



AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE
DE DÉVELOPPEMENT

COUNTRY FOCUS REPORT

THE GAMBIA

Driving Gambia's Transformation

The Reform of the Global Financial Architecture





AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE
DE DÉVELOPPEMENT

COUNTRY FOCUS REPORT

THE GAMBIA

Driving Gambia's Transformation

The Reform of the Global Financial Architecture



© 2024 African Development Bank

African Development Bank Group
Avenue Joseph Anoma
01 BP 1387 Abidjan 01
Côte d'Ivoire
www.afdb.org

The opinions expressed and arguments employed herein do not necessarily reflect the official views of the African Development Bank, its Boards of Directors, or the countries they represent. This document, as well as any data and maps included, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries, and to the name of any territory, city, or area.

You may copy, download, or print this material for your own use, and you may include excerpts from this publication in your own documents, presentations, blogs, websites, and teaching materials, as long as the African Development Bank is suitably acknowledged as the source and copyright owner.

ACKNOWLEDGEMENT

The 2024 Country Focus Report for The Gambia was prepared in the Chief Economist and Vice-Presidency for Economic Governance and Knowledge Management Complex, under the direction and supervision of Prof. Kevin C. Urama, Chief Economist and Vice-President, with support from Amadou Boly (Chief Assistant to the Chief Economist), and Amah Marie-Aude Ezanin Koffi (Executive Assistant).

The preparation of this report was led by Désiré Vencatachellum, Senior Director, Country Economics Department (ECCE), with Marcellin Ndong Ntah (Lead Economist, ECCE) as the project management Lead, IT support from Abir Bdioui (Consultant, ECCE), and administrative support from Tricia Effe Baidoo (Team Assistant, ECCE). The Country Focus Report for The Gambia was prepared by Joel Daniel Muzima (Principal Country Economist, ECCE1), under the guidance of Guy Blaise Nkamleu (Lead Economist, ECCE1/RDGW) and Jacob Oduor (Lead Economist, ECCE2, RDGN).

The team thanks (i) The Gambia Country Team led by Lamin Barrow (Director General, West Africa Region), Joseph Martial Ribeiro, Deputy Director General, West Africa Region; and Mohamed Cherif (Country Manager, Senegal Country Office); (ii) the Macroeconomics Policy, Forecasting and Research led by Abdoulaye Coulibaly, Director, Officer-in-Charge; (iii) the Transition States Department (RDTS) led by Yero Baldeh, Director, (iv) the African Natural Resource Center (ECNR) led by Désiré Vencatachellum, Director, Officer-in-Charge; and (v) the Macroeconomics Policy and Debt Sustainability Division led by Anthony Simpasa, Division Manager, for their contributions.

The data in the report was compiled by the Department of Statistics led by Babatunde Samson Omotosho, Director, with significant contributions from Louis Kouakou (Manager of Socio-Economic Statistics Division, Department of Statistics), Ben Paul Mungyereza (Head of the Statistical Capacity Building Division, Statistics Department), Anouar Chaouch (Senior Statistician, Division 1 of the Statistics Department) and Momar Kouta (Senior Statistical Information Systems Officer, Division 1 of the Statistics Department).

Peer-review comments were received from Prosper Charle (Macroeconomist, ECCE2, COTZ), and Kebba Jammeh (Senior Research Economist, ECMR1). Country Team comments were received from Stephané Regis Hauhouot (Statistical Assistant, ECST1), and Harcel Nana Tomen (Operations Analyst, RDGW4). Dr Joseph Atta-Mensah, Senior Fellow from Africa Centre for Economic Transformation, acted as an external reviewer.

The cover of the report is based on a general design by Laetitia Yattien-Amiguet and Justin Kabasele of the Bank's External Relations and Communications. Copy-editing was done by the Bank's Language Services Department (TCLS) and layout was done by Ancre Consulting.

TABLE OF CONTENTS

ACKNOWLEDGEMENT	III
LIST OF BOXES	v
LIST OF FIGURES	v
LIST OF TABLES	v
LIST OF ABBREVIATIONS	vi
EXECUTIVE SUMMARY	viii
INTRODUCTION	iv
CHAPTER 1: MACROECONOMIC PERFORMANCE AND OUTLOOK	1
1.1.Key messages	1
1.2.Introduction	2
1.3.Growth performance	2
1.4. Other recent macroeconomic and social developments	2
1.5. Macroeconomic outlook and risks	4
1.6 Policy options to foster high and resilient growth: Supporting macroeconomic stability and economic transformation	4
CHAPTER 2: TAKING STOCK OF COUNTRY'S STRUCTURAL TRANSFORMATION PROGRESS	7
2.1. Key messages	7
2.2. Introduction	8
2.3. Taking stock of economic performance and transformation in The Gambia	8
2.4. Structural transformation: Drivers, bottlenecks, and opportunities	9
2.5. Finance to fast-track the Gambia's structural transformation: How much is at Stake?	
The country's commitment to structural change	15
CHAPTER 3: FINANCING STRUCTURAL TRANSFORMATION IN THE GAMBIA	21
3.1. Key messages	21
3.2. Introduction	22
3.3. The Gambia's stand on the need for reform the international financial architecture	22
3.4. Mobilizing additional resources for The Gambia's structural transformation	23
3.5. Dealing with The Gambia's debt	24
3.6. Financing climate action	25
3.7. Policy recommendations	26
REFERENCES	29

LIST OF FIGURES:

- Figure 2.1:** The Gambia's real GDP growth vs Africa, World and peer countries
- Figure 2.2:** The Gambia's real GDP per capita vs Africa, World and peer countries
- Figure 2.3:** Relative sectoral productivity and employment shares in The Gambia, 2018
- Figure 2.4:** Sectoral employment shares in The Gambia,
- Figure 2.5:** Structural change in The Gambia, 1992-2019
- Figure 2.6:** Structural change in Africa, 1991-2018
- Figure 2.7:** Sector exports as a share of domestic value added (%), 1995-2012
- Figure 2.8:** Annual financing needs
- Figure 2.9:** Annual financing gap
- Figure 2.10:** Required increase in tax-to-GDP ratio to close the estimated annual financing gap in The Gambia
- Figure 3.1:** Evolution of FDI, ODA and Remittances in The Gambia
- Figure 3.2:** Evolution of public debt (Domestic and external as a share of GDP)
- Figure 3.3:** Key drivers of public debt variation in The Gambia
- Figure 3.4:** Decomposition of External debt in The Gambia (2024)

LIST OF TABLES

- Table 1:** The Gambia's macroeconomic indicators

LIST OF BOXES

- Box 1:** Impact of tighter international financial conditions in The Gambia
- Box 2:** Unlocking structural transformation through energy investments in The Gambia
- Box 3:** AfDB unlocking opportunities for structural change in The Gambia
- Box 4:** AfDB fostering economic transformation through food production
- Box 5:** AfDB deepening capital markets for green growth The Gambia

ABBREVIATIONS

AEO	African Economic Outlook
AfCFTA	Africa Continental Free Trade Area
AfDB	African Development Bank
AIDI	Africa Infrastructure Development Index
AGBI	Africa Green Bank Initiative
CBG	Central Bank of The Gambia
CF	Common Framework
CFR	Country Focus Report
CPI	Corruption Perception Index
DFI	Development Financial Institutions
DSSI	Debt Service Suspension Initiative
ECCE	Country Economics Department
ECMR	Macroeconomics Policy, Forecasting and Research Department
ECOWAS	Economic Community of West African States
ETD	Economic Transformation Database
GAFSF	Global Agriculture and Food Security Programme
GBoS	Gambia Bureau of Statistics
GDP	Gross Domestic Product
GII	Global Innovation Index
GPPA	Gambia Public Procurement Authority
HIPC	Highly Indebted Poor Country
ICT	Information, and Communication Technology
IMF	International Monetary Fund
LTS	The Gambia's Long-Term Climate Neutral Development Strategy 2050
MDB	Multilateral Development Bank
NAWEC	Gambia National Water and Electric Company
NDC	Nationally Determined Contribution
NDP	National Development Plan
NPL	Non-Performing Loan
ODA	Official Development Assistance
OMVG	Organisation pour la mise en Valeur du Fleuve Gambie
P2-P2RS	Project 2 of the Programme to Strengthen Food and Nutrition Insecurity Resilience in the Sahel
PFM	Public Financial Management

PPP	Public Private Partnership
RF-NDP	Recovery Focused-National Development Plan
RVCTP	Rice Value Chain Transformation Project
SAPZ	Special Agriculture Processing Zone
SCDI	State-Contingent Debt Instrument
SDG	Sustainable Development Goal
SDR	Special Drawing Right
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
STEM	Science, Technology, Engineering and Mathematics
TAAT	Technologies for Africa Agriculture Transformation
TVET	Technical Vocational and Educational Training
USA	United States of America
USD	United States Dollar

EXECUTIVE SUMMARY

The Gambia's economic growth has been volatile due to the country's vulnerability to climate change and reliance on exports of agriculture products. Nonetheless, the economy has shown signs of resilience to the effects of multiple exogenous shocks, with real Gross Domestic Product (GDP) growth averaging 5.6% in 2023 after a performance of 4.1% in 2022. On the supply-side, growth was driven by agriculture, tourism, construction, wholesale and retail trade, and industry. Private investment and public spending supported growth from the demand-side. Inflation declined from 17.2% in 2022 to 15.9% in 2023, with the tightening of the monetary policy stance. The fiscal deficit narrowed owing to improved resource mobilization and gradual elimination of fuel subsidies. Public debt-to-GDP ratio declined from 82.8% of GDP in 2022 to 71.8% of GDP in 2023 due to nominal GDP growth. Meanwhile, the fiscal space remains limited, and the primary balance remains insufficient to fully cover debt service payments. The outlook is favorable and premised on the implementation of transformative investments in agriculture and fisheries value chains, the Banjul port 4th expansion, digital infrastructure ecosystem, and electricity transmission projects. Risks to the outlook include disruption in supply chains due to geopolitical tensions and climate change.

The Gambia's journey towards achieving structural transformation demands significant changes. Although the share of agriculture in total employment declined from 37.6% in 1991 to 29.1% in 2021, the share of services (including tourism) increased from 44% to 58% during the same period. Industry, which has immense potential to foster structural change due to its relative high productivity, registered a decline in its share of total employment from 17.9% to 15%. Labour in the agriculture sector is 80% less productive than economywide productivity impacted by weak technological innovation and climate change. Productivity in the agriculture sector only experienced a positive growth of 0.83% between 2001 and 2010, supported by strong inflows of foreign direct investment (FDI) and donor budget support mostly channeled to investments in food crop production. Productivity in non-agriculture sectors was consistently negative over the past three decades, signaling weaknesses in labour force skills and limited technological upgrade. An estimated financing needs and gap of USD 443 million and USD 390 million per annum are required until 2030 to achieve structural transformation. Closing this financing gap requires the support of development financial institutions (DFIs) and multilateral development banks (MDBs) in exploring innovative financing instruments to support blue and green investments.

The financing of The Gambia's structural transformation is constrained by increasing cost of capital and debt servicing. Since the democratic transition in 2017, the country has benefited from large FDI and remittances inflows. However, public debt remains at high risk of debt distress and continues to pose a serious challenge as debt service payments represent 24.5% of total government revenues, well above the International Monetary Fund (IMF) threshold of 18%. The Gambia could benefit from the reform of the global financial architecture in multiple ways through: (i) increased access to low-cost financing from MDBs and DFIs; (ii) greater access to derisking instruments for private sector investments; (iii) greater access to climate finance (green bonds, blue bonds, sustainable bonds); (iv) monetization of its natural capital wealth (e.g., fisheries, biodiversity); (v) access to concessional financing from MDBs, DFIs and bilateral donors for financing of projects related to the preservation of global public goods (e.g., eco-tourism, climate adaptation and mitigation, prevention of pandemics); (vi) improved public financial management (PFM) reforms and capacity building in debt management and domestic resource mobilization; and (vii) tapping into diaspora remittances.

INTRODUCTION

The Gambia is a small open economy in transition. The country has a long history as a re-export hub in West Africa, thanks to the strategic location of the Port of Banjul. Economic growth has been volatile in the Gambia due to the country's reliance on exports of agriculture products (e.g., groundnuts and cashew nuts) and low-value addition tourism services. The former is vulnerable to climate change and extreme weather events, while the latter relies on external demand, therefore subject to high levels of seasonality. The outbreak of the COVID-19 pandemic exposed the vulnerabilities of The Gambia's growth model, with real GDP growth contracting to 0.6% in 2020 as most businesses in tourism and wholesale and retail trade suffered from disruptions in logistical supply chains. Growth has since recovered to 5.3% in 2021 and 4.9% in 2022, as the authorities adopted a green-focused growth recovery plan with support from donors.

Analysis of labour productivity highlights weaknesses in the country's growth model in supporting structural transformation. Productivity in the agriculture sector is about 80% lower than the economywide productivity. The share of employment in agriculture also declined from 37.7% in 1991 to 27% in 2021. The movement of labour from agriculture tends to be reallocated to the services sector, notably wholesale and retail trade and low-value tourism activities. This form of structural change without green revolution or an industrial revolution bears strong policy implications for poverty reduction and overall labour market dynamics. This is because growth does not seem to be taking place in a more inclusive process through a sequential movement of labour from traditionally low productivity sectors (e.g., agriculture) towards relatively high-productivity sectors in industry and then services. In addition, climate change and adverse weather effects such as droughts, floods, saline soil intrusion, and soil erosion, as well as limited use of fertilizer inputs and technology drive low productivity, particularly in a low mechanized agricultural sector. This results in high volatility of farmers' income and consequent deterioration of poverty and income inequality indicators. Evidence shows that income inequality, as measured by the Gini Index, increased from 0.36 in 2015 to 0.39 in 2022. Similarly, about 37.2% of Gambians are at risk of food insecurity.

In light of the above-mentioned challenges, accelerating The Gambia's structural transformation requires a multipronged approach, consisting of the following elements, spearheaded by the Government with the support of the private sector, DFIs, and MDBs among others: (i) enforce expenditure prioritization; (ii) accelerate the formalization of the informal economy; (iii) invest in special agriculture processing zones for food self-sufficiency; (iv) create incentives for private sector investment; (v) invest in regional infrastructure corridors to reap the benefits of the African Continental Free Trade Area (AfCFTA); and (vi) work with MDBs and DFIs to update their capital deployment strategies and provide risk-mitigation instruments, make greater use of equity finance, and provide more affordable financing (grants and concessional support).

The purpose of this report is to analyze the process of structural transformation in The Gambia, estimate its financing requirements, and examine how the country's economic transformation can be financed through reforming the international financial architecture to increase the flow of external capital to The Gambia. The rest of the report is as follows: Chapter 1 provides an analysis of recent macroeconomic situation and prospects; Chapter 2 examines the process of structural transformation of The Gambia; and Chapter 3 presents the need to reform the international financial architecture to better finance the structural transformation in The Gambia.

MACROECONOMIC PERFORMANCE AND OUTLOOK

1.1 KEY MESSAGES

- **The Gambian economy continued its sustained growth and resilience in 2023.** Real GDP growth rate averaged 5.6% in 2023 after a performance of 4.1% in 2022. On the supply-side, tourism, wholesale retail trade, agriculture, construction, and industry supported growth, while private investment and public spending bolstered growth on the demand-side.
- **Inflationary pressures have started to ease following tightening of the monetary policy stance.** The restrictive monetary policy of the Central Bank of the Gambia (CBG) helped to gradually bring inflation down to 15.9% in 2023 compared to 17.2% in 2022.
- **The fiscal position is improving, thanks to support from development partners and improved domestic resource mobilization efforts.** The overall fiscal deficit narrowed from 4.9% of GDP in 2021 to 3.5% of GDP in 2023. This deficit was financed through budget support grants and Treasury bonds issuance.
- **The Gambia's external position remains weak and vulnerable to exogenous shocks.** The current account deficit widened from 6.1% of GDP in 2022 to 7.2% of GDP in 2023, driven by increased trade deficit from 26.3% of GDP to 34.4% of GDP during the same period. The current account deficit was financed through official loans and budget support.
- **The macroeconomic outlook is favourable with real GDP growth projected at 6.1% in 2024 before moderating to 5.8% in 2025.** Major tailwinds to the economic outlook include the implementation of transformative projects in regional rice and fisheries value chains, the Banjul port 4th expansion, digital infrastructure ecosystem, and electricity transmission projects in the eastern part of the country, which will support growth. However, downside risks to the outlook would include the potential disruption in supply chains due to geopolitical tensions and climate change.

1.2. Introduction

This chapter presents an updated analysis of The Gambia's economic performance in 2023, as well as medium-term growth projections over the 2024-2025 period. It also assesses trends in GDP growth, inflation rate, and other key macroeconomic indicators on the fiscal and monetary fronts, in addition to changes in domestic and international financial flows, investment, and public debt. Furthermore, the chapter discusses the main downside and upside risks to the outlook and provides policy options to foster high and resilient growth, support macroeconomic stability and economic transformation, and deal with shocks that have continued to buffet the country.

1.3. Growth performance

Economic activity in The Gambia proved resilient in 2023, with a growth rate of 5.6% compared to 4.9% in 2022 (Table 1). On the supply side, growth was underpinned by agriculture, tourism, construction, wholesale and retail trade, and industry. On the demand side, private investment and public spending sustained growth. The Gambia's growth performance in 2023 was higher than the regional average of 3.6% in West Africa and the continental average of 3.1% in Africa. Real GDP per capita, which had contracted by 2% during the COVID-19 pandemic due to job losses¹, rebounded from 2.4% in 2022 to 3.1% in 2023. The structure of the economy has progressively changed in recent years with an increasingly prominence of the agriculture sector (25.7% of GDP in 2022), while the shares of services (58.2% of GDP), though still the largest, and industry (16.1% of GDP) have both contracted by two percentage points between 2018 and 2022. Within the services sector, tourism accounts for 20.8% of GDP and employs an estimated 42,000 workers, representing 6.5% of total employment in the country. The indirect contribution of tourism is much higher at 59.3% in

2019 taking into account travel, food and logistics services, and entertainment services.

1.4. Other recent macroeconomic and social developments

Monetary policy and inflation: In 2023, the CBG reversed its accommodative monetary policy stance to tackle inflationary pressures and ensure price stability. Inflation accelerated from 11.5% in 2022 to 17.2% in 2023, mainly driven by high global food and fuel prices, high freight charges, strong domestic demand, and a strong US dollar. In response to the inflationary pressure, the CBG increased its policy rate from 14% to 16% in May 2023 and subsequently to 17% in August 2023 to curtail inflationary pressures. The CBG's restrictive monetary stance was in line with the global monetary policy context where the Federal Reserve (Fed, the US central bank) and the European Central Bank had both embarked on an aggressive monetary policy tightening in response to soaring inflation. As the country faced foreign exchange shortages due to increased import bills in the face of weaker-than-expected performance in tourist arrivals and disruptions of cashew and timber exports, the Dalasi depreciated by 10.2% against the US Dollar in 2023.

Fiscal balance and debt dynamics: Development partners support and improved domestic resource mobilization efforts helped to narrow the overall fiscal deficit from 4.9% of GDP in 2021 to 3.5% of GDP in 2023. This deficit was financed through budget support grants and Treasury bonds issuance in the domestic market. Driven by increased domestic revenue mobilization from tax and non-tax sources, as well as increased budget support from development partners, total government revenue increased from 16.8% of GDP in 2021 to 18.7% of GDP in 2023. As a result, the primary balance deficit narrowed down from 2.5% of GDP in 2022 to 1.2% of GDP in 2023. Nonetheless, the primary balance remained

¹ According to The Gambian Bureau of Statistics (GBoS) an estimated 20,000 jobs were lost due to the impact of COVID-19 restrictions on economic activity.

Table 1- The Gambia's macroeconomic indicators

	2019	2020	2021	2022	2023(e)	2024(p)	2025(p)
Real GDP Growth (%)	6.2	0.6	5.3	4.9	5.6	6.1	5.8
Real GDP per Capita Growth (%)	3.6	-2.0	2.7	2.4	3.1	3.6	3.4
Inflation (%)	7.1	5.9	7.4	11.5	17.2	15.9	11.0
Overall Fiscal Balance, Including Grants (% GDP)	-3.0	-2.3	-4.8	-4.9	-3.5	-2.7	-2.9
Primary Balance (% of GDP)	0.2	1.0	-1.4	-2.5	-1.2	-0.9	-0.9
Current Account (% GDP)	-2.3	-3.9	-4.7	-6.1	-7.2	-7.6	-5.6
Total Population (Millions)	2.5	2.6	2.6	2.7	2.8
Life Expectancy at Birth (Years)	63.8	62.6	62.1	62.9	64.1

Sources: Data from domestic authorities; estimates (e) and predictions (p) based on authors' calculations. AfDB Statistics Department, April 2024. (...) not available.

insufficient to fully cover debt service payments that were estimated at 24.5% of total government revenues in 2023, well above IMF's threshold of 18%. Corollary, the public debt-to-GDP ratio also declined from 82.8% of GDP in 2022 to 71.8% of GDP in 2023 owing to fiscal consolidation and strong nominal GDP growth. This debt-to-GDP ratio is slightly above the convergence criteria of 70% set by the Economic Community of West African States (ECOWAS), as well as the IMF threshold of 55% of GDP for low-income countries. The Gambia is at high risk of debt distress, although her public debt is sustainable on a forward-looking basis.

Current account balance: The external position remains weak and vulnerable to exogenous shocks. The current account deficit widened from 6.1% of GDP in 2022 to 7.2% of GDP in 2023, driven by increased trade deficit from 26.3% of GDP to 34.4% of GDP during the same period. The current account deficit was financed through official loans and budget support from development partners. Exports, notably of primary products (e.g. groundnuts, and cashew nuts), grew from 3.8% to 4.4% of GDP, but this was offset by growth in imports due to the higher cost of fuel, food and capital goods. Weaker-than-expected performance in tourist arrivals and disruptions of cashew and timber exports led to foreign currency shortages and the depreciation of the Dalasi. To address the situation, the CBG conducted foreign exchange interventions of USD

139.44 million in 2022 to ease supply-side constraints and support the importation of essential commodities that reached critically low stock levels. As a result, gross international reserves dropped from USD 520 million in 2021 (equivalent to 7 months import cover) to USD 416 million in 2023 (4.4 months).

Financial sector: Despite the adverse effects of the pandemic, The Gambia's financial sector remained resilient, with the ratio of non-performing loans (NPL) improving to 3.5% in 2023, from 4.6% in 2022, and the capital-adequacy ratio (24.6%) exceeding the regulatory requirement of 10%. However, growth of credit to the economy decelerated from 36.6% in 2022 to 17.4% in 2023, as rising interest rates constrained new borrowing (see Box 1). Access to financial services remains low in The Gambia as 63% of the population lack a bank account (Finscope, 2019). Furthermore, evidence from the 2018 World Bank Enterprise Survey shows that over half of Small and Medium Enterprises (SMEs) in the country cited poor access to finance as the biggest constraint in the business environment.

Social developments: Aggregate unemployment rate is estimated at 31.6% in 2023. The cost-of-living crisis worsened, eroding household incomes and pushing poverty rates to 53.4% in 2021 against 45.8% in 2019. Similarly, income inequality, as measured by the Gini Index, increased from 0.36 in 2015 to 0.39 in 2022.

Box 1: Impact of tighter international financial conditions in The Gambia

As a small open economy, The Gambia is vulnerable to shocks in international markets. The CBG has been proactive in monitoring monetary policy developments, and since May 2023, it tightened its monetary policy stance in response to rising inflation. Consistent with the tightening of monetary policy in 2023, inflation started to ease from 17.3% by end-December 2023 to 14.9% in March 2024. High interest rates have constrained the growth of credit to the economy, which decelerated from 36.6% in 2022 to 17.4% in 2023. Furthermore, private savings rate declined marginally from 19.3% of GDP in 2022 to 17.3% of GDP in 2023, as high inflation eroded real disposable incomes amid rising interest rates. Rising interest rates also had repercussions on private investment which fell slightly from 23.8% of GDP in 2022 to 22.3% of GDP in 2023 as firms, particularly in infrastructure sectors (e.g., energy and transport), are facing higher operating costs and rising debt-servicing costs. The Gambia's total interest payments averaged 13% of total revenues, highlighting the challenges in creating fiscal space for social spending as resources are diverted to service and increasingly expensive debt, due to rising interest rates.

The Gambia's economic growth has been resilient despite multiple exogenous shocks but accelerating the implementation of structural reforms to tackle energy shortages, reliance on primary products, technological innovation, and climate change is critical to reduce vulnerability to exogenous shocks.

Approximately 37.2% of The Gambians are at risk of food insecurity, exacerbated by rising food prices and frequent climate hazards (e.g., droughts and floods).

1.5. Macroeconomic outlook and risks

Economic growth: The macroeconomic outlook is favourable, with economic growth projected at 6.1% in 2024 and 5.8% in 2025, driven by agriculture, services and construction and amid high public expenditure in infrastructure. Growth is expected to be stimulated by transformative projects in regional rice and fisheries value chains, investments on the 4th expansion of the Banjul port, the planned upgrade of digital infrastructure ecosystem, and interventions to improve the electricity transmission network in the eastern part of the country.

Fiscal and current account balance: The fiscal and the current account deficits are expected to benefit from this outlook and decrease to 2.7% and 7.2% of GDP respectively in 2024. Public debt is projected to reduce to 65.2% in 2024 and

stabilize at 60.8% of GDP in 2025 owing to fiscal consolidation.

Inflation trends: Inflation will gradually decrease to 12.5% in 2024 and 11% in 2025, driven by a restrictive monetary policy and the normalization of global food and energy prices.

Downside risks: As regards growth, these risks include potential disruptions in global oil and fertilizers supply chains, and climate change. Fiscal consolidation, improved debt management, and economic diversification are critical for sustained growth.

1.6 Policy options to foster high and resilient growth: Supporting macroeconomic stability and economic transformation

The Gambian economy is showing signs of resilience despite the adverse effects of rising food and fuel prices, and extreme weather events. Given the country's limited fiscal space, there is need for the adoption of a mix of short-term and long-term policies to enhance structural transformation.

In the short term

- **To achieve faster disinflation and anchor inflation expectations at a lower cost to the economy, tailored monetary policy adjustments are needed.** The CBG should maintain its tightening monetary policy stance to help bring down inflation to its 5% target. The monetary policy can be accommodating as core inflation moderates, and headline inflation is mostly driven by temporary supply shocks.

- **Addressing exchange rate pressures should be a key short-term priority.** The depreciation of the domestic currency has continued despite various measures. Since The Gambia has adopted a free-floating exchange rate regime, the currency should be allowed to adjust as much as possible, as trying to resist movements based on fundamentals could have disastrous consequences on the economy.

- **Investments in agricultural transformation and agrobusiness are critical for boosting local food production and diversifying import sources to address rising food prices.** Supporting Gambian smallholder farmers can trigger an agricultural revolution to feed The Gambia, especially in urban areas. This requires provision of affordable finance, improved food production technologies (e.g., certified seeds resistant to drought), and mechanization services.

- **Reduce the debt burden through governance reforms to strengthen debt management capacity.** As overall risk of debt distress remains high, The Gambia should adhere to an integrated debt management policy that minimizes roll-over risks. Although the extension of maturities on domestic debt frees immediate budgetary pressures, this generally increases the country's total debt stocks, as well as the cost of debt servicing, thereby limiting the ability of the Government to finance transformative reforms.

Medium to long-term policies

- **Scaling up domestic resource mobilization is imperative to accelerate The Gambia's structural transformation.** This should include addressing loopholes in tax collection through digitalization and enforcement of tax audits, in addition to gradually reforming non-performing State-owned enterprises (SOEs) into revenue-generating entities through privatization, restructuring, and performance contracts.

- **It is crucial to create a more conducive environment for private sector investment in infrastructure to accelerate The Gambia's economic transformation.** This requires interventions to reduce high costs of electricity and its unreliable supply, streamline processes of business registration (e.g., digital platform), and introduce risk-mitigation instruments to ease access to finance for SMEs. The process of privatization of non-performing SOEs and infrastructure concessions (e.g., Senegambia bridge, port of Banjul) can be the first steps to attract private sector investment and skills, but it will be important to improve public sector capacity to structure and negotiate public private partnerships (PPPs) with the private sector. The Bank could provide technical assistance and advisory services to build capacity across government, including through the African Legal Support Facility.

- **Accelerating structural transformation efforts and financing their implementation will be key to unlock The Gambia's development potential.** While well-designed structural reforms are important to boost the level and sustainability of economic growth, their implementation depends partly on scaling up financing for structural transformation and enhancing spending efficiency. Boosting domestic resource mobilization plays a critical role in that the Government is primarily responsible for financing the country's development.

• **The Gambia is vulnerable to climate change, ranking 41st out of 180 countries on the 2021 Global Climate Risk Index.** The Gambia is one of the countries in the world that are most vulnerable to the adverse effects of climate change. For instance, in 2021, windstorms affected over 16,849 people in 100 communities in The Gambia,

destroying homes, schools, seed storage facilities, and hospitals². Hence, strengthening capacity for mainstreaming all technical and macroeconomic aspects of climate change and the global decarbonization agenda are critical to enhance climate resilience.

² See the report: African Development Bank (2023): Country Focus Report 2023 The Gambia – Mobilizing Private Sector Financing for Climate and Green Growth.

TAKING STOCK OF COUNTRY'S STRUCTURAL TRANSFORMATION PROGRESS

2

2.1 KEY MESSAGES

- **The Gambia has exhibited remarkable resilience amid multiple shocks; however, within the sectors, labour productivity and structural change have remained weak.** The Gambia's economy grew by an average of 3.3% over the 1980-2022 period, above Africa (3.0%) and world (2.9%) levels. Growth has mostly been driven by structural change as within the sectors, productivity remained negative over the decades. However, over the 2001-2010 period, within agriculture productivity was positive thanks to large inflows of FDI and donor support channeled to investments supporting income crop production for exports.

- **The Gambia's economy has been transforming without a marked level of industrialization but through low-skills intensive services sector, notably tourism, and amid limited economic diversification.** Overall, labour exiting low-productivity agriculture tends to bypass the industry sector which also displays relatively high productivity levels and is largely absorbed by the services sectors, including tourism and informal economy which are low-skills intensive activities.

- **The Gambia has several key opportunities for building resilience that can be leveraged to foster sustainable development.** The young and growing working-age population offers a significant opportunity for harnessing the demographic dividend. By investing in agricultural value chains, the country can boost local food production and reduce dependence on expensive food imports. Investments on technical and vocational educational training (TVET) will also provide the youth with the necessary skills to meet private sector demands, thereby boosting productivity and economic growth. As financing needs to accelerate structural transformation are huge (estimated by AfDB at USD 443 million annually by 2030), the country should explore innovative financing instruments with support from the private sector, MDBs, and DFIs.

- **Financing structural transformation in The Gambia will require a multipronged approach that particularly seeks to:** (i) improve domestic resource mobilization; (ii) prioritize expenditure; (iii) formalize the informal economy; (iv) promote investment in special agriculture processing zones; and (v) promote investments in regional infrastructure (e.g., port of Banjul, regional corridors along the Senegambia bridge) so as to reap potential AfCFTA benefits.

2.2. Introduction

This chapter presents a comprehensive overview of recent progress in The Gambia's economic transformation amid a changing world. The chapter also explores key trends in this economic transformation, outlines its characteristics, as well as estimates the financing needs and gaps to fast-track structural transformation in the country. It adopts both a historical perspective and a forward-looking approach on structural transformation, comparing The Gambia's performance with peer countries and drawing lessons for the future. The impact of a wide array of socio-economic, financial, governance, and external factors on the country's structural transformation (or lack thereof) are assessed with the objective of highlighting the main pull and push factors, as well as guiding both evidence-informed policymaking and investment opportunities.

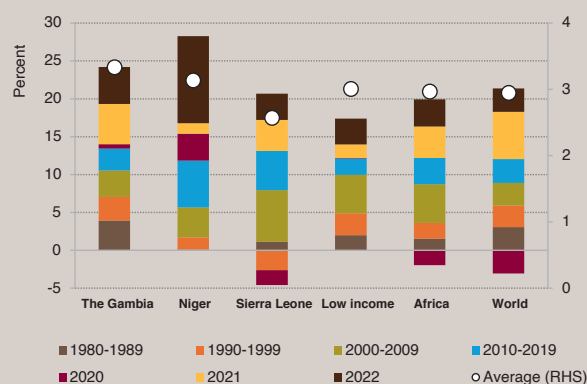
2.3. Taking stock of economic performance and transformation in The Gambia

During the 1980s and 1990s, The Gambia enjoyed steady growth rates averaging 3.9% and 3.1% respectively, and well-above its peers (e.g. Niger and Sierra Leone). Growth was propelled by increased crops production amid favourable weather

conditions. The adoption of the Economic Recovery Programme in 1985, followed by the Sustained Development Programme in 1990, received strong donor support which also helped strengthen growth (Figure 2.1). Debt relief in 2007, coupled with increased FDI in tourism, telecommunications and financial services, enhanced resilience during the 2008 financial crisis. However, the outbreak of COVID-19 exposed the vulnerabilities of The Gambia's growth model which relies heavily on agricultural exports and low-value-added tourism services. After recording a low growth rate of 0.6% in 2020 due to COVID-19 effects, growth recovered to 5.3% in 2021 and 4.9% in 2022 as the Government adopted a green-focused growth recovery plan with support from development partners. Strong donor support, and commitment to PFM and macroeconomic reforms following the 2017 political transition were instrumental in supporting growth amidst the effects of climate change, and multiple exogenous shocks.

Although The Gambia's economic growth was slightly above its peers in the region and the continent, at large, in per capita terms, the country's growth performance was weak (Figure 2.2). High volatility of agricultural incomes – in a sector that employed more than 49.6% of the workforce in 2018 – coupled with high annual population growth rate, drive low per capita incomes. At the

Figure 2.1: The Gambia's real GDP growth vs Africa, World and peer countries



Note: The decades are based on simple averages.
Source: African Development Bank statistics and IMF World Economic Outlook database.

Figure 2.2: The Gambia's real GDP per capita vs Africa, World and peer countries

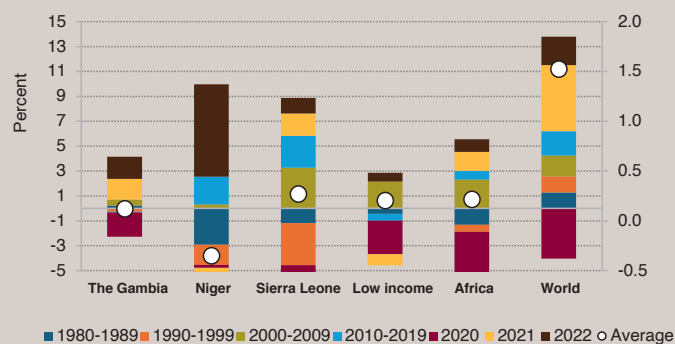
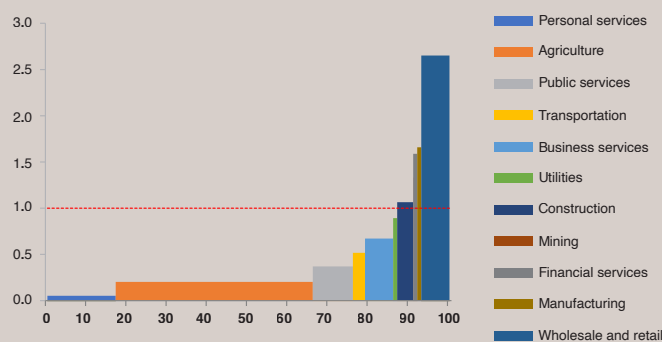
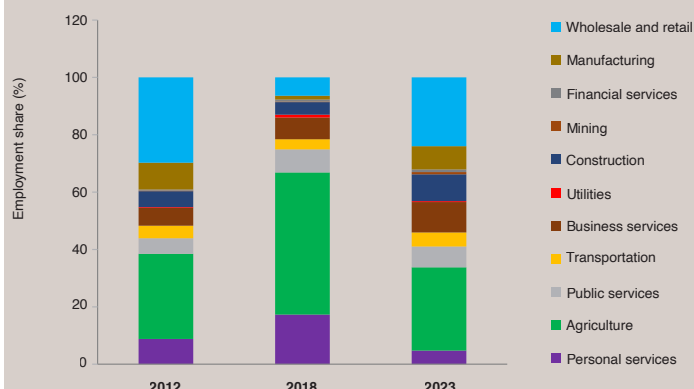


Figure 2.3: Relative sectoral productivity and employment shares in The Gambia, 2018



Source: Staff calculations using The Gambia's National Accounts for GDP value added by sector, and International Labour Organization database on employment statistics.

Figure 2.4: Sectoral employment shares in The Gambia



Source: Staff calculations using The Gambia's Bureau of Statistics (GBoS), Integrated Labour Survey, 2012/2018/2023.

peak of the COVID-19 in 2020, The Gambia's real GDP per capita contracted by 2%, highlighting concerns on the country's growth model mostly dependent on rainfed agricultural production with strong predominance of subsistence farming and with limited mechanization and low-value addition tourism. The post-COVID-19 period, however, shows a slight recovery of per capita income growth rates from 2.7% in 2021 to 3.1% in 2023, still well-below that of its peers in the continent and the world.

2.4. Structural transformation: Drivers, bottlenecks, and opportunities

(a) Structural/economic transformation

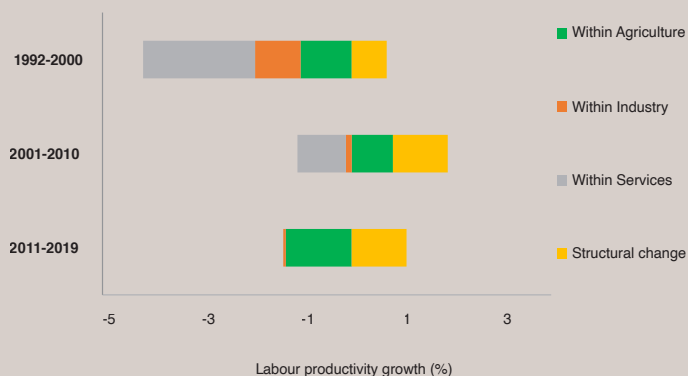
According to the AEO (2024), structural transformation is understood as the shift of an economy's structure from low-productivity and labour-intensive activities to higher productivity and capital and skill-intensive activities. Figure 2.3 depicts the relative labour productivity of 11 main sectors in The Gambia on the vertical axis and the employment share of each sector on the horizontal axis. Relative productivity is calculated as the ratio of each sector's labour productivity to the average

labour productivity of the economy. The horizontal dashed line represents the productivity level of the economy. The agriculture sector, which employed 49.6% of the workforce in 2018 (see Figure 2.4), is 80% less productive than economywide productivity. Climate change and adverse weather conditions such as droughts, floods, saline soil intrusion, and soil erosion, in combination with limited use of fertilizer inputs and technology, will drive such low productivity in the country's agriculture sector (AfDB, 2020).³ Similar to the agriculture sector, five other sectors displayed low productivity levels below the economywide average. These low productivity sectors are personal services (-95%), public services (-63%), transportation (-48%), business services (-33%), and utilities (-11%).

In contrast, construction (6%), mining (33%), financial services (59%), and manufacturing (66%) have productivity levels above the economywide average. The wholesale and retail trade sub-sector recorded the highest productivity level at 2.65 times above the average level. Although this is surprising given the precarious labour conditions in retail trade, particularly in the informal sector, this outcome can be explained by the interconnectedness between trade and tourism activities. The manufacturing

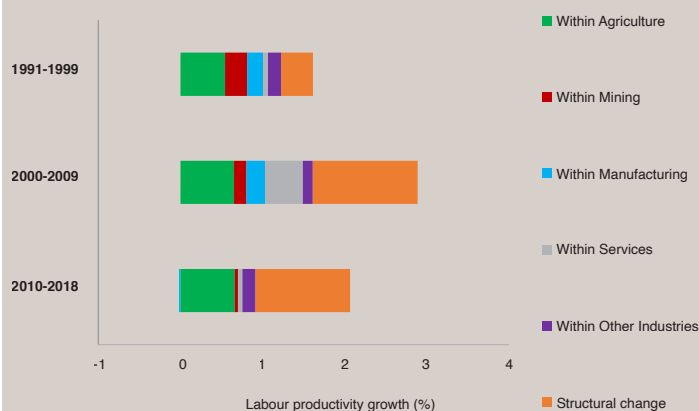
³ AfDB (2020). The Gambia: Country Diagnostic Note.

Figure 2.5: Structural change in The Gambia, 1992-2019



Source: Staff calculations based on World Bank and ILO data-bases

Figure 2.6: Structural change in Africa, 1991-2018



Source: Staff calculations using the Economic Transformation Database (ETD) (Kruse et al. 2023)

sector, which is traditionally associated with supporting structural change, registered the second highest productivity level. Despite being a more productive sector compared to tradable services, such as business and financial services, the manufacturing sector employs fewer workers. Thus, the manufacturing sector provides great opportunities for the reallocation of labour and other resources from low productive sectors to a relatively high productivity sector. This is particularly viable in The Gambia given the country's potential for light industrialization in areas such as rice mill, industrial fisheries, groundnuts and cashew nuts, food and beverage, and glass container. To foster industrialization, however, The Gambia must address its critical infrastructure bottlenecks, notably, in access to reliable and affordable electricity, as well as in skills and technological upgrade.

(b) Unpacking the country's structural transformation through labour productivity decomposition

Figures 2.5 and 2.6 show the decomposition of labour productivity in The Gambia using the McMillan and Rodrik's methodology⁴. Labour

productivity in The Gambia was negative between 1992 and 2000 at -3.5%, and between 2011 and 2019 at -0.3%. This is mostly due to the impact of extreme weather conditions on agricultural productivity and the disruptive effects of policy inconsistencies on economic activities. The Gambia's steady growth registered between 2001 and 2010 was supported by labour productivity growth in the agricultural sector coupled with structural changes in the economy. Since agricultural employment decreased from 49.6% in 1998 to 29.1% in 2018, the labour that was released was absorbed mostly by the relatively high productivity services sectors, e.g., wholesale and retail trade and tourism. This structural change in The Gambia however occurred without an industrial revolution, as labour exiting agriculture tends to bypass the industry sector which also displayed relatively high productivity levels. This phenomenon bears strong policy implications and underscores the need to address demand and supply distortions in the labour markets. Unlike Africa's structural transformation, in The Gambia, within sectors labour productivity has been consistently negative, apart from the agricultural sector during the 2001-2010 period. This also underscores the need for The Gambia to invest

4 McMillan, M., and D. Rodrik. (2011). "Globalization, Structural Change, and Productivity Growth." Working Paper 17143, National Bureau of Economic Research, Cambridge, MA.

in skills and technological innovation to boost productivity in labour-intensive sectors, particularly linked to tourism exports.

The Gambia also has potential to harness the blue economy through sustainable exploitation of its marine resources and biodiversity and by taking advantage of its rich ecosystem. The country could also invest in improving the business environment to attract private sector investments in areas such as digital industries, renewable energy, and financial services, and gradually reduce its dependence on tourism services. Regarding manufacturing, there are opportunities to add value to local production (e.g., derivatives of primary products such as groundnuts into peanut oil and butter, rice value addition).

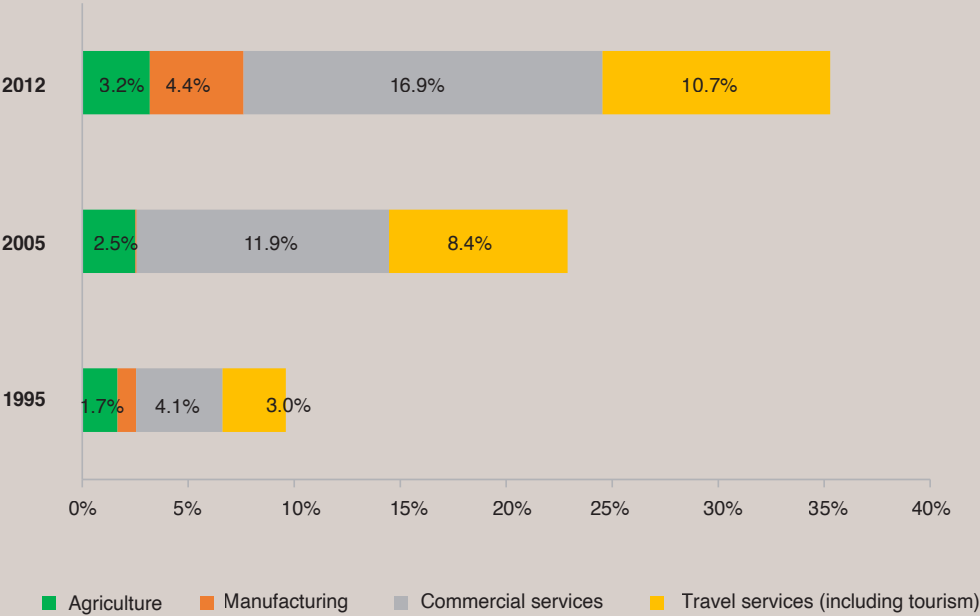
(c) Rapid growth in income and jobs embodied in services exports: New evidence

In the previous section, structural transformation was assessed through labour productivity decomposition lenses. However, such an

approach has some limitations due to lack of sector disaggregated data. Unlike the Economic Transformation Database (ETD) data, data from the World Bank does not distinguish between manufacturing, mining, and other industries. Furthermore, the analysis does not consider the implications of climate change, gender, and informality in labour mobility decisions, and most importantly the role of foreign demand in driving structural change, especially in a country that is constrained by a small market size.

Figure 2.7 shows the contribution of exports as a share of domestic value added for selected sectors. Consistent with the positive performance of agriculture labour productivity during the 2001-2010 period, the share of exports of primary products increased from 1.7% in 1995 to 3.2% in 2012. Similarly, the share of manufacturing exports in domestic value added increased. Significantly, there has been a rapid increase in the share of commercial and travel services (including tourism) that is exported. These results are consistent with the broad patterns of structural transformation

Figure 2.7: Sector exports as a share of domestic value added (%), 1995-2012



Source: Staff calculations using The Gambia's National Accounts

Box 2: Unlocking structural transformation through energy investments in The Gambia

Bank's interventions have yielded remarkable results in terms of increasing access to affordable and reliable electricity in The Gambia. Access to electricity is expected to increase to at least 70% at national level and 50% in rural areas by 2024. This is possible because 50MW of electricity is already being supplied from Senegal through "Organisation pour la Mise en Valeur du Fleuve Gambie" (OMVG) facilities. The Bank's operations have contributed to the construction of electricity facilities including the OMVG Transmission system, the construction of low and medium-voltage lines, distribution transformers, service connections, and improvement in the customer service management system in connection with the Gambia Energy Access Project. In addition, the Gambia Electricity Access Project has helped to reduce customer connection charges by providing last-mile connection equipment (including pre-paid meters), thereby enabling poor households connection and management of their own consumption without the risk of the physical disconnection process that can arise because of unpaid monthly bills. Finally, the project activities have also helped to improve NAWEC's operational efficiency and revenue base, which will in turn improve the financial position of the sector and eventually result in lower end user tariffs.

documented above, where within services, labour productivity (e.g., wholesale and retail trade) recorded the best relative performance in the economy. These findings have strong policy implications for The Gambia's efforts towards being the trade gateway of the region in with respect to tariff liberalization and free movement of labour under AfCFTA. Investments in agribusiness and light manufacturing (e.g., food and beverages, industrial fishing, rice mill and agro-oil mills) will also be critical to position the country in the regional markets. The Bank has supported The Gambia in enhancing structural transformation through the regional electricity interconnection project and technical assistance to improve operational efficiency of the power utility under its High 5 "Light up and power Africa" (see Box 2).

(d) Drivers to accelerate structural transformation

The discussion in the previous sections highlighted the role of labour reallocation and within-sector productivity in fostering economic growth in The Gambia. Since structural transformation can play a pivotal role in aiding countries to attain socio-economic development at a much faster pace, it is therefore imperative to understand its main drivers

and ensure the adoption of suitable policy reforms to harness the process. This section provides an analytical assessment of potential drivers of structural transformation in The Gambia with focus on: (i) governance; (ii) exchange rate; (iii) trade policy; (iv) business environment; (v) urbanization; (vi) technology and physical capital; (vii) quality of public infrastructure (e.g., energy, water and sanitation, transport, and telecommunications); and (viii) human capital development.

Governance: The Gambia made significant progress in promoting sound and solid PFM systems. The country scored 3 out of 6, compared to 2.9 out of 6 for its peers in West Africa in the 2022 World Bank's property rights and rule-based governance index. The Gambia's ranking in the 2023 Transparency International's Corruption Perception Index (CPI) also improved by 3 places, positioning it 98th out of 180 countries. Similarly, The Gambia made its greatest strides in the Mo Ibrahim Index for Governance in Africa, improving by 9.5 points between 2012 and 2021, to rank 16th out of 54 countries in Africa in 2022.

Exchange rate: According to the IMF (2024), The Gambia has a *de jure* flexible exchange rate system although the country has been facing foreign

Box 3: AfDB unlocking opportunities for structural change in The Gambia

The African Development Bank's financing for The Gambia is significant, totaling USD 503.58 million since the start of its interventions in 1974. The Bank invests in The Gambia for many reasons: (i) the country has a youthful population, which is a potential source of the labour force; (ii) the country has strong potential for agricultural value chains to enhance food self-sufficiency in line with the Bank's "Feed Africa" High 5; (iii) The Gambia has potential for renewable energy development; and (iv) the country also offers opportunities for boosting intra-regional trade and revenues given the strategic location of Banjul port as an export hub under the AfCFTA. The Bank-financed USD 100 million landmark Senegambia bridge and the 24 km access road infrastructure (co-financed by the European Union) are transforming the economy of The Gambia, in particular, and the rest of West Africa. Today, an estimated 900,000 people have access to reliable and affordable transport services. The Bank is also creating hope for young people and women in The Gambia, for a brighter future by developing food and financial security in the Rice and Poultry Value Chain Project.

exchange shortages due to high dependence on imports with a low and undiversified export base. With the Gambian Dalasi currently experiencing significant depreciation, the effective exchange rate could enhance structural transformation, based on the findings in McMillan et al. (2014), by making the country's exports more competitive.

Trade policy: The Gambia has a tradition of trade openness⁵ due to its strategic location in West Africa, with the port of Banjul serving as a gateway and export hub for the hinterland.

Business environment and labour market flexibility: The absence of specialized commercial courts and lack of enforcement of laws, combined with infrastructure gaps (transport, energy, water and sanitation), hamper the business environment.⁶ Labour laws are not discriminatory to national and foreign investment. The Gambia scored 55 out of 100 in the 2022 Labour Rights Index by the Center of Labour Research.

Urbanization: Rapid urbanization could offer an opportunity for improving productivity and

wages, and creating more jobs in the services sector, particularly in urban areas (OECD/UN ECA/ AfDB (2022)). In 2022, an estimated 63.8% of the population in The Gambia lived in urban areas compared to 28% in 1980. Intensification of climate change and declining productivity in rural areas have led to large rural-urban migration as well as youth irregular migration to western countries.

Technology and physical capital: The Information and Communications Technology (ICT)/Digital Roadmap (2020–2024) and the Broadband Strategic Plan 2020–2024 seek to improve regulatory policies, strengthen e-government and cybersecurity, upgrade last mile network connectivity, and accelerate the development of regional ICT centres. The Gambia ranked 174th out of 193 countries in 2022 in the e-government development index.⁷ Nonetheless, the country's high mobile phone penetration rate of 67% could help expand digitalization and mobile banking services.

Quality of public infrastructure: The Gambia's score in the Africa Infrastructure Development

The Gambia's structural transformation process has not been growth-enhancing as the excess labour exiting low-productivity agriculture tends to bypass high-productivity industry and being largely absorbed by low-skills services sectors.

⁵ The country ranks 114/169 countries surveyed in the Global Economy.com. Trade openness is measured as the ratio of exports plus imports as a percent of GDP. https://www.theglobaleconomy.com/rankings/trade_openness/

⁶ IMF (2024) staff report.

⁷ EDGI (2022) United Nations E-Government Survey. <https://publicadministration.un.org/egovkb/en-us/Reports/UN-E-Government-Survey-2022>

Index (AIDI) improved from 24.7/100 in 2013 to 30.3/100 in 2022. The Bank's investment in the Senegambia bridge has helped to improve efficiency in transportation services in The Gambia as part of the implementation of the High 5 "Integrate Africa" (Box 3). The 2019/2020 Demographic and Health Survey suggests that the percentage of households with access to safe drinking water and basic sanitation stood at 95% and 72% respectively. Long-Term Climate Neutral Development Strategy 2050 (LTS, 2022) ⁸ mitigation actions expect that 56% of the country's energy needs will be met by hydropower, while the remaining 44% - which is equivalent to 161 GWh - will be sourced through wind and solar power.

Human capital development: The Gambia made significant strides in investments in education. Education spending as a percentage of government total spending (15.6%) was above the global average (12.7%) in 2021. However, there are persistent gaps in knowledge-intensive employment critical to drive industrial revolution and structural transformation. Nonetheless, The Gambia's score in the Global Innovation Index (GII) increased from 26.39 in 2013 to 27.5 in 2015.

(e) Key bottlenecks to fast-paced structural transformation

Demographic challenges: The Gambia's population is young, with a median age of 16.7 years in 2020 compared to the global median age of 30.5 years (Worlddata.info, 2020). The country's working age population⁹ grew on average by 0.3% per annum between 2000 and 2022 compared to a decline of 0.1% per year between 1980 and 2000. Although this youthful population presents an opportunity for future labour supply, it also creates significant socioeconomic pressures due to limited job creation and high age-dependency ratio at 83.4% of the working-age population in 2022 according to World Bank data. The Gambia

therefore needs to invest in ICT infrastructure and TVET to improve the skills of the growing youth labour force and meet the needs of the private sector.

Climate change: Higher frequency and intensity of extreme weather events (e.g., droughts, floods and storms) have impacted water resources, infrastructure, and agricultural productivity. Evidence in 2021 shows that windstorms affected over 16,849 people in 100 communities in The Gambia, destroying homes, schools, seed storage facilities, and hospitals (AfDB, 2023).

Informal sector: According to the Gambia Bureau of Statistics (GBoS)¹⁰, as of 2023, 60% of Gambians were engaged in the informal sector, without access to formal social protection systems. This represents a significant opportunity to broaden the country's tax base in a bid to increase domestic resource mobilization.

Political issues: The Gambia's fledgling democracy has benefited from political pluralism, but the political climate remains fragile. Learning from its regional peers, the prospects of political stability in The Gambia will remain high if the authorities succeed in implementing constitutional reforms, notably the two-term presidential limit. Notwithstanding, it is important to note that the Gambia has made significant progress in political governance as evidenced by recent improvements in the country's CPI index prepared by Transparency International in 2023.

Financial constraints: According to the 2018 World Bank Enterprise Survey, over 53% of SMEs in The Gambia cited limited access to finance as the biggest constraint in the business environment. Lending interest rates remain high at an average rate of 19.5%, making it difficult for most SMEs to access credit.

⁸ Government of The Gambia (2022). Long-Term Climate Neutral Development Strategy (LTS) 2050

⁹ <https://data.worldbank.org/indicator/SP.POP.1564.TO.ZS?locations=CV>

¹⁰ GBoS (2023), Gambia Labour Force Survey Report (GLFS, 2022-2023), Government of The Gambia.

2.5. Finance to fast-track the Gambia's structural transformation: How much is at Stake? The country's commitment to structural change

(a) Structural change in the National Development Plan

The Gambia's national development plans (NDPs) are focused on accelerating green growth and social transformation, as well as building resilience to shocks and crisis. NDP 2018-2021, which was extended to 2022 to run along the COVID-19 recovery plan, spelled out The Gambia's development objectives and priorities. At end-term, assessment of its implementation indicates low success rates with only 38%, 31%, and 31% of the overall NDP targets achieved, on track, and made no progress, respectively. The disruptions caused by the COVID-19 outbreak led to these low success rates. Drawing on the lessons learnt from the implementation of the 2018-2022 NDP, the 2023–2027 Recovery Focused (RF)-NDP is anchored on seven strategic pillars: (i) resilience to shocks and crises; (ii) governance reforms; (iii) macroeconomic stability and growth; (iv) human capital development; (v) agriculture, environment, natural resources, and climate change; (vi) empowerment, social inclusion and leaving no one behind; and (vii) energy, infrastructure, and connectivity.

(b) Financing needs and financing gaps

With limited fiscal space, high debt burden and narrow revenue base exacerbated by high borrowing costs and limited development assistance, access to financing becomes critical for a transition State like The Gambia to enhance structural transformation. This section discusses AEO (2024) estimates of financing needs and gaps to achieve key sustainable development goals (SDGs) that are directly linked to achieving economic transformation. Among these SDGs are Goals 4 (Quality education), 7 (Energy), 8 (Productivity), and 9 (Infrastructure). For each African country, annual financing needs and the associated financing gaps are calculated for both the 2030 Agenda of Sustainable Development and the African Union's Agenda 2063.

According to AfDB (2024) estimates, The Gambia would need USD 443 million annually, or about 20.2% of the country's projected GDP in 2024, until 2030 to accelerate its structural transformation process (Figure 2.8). The largest financing needs are in education (about USD 174 million per year until 2030, or 8% of GDP) given the need to invest in TVET centres and expansion of school infrastructure in the rural areas. This is followed by energy (USD 114 million per year, or 5% of GDP) to meet investment needs in renewable energy, as well as the expansion of transmission and

Figure 2.8: Annual financing needs

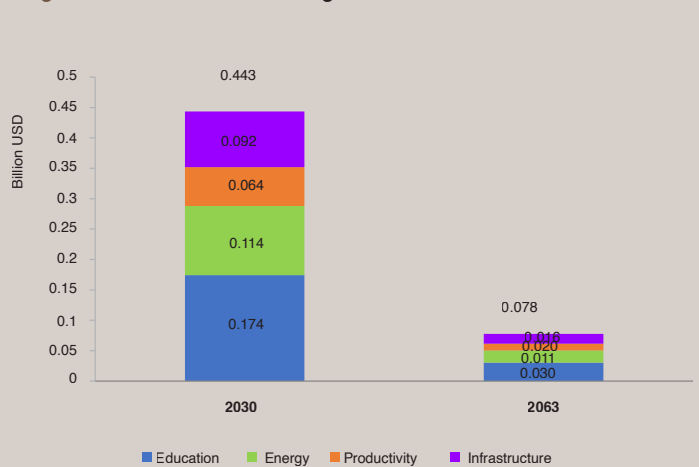
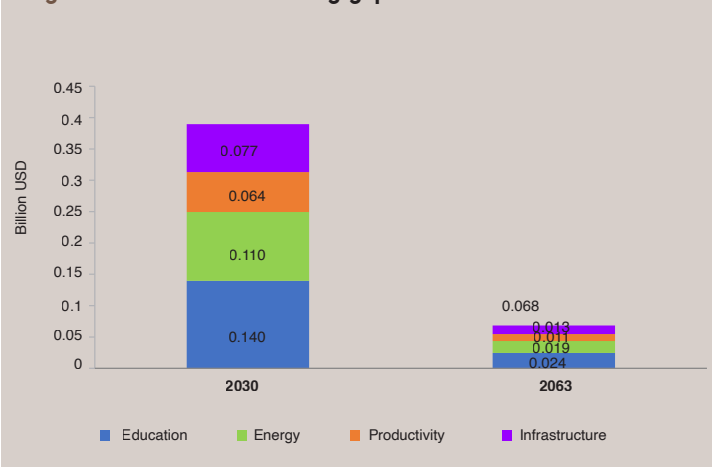
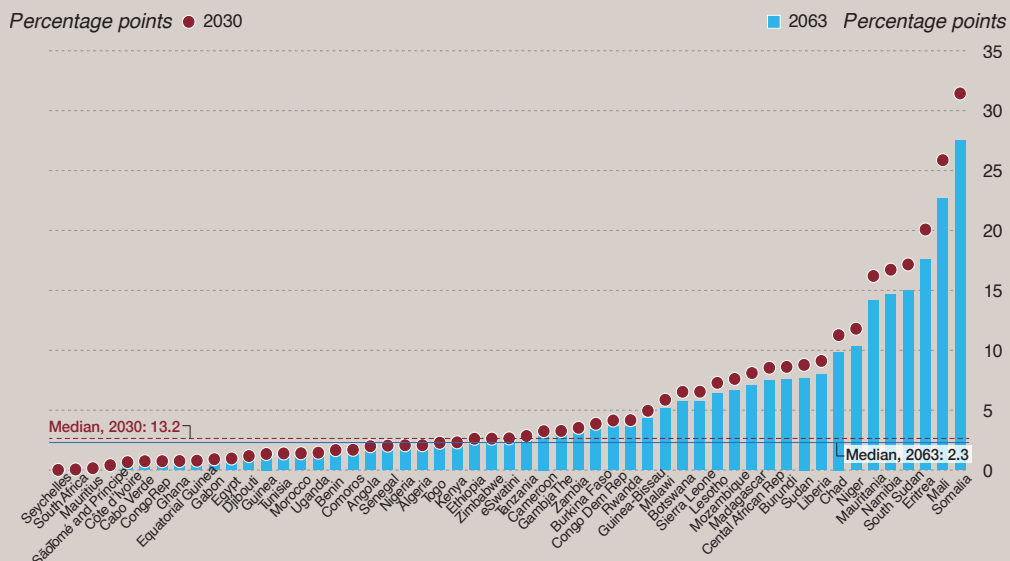


Figure 2.9: Annual financing gap



Source: Staff calculations based on the database from Sachs et al. (2023), UNESCO, CIA, EIA, NASA, IMF, and World Bank.

Figure 2.10: Required increase in tax-to-GDP ratio to close the estimated annual financing gap in The Gambia



Source: Staff calculations based on methodology from African Development Bank statistics, Sachs et al. (2023), UNESCO, CIA, NASA, IMF, and World Bank.

distribution networks, and improvement of the operational efficiency of the power utility company – NAWEC (the Gambia National Water & Electric Company). Infrastructure financing needs account for 4% of GDP (USD 92 million), while productivity-enhancing research and development accounts for only 3% of projected GDP in 2024.

When the deadline for Agenda 2063 is used as a reference, the annual financing needs fall to USD 78 million, or about 3% of The Gambia's projected 2024 GDP (Figure 2.8). Again, the bulk of these resources are in education (38% of the total), highlighting the critical investment needs in the sector, followed by energy (25.7%), and infrastructure (20.7%), while productivity accounts for 14.4%.

Given the current country performance levels in these critical sectors and their projected values, the annual financing gap to fast-track structural transformation is estimated at USD 390 million per annum until 2030 (or about 13.8% of The Gambia's 2024 GDP) under the SDG framework and USD

68 million per annum until 2063 (or about 2.4% of GDP) under the Agenda 2063 deadline. The latter has a longer time horizon and therefore spreads investment needs over a longer period for each SDG target. Overall, education remains the main contributor to The Gambia's financing gap (36%), followed by energy (28%), infrastructure (19.7%) and productivity (16.4%).

(c) Closing the financing gap through domestic resource mobilization

Figure 2.10 displays the required increase in countries' current tax-to-GDP ratios to close their respective financing gap by 2030 or 2063. For The Gambia, the country will need to increase this current ratio by a median of about 16.3 percentage points — bringing the median ratio to 25.7% of GDP — to be able to close its financing gap by 2030. This assumes that all the mobilized additional tax revenues are efficiently deployed and allocated to that objective. Using the Agenda 2063 timeline, a median increase of 2.9 percentage points will be required to close the financing gap

Box 4: AfDB fostering economic transformation through food production

The Bank's operations have improved productivity, expanded output, and leveraged private investment. Through the Technologies for Accelerated Agricultural Transformation (TAAT) and Rice Value Chain Transformation Programme (RVCTP) interventions, yields for the rice varieties being promoted by the Bank has improved from 2.2MT/Ha to 4.0MT/Ha. Similarly, there have been significant improvements in yields for maize, groundnuts, cowpea, and sorghum during the period. To improve production, 4,369 hectares of land has been put under improved irrigation resulting in the production of 27,828Mt of rice during the period. The project has also contributed to ensuring the availability and sustainability of the seed sector through support for local seed grower industries. Overall, the Bank currently has an ongoing portfolio of USD 32.4 million in the agricultural rice value chains and with the Global Agriculture and Food Security Programme (GAFSP). These projects are helping to improve food security, lower investment risks in agriculture, and gradually help the country bridge the gap in domestic supply of rice and reduce expensive imports of rice that cost USD 80 million annually.

by 2063. The enormity of median tax-to-GDP ratio of 25.7% required to close the financing gap and fast-track structural transformation by 2030 casts doubt on the country's capacity to mobilize the funding needs by the SGD timeline.

The international financial architecture, with contributions from the private sector, should therefore be an integral part of the financing strategy.

2.6. Concluding remarks and policy recommendations

The above analyses strongly suggest that accelerating The Gambia's structural transformation will require a multipronged approach, spearheaded by the Government and with support from the private sector, DFIs, and MDBs.

- **Establish and institutionalize endogenous development plans and policies tailored to areas of comparative advantage as priorities and implement them consistently, while avoiding policy reversals that tend to disrupt progress:** Development of multi-annual sector master plans should be accompanied with the establishment of coordination committees with the

responsibility and power to bring together various stakeholders to guide investment decisions.

- **Scale up investments to build requisite human capital suited to local realities, circumstances and development priorities.**

This includes the need to prioritize scaling up skills in science, technology, engineering and mathematics (STEM), and to establish innovation centres of excellence in partnerships with the private sector.

- **Scale up domestic resource mobilization and prioritize prudence in PFM.**

There is need for The Gambia to own its development agenda and have the primary responsibility for financing its structural transformation. The tax-to-GDP ratio (9.4%) in 2023 was below Africa's average of 15.6%, leaving a significant margin to improve tax effort and intensify domestic resource mobilization by establishing a platform and command centre for a single window for customs administration, streamlining tax incentives under special investment certificates, removing fuel from the list of tax exempted goods, and strengthening tax compliance. Enhancing the formalization of the informal economy could also boost domestic resource mobilization. The size of the informal

sector in The Gambia significantly limits the tax base as an estimated 60% of Gambians are engaged in the informal sector. Adoption of incentive schemes such as social insurance, pension scheme, and simplified taxation – conditioned on registration – can contribute to boost domestic tax collection. Since the institutional capacity remains weak, the Bank's Public Finance Management Academy could help respond to the urgent need for accelerated capacity building through training, technical assistance, and policy dialogue.

- **Build and deepen markets (for goods and services, and capital and financial) at national and regional levels.** The Gambia should leverage on strategies aimed at monetizing the country's infrastructure (e.g., asset recycling programme signed with Africa50 on the management of the Senegambia bridge), and the ongoing investments on access roads to develop a reliable multi-modal transport system along the River Gambia including Banjul port, which accounts for 90% of the country trade. This will enable the country to efficiently interconnect with regional and global markets and benefit from AfCFTA. However, institutional support and capacity building, especially for structuring PPPs, is critical in helping to maximize benefits from infrastructure concessions and SOE privatization.

- **Create targeted and streamlined incentives to catalyze the mobilization of private capital flows to support The Gambia's endogenous development plans in key sectors for structural transformation.** As financing needs for structural transformation remain huge (e.g., about USD 443 million per year), The Gambia could incentivize private sector participation (domestic and external) to support structural transformation. The use of innovative financing instruments, such as blended finance and guarantees, could increase private participation in infrastructure for green growth by derisking the sector. The development of sustainable finance instruments (including green

bonds and loans, and sustainability bonds and loans), as well as carbon credit markets, could boost private sector investment in green sectors.

- **Invest in natural capital accounting, beneficiation and conservation and include it in the national accounts system to expand the economy.** According to the World Bank (2021)¹¹, The Gambia's natural capital wealth grew by 86% from 1995 to 2018, mostly driven by renewable energy resources, forest, timber, ecosystem services, protected areas, cropland, and pastureland. However, these figures underestimate the country's natural wealth amidst the abundance of fisheries resources, marine biodiversity, and green wealth. MDBs, bilateral donors, and DFIs should therefore seek greater synergy in capacity-building for natural capital accounting in transition States, such as The Gambia, to expand the economy. Recent data from AfDB (2023) shows that The Gambia is not deriving a fair share of its natural resources rents which declined from 7.1% in 2010 to 6.8% in 2020. The Gambia does not participate in the Extractive Industries Transparency Initiative.

- **Invest in youth entrepreneurship development programmes to harness the country's demographic dividend.** With an estimated 65% of the population under the age of 25, The Gambia is in the pre-demographic dividend phase and needs to take proactive steps to create jobs and skills. With 60% of the working age population engaged in informal activities and TVET enrolment rates averaging 17.5% of the population, reaping the benefits of the demographic dividend from The Gambian youth would significantly depend on investment in human capital development and creation of economic and job opportunities for young people.

- **Launch an ambitious national digitalization programme for broad-based policy implementation to accelerate structural**

¹¹ World Bank. 2021. The Changing Wealth of Nations 2021: Managing Assets for the Future. Washington, DC: World Bank. doi:10.1596/978-1-4648-1590-4.

transformation. Although the contribution of the ICT sector to GDP was modest at 3.3% in 2020, its aggregate importance is much higher. The World Bank estimates that a 10% increase in mobile broadband penetration in The Gambia could lead to a USD 43 million and a USD 4.1 million increase in GDP and tax revenues per year, with ripple effects across all socioeconomic sectors. Investments in accessible, affordable, and reliable broadband internet is therefore fundamental for the development of the digital economy and structural transformation in The Gambia.

- **Take proactive actions to harness governance of macroeconomic policies and create an enabling business environment**

to improve risk profiling and perceptions, as well as draw on innovative global capital and financial instruments needed to build capacity in project preparation. The Gambia needs to build capacity in project preparation and implementation, and governance of macro-economic policies, as well as improve the investment climate to reduce the risk of profiling and perceptions. The country could emulate the Bank's Strategy for Economic Governance in Africa and draw on strategic reforms to promote transparency and accountability in public service delivery, improve government efficiency, and create business-enabling environments.

FINANCING STRUCTURAL TRANSFORMATION IN THE GAMBIA

3.1 KEY MESSAGES

- **The Gambia's progress towards structural transformation demands significant investments in infrastructure, human capital, climate action, and productivity-enhancing technology.**

Consequently, the current call for reform of the international financial system offers a pathway for The Gambia's meaningful participation in resource allocation decisions that will help to unlock vital resources for the investments.

- **The failure of the global financial architecture to deliver development financing at scale to address the specific development needs of fragile States such as The Gambia, as well as other developing nations, has amplified calls for reform.**

The Gambia's immense financing needs for enhancing structural transformation (e.g., USD 443 million per year until 2030 - or about 20% of the projected 2024 GDP), in addition to those required for emergency and climate action need a system that is quick, accountable, and transparent to support debt resolution mechanisms and unlock resources at affordable conditions.

- **Existing debt resolution and initiatives, such as the G20's Common Framework (CF), are deemed slow and cumbersome.** Enhancements such as introducing "Brady bonds" initiatives, debt relief for climate purposes, and sovereign debt authority systems are imperative for expediting debt workouts and ensuring sustainable debt management for countries at high risk of debt distress, such as The Gambia.

- **Implementation of the proposed reforms could significantly increase financing for The Gambia's structural transformation and propel the country to a higher level of economic development.**

In particular, the recycling of Special Drawing Rights (SDRs) through the MDBs could increase financing for The Gambia. The recent decision by the IMF Board allowing countries to channel their SDRs through MDBs is a step in the right direction towards increasing access to financing for social and climate projects for developing countries, including The Gambia.

3.2. Introduction

This chapter presents the external financing needs of the country to achieve structural transformation and deal with the threat of climate change. It uses the Bank's estimates on financing needs and gaps to fast-track structural transformation (AEO, 2024) and to finance climate actions (AEO, 2022 and 2023) respectively by 2030. Using the Bank's estimates, it assesses The Gambia's capacity to increase its tax-to-GDP ratio to close the financing gap for fast-track structural transformation and motivates the need for reform of the international financial architecture.

3.3. The Gambia's stand on the need for reform the international financial architecture

Following the end of more than two decades of autocratic rule in 2017, The Gambia has demonstrated strong commitment to reforms for sustainable development. In a bid to free up fiscal space and bolster growth, a series of PFM reforms have been implemented, but substantial fiduciary risks persist. The reform comprises the creation of an SOE commission to address fiscal risks with underperforming SOEs, enforcement of the 2022 Procurement Act to address weaknesses in public procurement and strengthen regulatory and oversight functions of the Gambia Public Procurement Authority (GPPA), approval of the 2023 Procurement Regulation to enforce the GPPA Act, and review of the 2015 Audit Act in support of a stronger and more robust PFM system. In recognition of the importance of strengthening governance and economic reforms, international development partners committed EUR 1.45 billion to cover the needs identified in NDP 2018-2021, even though most of the pledges did not materialize. The conference was co-hosted by the Government of The Gambia and the European Union. The summit, held in May 2018 in Brussels,

was followed by a Business Forum which focused on investments in energy and infrastructure, agricultural value chains, and tourism.

Prior to the democratic transition in 2017, The Gambian economy demonstrated resilience during the financial crisis from 2008 to 2010, recording real average growth of 6.2% annually. The Gambia hosted the African Union Summit in 2008/9, which led to huge government investment in infrastructure projects, with construction being a leading driver. The resources were used for the implementation of the Poverty Reduction Strategy (2007-2011) and were previously buffered with the impact of debt relief under the Highly Indebted Poor Countries (HIPC)¹² initiative. More recently, The Gambia secured USD 4.14 million in 2020 under the G20 Debt Service Suspension Initiative (DSSI) and was also granted USD 129 million in deferred payments from official bilateral creditors between 2020 and 2024.

As the debate regarding reform of the international financial architecture gains momentum, The Gambia, as a fragile State that is highly vulnerable to climate shocks, is expected to benefit from initiatives championed by MDBs such as the African Development Bank and the Inter-American Development Bank. The reform mainly seeks to issue hybrid capital-targeting green, social and sustainability bonds to finance development projects in critical areas for structural transformation, particularly food security, access to water and sanitation, health, and climate change. These priorities are in line with the statement made by the African Group of Negotiators¹³ during the African Caucus in July 2023, which calls for: (i) reform of the global financial architecture (notably within the IMF and World Bank) to be extended beyond climate change, and also covering issues of hunger, poverty, public goods, and SDGs; (ii) addressing the unsustainable levels of public debt in African economies – and more specifically arguing for

12 The total debt relief to Gambia was estimated at USD 66.6 million in end-1999. The AfDB Group's share of the debt relief was USD 15.8 million, which accounted for 32.1% of the multilateral debt relief and 23.7% of the total debt relief.

13 African Climate Wire (2023). African Governors Propose Targeted Reforms to Climate Finance Architecture. <https://africanclimatewire.org/2023/07/african-governors-propose-targeted-reforms-to-climate-finance-architecture/>

Acceleration of structural transformation in The Gambia requires a reform of the global financial architecture that can offer a pathway for effective mobilization of resources on affordable terms to support investments in infrastructure human capital, technological transfer, and climate action.

the “tripling of concessional financing” supplemented with grants; (iii) general capital increases in MDBs to strengthen their lending power amid reluctance by developed nations; and (iv) lowering the costs of borrowing for African countries by adopting initiatives such as debt relief and cancellation, and debt restructuring; (v) scaling up private climate financing to USD 2.8 trillion with electricity access being accorded at least USD 20 billion/year; and (vi) preventing illicit financial flows.

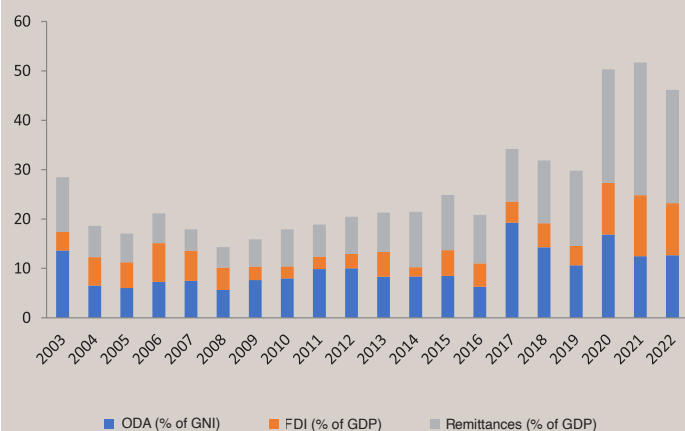
More specifically, The Gambia could benefit from the reform of the global financial architecture in multiple ways through: (i) increased access to low-cost financing from MDBs and DFIs; (ii) greater access to derisking instruments for private sector investments; (iii) greater access to climate finance (green bonds, blue bonds, sustainable bonds); (iv) monetization of its natural capital wealth (e.g., fisheries, biodiversity); (v) access to concessional financing from MDBs, DFIs and bilateral donors for financing of projects related to the preservation of global public goods (e.g., eco-tourism, climate adaptation and mitigation, prevention of pandemics); (vi) improved PFM reforms and capacity building in debt management and domestic resource mobilization; and (vii) tapping into diaspora remittances.

3.4. Mobilizing additional resources for The Gambia’s structural transformation

The Gambia has taken a significant step towards monetizing its infrastructure by signing an agreement with Africa50 to include the African Development Bank’s USD 100 million grant-financed Senegambia bridge in the Africa50’s Asset Recycling Programme. Furthermore, the modernization of Banjul port, the expansion of the airport, and the development of multi-modal transport systems along the River Gambia is vital to expand the economy and take advantage of AfCFTA. To succeed in its structural transformation agenda and reach the SDGs, The Gambia needs investments of about USD 443 million per year until 2030. The Bank estimates that financing the four key pillars directly relevant to fast-tracking structural transformation alone will require filling a financing gap of USD 390 million per year until 2030 (see Chapter 2, in this report). This investment will need to be financed by external flows and domestic, private and public resources.

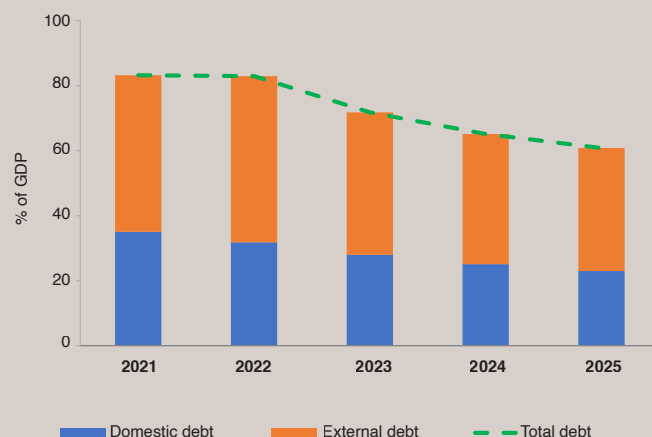
Reform of the global financial architecture should support increasing external flows to finance The Gambia’s economic transformation. As regards improvements in governance and macroeconomic

Figure 3.1: Evolution of FDI, ODA and Remittances in The Gambia



Source: World Development Indicators (WDI)

Figure 3.2: Evolution of public debt (Domestic and external as a share of GDP)



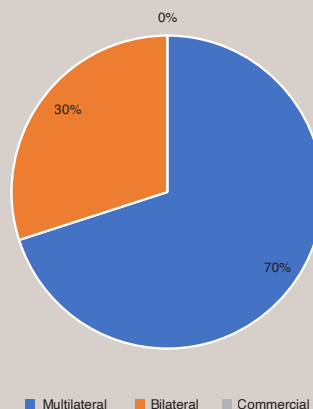
Source: Ministry of Finance and Economic Affairs

Figure 3.3: Key drivers of public debt variation in The Gambia



Source: Staff calculations using data from the IMF (2024)

Figure 3.4: Decomposition of External debt in The Gambia (2024)



Source: Staff calculations using data from the IMF (2024)

stability, FDI inflows to The Gambia increased from 3.8% of GDP in 2003 – during the dictatorial rule – to 12.4% of GDP in 2021 (Figure 3.1). Remittances, which accounted for 4.1% of GDP at the end of the last decade, have since increased to 26.8% of GDP in 2022, as migrant workers in host countries are committed to the national agenda of recovery and prosperity and investing largely in tourism and real estate. Meanwhile, grants, notably in the form of net Official Development Assistance (ODA), have been highly volatile, fueling uncertainty in budget planning. After reaching a peak of 19.3% of the Gross National Income (GNI) in 2017 – coincidentally the year that marked the inauguration of a new democratic rule – the grants have since declined and accounted for less than 13% of GNI in 2022, according to World Bank data (2024).

The prospect of ODA improvement is unpredictable judging from the uncertainty regarding future direction and magnitude of budget support as donor countries are facing many competing priorities due to shrinking fiscal space. Moreover,

as at end-2023, only few advanced countries – Denmark, Sweden, Germany, Luxembourg and Norway met the ODA threshold of 0.7 percent of GNI. In the short run, the best hope for significantly increasing ODA to Africa, and to The Gambia, in particular, is the recycling of SDRs¹⁴, the implementation of MDB generalized capital increase, coupled with the implementation of the Capital Adjustment Framework reforms by MDBs, provided that the later does not result in the hardening of lending terms and illicit financial flows.

3.5. Dealing with The Gambia's debt

Although the debt situation in The Gambia is not systemic, it has resulted from fiscal slippages during the previous regime, coupled with heavy reliance on domestic borrowing at high interest rates. In addition, even though the public debt-to-GDP ratio has been declining owing to strong growth and fiscal consolidation (Figure 3.2), the risk of external and overall public debt distress

14 This innovative financing instrument offers several advantages, including the possibility of lending at least USD 4 for USD1 equivalent SDR, through the African Development Bank and the Inter-American Development Bank, and other Multilateral Development Banks, to finance development projects (AfDB, 2024). <https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-and-interamerican-development-bank-welcome-international-monetary-funds-imf-executive-boards-decision-approving-use-sdrs-hybrid-capital-instruments-70788>

Box 5: AfDB deepening capital markets for green growth The Gambia

The African Development Bank is providing technical assistance for Capital Markets development in The Gambia to foster investments in green and sustainable finance which remain limited. The passing of The Gambia capital market and Security Bill 2021 is the first step in the right direction for trading securities (e.g., bonds and stocks with longer maturity). In September 2023, The Gambia launched its first ever Capital Market infrastructure. The mechanism will promote the mobilization of financing for long-term investment.

remains “high”. Figure 3.3 shows that the level of indebtedness is largely driven by the variations in the real exchange rate, primary balances, and interest rate differentials¹⁵ to some extent. This is a cause for concern for sustainability of the country's public debt amidst high global interest rates and frequent exchange rate depreciations due to foreign exchange shortages. Addressing The Gambia's public debt will require not only prudent fiscal and exchange rate management but also reform of the global debt and financial architecture to avoid further debt build-up, as well as actions to facilitate restructuring of the existing stock of debt. To facilitate debt restructuring, there is a need to: (i) prioritize access to longer maturity and highly concessional debt; (ii) implement debt relief to free up resources for climate actions; (iii) create a sovereign debt authority and a sovereign insolvency system; (iv) enact (by the G20 countries) legislation that encourages private lenders to participate in debt workouts; and (v) implement the new IMF policy of lending in arrears that would also open the door for MDBs to lend to countries during protracted debt negotiations. In addition, it is necessary to further support The Gambia's capacity building in debt management.

3.6. Financing climate action

According to The Gambia's updated nationally determined contributions (NDCs), 2021¹⁶, meeting

the adaptation and mitigation costs outlined in this policy will require USD 1.6 billion between 2020 and 2030, which translates to USD 148.8 million annually during this period. About 26% of this would be allocated to adaptation and resilience goals, 57% for mitigation and 18% for loss and damage. The Government of The Gambia has committed to financing 21% of this through domestic sources. The Gambia's Strategic Programme for Climate Resilience (SPCR) also estimates that approximately USD 315.8 million will be required in the medium-term to meet the country's green growth objectives, excluding the financing needs required for mitigation measures.

With the momentum of climate action and green growth gathering pace, The Gambia is making efforts to deepen its financial markets (See Box 5) and provide alternative financing instruments to support the green growth agenda. The African Development Bank has not been indifferent to the brunt borne by The Gambia due to climate change. As testament to the Bank's commitment to strengthen climate resilience and green growth, the Bank, in 2023, decided to scale up resources to strengthen resilience to food and nutrition insecurity in the Sahel region, with the approval of USD 16.6 million for The Gambia, under Project 2 of the Programme to Strengthen Food and Nutrition Insecurity Resilience in the Sahel (P2-P2RS). The Bank is also committed to supporting

15 High borrowing costs are stifling The Gambia's structural transformation. According to Damodaran, A. (2024), The Gambia's average sovereign risk premium is estimated at 6.58%. This is above the advanced economies' 1.1%, and 4.9% for emerging market economies.

16 The Government of The Gambia (2021). Second Nationally Determined Contribution of The Gambia. Ministry of Environment and Climate Change. September 2021.

digital infra ecosystem skills innovation for the agriculture sector and building resilience to climate change.

3.7. Policy recommendations

Mobilizing resources at scale and on affordable terms for the financing of structural transformation will require the following actions:

- **Adding the country's voice to benefit from acceleration of the scale of low-cost concessional financing for development.**

On its own, The Gambia might not be able to influence the nature and shape of the current international financial architecture. However, together with other African countries, agencies, and supporters from the broader international community, it is possible to make change happen. This coalition of the willing needs to be categorical about what is required to change the financing of African development more sustainably, while also making it plain that African governments are willing to commit to good governance and accountability.

- **Adding the country's voice to benefit from reform of the global debt architecture to make it more transparent, nimble, accessible, and affordable to developing countries.**

The Gambia could add its voice alongside the group of African Negotiators, and transition States as they engage with Credit Rating Agencies to ensure that they also get a credit rating that could serve as benchmark for future debt issuances and overall assessment of the country's debt profile. Furthermore, reforms to reduce subjectivity in credit ratings for African countries by increasing transparency and distinguishing between the model-based and discretionary components of their sovereign ratings are long overdue. In that regard, efforts should be made to accelerate the creation of an African Credit Rating Agency by the African Union. African countries, including The Gambia, could also argue for increased transparency of lending conditions through voluntary disclosure of information to avoid being trapped into signing

contracts for resource-backed loans. Bilateral creditors should also facilitate debt restructuring mechanisms under the G20 Common Framework.

- **The Gambia needs to put in place reforms for strengthening its National Climate Fund and Disaster Management Systems**

with appropriate and independent governance structures. This should be complemented by international financial institutions' proactiveness in first introducing and using State-contingent debt instruments (SCDIs), as well as making concerted effort to incentivize widespread adoption of sovereign SCDIs to support better public debt management, climate-proofing of public finances, and facilitating faster response with a built-in debt deferral mechanism for pre-agreed shocks to help avoid further human suffering and economic loss. Uptake of the SCDIs would help governments in transition States, including The Gambia, to move towards faster and more reliable post-disaster finance.

- **The Gambia could join the group of African countries and advocate for a greater voice of the continent in MDBs and IFIs, aligned with its growing share of world GDP and population:**

For instance, the G20 could expand its membership beyond South Africa and the African Union by inviting two or three more African countries. The IMF and the World Bank could further democratize their decision-making processes by introducing a double majority rule for most decisions (majority of shares plus majority of member countries), as well as change the rules allocating IMF quotas and voting rights at the World Bank to reflect new economic and demographic realities.

- **The Gambia could add its voice to the group of African countries and advocate for reform of the global financial architecture, particularly the investments needed to deliver on global public goods—especially climate and pandemic preparedness—as well as on how the**

SDGs are channeled. The current system has

been unable to mobilize adequate financing for the continent, and The Gambia, in particular. To meet these financing challenges, the world needs a global financial architecture that can support the development of new and innovative financing mechanisms and mobilize resources at scale and affordable cost to fund sustainable development.

• **Climate finance is a major theme for The Gambian policymakers and other African countries to consider.** Tackling the climate crisis will require significant investment in climate mitigation and adaptation infrastructure across multiple sectors, including energy agriculture, and adaptation for water, health, transport. The country has a wealth of both natural and human capital, with a growing and increasingly educated young

labour force. The country's enormous renewable energy potential, including solar energy, make it an extremely attractive prospect for private investment. The Gambia could leverage sustainable climate finance resources and innovative mechanisms (e.g., green bonds, blue bonds, and sustainability bonds) from MDBs, bilateral donors and DFIs for adaptation projects that are directly linked to development and economic transformation. The country could also tap into the African Green Banks Initiative (AGBI) launched by the African Development Bank and benefit from blended finance instruments for climate financing, technical assistance, and green finance facility (e.g., equity and subordinated debt, and debt financing).

REFERENCES

AfDB (2024). African Development Bank and InterAmerican Development Bank Welcome International Monetary Fund's (IMF) Executive Board's Decision Approving Use of SDRs for Hybrid Capital Instrument. <https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-and-interamerican-development-bank-welcome-international-monetary-funds-imf-executive-boards-decision-approving-use-sdrs-hybrid-capital-instruments-70788>

African Climate Wire (2023). African Governors Propose Targeted Reforms to Climate Finance Architecture. <https://africanclimatewire.org/2023/07/african-governors-propose-targeted-reforms-to-climate-finance-architecture/>

AEO (2024). African Economic Outlook – “Driving Africa's Structural Transformation: The Reform of The Global Financial Architecture”.

African Development Bank (2023): Country Focus Report 2023 The Gambia – Mobilizing Private Sector Financing for Climate and Green Growth.

African Development Bank (2020). The Gambia Country Diagnostic Note: Policy Options to Enhance Socio-Economic Transformation and Resilience. October 2020.

African Development Bank (2021): The Gambia Country Strategy Paper 2021-2025.

African Development Bank (2022). African Economic Outlook – “Mobilizing Private Sector Financing for Climate and Green Growth in Africa”.

African Development Bank (2023a). African Economic Outlook – “Supporting Climate Resilience and a Just Energy Transition”

African Development Bank (2023b). The Gambia: Country Focus Report 2023. Mobilizing Private Sector Financing for Climate and Green Growth in Africa. Abidjan. 2023.

Center for Labour Research (2022). Labour Right Index. <https://labourrightsindex.org/lri-2022-documents/cabo-verde.pdf>

EDGI (2022) United Nations E-Government Survey. <https://publicadministration.un.org/egovkb/en-us/Reports/UN-E-Government-Survey-2022>

Finscope, 2019: The Gambia - Consumer Survey Highlights

GBoS (2023), Gambia Labour Force Survey Report (GLFS, 2022-2023), Government of The Gambia.

GII (2023) – Global Innovation Index – World Intellectual Property Organization (WIPO). https://www.wipo.int/global_innovation_index/en/

Global Economy.com (2024). Trade openness is measured as the ratio of exports plus imports as a percent of GDP. https://www.theglobaleconomy.com/rankings/trade_openness/

Global Environmental Fund (2023). Gambia – Country at Glance. <https://www.thegef.org/projects-operations/country-profiles/gambia>

Global Hunger Index (2022). <https://www.globalhungerindex.org/pdf/en/2022/Gambia.pdf>. October 2022

International Labour Organization (ILO, 2023) – <https://ilostat.ilo.org/data/country-profiles/>

International Monetary Fund, IMF (2024). The Gambia: 2023 Article IV Consultation and Request for an Arrangement under the Extended Credit Facility. IMF Country Report 24/15, January 2024.

McMillan, M., and D. Rodrik. (2011). "Globalization, Structural Change, and Productivity Growth." Working Paper 17143, National Bureau of Economic Research, Cambridge, MA.

McMillan, M., and K. Harttgen. (2014). "What Is Driving the African Growth Miracle?" Working Paper 20077, National Bureau of Economic Research, Cambridge, MA.

Mo Ibrahim Foundation (2023). "2022 Ibrahim Index of African Governance". Index Report. January 2023.

OECD/UN ECA/AfDB (2022), Africa's Urbanization Dynamics 2022: The Economic Power of Africa's Cities, West African Studies, OECD Publishing, Paris, <https://doi.org/10.1787/3834ed5b-en>.

Rodrik, D. (2023). "Structural Change, Fundamentals, and Growth: Overview". Institute for Advanced Study. September 2023.

The Government of The Gambia (2016). Gambia's National Climate Change Policy. January 2016.

The Government of The Gambia (2017). Strategic Programme for Climate Resilience. Volume I, Main Report. 30 August 2017.

The Government of The Gambia (2021). Second Nationally Determined Contribution of The Gambia. Ministry of Environment and Climate Change. September 2021.

The Republic of Gambia (2018). The Gambia National Development Plan, 2018-2021, Banjul.

United Nations (2023). "Our Common Agenda Policy Brief 6. Reforms to the International Financial Architecture". May 2023

US Department of State (2023). 2023 Investment Climate Statements: The Gambia. <https://www.state.gov/reports/2022-investment-climate-statements/the-gambia/>

World Bank (2021) database. <https://data.worldbank.org/indicator/SE.XPD.TOTL.GB.ZS>

World Bank. 2021. The Changing Wealth of Nations 2021: Managing Assets for the Future. Washington, DC: World Bank. doi:10.1596/978-1-4648-1590-4.

World Bank (2024) database. <https://data.worldbank.org/indicator/SI.POV.GINI?locations=ZF>



AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE
DE DEVELOPPEMENT