gambia

Key constraints to expand digital payments and financial services more broadly are related to the lack of innovative players in the market. This stems from legal/regulatory gaps and uncertainty, lack of modernization in the underlying payments infrastructure, high fees and issue of eligibility, the government's reliance on paper-based payment instruments for collections, and demand-related challenges such as low levels of financial literacy.

4.1. Gaps in the Legal/ Regulatory Framework for Digital Financial Services

The CBG is responsible for regulating and overseeing The Gambia's digital payments market, including system operators, payment service providers (PSPs), payment services, and payment instruments.[5] While some of the country's acts and regulations cover the oversight of the payment system and PSPs, the country does not have a stand-alone comprehensive oversight framework for the overall digital payments market. The main law that regulates The Gambia's payments market is the Payment Systems Act of 2016, while the Non-Bank Financial Institutions Act provides the framework for the licensing and supervision regime of NBFIs such as finance/microfinance institutions, savings/credit associations and unions (also known as savings and credit companies), leasing companies, debt financing companies, and mortgage lenders.

The Payment Systems Law lacks clarity and misses key nuance in concepts such as interoperability, anti-money laundering and combating terrorism financing (AML/CFT), disputes, and privacy. The law defines important concepts such as clearing, netting, settlement finality, irrevocability, systemic risk, and system designation. It states that the CBG may grant access to any financial institution it deems is in the interest of the efficient operation of the payment systems that it owns and operates. However, it is unclear what powers the CBG has in terms of regulating access to systems licensed by the CBG but operated by the private sector. Access to payment infrastructure by all types of market participants without discrimination is critical for creating a level playing field and promoting healthy competition. Moreover, the law does not include other important concepts such as banking agents, payment system, instrument, access channel, and account interoperability, nor financing technology FinTech concepts such as open banking and application programming interfaces.

[5] The CBG's authority to regulate and oversee The Gambia's payments market is based on different acts and guidelines: Central Bank of the Gambia Act (1992 and updated in 2005 and in 2018); Banking Act (2009); Mobile Money Regulation (2011); Anti-Money Laundering and Combating Terrorism Financing Act and Guidelines (2012); Consumer Protection Act (2014); Payment Systems Act (2016); Non-Bank Financial Institutions Act (2016); and the Non-Bank Financial Institution Rules and Guidelines on Policies and Procedures (2016).

Mobile money is available in the country and is regulated by the Mobile Money Regulation, which is based on the Central Bank Act of 2005. While the regulation defines e-money and e-money issuer, it focuses only on mobile money and mobile money service providers, leaving out other forms of e-money such as online money and prepaid cards. The case of Côte d'Ivoire illustrates the role of e-money regulation in having mobile money issued by NBFIs (Box 3). Clarity on licensing requirements for other e-money issuers would aid the impact of the recent regulatory amendments of permitting mobile money for cross-border transactions. These gaps need to be addressed to drive responsible and secure financial services via mobile money. The authorities should also consider aligning e-money laws with those of regional peers.

The Gambia's AML/CFT act suffers from several limitations. These include a lack of regulation; capacity constraints in addressing ML such as non-filing of suspicious transaction reports; lack of standard operational manuals, adequate resources and requisite skills to investigate and prosecute ML; and failure to report suspicious physical cross–border cash transportations (FATF 2022). Since The Gambia relies heavily on remittances, improving regulation and capacity constraints to address ML is paramount to maintain banking relationships and ensure other countries of The Gambia's ability to combat ML and the financing of terrorism. The payments infrastructure and legal framework, along with related processes, suffer from limitations and offers opportunities, particularly related to operations, centralized data, risk management, and reporting, all of which can be improved to address local and regional risk. Know-your-customer requirements are still stringent for opening bank accounts.

The Gambia's consumer protection framework does not directly cover financial services. The framework is governed by the 2014 Consumer Protection Act, which established the Competition and Consumer Protection Commission as the agency responsible for overseeing consumer protection and empowerment issues. However, the act does not address to financial services directly. Four regulatory agencies have purview over the country's PSPs, which makes coordination challenging and creates confusion and uncertainty in the market while increasing compliance costs. For example, consumer recourse measures are a requirement for PSPs, but consumer protection agencies, where consumers can escalate complaints, are not specified in the regulation. For cross-border transactions, The Gambia's consumer protection laws do not explicitly cover international money transfers, as they do not mention consumer recourse mechanisms for these payments. The lack of focus and clarity, both locally and regionally, presents an opportunity for regulation to provide guidelines and build trust in the country's digital payments market. As the experience of several African countries show (Box 4), rigorous consumer protection mechanisms can enable

BOX 3

Example from Côte d'Ivoire on E-Money Regulation and Application

In 2015, the Central Bank of West African States issued regulations that encouraged nonbanks to issue e-money. Mobile money providers in Côte d'Ivoire partnered with the government to launch what would become a very successful solution for school registration fees. As a result of this initiative, 99 percent of the country's 1.5 million secondary school students paid their school fees digitally—94 percent via mobile money transactions and 6 percent via online payments. The initiative has also driven cost and operational efficiencies and benefited mobile money providers, all of which have improved the viability of the DFS ecosystem.

Source: The World Bank Research Observer 2017.

BOX 4

Examples of Consumer Protection Mechanisms in African Countries

The African Development Bank has supported the National Bank of Rwanda, the Bank of Ghana, and the Competition and Consumer Protection Commission of Zambia in establishing a complaint handling system for financial regulators, using multi-lingual chatbots and artificial intelligence to interface with key financial service providers. The system has incorporated key local languages for ease of use, to record customer complaints, including audio complaints from those unable to read and write, and to track their resolution.

Source: https://www.proto.cx/news/african-development-bank-and-proto-to-automate-financial-consumer-protection-in-ghana-rwanda-and-zambia.

countries to tackle demand-side constraints to accessing transaction accounts and DFS, including safety measures and provisions that protect end-users.

Gaps in the legal/regulatory framework relative to that of regional peers penalize regional digital payments. The Gambia stands to benefit from aligning its legal/regulatory framework with that of regional peers, but this would require the authorities to address existing capacity constraints. The country is a beneficiary of the Economic Community of West African States' (ECOWAS) project to harmonize member countries' legal and regulatory frameworks for the digital economy. This initiative will help The Gambia to identify gaps that hinder regional payments integration as well as strengthen fintech regulation as expressed by the CBG. However, this process will be lengthy and require several laws and regulations to be updated over the coming years, and existing capacity constraints are likely to affect the process.

4.2. Inadequate Underlying ICT Infrastructure

The Gambia faces serious infrastructure deficiencies that affect the performance of the country's economy and inhibit the development of DFS. Despite growing access to electricity, a significant proportion of Gambians (about 38 percent) are not covered by the electricity grid. Coverage is also skewed toward urban areas, with only 30 percent of households in rural areas having access to electricity. In addition, the affordability of electricity is also a constraint to improving access. For instance, 43 percent of households struggled to settle their electricity bill in 2020, as The Gambia's electricity tariff is one of the highest in SSA and more than double the global average.

Internet access is still low, with limited affordability, low quality, and lack of digital skills being the key barriers to access. The Gambia has a relatively competitive telecom market, although mobile internet penetration is low at 66.5 percent in 2021. The high cost of data remains a key constraint to increasing access to the internet. For example, 1 gigabyte of mobile data in 2022 cost an average of US$4.60, higher than US$1.85 in Niger and US$1.53 in Guinea-Bissau.[6] Other barriers inhibiting internet usage are low service quality, lack of content relevance, and insecurity (on the supply side) as well as weak literacy and digital skills.

High cell phone penetration does not yet match the limited supply of internet access points and banks' low branch penetration. Formal banking services are mostly located in urban areas, especially in Banjul and surrounding districts. Access to a formal bank account is hampered by a limited supply of internet access points and lack of available bank

[6] Statista – Price of mobile data in the Gambia. Available at: https://www.statista.com/statistics/1273299/price-for-mobile-data-in-gambia/.

branches. Low use of digital payments partly stems from the lack of availability automated teller machines (ATMs), point-of-sale terminals, or branchless options. Given the high level of financial exclusion, The Gambia has a significant potential to leverage its high mobile phone penetration to increase access to financial services through mobile money, potentially increasing financial inclusion in rural areas. To date, there are limited merchant payment opportunities, and the use of mobile money remains shallow until better value products are developed. Additionally, mobile money agents are concentrated in the western part of the country, and there is no full national coverage. For mobile money to reach its intended objectives, the digital payment ecosystem, along with the payments value chain, needs to be strengthened.

The country's national identification (ID) system is fragmented. It has undergone several developments, with the first identity card (without a chip) being rolled out in 2009, followed by one with a chip that was used between 2009 and 2015. The second ID card was, however, replaced by the initial identity card due to inefficiencies. The ID system was later enhanced to improve security features with the creation of a biometric card in 2018, and the country's new biometric ID scheme launched in 2020. The new biometric ID is costly, and the scheme was rolled out without any personal data protection regulation or dedicated data protection agency. In addition, the lack of registration for SIM cards is a hinderance for financial inclusion. In the absence of universal coverage of digital IDs, the authorities should consider to what extent SIM cards and mobile phone numbers could be used as identity proxies/aliases in financial transactions.

4.3. Constraints Related to Access, Eligibility, Affordability, and Market Development

The collateral requirements penalize low-income households and small and medium-sized enterprises (SMEs). The need to provide hard immovable collateral, deficient secured transactions and collateral registry systems (STCR), and limited availability of credit information, among others, represent eligibility constraints. Moreover, the high cost of financial services is also a barrier to financial inclusion for SMEs and low-income households. Affordability and costs are affected by high interest rates or fees, minimum account balances, insufficient product availability for MSMEs, and limited competition in the financial sector. For instance, cash-out fees with Qmoney range from GMD 6 for cash-outs of GMD 10-25 to GMD 450 for cash-outs of GMD 22501-25000. Cash-out fees can account for about 4 percent of the monthly income of households living in extreme poverty (about 48 percent of the population), which affects the use of DFS (WB 2022c).

Information asymmetry is among the key inhibitors to financial inclusion for SMEs and households. Credit information systems and scoring models using payment flow information are used to create borrower history and facilitate access to financial services by reducing asymmetries of information. Effective collateral laws and increased information about potential borrowers' creditworthiness through credit registries can therefore increase access to credit. While the CBG set up and manages the Credit Reference Bureau, a credit reporting system, data coverage, reliability, outreach (the system is only available to banks, NBFIs do not have access), and usability need significant improvements. Meanwhile, a secured transactions system for movable assets has been in place since 2014; however, its uptake is very low due to a shallow secondary market, which hinders the resale of repossessed collateral, reducing asset liquidity and altering its valuation.

Lack of diversity of financial products and demand-side challenges drive financial exclusion. Financial service providers in The Gambia offer mostly traditional products and services. Lending products tend to offer short maturities, limiting the availability of long-term financing instruments for longer-term investments. While low access to finance is driven by lack of diversified financial products, high risk aversion from lenders, and lack of financial sector infrastructure, there are also demand-side challenges such as high levels of informality, low levels of financial literacy, and absence of financial consumer protection. A wider array of financial products needs to be gradually developed by financial institutions, as the existing product offering consists of traditional lending and savings products that fail to meet the long-term financing needs of local businesses.

Asset-based lending and other fintech is largely inexistent. Financial innovation and the development of frameworks for asset-based lending such as leasing and factoring could increase uptake. Factoring is a form of asset-based short-term financing mechanism whereby firms sell their creditworthy accounts receivable at a discount and receive immediate cash. Since financing is linked to the value of an underlying asset, the creditworthiness of the firm is irrelevant, making it particularly attractive to higher

risk MSMEs.[7] Leasing products enable businesses to use their assets, either under the ownership of the lessor or otherwise, as security to generate capital. Microinsurance is another small-scale risk management instrument to reduce vulnerability. These products are alternatives to the traditional offering because they serve clients that typically fall outside the more-established providers' business lines, and they allow financial service providers to further develop their commercial products. These alternative products are underdeveloped and lack a clear regulatory framework in The Gambia.

5. Payment Infrastructure Upgrades to Strengthen Financial Inclusion in The Gambia

Retail payment system/infrastructure upgrades can be used to strengthen the use of DFS. A legacy automated clearing house (ACH) owned and operated by the central bank is one of the country's main existing retail payment systems. The ACH processes credit transfers, direct debits, and cheques. It is especially relevant for financial inclusion, as it processes low value payments initiated/accepted on a day-to-day basis by individuals and merchants. Another existing retail payment system is a public-private partnership between the CBG and private investors called Gamswitch, which is a payment platform for commercial banks.

a) Automated Clearing House

The ACH in The Gambia (ACP-ACH) is owned and operated by the CBG, which has expressed an interest in upgrading the system that was initially launched in 2012. The ACH includes an upper limit of GMD 100,000, beyond which individual transactions need to be processed directly through the large value payment system. Typically, the account of the payee is credited in T+1 for the payment cleared via the ACH, which has implications for merchants, as they need to wait at least one day to receive funds in their accounts for goods/services sold. The system allows for both direct and indirect participants (PSPs), although banks typically participate directly, which creates an unfair advantage over non-banks that need to connect via a sponsor bank.

The use of cheques has been gradually falling throughout the country. Since 2014 (with one exception in 2019), both the volume and value of cheques processed have decreased. In some cases, cheques have been substituted with credit transfers and direct debits. It is imperative that this trend toward digitization of payments continues and the authorities upgrade the ACH.

b) GamSwitch

GamSwitch is a domestic card payment platform in The Gambia, structured as a public-private partnership and licensed by the CBG as a payment system. All commercial banks in the country are connected to GamSwitch, and operators are expecting that some non-banks (e.g., as credit unions, microfinance institutions, and mobile money providers) will join as well when they fulfill the necessary technical requirements.

There is a fee for participants to join as well as annual maintenance fees. The cost structure of GamSwitch does not follow the traditional four-party model, as the merchant is charged a merchant discount rate, which is then split by the acquirer, the issuer (interchange fee), and the card network. The fee is borne by the payer rather than the merchant, and it is split between the acquiring bank, the issuing bank, and GamSwitch. The aim is to incentivize merchants to accept the card, but it is unclear to what extent this model is working and the impact it is having on card holders at the point of sale.

There is an opportunity to introduce instant payment services in The Gambia to increase the use of digital payments. The process of upgrading existing infrastructure such as Gamswitch or the ACH could be utilized to introduce instant payments. Instant payments are characterized by instant crediting of the payee's account as well as full availability of service. An instant payment system allows both banks and non-banks to connect, creating a level playing field. It also fosters innovation, as market participants can add new products/services to the main underlying infrastructure by using application programming interfaces. To date, about 90 jurisdictions around the world have already implemented instant payments.[8] The strong adoption of the recent

[7] Bakker, Klapper & Udell 2004.
[8] World Bank Fast Payments Toolkit. 2021. https://fastpayments.worldbank.org/resources.

TABLE 6
Volume and Value Processed through ACH

Year	Annual volume processed (percentage change)	Annual value processed in billion Dalasi (percentage change)
Credit Transfers and Direct Debits Processed		
2012	95,251	0.7
2013	484,026 *(408.16%)*	2.1 *(211.96%)*
2014	532,032 *(9.92%)*	2.6 *(25.10%)*
2015	552,470 *(3.84%)*	2.6 *(1.19%)*
2016	594,650 *(7.63%)*	2.8 *(8.60%)*
2017	656,953 *(10.48%)*	3.5 *(22.21%)*
2018	663,049 *(0.93%)*	4.3 *(21.76%)*
2019	696,414 *(5.03%)*	5.3 *(25.63%)*
2020	742,794 *(6.66%)*	6.1 *(13.92%)*
2021	865,749 *(16.55%)*	7.9 *(30.93%)*
Cheques Processed		
Year	**Annual volume processed (percentage change)**	**Annual value processed in billion Dalasi (percentage change)**
2012	189,893	3.3
2013	206,270 *(8,62%)*	4.4 *(33.57%)*
2014	185,778 *(–9.93%)*	3.8 *(–13.91%)*
2015	179,546 *(–3.35%)*	3.7 *(–1.69%)*
2016	171,208 *(–4.64%)*	3.9 *(4.44%)*
2017	155,800 *(–9.00%)*	3.7 *(–5.27%)*
2018	144,518 *(–7.24%)*	3.6 *(–1.05%)*
2019	154,262 *(6.74%)*	4.0 *(8.81%)*
2020	130,672 *(–15.29%)*	3.4 *(–14.48%)*
2021	112,057 *(–14.25%)*	3.0 *(–11.73%)*

Source: CBG and World Bank/IMF Financial Sector Assessment Program.

instant payment scheme in Brazil (Pix) illustrates the positive impact of digital means of payments on digital financial inclusion (Box 5).

c) Regional Payment System and Infrastructure

The country does not currently participate in a regional cross-border payment system that can play a role in reducing the cost of cross-border transactions and remittances. The Gambia (through the CBG) is a part of six countries that have piloted membership the Pan-Africa Payment and Settlement System (PAPSS).[9] While PAPSS integration is promising for regional digital payments, slow progress and limited information about its rollout means that there is currently no real-time cross-border functionality available to The Gambia. Recent changes by the CBG allowing for PSPs to start offering international remittances via mobile money bode well for regional integration, potentially improving remittance flows. The Gambia is following in the footsteps of its fellow ECOWAS member Ghana to ensure domestic cross-domain payment interoperability. Being a PAPSS pilot country, it also stands to benefit from joint cross-border payments rails once it is live in the country. The ECOWAS regulatory harmonization project has been embraced and will serve as a major opportunity to align domestic regulatory frameworks. However, capacity and capability constraints could hamper rapid reforms.

The high level of remittances flowing between The Gambia and other ECOWAS members constitutes an incentive for regional payments, but US dollar-based remittance corridors will likely be prioritized. The country relies extensively on cross-border remittances, which are a main source of foreign exchange. Within Africa, three ECOWAS countries are top sources of remittances to The Gambia, namely Nigeria, Sierra Leone, and Senegal, as they are home to the most Gambian migrants. Outside of Africa, the United States, United Kingdom, and Italy are the top three remittance corridors. Its key payment ties with the ECOWAS community provides an incentive for The Gambia to regionally integrate digital payments further and reduce costs. However, due to the heavy reliance on US-dollar denominated imports, it is likely that US-dollar based remittance corridors will be prioritized.

[9] PAPSS is a cross-border, financial market infrastructure that enables payment transactions in Africa: https://papss.com/.

BOX 5

Pix: The Instant Payment System in Brazil

Brazil's instant payment scheme Pix was launched by the Central Bank of Brazil in 2020. It allows fund transfers between all types of transaction accounts in the Brazilian market—current, savings, and prepaid payment accounts—creating a payment service ecosystem with a low acceptance costs and high levels of usability. Pix aliases, which initiates a transaction, are as simple as an e-mail address or a mobile phone number. The platform also actively uses QR codes as an access channel. Since its launch in November 2020, Pix has grown rapidly, and by December 2021, there were approximately 109 million consumers and 7.6 million businesses, mostly MSMEs, actively using the platform, including around 45 million citizens who previously did not have access to DFS.

The strong adoption of the platform indicates not only a transition to new digital means of payment but also an improvement in digital financial inclusion. Some of the main drivers behind the adoption have been single name and brand building recognition and trust in the system; mandatory participation of big banks, resulting in network externalities and scaling the payment system; low transaction costs compared to other retail payment instruments (transaction is free for end-users); improved customer experience due to standardization of the way Pix is provided in participating institutions' applications; and multiplicity of use cases, including peer-to-peer transfers, tax and bill payments, and online and card purchases.

Source: Central Bank of Brazil.

Only a small share of MSMEs are regionally integrated. About 20 percent of The Gambia's MSMEs, which are largely informal, have access to foreign markets, of which 67 percent have access to a foreign market in ECOWAS. Cross-border challenges including infrastructure constraints, high tariffs, rent seeking, and lack of awareness of the incentives offered by existing trade agreements are impediments to regional trade integration.

6. Digital Financial Services: Products, Participants, and Opportunities

There are 12 commercial banks operating in The Gambia, and these issue cards to individuals and provide infrastructure to merchants to accept card payments (i.e., acquirers). Other market participants include credit and savings unions, microfinance institutions, mobile money service providers, and money transfer operators. Banks serve customers through their branches, ATMs, agents, and digital channels (e.g., internet and mobile banking). They charge a fee for opening and maintaining an account, and they require a photo ID, proof of address, and a tax identification number. Banks issue a variety of payment instruments such as cheques, debit cards (domestic and international), credit cards, direct debit (intrabank and interbank), and credit transfers (intrabank and interbank). Several banks also have agreements with international card companies that allow them to issue debit/credit cards under their brands. International brand cards can be used for online payments in the country. Moreover, banks in The Gambia collect payments on behalf of utility companies and government agencies at their branches as well as through

internet banking. In some cases, end-users are charged a transaction fee for such payments, while in other cases the transaction fee is borne by the company on behalf of which the banks collect payments. Finally, banks are engaged in the disbursement of government payments such as public sector salaries, pensions, and social assistance transfers.

In the context of financial inclusion, there are certain population segments that banks have not been able or willing to attract such as the elderly, people with low income, and those living in rural areas. There is a large potential for banks to collect utility and government payments via the internet or mobile banking (e.g., through credit transfers or direct debit) to avoid cash payments at branches. While some banks offer DFS, they can further improve them by offering user friendly, full internet/mobile banking packages, which consolidate all types of services. Informational campaigns should also be deployed on an on-going basis to ensure users understand the range of available benefits.

Credit and savings unions play an important role in increasing financial inclusion, given that they tend to work with clients of different sociodemographic backgrounds who are often excluded by banks. These institutions typically impose a one-time membership fee, but there are no other fees related to opening and/or maintaining an account. Moreover, account holders in credit/savings unions automatically become shareholders, which makes the business model different than those of commercial banks. There is also appetite from these institutions, alongside microfinance institutions, to be more involved in providing payment services and products, thereby having a more proactive role in contributing to financial inclusion. Unlike banks, credit/savings unions have a physical presence in villages and rural areas. However, they still rely on banks for issuing cards and using payment systems such as the ACH for clearing purposes, resulting in additional costs. There are two mobile money service providers operating in The Gambia, and mobile money allows for different types of payments (e.g., person-to-person, person-to-business, person-to-government, business-to-business, business-to-government). The infrastructure needed to accept mobile money is typically light and mobile (quick response codes and mobile point of sale), adding to the convenience and cost efficiency of accepting electronic payments for merchants. Such solutions could replace the need for physical cash in rural areas, and they could enable consumers to accept their funds electronically and also use them at the point of sale without the need to withdraw physical cash.

E-commerce is underdeveloped in The Gambia. Its development is hampered by the limited availability of payment instruments for online payments. While an international brand card or an ACH transfer could be used for online payments, those are typically costly to the payee and the payer. Moreover, the domestic debit card is not accepted for online payments. Furthermore, international companies such as PayPal are not registered in the country. As a result, cash on delivery and cheques are still the preferred payment methods, even when the actual order is made online. This is detrimental to The Gambia's critically important tourism sector, as most tourists prefer to use digital payment methods or making e-commerce payments. This trend is also observed in business-to-business payments. The market needs alternative business models that could facilitate remote payments (including for e-commerce) in a fast and cost-efficient way, using web-based and mobile-based payment instruments.

The Government of the Gambia has made progress in digitizing government disbursements, which to a large extent are channeled to beneficiaries' transaction accounts. Funds are sent to bank accounts, accounts at microfinance institutions, and mobile money accounts (mobile money represents only about 1 percent of digital disbursements). The integrated financial management information system, the ACH, and the RTGS (real-time gross settlement) are utilized to transfer and settle the funds, although there are still manual processes such as sharing excel files containing beneficiary information with microfinance institutions to distribute funds to the respective beneficiary accounts. Further enhancements are needed of the interface between the ACH and the large value payment system to ensure there is real-time notification of settlements and information flows. Some agencies still issue cheques, particularly for reimbursements and petty expenses. The respective agencies need to move away from cheques and toward credit transfers. There is a Treasury Single Account at the CBG that manages all government payments. There is also transit accounts that ministries and government agencies hold with commercial banks, but those funds are ultimately channeled to the CBG account. The reconciliation for the transit accounts is done daily. Digitalizing government payments is critical because of the large number of people they reach. By digitalizing such payments, individuals will open transaction accounts and eventually start using them for other types of payments, a pattern seen in many other countries such as Indonesia (Box 6).

Improving financial literacy is important to increase financial inclusion and the use of digital payments in The Gambia. According to FinScope, two of the main reasons people cite for not having a transaction account are lack of trust in financial institutions and insufficient knowledge of how to open/operate such an account. To obtain a better

BOX 6

Digitizing Government Payments in Indonesia

The Government of Indonesia and the Bank of Indonesia are pursuing a cashless-based social assistance program that is easy to access by the public. This goal of the program is to increase financial inclusion as well as provide economic opportunities to vulnerable groups. The existing landscape for digital disbursements of social assistance payments faces several challenges, including lack of supporting regulation; fragmented data of eligible recipients; additional cost for card-based payments for noncash transfers; limited interconnectivity, especially among payment system bank agents; lack of digital and financial literacy; and underutilized digital payment instruments. The Bank of Indonesia has identified three business models for digital social assistance programs: (i) Quick Response Code Indonesian Standard (QRIS), (ii) unstructured supplementary service data, and (iii) face recognition payments. Of the three business models, QRIS provides the most benefits, as it is already interconnected among banks and non-banks, free of charge for customers, and accepted at 17.5 million QRIS merchants. Banks can use QRIS for customers who have smartphones and add the feature of face recognition payment for recipients who do not have a mobile phone. Another additional feature of the application is the 'whitelisting' of products or services that beneficiaries are allowed to buy with their social assistance money.

Source: Bank of Indonesia.

and deeper understanding of financial literacy and its main drivers in The Gambia, the CBG and other national agencies could consider conducting a baseline financial literacy survey at the national level. The findings could inform targeted interventions by the CBG and other public and private sector stakeholders in the DFS market. In the process of deploying the necessary tools to improve financial literacy, there are opportunities to engage other relevant stakeholders such as the Ministry of Education, Chamber of Commerce, the Association of Banks, and non-bank PSPs, particularly in the context of the NFIS Steering Committee. The authorities should learn from the experience of other countries, such as Zambia, that have similar demand-side constraints to accessing and using DFS (Box 7). There is a need to target the main constraints that keep individuals and merchants from accessing and using transaction accounts and digital payments. For example, the authorities could address how accounts can effectively help meet payment and store-of-value needs, and they could also target specific 'fear' factors such as: (i) the perception of lack of soundproof of payment if paper is not used; (ii) fear that new modalities may be vulnerable to fraud; (iii) fear of dealing with unresponsive, complicated systems prone to operational error; and (iv) the perception of loss of privacy. This could also be done by targeting specific population segments, such as remittance recipients, that may particularly benefit from such programs and campaigns. One example is the World Bank's Greenback program, which works with remittance recipients and PSPs to increase awareness, efficiency, and transparency in the remittance market.[10]

[10] Information on the World Bank's Greenback Program is available at https://remittanceprices.worldbank.org/en/project-greenback-20-remittances-champion-cities.

BOX 7

Financial Literacy in Zambia

In Zambia, the three financial regulators (the Bank of Zambia, Securities and Exchange Commission, and Pensions and Insurance Authority) have implemented a joint awareness campaign to educate the public on digital financial security and safety. The campaign was developed as a response to the increase in the number of people falling victims to online financial scams, which were hampering efforts to advance digital financial inclusion.

Source: https://www.boz.zm/Governor_Speech_2023FLW_Launch.pdf

Incorporating financial education in the formal school curriculum could benefit the younger generation, who are the country's future consumers and users of payment services. The International Gateway for Financial Education, led by the Organization for Economic Co-operation and Development, provides principles and frameworks for integrating financial education programs into the formal school curricula and shares best practices from other countries.[11] Facilitating the development of local talent in information and communication technologies as well as science, technology, engineering, and mathematics and advancing digital skills in the economy through secondment programs, training bootcamps, or conversion courses (developed in partnership with global universities, civil society, or development partners) may significantly help boost the development of DFS in The Gambia.

7. Policy Options to Accelerate Digital Payments Access and Usage for Increased Financial Inclusion

The Gambia is at the very early stage of digitally transforming its financial sector, as the economy remains predominantly based on cash transactions. The CBG recently drafted an NFIS, which includes the promotion of DFS as one of its four strategic pillars to increase financial inclusion in The Gambia. This section proposes policy measures to build a comprehensive vision of the digital payment ecosystem that could contribute to greater financial inclusion by reducing informality and the use of paper-based payment instruments (i.e., cash and cheques). There are three policy actions and enablers: (i) conducive legal and regulatory frameworks; (ii) enabling financial and digital infrastructure; and (iii) ancillary government support systems (Table 7). This section outlines both the key enablers (Table 1) and complementary detailed enablers (Table 8).

[11] More on the OECD's financial education frameworks is available at http://www.financial-education.org/home.html.

TABLE 7
Development Stages for Financial Inclusion and Digital Financial Services

Policy Actions and Enablers	Stage 1: Basic access to transaction accounts	Stage 2: More intensive usage of transaction accounts for digital payments	Stage 3: Moving beyond payments to other DFS products (e.g. credit, insurance)	Stage 4: Widespread adoption and usage of DFS by individuals and SMEs
Enabling financial and digital infrastructures	• Foster good penetration of mobile phones and connectivity	• Foster functioning payment systems and enabling interoperability	• Establish credit infrastructure and enhance coverage of credit-relevant data	• Support universal broadband connectivity • Facilitate high penetration of smart phones
Ancillary government support systems		• Enhance financial management system to support intensive shift of G2P payments to digital	• Establish and expand coverage of digital ID	• Enable automated access to digitized government data platforms
Conducive legal and regulatory frameworks	• Allow non-bank issuance of e-money • Implement simplified customer due diligence (CDD) • Enable development of widespread agent network	• Adopt payment systems law • Enable non-banks access to payment systems • Robust consumer protection framework in place • Develop and implement competition policy	• Establish comprehensive regulatory framework for DFS providers • Adopt comprehensive legal measure for data protection and privacy • Enable and encourage DFS providers to expose and use APIs	• Adopt legal measures to enable open banking

Source: Digital Financial Services, World Bank 2020.

TABLE 8
Complementary Enablers to Accelerate the Development of Digital Payments for Increased Financial Inclusion

Objectives	Policy recommendations	Timeframe	Responsibility
Conducive legal framework for DFS	Improve the collateral registry to make it more reliable and increase its uptake and usage.	ST	CBG
	Update the Mobile Money Regulation to cover e-money services (beyond mobile money).		
	Clarify in the AML/CFT guidelines if remote know your customer for opening a bank account is permitted.	ST	CBG
	Continue legal/regulatory harmonization with ECOWAS peer countries and expand the participation of PSPs in the PAPSS.	MT	CBG
Market dynamics, government payments, and financial litterature	Utilize light infrastructure such as QR codes for merchant payments at the point of sale.	MT	Banks
	Consider the use of SIM cards as identity proxies in financial transactions.	MT	CBG
	Continue efforts to digitize government payments.		
	Conduct a financial literacy survey.	MT	CBG
	Implement a national financial education strategy (beyond the NFIS), focusing on digital payments and remittances.	MT	CBG, MOBSE

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

Legal and regulatory framework

To improve the legal and regulatory framework, the authorities should consider:

- **Reforming the NBFI regulatory framework.** This should include revising the NBFI act to create a facilitating and risk-based regulatory environment for NBFIs, including non-deposit taking institutions like factoring and peer-to-peer lending platforms.
- **Improving the collateral registry.** This should aim to make it more reliable and increase its uptake and usage.
- **Updating the Payment Systems Act.** An updated act could incorporate emerging business models and new types of payment services and infrastructure providers (FinTech) to open up the market and create a level playing field for new entrants.
- **Updating the Mobile Money Regulation.** The regulation could be reframed to cover e-money more broadly, opening the way for the licensing of companies that provide e-money services beyond mobile money.
- **Clarifying in the AML/CFT guidelines if remote know your customer for opening a bank account is permitted.** The guideline refers to due diligence for remote transactions. However, it is not clear from the language used if opening a transaction account remotely is permitted.
- **Continuing legal/regulatory harmonization with ECOWAS peer countries and expanding the participation of PSPs in the PAPSS.** Pursuing both of these objectives would allow the country to facilitate cross-border digital payments with regional peers in a faster and more cost-efficient way.

Financial and digital payments infrastructure

To improve financial and digital payments infrastructure, the authorities should consider:

- **Incorporating NBFIs into credit reporting and payments infrastructure.** This is necessary to reduce information asymmetries.
- **Converting GamSwitch into an instant payment system.** This would include efforts to:
  - Increase its business hours, which could serve as an initial step for continuous operation at a later stage.
  - Support the processing of credit transfers in real time to ensure funds are instantly availability in the account of the payee.
  - Ensure that the software is scalable to handle high volumes of payments.
  - Implement basic proxy functionality based on a centralized model to support a one-to-one mapping of an alias to a bank account number. In the beginning, the proxy solution could support the use of mobile numbers and email addresses as aliases.
  - Implement an open application programming interface to connect with the current ACH.

Market dynamics, government payments, and financial literacy

To improve the DFS market, government payments, and financial literacy, the authorities should consider:

- **Utilizing light infrastructure such as QR codes for merchant payments at the point of sale.** QR codes are becoming a cost-efficient way for merchants to accept digital payments, including fast payments. Payers can scan the QR code with their phones, making the payment experience convenient and user-friendly.
- **Exploring to what extent SIM cards and mobile phone numbers could be used as identity proxies/aliases in financial transactions.** This could be used in the absence of a universal digital ID system.
- **Continuing efforts to digitize government payments.** The interface between the ACH and the large value payment system needs to be enhanced to ensure there is real-time notification of settlement and information flows for digital government payments.
- **Conducting a financial literacy survey.** In the absence of data, the CBG is encouraged, along with other relevant government agencies and private sector stakeholders, to conduct a national financial literacy survey to establish a baseline of financial literacy data and identify the main issues that policies and interventions need to address to improve financial literacy.
- **Exploring the implementation of a national financial education strategy (beyond the NFIS), focusing on digital payments and remittances.** This could cover DFS, different digital payment instruments, access channels and cost efficiencies, and barriers facing individuals and merchants in using DFS.

References

Bakker, Marie H. R.; Klapper, Leora; Udell, Gregory F. 2004. Financing Small and Medium-Size Enterprises with Factoring: Global Growth and its Potential in Eastern Europe. *Policy Research Working Paper*; No.3342. Warsaw: World Bank. © World Bank.

Beegle, K. et L. Christiansen. 2019. Accelerating Poverty Reduction in Africa. No 32354 in World Bank Publications - Books from The World Bank Group.

Bukhari. M. S. Sillah, 2005. Banking and Economic Growth: Case of the Gambia. Inaugural-Dissertation zur Erlangung des Grades eines Doktors der Wirtschafts-und Sozialwissenschaften Der Wirtschafs-und Sozialwissenschaftlichen Fakultaet der Christian-Albrechts-Universtitaet zu Kiel.

Ceesay Masanneh L. (2020), Value Chain Analysis – tourism Services Sector of The Gambia, UNCTAD.

Cihák, Martin, Asli Demirgüç-Kunt, Erik Feyen, and Ross Levine. 2012. "Benchmarking Financial Development Around the World." *Policy Research Working Paper*, 6175, World Bank, Washington, DC.

Data Guidance, 2021. Available at: https://www.dataguidance.com/notes/gambia-data-protection-overview.

FATF 2022. The Republic of Gambia's measures to combat money laundering and terrorist financing (GIABA-Mutual-Evaluation-Gambia-2022).

Feenstra, Robert C., Robert Inklaar and Marcel P. Timmer (2015), "The Next Generation of the Penn World Table" *American Economic Review*, 105(10), 3150–3182, available for download at www.ggdc.net/pwt.

Gambia Bureau of Statistics. 2022. Trade Statistics Second Quarter Report 2020. Banjul: GBoS.

International Monetary Fund, 2023. Governance Diagnostic for The Gambia. IMF, Washington DC.

Momodou O Jallow, 2021. The transmission of monetary policy shocks to major economic sectors in the Gambia: evidence from an SVAR, *International Journal of Economics, Commerce and Management*, Vol. IX, Issue 12, Dec 2021, p178–194. http://ijecm.co.uk/

OECD Database: Corse Competencies Frameworks on Financial Literacy. Available at: https://www.oecd.org/finance/core-competencies-frameworks-for-financial-literacy.htm

Republic of The Gambia, Ministry of Finance and Economic Affairs, 2022. National Development Plan 2023–2027, Banjul, December 2022.

Sarma, M. (2008), Index of financial inclusion, *Working Paper*, 215, Indian Council for Research on International Economic Relations, New Delhi.

Statista (2022) – Price of mobile data in the Gambia. Available at: https://www.statista.com/statistics/1273299/price-for-mobile-data-in-gambia/

World Bank, 2023a. Global Economic Prospects. The World Bank, Washington DC, January 2023.

World Bank, 2023b. The Gambia InfraSAP2.0. Improving Transport Connectivity Diagnostic with Recommendations Summary. Washington DC: The World Bank.

World Bank, 2022a. Tourism diversification and resilience in the Gambia. Report No: PAD4876, Washington DC, World Bank.

World Bank, 2022b. Country Partnership Framework for Republic of the Gambia for the period FY22-FY26, 2022. Washington DC: The World Bank.

World Bank, 2022c. The Gambia Economic Update. Coming Back Stronger. Washington DC: The World Bank.

World Bank, 2021. World Bank Fast Payments Toolkit (2021). Available at: https://fastpayments.worldbank.org/

World Bank. 2020a. Republic of The Gambia. Overcoming a No-Growth Legacy. *Systematic Country Diagnostic*. Washington, DC: World Bank.

World Bank. 2020b. The Gambia Public Expenditure Review: Creating Fiscal Space. Washington, DC: World Bank.

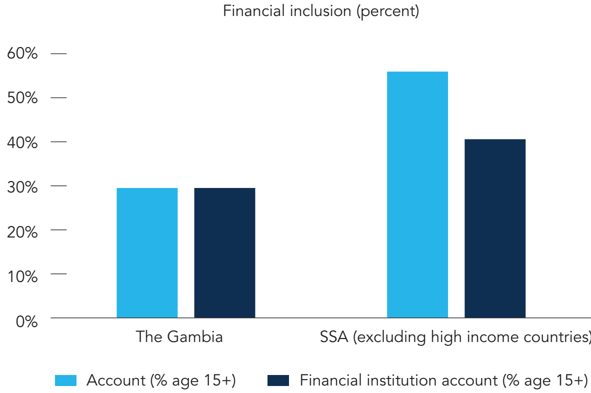
World Bank, 2020c. The Gambia Digital Economy Diagnostic. Washington DC: The World Bank.

World Bank. 2020d. Digital Financial Services. Washington, DC: World Bank.

World Bank. 2017. The World Bank Research Observer (2017). Washington DC: The World Bank.

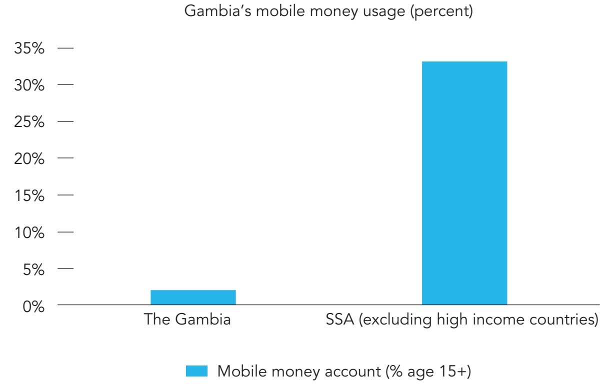
Annex

FIGURE 17
Gambia's Financial Inclusion is Low Compared to the SSA Average and . . .



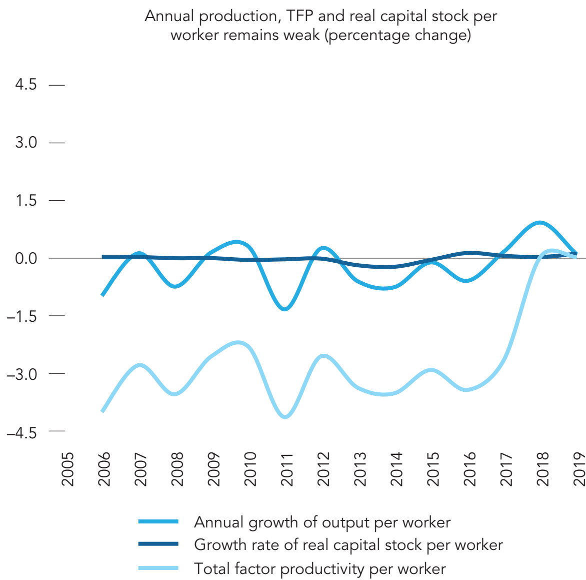
Source: Findex data 2017 (last year of available data) for The Gambia and 2021 for SSA

FIGURE 18
. . . and Its Mobile Money Usage is Very Low Compared to the SSA Average



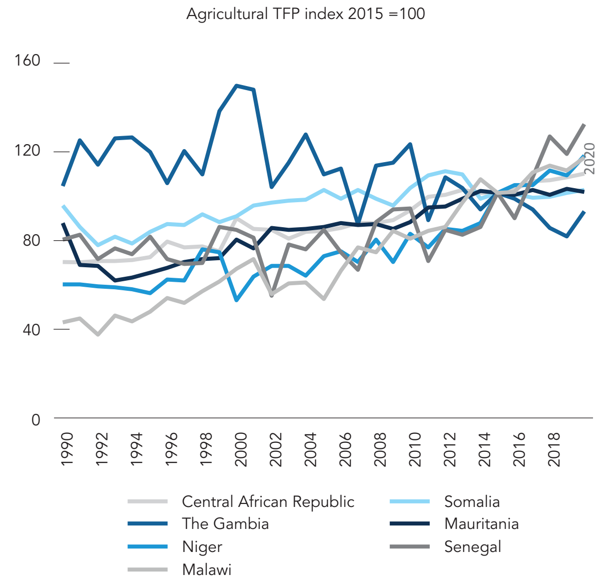
Source: 2019 Finscope Consumer Survey for The Gambia and 2021 Findex data for SSA

FIGURE 19
Productivity Growth has been Negative with Limited Accumulation in Capital Stock per Worker



Source: Authors based on PWT 10 (Freensta, Inkaarand Timmer (2015)

FIGURE 20
Agricultural Productivity Continuously Declined in The Gambia



Source: United States Department of Agriculture[12]

[12] For more details about the USDA methodology, kindly refer to Fuglie (2013). The data can be accessed using the following link: https://www.ers.usda.gov/data-products/international-agricultural-productivity/.