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Acknowledgment

The Gambia Country Diagnostic Note (CDN) was prepared by the Vice Presidency for Economic Governance and Knowledge Management, under the leadership of Kevin Chika Urama, Chief Economist and Vice President, with overall guidance from Désiré Vencatachellum, Senior Director, Country Economics Department (ECCE); Lamin Barrow, Director General, West Africa Region (RDGW); and Joseph Ribeiro, Deputy Director General, RDGW. Jacob Oduor, Lead Economist, ECCE, supervised the technical aspects of the CDN preparation.

The preparation of the CDN was led by Aisha Sillah (Senior Country Economist) and Mohamed Traore (Consultant Economist), with significant contribution from Martin Nandelenga (Senior Research Economist). Inputs were contributions from different departments of the Bank. These include Sheila Akyea (Transport Engineer), Alex Yeanay (Senior Fragility Expert), Ebrima Bah (Senior Power Engineer), Nelly Maina (Principal Gender Officer), Edith Adera (Principal Climate Change and Green Growth Officer), Chukwuma Ezedinma (Principal Agro-Industrial Economist), Patience Ekoh (Principal Social Economist), Ahmed Khan (Chief Fisheries Officer), Romulo Correa (Principal Governance Officer), Philip Doghle (Chief Financial Management Specialist), Daniel Osei-Boakye (Senior Procurement Specialist), Femi Fatoyinbo (Financial Management Officer), James Francis Davis (Consultant), Youssouf Kone (Principal Regional Integration Coordinator), Stephen Oluwaseun Oke (Senior Legal Counsel), Mark Eghan (Principal Agricultural Economist), Jerry Ahadjie (Chief Minerals Officer), Janet Atim (Principal Water and Sanitation Engineer) Sekou Kamara (Principal Environmental Officer), Taibatou Sidibe (Senior Labour Economist), Julius Tieguhong (Chief Forestry Officer), Jacquline Odula-Lyakurwa (Lead Analytic Officer), Omowunmi Johah (Enterprise Development & Coordination Officer, Sekioua, Sofiane (Chief Investment Officer), Ashiagbor David (Chief Financial Sector Strategy Officer), Lukwago, Robinah (Chief Health Insurance and Social Protection Officer).

The Report was peer reviewed by Richard Doffonsou (Chief Country Economist), Flavio Da Gama Soares (Principal Country Economist), and Bothwel Nyajena (Senior Country Economist). The report benefited from data and projections from various sources, including the Statistics Department of the African Development Bank, The Gambia Ministry of Finance, the Central Bank of Gambia, Penns data, and Maddison data, among others.

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ACRONYMS AND ABBREVIATIONS

AEO	African Economic Outlook
AfCFTA	African Continental Free Trade Agreement
AfDB	African Development Bank
AFOLU	Agriculture, Forestry, and Other Land Use
AGOA	African Growth and Opportunity Act
ANR	Agriculture and Natural Resources
ANRP	Agriculture and Natural Resources Policies
ATMs	Automated Teller Machines
AU	African Union
AVOI	African Visa Openness Index
CBG	Central Bank of the Gambia
CCRT	Catastrophe Containment and Relief Trust
CDN	Country Diagnostic Note
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CFRA	Country Fiduciary Risk Assessment
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CRFA	Country Resilience and Fragility Assessment
CSOs	Civil Society Organizations
CSP	Country Strategy Paper
DFQF	Duty-Free and Quota-Free
DRE	Decentralized Renewable Energy
DRM	Domestic Revenue Mobilisation
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
EAD	Expected Annual Damages
ECD	Early Childhood Development
ECOWAS	Economic Community of West African States
ETLS	ECOWAS Trade Liberalization Scheme
FDI	Foreign Direct Investment
GAMPOST	Gambia Postal Services
GBV	Gender-Based Violence
GDHS	Gambia Demographic and Health Survey
GIEPA	Gambia Investment and Export Promotion Agency
GLFS	Gambia Labor Force Survey
GNAIP	Gambia National Agriculture Investment Plan
GNI	Gross National Income
GNPC	Gambia National Petroleum Corporation
GPA	Gambia Ports Authority
GPPA	Gambia Public Procurement Authority
SSHFC	Social Security and Housing Finance Corporation
HFO	Heavy Fuel Oil
ICT	Information and communication technologies
IIAG	Ibrahim Index of African Governance
ILO	International Labour Organization
IMF	International Monetary Fund

IPCC	Intergovernmental Panel on Climate Change
IPP	Independent Power Producers
IsDB	Islamic Development Bank
LDCs	Least Developing Countries
M&E	Monitoring and Evaluation
MEO	Macroeconomic Performance and Outlook
MPC	Monetary Policy Committee
MPR	Monetary Policy rate
MSMEs	Micro, Small and Medium Enterprises
MTDS	Medium-Term Debt management Strategies
MVA	Manufacturing Value Added
MoFEA	Ministry of Finance and Economic Affairs
NAO	National Audit Office
NAP	National Adaptation Plan
NAWEC	Gambia National Water & Electricity Company
NDAs	Net Domestic Assets
NDC	Nationally Determined Contribution
NDP	National Development Plan
NFAs	Net Foreign Assets
NSDS	National Strategy for the Development of Statistics
NSS	National Statistical System
OECD	Organization for Economic Cooperation and Development
OIC	Organization of Islamic Cooperation
OMVG	Organization for the Development of the Gambia River
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
PIP	Public Investment Program
PPP	Public-Private Partnership
QERs	Quarterly Expenditure Reports
RF-NDP	Recovery-Focused National Development Plan
SDG	Sustainable Development Goals
SMEs	Small and Medium-sized Enterprises
SOEs	State-Owned Enterprises
SPCR	Strategic Programme for Climate Resilience
STEM	Science, Technology, Engineering and Mathematics
TADAT	Tax Administration Diagnostic Assessment Tool
TVET	Technical and Vocational Education and Training
UNCTAD	United Nations Conference on Trade and Development
WDI	World Development Indicator
WHO	World Health Organisation
WITS	World Integrated Trade Solution
WTO	World Trade Organization

EXECUTIVE SUMMARY

1. **The Gambia Country Diagnostic Note (CDN) provides an assessment of The Gambia's most pressing development constraints and suggests priority areas for action to unlock the country's growth potential**. Following a brief historical overview, the Note considers The Gambia's macroeconomic performance and outlook, as well as some cross-cutting issues, including governance, climate change, gender equality, private sector development, and underlying factors contributing to fragility and resilience. It also looks at the gaps in terms of the Bank's High 5s agenda and analyses the priority areas of reforms where the African Development Bank can assist towards achieving the country's development objectives of maximizing progress toward inclusive and green growth and achieving the SDGs by 2030.

2. **The Gambia's economy is making notable recovery from the impacts of COVID-19 and is projected to maintain the growth momentum in the medium-term.** GDP growth rose to 5.3% in 2023 from 4.9% in 2022, compared to 0.6% recorded in 2020 during the COVID-19 pandemic. Growth is projected to increase further to 6.0% and 6.4% in 2024 and 2025 respectively, driven by construction resulting from strong public infrastructure development. Inflation increased to 17.0% in 2023 from 11.5% in 2022, resulting from higher food and energy inflation and a 9.9% depreciation of the exchange rate. It is however projected to decline to 15.2% in 2024 and 10.5% in 2025, boosted by tight monetary policy and declining global food and energy prices. The fiscal deficit widened to 5.7% of GDP in 2023 from 4.9% in 2022, to support infrastructure spending and is projected to narrow to 5.0% and 4.6% in 2024 and 2025 respectively, as a result of strong tax collection especially custom revenues.

3. **The Gambia's manufacturing industry is underdeveloped, limited to small and medium-sized enterprises (SMEs), mainly focusing on the domestic market and using a limited range of skills and technologies.** Manufacturing activities in the country are dominated by light manufacturing including clothing and textiles, food and beverages, metals and metallic works, wood and leather, and chemicals, which are primarily in the areas of soaps and plastics. The analysis of the relative productivity level of manufacturing industries shows that, apart from electrical equipment, all the other manufacturing industries have a productivity level below the average relative productivity of the manufacturing sector. Electrical equipment employs just 1.6 percent of total employment in the manufacturing sector, but it is the most productive activity within the sector. Textiles and clothing sub-sector, and food, beverages and tobacco. have low productivities of 0.49 and 0.66 respectively, although they are the largest providers of manufacturing employment. Together, these two sub-sectors employ over 91.7 percent of the workforce used in manufacturing.

4. **The pace of structural transformation in The Gambia has been slow, with productivity growth mainly driven by shifts within the economy.** Between 1992 and 2000, labor productivity experienced a sharp decline, averaging -3.48% annually, reflecting the challenges the country faced during that period. However, from 2001 to 2010, there was a notable turnaround, with labor productivity growing by 0.84% annually. During this time, the agricultural sector played a key role in boosting productivity, contributing 0.82% to the overall labor productivity growth. Despite this progress, the services and manufacturing sectors—often considered engines of structural transformation due to their ability to absorb labor from agriculture—have not significantly contributed to labor productivity growth in The Gambia. This highlights the untapped potential for structural change in the country. To unlock this potential, targeted policies aimed at promoting and enhancing the productivity of these sectors could be crucial for driving sustained economic growth and structural transformation.

5. **The Gambia's competitiveness is weak, a fact which could be associated in large part with the country's relatively low total factor productivity, efficiency and human capital**. The Gambia fell five places in the 2019 Global Competitiveness Index (GCI), ranking 124th out of 141 countries surveyed with a score of 45 in a scale of 0 to 100, where 100 is the top. Major impediments to international competitiveness, as well as to doing business more generally, include a costly and

complicated tax system and administration, limited access to financing, and poor infrastructure, all of which have contributed to holding back growth.

6. **The Gambia's private sector has huge potential to be the engine of transformative and inclusive growth, but it remains small, undiversified, and constrained by adverse business environment**. Opportunities for private sector investment abound in light industries, notably in rice milling, agro-oil mills, feed mills, industrial fishing, groundnuts and cashew nuts processing, food and beverage and glass container manufacturing. However, several factors pose serious constraints to private sector development. High taxes, small market size, limited access to finance, unreliable electricity and transport infrastructures, inadequate investment dispute settlement and anti-corruption framework continue to pose serious constraints to private sector development.

7. **Sources of fragility and resilience include political, economic and social factors**. The Gambia's political environment remains fragile. The country is fragmented along political lines, often promulgated along ethnic allegiances, which has endangered its long-standing and reputable traditions of inter-ethnic and inter-religious harmony, and solidarity. The country scored an average of 4 out of 7 in the Bank's 2019 Country Resilience and Fragility Assessment (CRFA). In addition, public sector accountability remains a serious problem in The Gambia stemming from weak governance, which erodes the credibility of public institutions. Nonetheless, the country ranking in the Transparency International Corruption Perception Index improved from 102^{nd}/180 countries in 2020 to 98^{th}/180 in 2023 due to increased anti-corruption efforts, including the passing of the Anti-Corruption Bill in December 2023 by the National Assembly for the creation of an Anti-corruption Commission. However, the establishment of the Commission has been delayed, further undermining the urgency of tackling corruption and improving public sector accountability.

8. **Based on the analysis, the CDN identifies four priority areas that may need quick reforms towards achieving structural transformation and sustainable inclusive growth of The Gambian economy**. These are: i) infrastructure development in energy, clean water and sanitation and transport; ii) improving human capital development, particularly addressing skills mismatch; iii) supporting agro-industrial development; and (iv) strengthening governance and domestic revenue mobilization. In addition to these four priority areas, two more cross-cutting areas will be v) Enhancing resilience to climate change; and vi) Promoting gender equality.

CHAPTER 1: INTRODUCTION

1.1. Background and justification

1. **The purpose of this Country Diagnostic Note (CDN) is to assess The Gambia's socioeconomic environment,** sector performance and the government's initiatives to accelerate policy reforms for structural transformation and sustainable inclusive growth. The Note identifies key constraints to inclusive growth and sustainable development of The Gambia and discusses the policies that need to be implemented to address them. Findings from the CDN will be used to inform the selection of the priority areas of the Country Strategy Paper (CSP), to improve and consolidate the achievements of the previous strategy. The identified priority areas will also inform the Bank's dialogue with national authorities and other stakeholders in the country.

1.2. Country profile

2. **The Gambia is a small West African country bordered by Senegal on three sides, with an 80-kilometer coastline along the Atlantic Ocean to the west.** The country is one of the smallest in Africa, covering about 10.7 thousand square kilometers and has a population of 2.5 million. With 176 people per square kilometer, it is one of the most densely populated countries in Africa.

3. **The Gambia gained independence from the UK in 1965 and has had three presidents since.** Dawda Jawara, the first president, promoted liberal democracy and free markets. While his leadership was generally seen as stable, his administration faced criticism for not doing enough to tackle corruption within the government. Nonetheless, Jawara was regarded internationally as a proponent of democratic values and good political governance. In 1994, Jawara was overthrown by Yahya Jammeh, who subsequently took power and won elections. Under Jammeh's rule, The Gambia experienced significant challenges in human rights and governance, with corruption and political repression becoming major concerns. His decision to withdraw from the Commonwealth and the International Criminal Court led to greater international isolation for the country. In 2016, Jammeh was defeated in a peaceful election by a coalition of opposition parties led by Adama Barrow, marking the first successful democratic transition in The Gambia in over 20 years. President Barrow was re-elected for a second term in December 2021, with hopes for continued political and governance reforms.

4. **The Gambia remains a low-income country with a gross national income per capita of about USD 830 in 2023** (World Development Indicators, Atlas method). Recent recovery efforts have seen the economy rebound, with real GDP growth estimated at around 4.5% in 2021 and approximately 6.2% in 2022, driven by a robust public investment program. However, fiscal challenges persist as rising expenditures—exacerbated by a narrow tax base, outdated tax administration, and high debt servicing have kept expenditures above revenues. Moreover, a heavy reliance on imports and a depreciating currency continue to generate persistent trade deficits, further straining external accounts.

CHAPTER 2: MACROECONOMIC ASSESSMENT

1. This chapter presents a macroeconomic diagnostic of The Gambia, including an overview of Gambia's recent macroeconomic performance and outlook, and analysis of structural transformation and complexity of the economy, fiscal and monetary policies, financial and external sectors, and macroeconomic stability.

2.1. Country's growth model and recent economic performance

2.1.1 Economic Growth model

2. **The Gambia's economic growth model has always been shaped by a combination of agriculture, services, and foreign assistance.** The country's economy is classified as lower-middle-

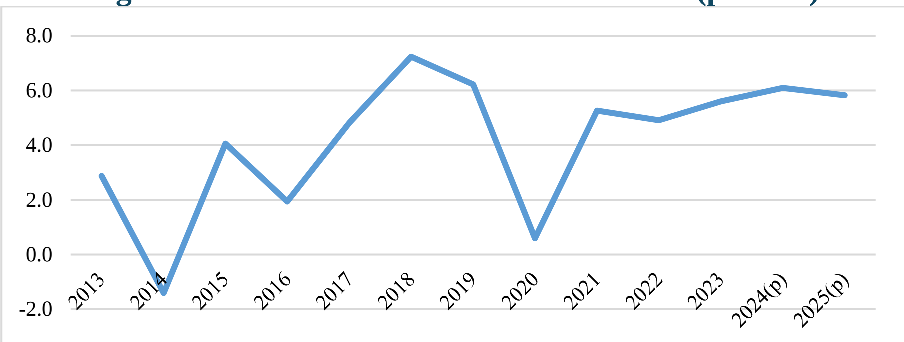
income, dependent on exports, tourism, and remittances. Agriculture plays a central role in The Gambia's economy, employing a large portion of the population. The main agricultural products include groundnuts (peanuts), cotton, rice, millet, and vegetables. In 2022 the agriculture sector provided 47.5 percent of total employment in The Gambia. The services sector, including tourism, is a significant contributor to GDP (51.5 percent of GDP in 2023). The Gambia's tourism industry benefits from its coastal attractions and political stability, yet it remains highly vulnerable to external factors, including global economic shifts, political fluctuations, and the growing impacts of climate change. While tourism offers substantial potential, its sustainability is at risk due to these external pressures. The challenge for The Gambia is to diversify its economy and ensure that its growth model is more resilient to these vulnerabilities, promoting inclusive and sustainable development.

2.1.2 Recent economic growth performance and outlook

3. **The Gambia's economic activity expanded in 2023 despite ongoing global challenges.** Before the COVID-19 pandemic, the country experienced strong economic growth, with an average real GDP growth rate of 6.1 percent between 2017 and 2019 (Figure 1). This growth was driven by a robust public investment program and macroeconomic reforms. However, this strong performance followed periods of economic downturn, notably in 2014 and 2016. In 2014, economic activity contracted by -1.4 percent due to late and poorly distributed rainfall, which negatively impacted agricultural productivity, and the effects of the Ebola epidemic, which disrupted the services sector (62.5 percent of GDP), particularly tourism (20.8 percent of GDP). Similarly, in 2016, macroeconomic and governance vulnerabilities linked to the political transition led to a slowdown, with growth at 1.9 percent compared to a recovery of 4.1 percent in 2015. The subsequent strong growth between 2017 and 2019 reflected a rebound from these earlier setbacks, supported by improved governance, economic reforms, and increased public investment.

4. **The Gambia's economy is making notable recovery from the impacts of COVID-19 and is projected to maintain the growth momentum in the medium-term.** GDP growth rose to 5.3 percent in 2023 from 4.9 percent in 2022, compared to 0.6 percent recorded in 2020 during the COVID-19 pandemic.

Figure 1: Real GDP Growth in The Gambia (percent)



Source: African Development Bank statistics

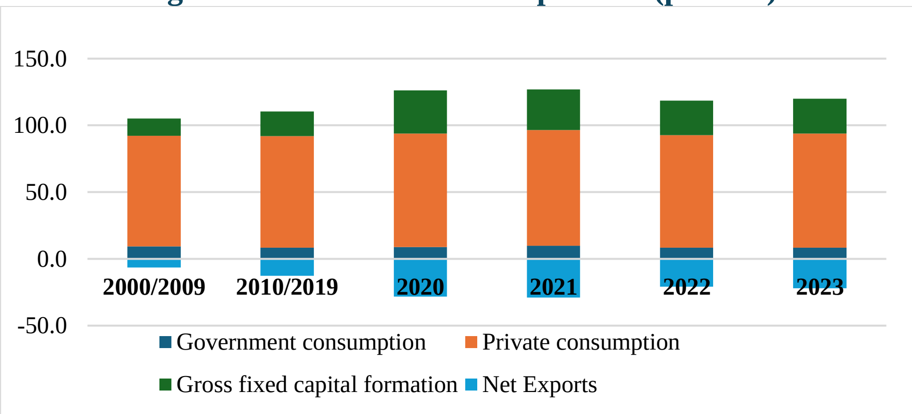
2.2. Composition of GDP and GDP Growth

2.2.1. Demand-Side components of GDP and GDP growth

5. **The demand-side components of GDP in The Gambia are predominantly driven by private consumption.** Between 2010 and 2019, private consumption accounted for an average of 83 percent of GDP, significantly surpassing gross fixed capital formation, which averaged 18.5 percent during the same period (Figure 2). The latter has been supported by private sector investments in tourism, construction, telecommunications, and public infrastructure. Public sector investment, which constitutes

8.5 percent of GDP, is primarily financed through foreign sources, such as project loans and budget support grants. In 2020 and 2021, the share of private consumption in GDP rose further, reaching 84.9 percent and 86.7 percent respectively, largely due to the economic disruptions caused by the COVID-19 pandemic. During this period, households focused their spending on essential goods and services, leading to a higher share of private consumption compared to other GDP components. This shift contributed to a decline in exports, causing net exports to deteriorate from 12.7 percent to around 28 percent of GDP. Despite the pandemic's challenges, gross fixed capital formation increased, reaching 32 percent of GDP in 2020 and 30.4 percent in 2021, signaling ongoing investment in infrastructure and development projects. In 2022-2023, net exports improved due to a significant rise in export values, reaching 8.6 percent of GDP in 2022 and 9.6 percent in 2023, up from 6.6 percent in 2021. Nevertheless, despite this improvement, The Gambia continues to experience a trade deficit.

Figure 2: GDP Demand Composition (percent)



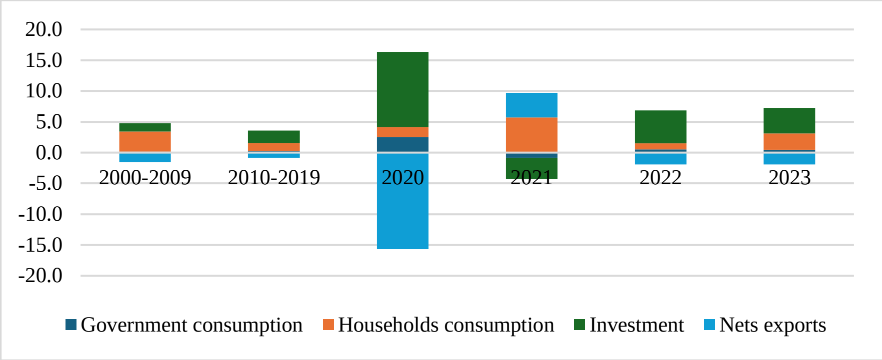
Source: African Development Bank Statistics Department

6. **Investment has remained the primary driver of real GDP growth on the demand side in The Gambia, and its contribution has been increasing over the years.** From 2010 to 2019, both investment and household consumption were key contributors to economic growth, with investments adding 2 percentage points and household consumption 1.3 percentage points to GDP growth (Figure 3). In 2020, however, the contribution of investment surged significantly, reaching 12.2 percentage points of GDP growth. This was largely driven by an increase in public investment projects and foreign direct investment (FDI), as the government focused on infrastructure development, energy, and other key sectors aimed at modernizing the economy. Additionally, the government expanded its spending on public health and social protection, raising government consumption to 2.5 percentage points in 2020, up from an average of 0.2 percentage points from 2010 to 2019. An important feature of this period was the sharp deterioration in net exports, which shifted from an average contribution of -0.8 percentage points between 2010 and 2019 to -15.7 percentage points in 2020. This decline was largely due to the COVID-19 pandemic, which significantly reduced tourism and other export activities, as travel restrictions worldwide severely impacted the sector.

7. **In 2021, there was reversal trend in the contribution of net exports and investment to the GDP growth**. Net exports contributed positively, adding 4 percentage points to GDP as the country began recovering from the economic impacts of the COVID-19 pandemic and supply chain operations improved. In contrast, investment made a negative contribution of -3.5 percentage points due to fiscal consolidation efforts by the government, which led to budgetary constraints and reduced international financing, slowing public infrastructure projects and other development investments. However, in 2022 and 2023, investment's contribution to real GDP growth rebounded, turning positive at 5.3 percentage points in 2022 and 4.1 percentage points in 2023, reflecting a recovery in public and private sector investments. A notable trend, however, was the decline in household consumption's contribution to

GDP growth, which fell to 1 percentage point in 2022 and 2.7 percentage points in 2023. This decline was driven by the rising cost of living, fueled by food inflation (induced by multiple shocks), increased utility tariffs, and currency depreciation. Meanwhile, government consumption made a modest contribution to economic growth, remaining in line with historical trends at 0.5 percentage points. Net exports, however, had a negative impact on growth, as imports grew at a faster rate than exports, and the value of imports continued to rise due to higher global prices.

Figure 3: Demand side contributions to GDP growth

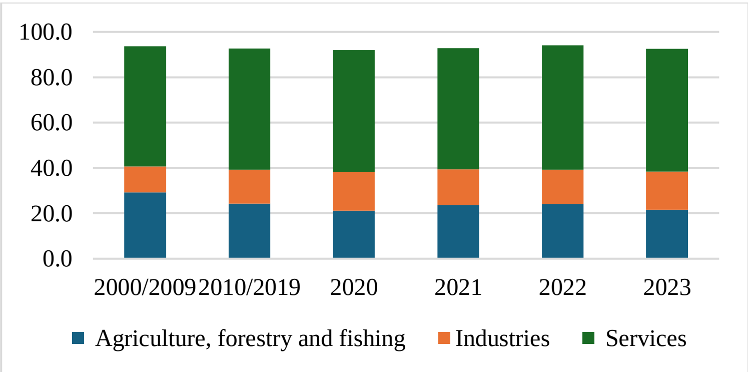


Source: African Development Bank Statistics Department

2.2.2. Supply-side drivers of GDP and GDP growth

8. **The structure of The Gambia's economy has seen some changes over the past decade, but the transformation has not been fully realized.** The economy remains heavily service-oriented, with a relatively stagnant agricultural sector and a booming construction industry (Figure 4). While the services sector continues to be the mainstay, its share of GDP increased from around 53.4 percent in 2010-2019 to 54.8 percent in 2022 and 54.2 percent in 2023, reflecting growth in areas such as tourism and telecommunications. However, agriculture's contribution to GDP has continued to decline, from an average of 29.2 percent during 2000-2009 to 24.3 percent in 2010-2019 and further down to 21.6 percent in 2023. This decline points to the ongoing challenges within the agricultural sector, such as unfavorable weather conditions and insufficient investment in productivity-enhancing technologies. While the shift towards services and construction is a form of structural change, the lack of significant growth in agriculture raises concerns about the overall quality and sustainability of the transformation. To achieve a more balanced and resilient structural transformation, the country must focus on revitalizing the agricultural sector, improving productivity, and integrating climate-resilient practices.

Figure 4: Sectoral contributions to nominal GDP (percent)



Source: African Development Bank Statistics Department

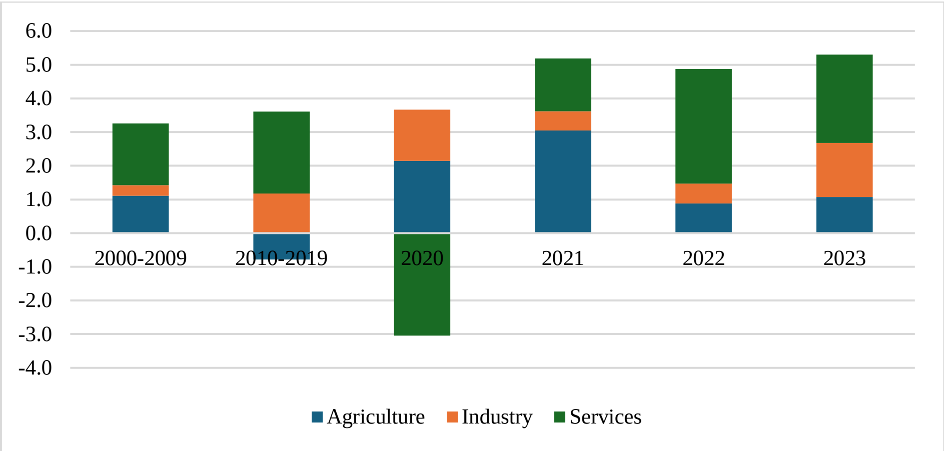
9. **On the supply side, services were the main driver of real GDP growth over the entire period except 2020 and 2021.** Over the two decades 2000-2019, services sector represented about 2.1 percentage points of GDP growth (Figure 6). Industry sector performed well, with an increase from an

average of 0.3 percentage points in 2000-2009 to 1.2 percentage points in 2010-2019. This improvement in the sector was driven by a construction boom, which made a significant contribution to GDP, rising from -1% of GDP in 2000-2009 to 16.5% of GDP in 2010-2019. Infrastructure projects, such as road and bridge construction, supported by aid and foreign investment, stimulated growth in the industrial sector. The agricultural sector, for its part, contributed negatively to GDP growth in 2010-2019 (-0.8 percentage points from 1.1 percentage points in 2000-2009). This was due to a lack of improved seeds and fertilizers, while mechanization and irrigation systems were poorly adopted. This resulted in low productivity, especially for staple crops such as groundnuts.

10. **In 2020, agriculture's contribution to GDP growth in The Gambia increased reaching 2.1 percentage points, reversing its declining trend from the previous decade**. This resurgence was primarily driven by favorable weather conditions, government interventions (initiatives to support smallholder farmers, such as providing subsidized seeds, fertilizers, and farming tools), and an emphasis on improving food security, especially during the COVID-19 pandemic. In contrast, the contribution of services to GDP growth fell drastically in 2020, even becoming negative with a contribution of -3 percentage points as global pandemic disrupted key service activities such as tourism, trade, and transportation.

11. **In 2021, the services sector rebounded, contributing 1.6 percentage points to GDP growth.** This recovery followed the challenges of the COVID-19 pandemic in 2020, with improvements in tourism, trade, and continued growth in telecommunications and financial services driving the sector's performance. Agriculture remained a key contributor to GDP growth, adding approximately 3 percentage points, though its potential is still constrained by limited investment and productivity challenges. In contrast, the industrial sector saw a decline in its contribution, falling to 0.6 percentage points from 1.5 percentage points in 2020, reflecting a slowdown in manufacturing and industrial activities. This highlights the need for a more diversified economic approach that strengthens agriculture and industry, in addition to services.

Figure 5: Sectoral contributions to GDP growth



Source: African Development Bank Statistics Department

2.2.3. Spatial Distribution of Economic Activities

12. The spatial distribution of economic activity in The Gambia reveals significant regional disparities, with marked rural-urban differences and sectoral imbalances Economic activity is heavily concentrated in urban coastal areas, particularly in the Brikama Local Government Area (LGA), which accounts for 37 percent of total enterprise activity, followed by Kanifing Municipality (Greater Banjul Area - GBA) at 33 percent. In contrast, Janjanbureh registers the lowest share, contributing only 2 percent of enterprise activity (The Gambia CDN 2020, AfDB 2020). This concentration of industrial

and services activities in urban areas has driven high rates of rural-to-urban migration, particularly among youth seeking opportunities in these sectors. Meanwhile, agriculture remains the backbone of rural economies, predominantly in the North Bank, Lower River, and Central River regions, where poverty rates are highest. These areas, however, also offer considerable potential for agricultural productivity improvements, such as through tidal irrigation for rice cultivation. These disparities highlight the need for focused interventions to address regional imbalances, promote rural development, and fully tap into the growth potential of agriculture and other sectors in rural areas

13. **Rural areas continue to face higher poverty rates, with over 76 percent of the rural population living below the poverty line in 2020, compared to 34 percent in urban areas[1].** These regions are heavily reliant on agriculture, which remains underdeveloped and vulnerable to climate change impacts. Urban areas, while benefiting from increased investment in tourism and construction, struggle with challenges like high inflation and housing costs. Urban growth has been more concentrated, leaving hinterland areas underdeveloped.

2.2.4. Structural transformation in The Gambia: Drivers, Opportunities, and Bottlenecks

14. This section attempts to determine whether the movement of labor from the agricultural sector to more productive sectors has generated structural change favoring growth in The Gambia. It relies on the methodology developed by McMillan and Rodrik (2011) who decompose labor productivity into two components: (i) an intra-sectoral component related to capital investments, technological innovations, efficiency gains arising from intra-industry trade, and reduction of misallocation within sectors, and (ii) a structural component driven by reallocation of labor from low- to high-productivity sectors (see AEO 2024, AfDB, 2024).

15. **The Gambia's labor productivity growth between 1992 and 2019 was primarily driven by structural change.** Using the McMillan and Rodrik (2011) methodology to decompose labor productivity, the analysis shows that The Gambia's labor productivity shifted from an average annual decline of -3.48 percent in the 1992-2000 period to a modest growth of 0.84 percent in 2001-2010. However, productivity growth slowed again, dropping to -0.27 percent in the 2011-2019 period. Throughout the entire 1992-2019 period, significant productivity growth was largely attributed to structural changes, particularly shifts in the allocation of labor between sectors. While productivity within each of the three sectors—agriculture, industry, and services—remained negative over most of the period, agriculture experienced a positive contribution from structural change during the 2001-2010 period, which boosted labor productivity by an average annual growth of 0.82 percent. This suggests that labor shifting out of agriculture during this time played a role in increasing overall productivity.

Figure 6: Structural change in The Gambia

Source: African Development Bank Statistics Department

[1] World Bank (2023) Poverty & Equity Brief, Africa Western & Central. https://databankfiles.worldbank.org/public/ddpext_download/poverty/987B9C90-CB9F-4D93-AE8C-750588BF00QA/current/Global_POVEQ_GMB.pdf

16. **While these developments point to a structural transformation of The Gambia, there is still considerable scope for real structural change in the country**. In fact, the services and manufacturing sectors - traditionally associated with structural change on account of their high capacity to absorb low-skilled workers migrating from the agricultural sector – have not contributed to labor productivity in The Gambia. The adoption of a policy to promote these sectors could make them more productive. For a successful structural transformation, the government should develop policies to boost productivity in modern sectors with high job-creation propensity, notably manufacturing and services, by leveraging technological advances and strengthening local human capital.

Key bottlenecks to structural transformation in The Gambia

17. **Small Market Size**. With a population of approximately 2.5 million, the domestic market is too small to attract large-scale investments or achieve economies of scale, which discourages industrial growth.

18. **Inadequate Infrastructure**. Limited road networks, inefficient ports, and lack of rail infrastructure increase costs for businesses and limit market access. . The country also struggles with unreliable electricity supply and a heavy dependence on expensive fossil fuels, which further stifles industrial growth. Almost 40 percent of the population lacks access to electricity, and more than 30 percent do not have access to safely managed drinking water. The country's infrastructure financing needs are substantial, with the gap projected to reach 14.7 percent of GDP by 2030 (Gaspar et al., 2019; Bartolini et al., 2021).

19. **Limited access to credit**. Small businesses and farmers struggle to access affordable financing, stalling investments in technology and productivity. According to the 2018 World Bank Enterprise Survey, over 53 percent of SMEs in The Gambia cited limited access to finance as the biggest constraint in the business environment. The banking sector is underdeveloped, limiting capital mobilization for private sector growth. Lending interest rates remain high at an average rate of 19.5 percent, making it difficult for most SMEs to access credit.

20. **Climate change:** The Gambia is highly vulnerable to droughts, floods, and rising sea levels, which affect 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).

21. **Informal sector**: As of 2023, about 60 percent of Gambians were involved in the informal sector, according to the Gambia Bureau of Statistics (GBoS). This represents a major opportunity to broaden the country's tax base and strengthen efforts to boost domestic resource mobilization.

22. **The lack of market-relevant skills** and, more broadly, limited access to education remain significant obstacles to economic transformation. Structural transformation requires boosting productivity and enhancing competitiveness in increasingly higher-value activities — both of which depend on a skilled and educated workforce. Moreover, the shortage of skills directly limits access to credit and reinforces the persistence of a large informal sector.

23. By addressing these key challenges, The Gambia can unlock its full potential and transition toward a more dynamic, inclusive, and resilient economy.

Potential for structural transformation in The Gambia

24. The potential for structural transformation in The Gambia lies in its ability to leverage key sectors, resources, and strategic opportunities to transition from a low-productivity economy dominated by

agriculture and informal services to a higher-productivity economy driven by industry, services, and innovation.

25. **Strategic geographic location as a Trade Hub**. The Gambia's location along the Atlantic Ocean and its proximity to key West African economies position it as a gateway and potential trade and logistics hub. The African Continental Free Trade Area (AfCFTA) offers opportunities for Gambian agricultural products to reach new markets.

26. **Human Capital Development.** The Gambia made significant strides in investments in education. Education spending as a percentage of government total spending (17.5 percent) was above the Sub-Saharan Africa average (14.4 percent) and ECOWAS (15.3 percent) in 2023. Aligning skills with labor market demands can drive productivity in key sectors like agriculture, services, and manufacturing. 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.

27. **ICT and digital economy.** The Gambia has shown impressive progress in ICT and the digital economy, with notable growth in internet penetration and digital infrastructure. The percentage of individuals using the internet increased significantly from 35.6 percent in 2019 to 54.2 percent in 2022. Additionally, the number of secure internet servers per 1 million people rose from 20.7 in 2019 to 50.8 in 2023. This strong performance positions The Gambia to develop a competitive digital services sector, including fintech, e-commerce, and outsourcing, which can further drive economic growth and innovation.

28. **Diaspora Engagement.** The Gambian diaspora sends significant remittances (22.4 percent of GDP in 2023 according to World Development Indicators 2024), which can be channeled into productive investments like infrastructure, businesses, and education. Gambians abroad can contribute through knowledge sharing, technical expertise, and investments. In addition, incentivizing diaspora investment in agriculture, real estate, and manufacturing can stimulate structural change.

2.2.7. Inclusive and green growth

29. **Poverty and inequality remain high in The Gambia despite an improvement in economic growth.** The national poverty rate increased from 48.6 percent in 2015 to 53.4 percent in 2020, indicating that about 1.1 million Gambians were poor in 2020 (Figure 7). The poverty rate (based on the national poverty line) in rural areas was an estimated 64.6 percent in 2020, much higher than 35.4 percent in urban areas. The increasing urban-rural divide also resulted in an increase in inequality from an estimated Gini index of 35.53 percent in 2015 to 38.78 percent in 2020.

30. **Despite the post-pandemic recovery, additional shocks continue to undermine progress in poverty reduction.** GDP per capita growth reached an estimated 3.1 percent in 2023 - up from 2.4 percent in 2022 - driven by agricultural production (given favorable rains) and the continued recovery of the tourism sector. However, high inflation continues to dampen private demand—averaging 17.2 percent in 2023—driven by rising food prices, utility tariff increases, currency depreciation, and increased fertilizer prices. Poverty (using the international poverty line of US$2.15 in 2017 PPP) increased from an estimated 16.4 percent in 2022 to 16.9 percent in 2023—equivalent to an increase of over 25,000 extreme poor people. This contrasts with the national poverty rate, which remains much higher, at 53.4 percent in 2020. The increase in poverty, specially among those living below the international poverty line, reflects the eroding purchasing power of households, particularly the poor, who spend a large share of their consumption on food.

31. More than 60 percent[2] of the population is young (65% are under 24 years old) and and this poses significant challenges in terms of public policies towards employment creation to reap the demographic dividend. The lack of job opportunities contributes to high income inequality in the country, as reflected in the Gini coefficient, which increased from 35.53 percent in 2015 to 38.78 percent in 2020. This rise is largely driven by the widening gap between urban and rural areas. Inequality has increased more rapidly in rural areas (3.1 percentage points between 2015 and 2020) than in urban areas (1.99 percentage points). This highlights the difficulties rural populations face in diversifying their income sources, as many rely on subsistence farming and lack skills for other forms of employment. To address these challenges, The Gambia must implement reforms to diversify the economy and foster sustainable growth.

32. Key sectors with strong potential for diversification include agriculture, with a focus on improving productivity and expanding value chains like horticulture and livestock; tourism, leveraging the country's cultural heritage and natural resources; renewable energy, which can create jobs while addressing energy access issues; and ICT and digital services, which offer opportunities for innovation and the development of new industries. These sectors, if developed, can help reduce income inequality and promote more inclusive and sustainable economic growth.

Figure 7: Poverty headcount

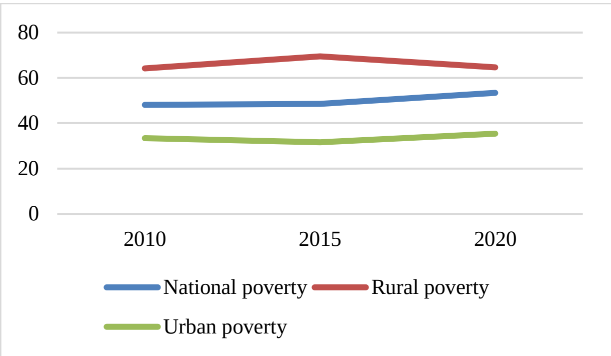
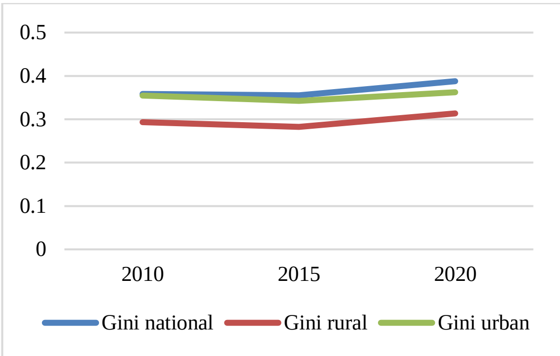


Figure 8: Gini index



Source: Gambia Bureau of Statistics (GBoS)

33. To harness the demographic dividend, the country must invest comprehensively in human capital — including education, skills development, employment, social protection, and health and nutrition. Widening inequalities within rural areas and between rural and urban regions are largely driven by limited access to human capital and inadequate basic infrastructure.

34. **To promote inclusive growth, The Gambia needs to pursue broad-based transformation that creates jobs and raises per capita incomes for all.** This requires a multiplicity of actions, including:

i) Implement governance and business environment reforms to accelerate economic growth and productivity. The authorities need to develop a comprehensive national strategy for good governance, addressing governance and corruption vulnerabilities. This would require the drafting of antitrust laws, an independent and effective enforcement agency, and judicial support.

ii) Accelerate capital accumulation and productivity by increasing investment in infrastructure. Immediate reform could focus on resolving institutional and capacity constraints at the port of Banjul to facilitate international trade and improve international connectivity.

[2] https://blogs.worldbank.org/en/nasikiliza/stop-solving-only-half-problem-human-capital-through-eyes-gambian-youth

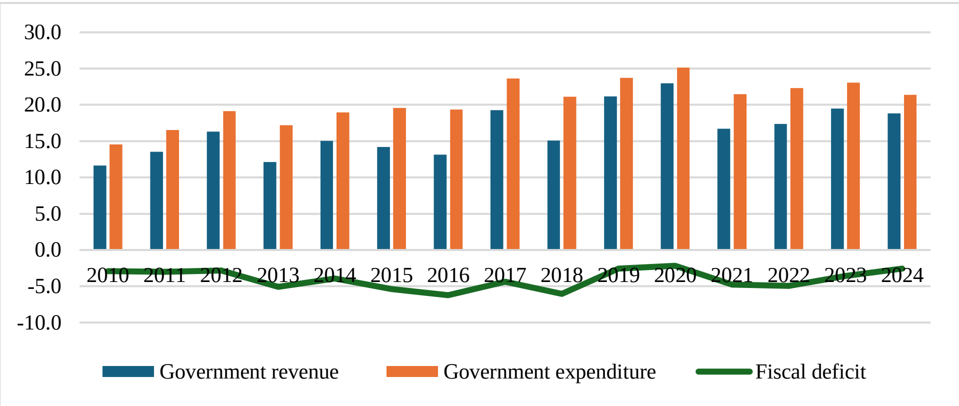
iii) Investment in human capital to ensure labor growth. The Gambia needs to increase spending on health, education and social protection to boost human capital and accelerate growth. The Gambia's Human Capital Index (HCI) for 2020 stood at 42.4 percent, indicating that a child born that year will only be 42.4 percent as productive as they could be if they had full access to health and education (World Bank, 2023)[3]. Due to funding limitations, the government should first focus on improving service delivery by increasing capital expenditure on inputs and learning materials, rationalizing the allocation of the health budget in favor of primary health care, and tackling inefficient spending in the health, education and social protection sectors.

2.3. Fiscal developments

2.3.1. Budget deficit

35. The Gambia continues to face fiscal vulnerabilities. The fiscal deficit decreased while remaining high at -3.6 percent of GDP in 2023, down from -4.9 percent 2022 as increased tax collection and higher levels of grants failed to fully offset the rising expenditure. Supported by the continued economic recovery and implementation of revenue-boosting measures, total revenue rose from 17.4 percent of GDP in 2022 to 19.5 percent of GDP in 2023 as a result of new administrative measures and strengthened tax collection efforts (Figure 9). The government has abolished large portions of the country’s fuel subsidies, but challenges persist in duty exemptions, causing a notable increase in revenue loss in 2023. Fiscal measures adopted in 2022 to mitigate the impact of higher international energy, fertilizer, and food prices on Gambians included reducing the passthrough of rising international oil prices on the domestic market, implementing a partial price subsidization to offset the rising input cost of fertilizer, and removing taxes on food products. The total fiscal cost of price subsidies averaged 2.2 percent of GDP in 2022, of which the cost of fertilizer and food items represented 1.4 percent and 0.3 percent of GDP, respectively (Economic Updated of The Gambia, World Bank 2024).

Figure 9: Fiscal Performance in The Gambia (percent of GDP)



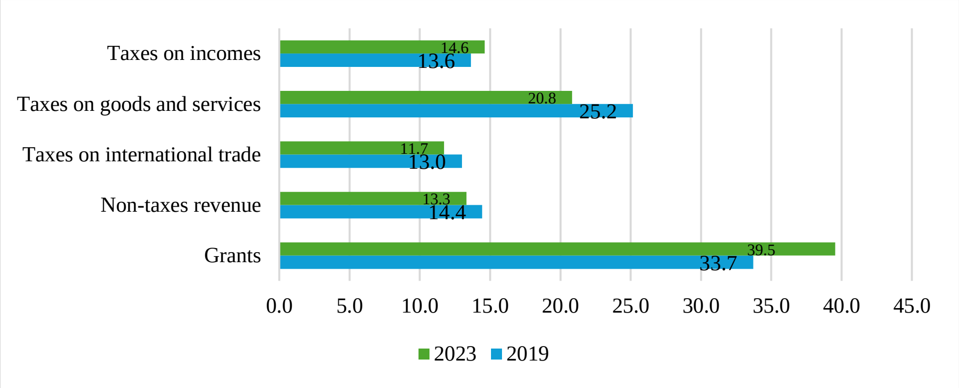
Source: African Development Bank Statistics Department

36. **The revenue composition indicates that a major part of The Gambia government revenue in 2023 was from grants.** As shown in Figure 10, the share of grants in total revenue increased from 33.7 percent in 2019 to 39.5 percent in 2023, largely due to contributions from development partners such as the World Bank, European Union, and African Development Bank. For instance, in 2023, African Development Bank granted the country nearly $7 million to improve governance and strengthen fiscal resilience. This increase in development assistance reflects the willingness of development partners to accompany the transition and help The Gambia reach its development objectives. However, high dependence on foreign grants highlights the need for greater domestic revenue mobilization. International trade taxes declined from 11.7 percent in 2019 to 13 percent in 2023 due to inefficiency

[3] https://www.worldbank.org/en/news/press-release/2023/06/06/new-report-on-human-capital-as-a-driving-force-for-economic-development-in-the-gambia

and capacity limitations of the Port of Banjul, which accounts for over 90 percent of The Gambia's international trade. Those deficiencies have led to large volumes of goods being transited through Dakar and limited re-exports, reducing foreign exchange earnings and contributing to currency depreciation. Taxes on incomes, profits and capital gains on total revenues have increased by 1 percentage points from 2019 to reach 14.6 percent in 2023. This was driven by the implementation of tax reforms by the Gambia Revenue Authority (GRA), which impacted income taxes and other categories. For instance, withholding taxes were introduced, requiring individuals to deduct 8% on rental income for residential properties and 15% for commercial properties at the time of payment. However, the Gambia Revenue Authority (GRA) faces capacity constraints including limited technological tools, and weak enforcement mechanisms. In addition, significant portion of The Gambia's economy operates in the informal sector, making it difficult to track income and enforce tax compliance.

Figure 10: Total Revenue Composition (percent of total revenue)

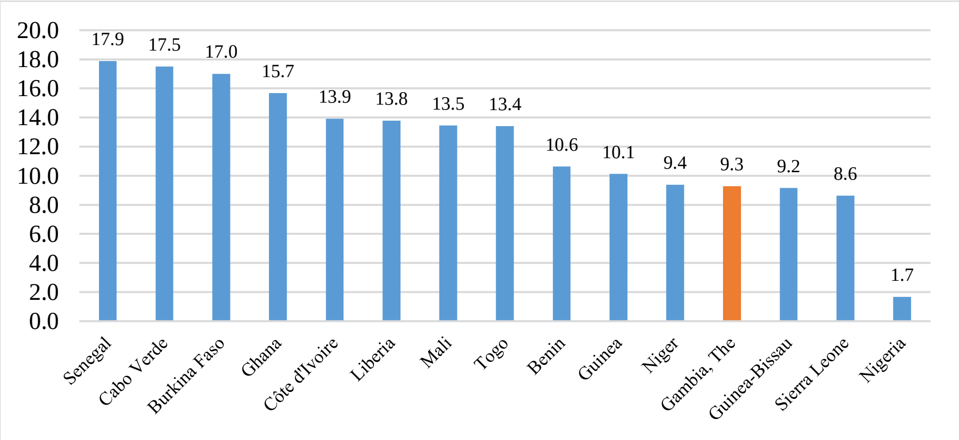


Source: African Development Bank Statistics Department

37. The tax-to-GDP ratio in The Gambia has persistently been low compared to its peers in the region. In 2023, The Gambia's tax revenue was estimated at 9.3 percent of GDP, with the country ranked fourth lowest place in West Africa region (Figure 11), surpassing Guinea Bissau, Sierra Leone and Nigeria. Improving tax collection is critical to reversing the downward trend in income taxes as well as exploring options to tap on disapora remittances to finance critical investment infrastructure and promote growth.

38. The government adopted several revenue-boosting measures, including a series of customs reforms aimed at improving the tax administration process. These include notably the rollout of Asycuda World, the implementation of the Single Window platform, e-tracking, the digital weighbridge, and a rent tax office to effectively collect rental income tax. The government has also completed the taxpayer update for larger taxpayers. These measures could improve revenue collection in the coming years.

Figure 11: Tax to GDP ratio (percent of GDP), 2023

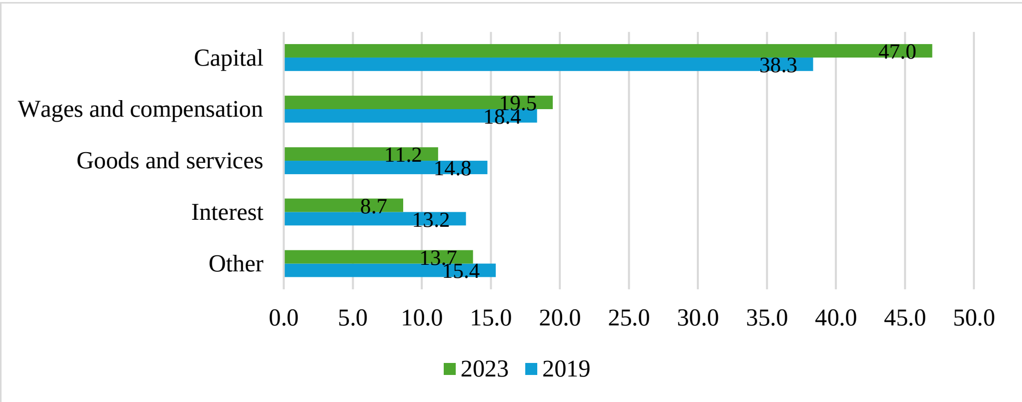


Source: African Development Bank Statistics Department

39. Total expenditure increased moderately from 22.3 percent of GDP in 2022 to 23.1 percent in 2023 (Figure 11), driven primarily by infrastructure projects related to the hosting of the Organisation of Islamic Cooperation (OIC) conference in Banjul, from 4 – 5th May 2024. The authorities had reprioritized spending in goods, services, and transfers to accommodate the unanticipated costs associated with the logistical requirements of the OIC summit. Moving forward, the government is focused on aligning expenditure with available resources, strengthening expenditure control, and enforcing cash management. Ministries, Departments, and Agencies (MDAs) are now required to submit their annual cash needs projections through the Integrated Financial Management Information System (IFMIS) module[4] to ensure effective fiscal management and accountability.

40. **Regarding the composition of total spending, capital spending dominated public expenditure and recorded an acceleration.** Capital spending surged from 38.3% in 2019 to 47% in 2023 (Figure 12), driven largely by investments in infrastructure projects related to the OIC conference. All other expenditure categories declined during this period. Reduced domestic borrowing helped lower the interest rate burden from 13.2% in 2019 to 8.7% in 2023. Similarly, spending on subsidies and transfers decreased from 15.4% in 2019 to 13.7% in 2023, as the government reduced fuel subsidies to strengthen fiscal sustainability. This reduction is key to freeing up fiscal space for vital poverty-reducing and developmental spending while mitigating risks from global fuel price volatility. Additionally, the government is focusing on State-Owned Enterprise (SOE) reforms to improve efficiency and alleviate fiscal pressures, with performance contracts signed under the IMF-supported Extended Credit Facility (ECF) program. Wage and compensation spending has risen due to public sector wage increases and broader economic factors. Adjustments in minimum wage standards and policies aimed at boosting public sector salaries have put upward pressure on wages in both the public and private sectors. The post-COVID economic recovery and growth in sectors like tourism and agriculture have also contributed to wage increases. The Gambia collaborates with the IMF and World Bank to implement wage bill containment strategies and ensure long-term sustainability.

Figure 12: Total Expenditure Composition (percent total expenditure)



Source: African Development Bank Statistics Department

2.3.2. Dynamics of Public Debt

41. The public debt-to-GDP ratio improved substantially, from 82.9 percent of GDP in 2022 to 71.8 percent of GDP in 2023 due to lower net domestic borrowing, but it remains high (Figure 13). Between 2022 and 2023, external debt fell from 51.1 percent to 43.8 percent of GDP, while domestic debt fell from 31.8 percent to 28 percent of GDP. While the reduction in debt is positive, it underscores the heavy reliance on external debt, with around 70% of this debt owed to multilateral creditors and 30% to

[4] IMF (2024) The Gambia: First Review Under the Extended Credit Facility Arrangement https://www.elibrary.imf.org/view/journals/002/2024/218/article-A001-en.xml

bilateral creditors (Figure 14), leaving little room for private-sector involvement in the debt structure. Even though the reduction in public debt is a sign of fiscal discipline, the Gambia's debt level remains significantly above the ECOWAS average of 50.4% of GDP in 2023. The projected decline to 65.2% in 2024 and stabilization at 60.8% by 2025, due to fiscal consolidation, will require rigorous implementation of fiscal policies and continued reliance on external debt. The sustainability of these projections depends heavily on maintaining disciplined fiscal management, avoiding new debt accumulation, and stimulating economic growth to further reduce the debt-to-GDP ratio.

Figure 13: The Gambia- Public Debt trends, (percent of GDP)

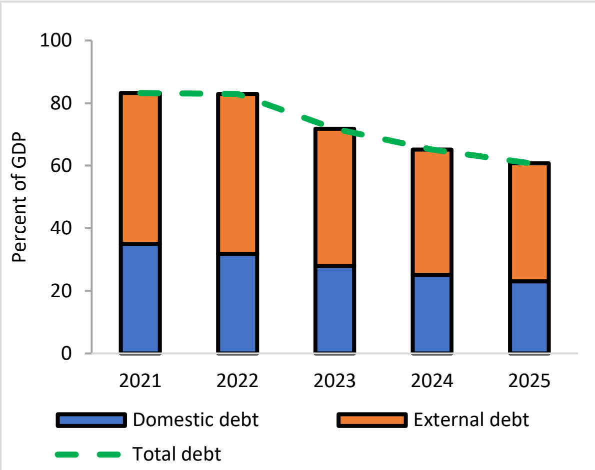
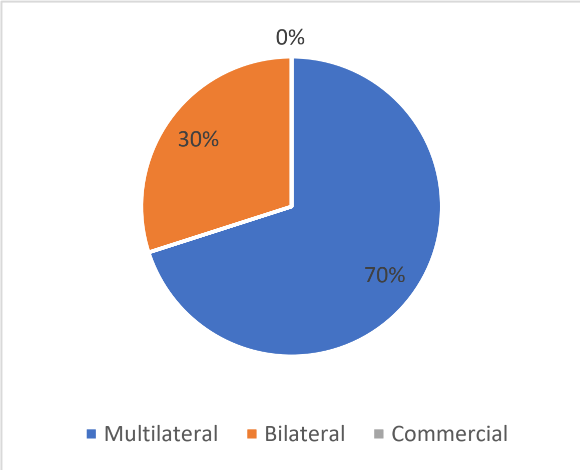


Figure 14: The Gambia's external debt composition, 2023



Source: AfDB Statistics Department

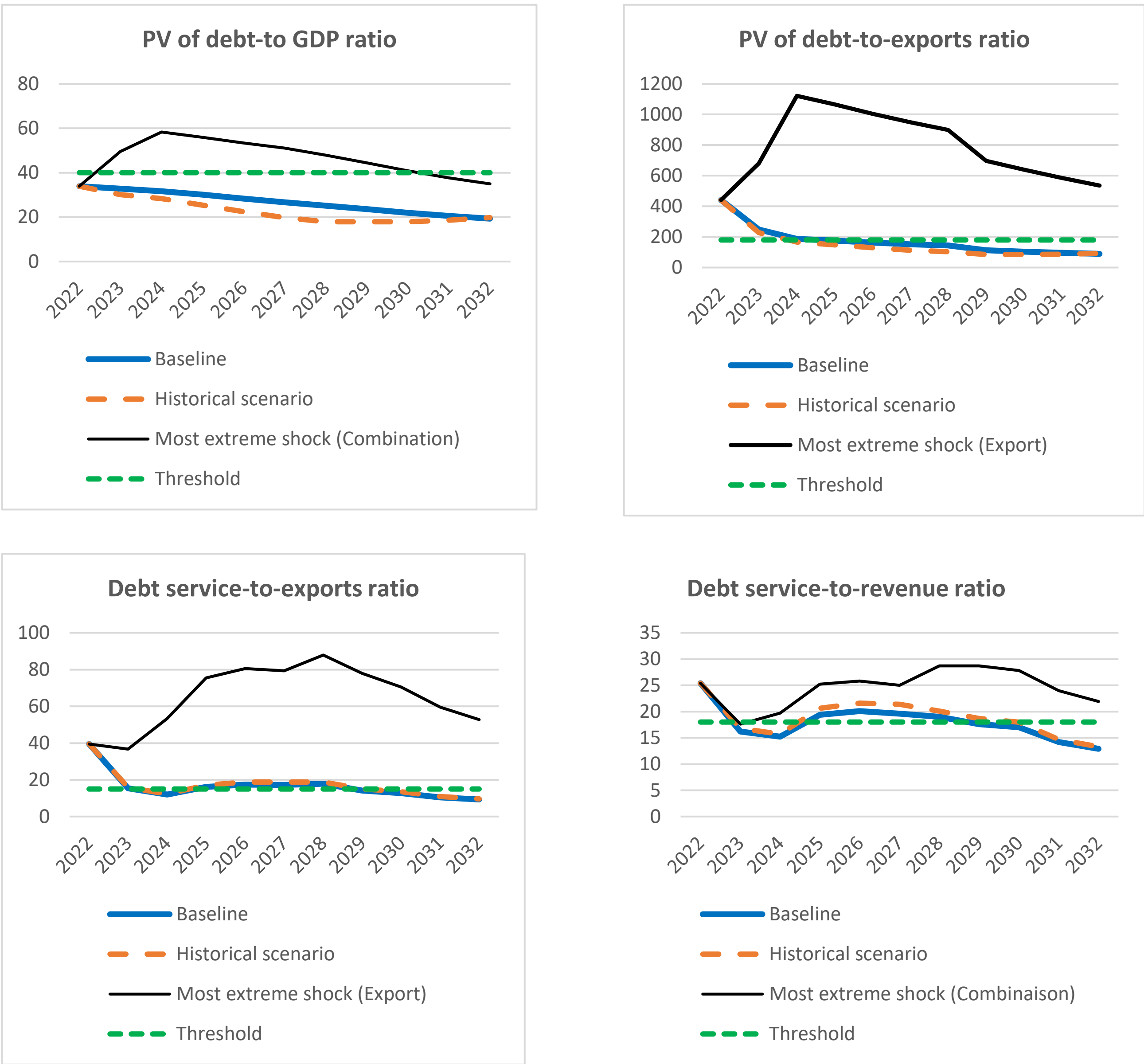
Debt Sustainability and risks

42. The country remains at high risk of debt distress, but debt is considered sustainable. Public debt is projected to decline to 65.2 percent of GDP in 2024 and 60.8 percent in 2025, supported by economic growth and fiscal consolidation. The IMF-World Bank Joint Debt Sustainability Assessment (DSA) released in December 2022 shows that The Gambia is assessed at high risk of debt distress, but remains sustainable, in terms of both external and overall public debt. Under the baseline scenario, the PV of total public debt-to-GDP breaches the benchmark level of 55 between 2022–24 but falls within the benchmark level in 2025 and continues to decline thereafter throughout the forecast horizon. Two other indicators of public debt, namely the PV of debt-to-revenue and debt service-to-revenue are on a declining trend for the entire duration of the forecast horizon in the baseline scenario (Figure 15).

43. The expiration of the debt-service deferrals negotiated with some creditors in 2024 will potentially lead to higher debt service payments due in those years and tighter liquidity. In addition to the COVID pandemic and the repercussions of the war in Ukraine, the growing infrastructure investment needs in The Gambia continue to add upward pressure to the debt stock. Moreover, the expiry of the Debt Service Suspension Initiative (DSSI) and Catastrophe Containment and Relief Trust (CCRT) pose even more challenges ahead, given the upcoming increase of debt service commitments from 2025. However, the authorities remain committed to reducing debt vulnerabilities and aim to achieve this objective with sustained restraint in new borrowing and a strong medium-term fiscal framework. With regard to long-standing external arrears, they continue to make progress in discussions with the Libyan authorities on the reconciliation of debt owed to Libya and have contacted the Venezuelan authorities to re-engage the discussion on arrears.

44. To ensure debt sustainability, The Gambia needs to implement a combination of policy measures. These include structural reforms to improve the business environment, enhance governance and strengthen institutions to attract investment and promote economic diversification. It is essential to strengthen debt management capacity, transparency and accountability in public finance management, and collaboration with international partners and creditors to explore debt relief opportunities. In addition, careful planning, assessment of debt repayment schedules and liquidity needs, and development of comprehensive strategies to meet future obligations are essential for effective debt management.

Figure 15: Selected public debt indicators under baseline and alternative scenarios, 2022–2032



Source: Joint World Bank-IMF DSA December 2022

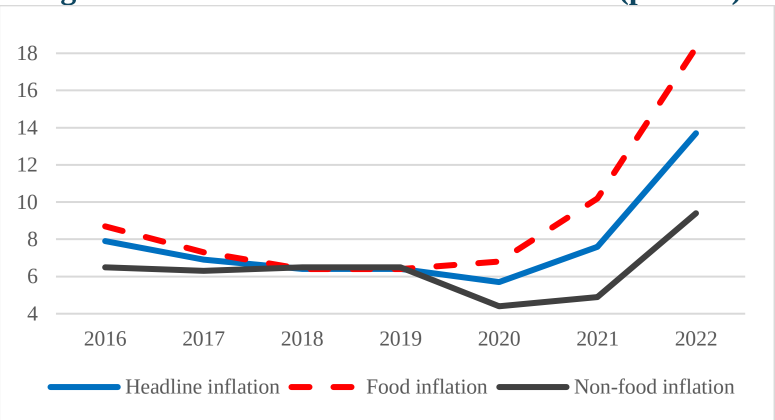
2.4. Inflation dynamics and Monetary Policy

2.4.1. Inflation dynamics

45. **Inflation is increasing in The Gambia and external factors play a key role in the price hike in the country.** Price pressures in the economy intensified in 2022, resulting in a further deviation of headline inflation from the Central Bank's implicit medium-term target of 5 percent. The acceleration in inflation was driven by several factors, notably domestic supply and demand imbalances, imported cost factors, structural bottlenecks at the Banjul seaport and the depreciation of the exchange rate. The persistent rise in the prices of goods and services triggered an increase in inflation expectations, further hampering the fight against inflation.

46. **The headline inflation accelerated sharply to 13.7 percent in December 2022, compared with 7.6 percent in the same period of the previous year** (Figure 16). This substantial increase in inflation was observed in both food and non-food categories, indicating a generalized inflationary environment during the year. Food inflation, measured by the annual percentage change in the food CPI, continued to drive overall inflation, rising significantly by 8.1 percentage points to 18.3 percent in December 2022. The rise in food inflation can be attributed to accelerating price indices for key food sub-categories, including bread and cereals, sugars, fruit and vegetables, and dairy products. Non-food inflation has also risen significantly, reaching 9.4 percent in December 2022. This is significantly higher than the 4.9 percent observed in December 2021. The substantial increase in non-food inflation over the period under review can be attributed mainly to higher prices for leisure and culture, newspapers, books and stationery, the hotel sector and education.

Figure 16: The Gambia – Inflation Trends (percent)



Source: African Development Bank Statistics Department

2.4.1. Current monetary policy stance and its effectiveness

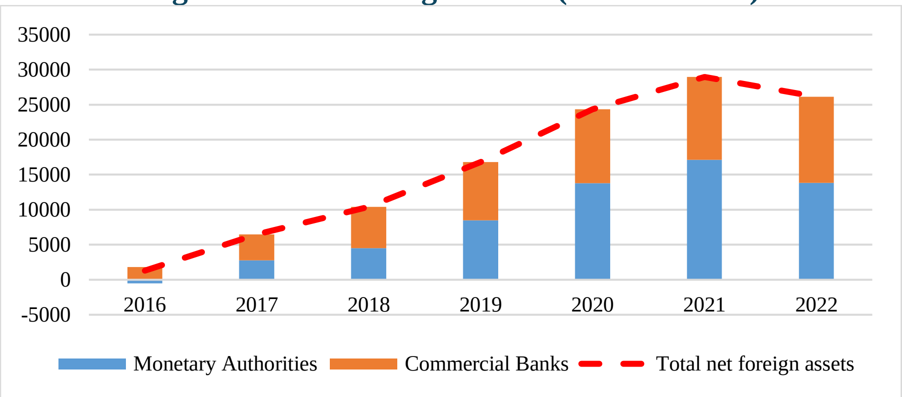
47. **The Central Bank of The Gambia (CBG) further tightened its monetary policy stance to tackle inflation, but its effectiveness has proved relatively limited.** To curb rising inflationary pressures, the monetary policy committee (MPC) responded to the inflation trajectory by raising the Policy rate (MPR) by 100 basis points to stand at 13.0 percent. The Committee maintained the required reserve ratio of commercial banks and the standing deposit facility at 13.0 percent and 3.0 percent, respectively. The standing lending facility increased to 14.0 percent (MPR plus 1 percentage point). However, the effect of monetary tightening has been limited due to: (i) inflation being essentially imported; (ii) monetary policy having been slow to react to the rise in domestic inflation, with the CBG keeping the policy rate at 10 percent—a level reached in March 2020 during the deflationary shock of the COVID-19 pandemic—until May 31, 2022, when the MPC raised the policy rate to 11 percent; and (iii) the magnitude of the adjustments in the policy rate being limited, such that the policy rate in real terms fell into negative territory in second quarter of 2022.

48. An analysis of inflation drivers reveals a negative and statistically significant correlation between inflation on the one hand and the combined effect of the rate of change of the policy rate and its square on the other hand, suggesting that monetary policy has the potential to tame inflation in the short run provided that the monetary policy rate is adjusted rapidly and boldly (Nachega et al. 2023).

49. **Growth in monetary aggregates continued to decelerate, reflecting the impact of global shocks on the banking system's net foreign assets.** This marks a second consecutive annual decline (from 19.5 percent, year-on-year, in 2021) and reflects a continuing contraction in net foreign assets (NFAs) of both the CBG and commercial banks. Following 19.5 percent growth in 2021, NFAs contracted by 8.9 percent in 2022, before contracting by 21 percent in 2023. The decline in NFAs in the banking system reflects the impact of adverse external shocks on the balance of payments. Growth in the banking system's net domestic assets (NDAs) remained the main source of liquidity despite a moderate deceleration. NDAs grew by 17.5 percent in 2023, down from 20.7 percent in 2022 (Figure 17), supported by increased government and private sector borrowing (16 percent of increase, respectively), despite the CBG's continued monetary policy tightening.

50. The Central Bank's NFAs declined to GMD 26,145.98 million in 2022, from GMD 28,953.4 million in 2021, which correspond to decline of 9.7 percent compared to a 19 percent increase in 2021 (NFA was GMD 24329.51 million in 2020). The contraction in the Bank's NFAs reflected the balance of payments challenges that resulted in foreign currency supply constraints. The Bank intervened by selling a total of US$139.6 million worth of foreign currency (see Central Bank annual report 2022). This was necessary to ease the foreign currency liquidity shortage and to ensure continued importation of essential commodities.

Figure 17: Net Foreign Assets (GMD million)



Source: African Development Bank Statistics Department

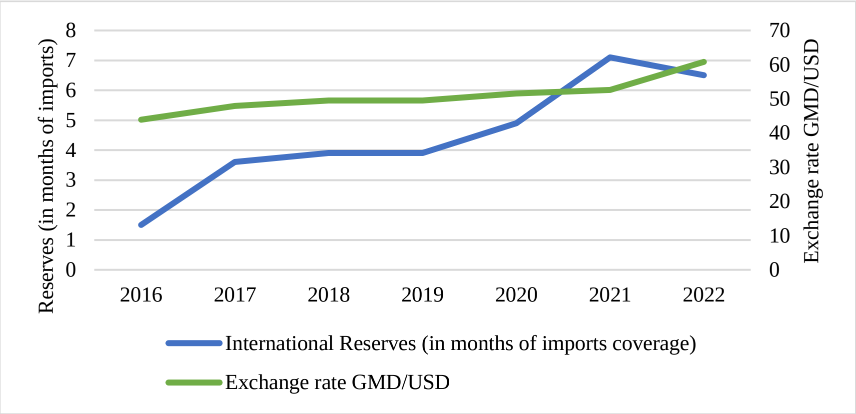
2.4.2. Exchange rate policy

51. **The Gambia's external sector in 2023 continued to be affected by multiple exogenous shocks, as experienced by many emerging and developing economies.** Rising import demand outpaced growth in key FX sources, creating a shortage despite a strong tourism rebound and remittances that—though down from the previous year—continued to stabilize the dalasi. Traditional FX earners like re-export trade underperformed, and official development inflows fell short of expectations. In 2022, total foreign-exchange market turnover dipped slightly to US$2.48 billion from US$2.53 billion. FX supply (bank purchases) fell 3.5 percent to US$1,221 million, while demand (bank sales) edged down just 0.5 percent to US$1,259.6 million—pushing excess demand up to US$38.6 million (from US$1.2 million).

52. These developments resulted in depreciation pressures on the exchange rate of the dalasi relative to US Dollar, that reached a maximum of 60.8 percent in 2022, and The Gambia Central Bank experienced a sharp loss of international reserves (Figure 18). The stock of international reserves as at end-December 2022 stood at US470.6 million (6.5 months of prospective imports of goods and services), compared to US$530.4 million (7.1 months of imports cover) at the end of 2021.

53. **While the Gambia's de jure exchange rate regime has been a free float since 1986 and in accordance with Article 64 of the CBG Act 2018, its de facto exchange rate regime is a managed float**. The CBG Act 2018 states that in the event of a foreign exchange crisis or misconduct by market stakeholders, the CBG may temporarily restrict the purchase, sale, holding or transfer of foreign exchange. The restrictions will be applied for an initial period of twelve months and may be extended for a further period not exceeding twelve months. In addition to selling foreign currency to ease pressure on the foreign exchange market, in April 2023 the CBG introduced an obligation for commercial banks, bureaus de change and money transfer agencies to comply with its reference exchange rate in their transactions. This was seen as an attempt to control the parallel exchange rate. This type of currency control is criticized for its potential negative impact on the foreign exchange market, such as the channeling of remittances through informal channels to the detriment of the official market.

Figure 18: Official Reserves and Exchange Rate



Source: African Development Bank Statistics Department

2.5. Financial Sector Developments

54. **The financial sector in the Gambia is dominated by banks, which accounted for about 95 percent of the industry's assets as at end-2022, followed by deposit-taking non-bank financial institutions (3 percent).** The insurance industry and other non-deposit-taking financial institutions account for the remaining 2 percent. The pensions fund and GAMPOST (post office financial services) are not regulated by the Central Bank.

55. The banking industry's asset base expanded by 24.2 percent (year-on-year), from D78.6 billion in 2022 to D86.5 billion in December 2023, benefiting largely from a rise in the balances due from other banks, holding of government securities, and other assets. The banking system is concentrated, with two large banks dominating the market, with a combined share of 41.4 percent or D24.28 billion of total deposits in 2023. The only medium bank accounted for 17.0 percent or D10.0 billion, while the remaining 9 small banks accounted for 41.7 percent or D24.5 billion of total deposits. The banking industry registered an increase in net income of 18.2 percent (year-on-year) to stand at D575.1 million. Return on assets (ROA) and Return on Equity (ROE) slightly increased to 2.5 and 21.7 percent in December 2023, from 2.2 and 20.8 percent recorded in 2022, respectively. Financial inclusion remains shallow, with an inclusion rate of 31 percent (National Financial Inclusion Strategy, 2022). This suggests

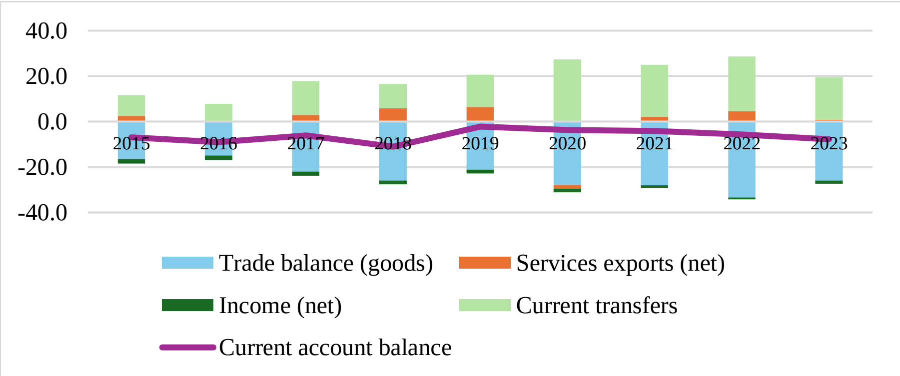
that out of the total adult population in the country, about 69 percent are financially excluded, ranking The Gambia among countries with the lowest financial inclusion rate.

2.6. External balance

56. **External sector performance remained weak reflecting slow growth in exports and reduced development partners inflows, particularly during the 2015-2018 period.** The Gambia continued to run current account deficits, mainly driven by large merchandise trade deficits. Between 2015 and 2018, the average current account deficit was 8.3 percent of GDP, partly due to slow growth in the tourism sector, affected by regional insecurity. Additionally, the pre-2017 authoritarian regime limited foreign investments and tourism, further straining the current account. The deficit improved to 2.2 percent of GDP in 2019, thanks to export recovery, remittance inflows, budget support grants, and tourism sector growth. However, the deficit widened again in 2020 and 2021, reaching 3.8 and 4.2 percent of GDP, respectively, due to COVID-19 restrictions and global supply chain disruptions. In 2023, the current account deficit worsened to 7.8 percent of GDP, up from 5.7 percent in 2022, driven by low agricultural exports and higher commodity import prices. Imports of goods continued to rise due to high global commodity prices and infrastructure project-related imports. While tourism income rebounded in 2022, it remained below pre-pandemic levels.

57. The external sector performance remained weak, reflecting slow export growth and reduced inflows from development partners, particularly between 2015 and 2018.

Figure 19: Current Account Decomposition (% of GDP)



Source: African Development Bank Statistics Department

58. **The Gambia international trade is dominated by mineral fuels for imports while the main export products are animal or vegetable fats, oil seeds and fruits, and fish and crustaceans.** The value of imports reached US$855.2 million (36.5 percent of GDP) in 2023, compared to US$694.0 million (31.9 percent of GDP) in 2022. Imports are dominated by mineral fuels, which account for more than 40 percent of total imports and, together with electrical machinery and vehicles, represent the three largest imports, accounting for nearly 60 percent of total imports (World Bank, 2024). The balance is mainly spent on consumer goods such as sugar, cereals, salt and sugar, and fertilizers. Exports of goods reached US$98.7 million (4.2 percent of GDP) in 2023, compared to US$51.3 million (2.4 percent of GDP) in 2022. Exports are dominated by animal or vegetable fats, oil seeds and fruits, and fish and crustaceans, with these three categories accounting for an average of 70 percent of total exports in the fourth quarter of 2022 and 2023, respectively. However, exports are still dominated by primary products, with animal and vegetable fats, oil seeds, fruits, and fish accounting for about 70 percent of total exports. This export structure highlights a lack of structural transformation in the economy, with little progress in diversifying into higher-value-added manufacturing sectors. The absence of manufactured goods in

the export mix underscores the economy's weak competitiveness and the slow pace of structural change, limiting its potential for sustainable growth and economic diversification.

2.6.3 Financing of current account balance

59. **Capital transfers during 2022 helped moderate the impact of the deterioration in the current account.** The capital account balance improved to a surplus of US$44.0 million in 2022, compared with a surplus of US$23.1 million in 2021 (CBG, 2022). Consequently, the net lending/borrowing balance (capital account + current account) resulted in a deficit of US$46.3 million in 2022, indicating that The Gambia is a net borrower from the rest of the world. However, the financial account recorded a deterioration, with a net inflow of US$162.5 million in 2022, compared to US$181.5 million in the previous year, mainly highlighting outflows from foreign direct investments and other investments (trade credits, loans and currency and deposits components). In terms of reserve assets, the combined effects of overlapping external shocks - especially the war in Ukraine and the COVID-19 pandemic - disrupted the build-up of external reserves. In 2022, the Central Bank of The Gambia intervened on the foreign exchange market, selling a total of US$139.6 million of its external reserves to ease liquidity conditions.

60. **The stock of gross official reserves remained high in 2022, even if the country displayed a decline in the stock.** At end-December 2022, the stock of the international reserves stood at US$470.6 million (6.5 months of prospective imports of goods and services), which is a decrease compared to US$530.4 million at the end of 2021 (corresponding to 8.8 months of gross import cover).

2.6.4. Balance of payments

61. **The overall Balance of Payments (BOP) deteriorated, from a surplus of 6.1 percent of GDP in 2021 to a balance of payments deficit of 5 percent of GDP in 2022 and 1.9 percent of GDP in 2023, as large trade balance could not be offset by net service exports and transfers**. Spillover effects of the multiple shocks have put significant pressure on the balance of payments. Sharp increase in commodity prices (particularly fuel and food) has pushed up the import bill on the back of subdued recovery in tourism and re-export trade from the adverse impact of COVID-19 pandemic. Official Development Assistance inflows also declined markedly from 16.9 percent of GNI in 2020 to 12.5 percent in 2021 and 12.6 percent in 2022, and private remittance inflows also registered a decline. A combination of these factors drove the deterioration in the current account balance.

2.7. Macroeconomic stability assessment

62. **The fiscal deficit in The Gambia decreased but remained high, driven by a combination of factors, including limited revenue diversification, large public expenditures in infrastructure projects, low competitiveness and multiple shocks.** Macroeconomic stability is important for business and overall competitiveness. However, in The Gambia, high fiscal deficits under the previous regime have limited government's future ability to react to business cycles and stimulate competitiveness and growth. Other areas impacting competitiveness in The Gambia, include inadequate skills, labour market regulations, underdeveloped financial system, lack of business dynamism and innovation capability. Also, the small market size and lack of product diversification hamper competitiveness and growth. Sustained external debt burdens also further exacerbate external vulnerabilities. The Gambia also faces challenges in terms of monetary policy. Exchange rate instability poses significant risks, as fluctuations disincentivize foreign investment and hinder the efficient allocation of resources. Also, high price level due to imported inflation limited the effect of monetary tightening. In addition, the limited foreign exchange reserves renders the country vulnerable to external shocks and balance of payments pressures.

63. **To stabilize the macroeconomic environment, The Gambia needs to implement policy reforms to facilitate structural transformation and economic competitiveness to achieve macroeconomic stability and build resilience to external shocks.** The country should first focus on strategies to boost export earnings, attract foreign direct investment, and secure financial support to build up its foreign reserves. The country needs also to implement sound monetary policy to tame inflation and reform the business climate to attract FDIs.

64. In addition to the implementation of appropriate monetary policy measures to reduce rising inflation, the country needs to address the supply side structural challenges including prioritizing policies that aim to improve the supply of goods and services by stimulating investment, innovation, and efficiency in the economy.

65. **The country will need to strengthen domestic revenue mobilization to improve public goods provision and fiscal and debt stability by reducing tax incentives and exemptions.** The country should rationalize subsidies by targeting the most vulnerable and accelerating the digitization of tax and customs administrations to enable electronic tax registration. Investment in infrastructure should be a priority to stimulate growth, as should improvements in spending efficiency.

CHAPTER 3: ASSESSMENT OF CROSS CUTTING ISSUES

3.1. The state of governance

3.1.1. Economic and Financial Governance

1. **The quality of governance effectiveness has improved, but The Gambia still underperforms the best-performing countries in the region**. Since the democratic transition in 2017, the country has made progress on most of the Governance Indicators. In the 2024 Ibrahim Index of African Governance, The Gambia ranks 20th with a score of 54.7—up from 47.5 (28th) in 2014 and above the continental average of 49.3. The most notable improvements were in Security & Rule of Law (rising 6.8 points to 56.4) and Participation, Rights & Inclusion (up 18.9 points to 60.0). However, significant shortcomings persist in Social Protection & Lived Poverty (31.1, down 47.3 points), Economic Opportunities (15.6, down 51.2), Health Provision (23.9, down 27.3), Shipping & Postal Network (6.6, down 12.5), and Protection against Discrimination (0.0, down 8.3).

2. **The Gambia's overall Country Policy and Institutional Assessment (CPIA) score has increased to 3.1 in 2022 and 2023, the first time since 2017,** as the country CPIA scores were stable at 3 until 2021. This improvement in the CPIA score reflected improvements in the quality of the country's policies and institutions owing to efforts being made to improve debt management and inclusive growth, including rural development, social protection, and investments in human capital and infrastructure.

3. **The Gambia faces significant challenges in strengthening governance.** Although Gambian authorities made progress in implementing governance reforms, significant challenges remain, including lack of administrative capacity, limited digitization, and persistent weaknesses in the legal framework, all of which foster corruption and hamper the delivery of quality public services. Poor governance undermines investor confidence in the public administration and efforts to ensure ease of doing business.

4. **Overall Country Performance and Institutional Assessment scores have been above 3.0 on average, consistent with regional peers**. On the structural policies subcomponent of the CPIA, the 2021 score was 3.6 signifying the government's strong appetite to undertake structural reforms across several sectors. However, improvements are needed in the governance and economic management

subcomponents, which scored 2.8 and 2.9, respectively, in 2020. The country's Public Investment Program (PIP) will focus on strengthening Public Financial Management (PFM) systems, promoting accountability in government, supporting debt management, and enhancing Domestic Resource Mobilization (DRM), ensuring more efficient and impactful public investments.

5. **Despite the PFM reforms, persistent challenges remain. For instance, the Country Fiduciary Risk Assessment (CFRA) conducted in early 2021 concluded that the overall country fiduciary risk is substantial.** The PEFA assessment report of 2023 flagged large variances between budgeted and actual spending (driven by excessive virements), mismatches between procurement plans and execution, and two-year audit backlogs that weaken parliamentary oversight. Financial reporting remains untimely and incomplete, planning and PIP budgets lack integration, and gender-responsive and climate-tagged budgeting is still nascent. Low uptake of audit recommendations—especially on procurement—and weak revenue administration keep DRM below regional peers. The program will target these weaknesses through progressive reforms across the budget cycle.3.1.2 Governance of state-owned enterprises.

6. **The Gambia has made significant progress in reforming State-Owned Enterprises (SOEs), but major efforts are still required to establish a sound, efficient and financially sustainable SOE sector.** The SOE bill was passed in parliament in 2021 after some initial delays. The Gambia Ports Authority (GPA) - a strategic SOE in the economy, responsible for 90 percent of trade volumes and contributing 20 percent of GDP - is struggling, lagging behind its regional peers, and in urgent need of reform, despite being one of the most profitable SOEs. The act governing the ports was enacted some 50 years ago, in 1972, and is in urgent need of revision. The GPA signed a 3-year performance contract with the government in early 2023, in collaboration with two other SOE's, the Gambia National Petroleum Corporation (GNPC) and the Social Security and Housing Finance Corporation (GSSHC). In addition, there remains a serious need and appetite to explore private sector investment opportunities using the Public-Private Partnership (PPP) model to bridge the infrastructure gap and reduce pressure on the government's balance sheets as it undertakes a major public investment program (PIP).

7. **State-owned enterprises required substantial budgetary support but contributed little to public revenues.** The Gambia's SOEs are facing a wide range of issues, from insolvency, weak accounting systems, and the overstatement of assets to conflicting commercial and socio-economic objectives, and corporate governance issues (World Bank, 2022)[5]. As a result, SOEs made a minor contribution to the government revenue in recent years but required significant budget support and pose sizable fiscal risks, as the portfolio lacks financial viability. Moreover, SOEs may be subject to a different set of market rules vis-à-vis private competitors, which creates market distortions and crowds-out private investment. The lack of a level playing field is translating into high prices, poor service delivery, and bottlenecks to improved competitiveness.

3.1.4. Reforms Necessary to Improve Economic and Financial Governance

8. **There is a need to implement governance and business environment reforms to accelerate economic and productivity growth.** The Gambia's low score in the assessment of national policies and institutions in areas such as macroeconomic policy and public sector governance shows that the country faces difficulties in advancing policy and institutional reforms. The authorities need to focus on developing a comprehensive national strategy for good governance, addressing governance and corruption issues, and implementing a sound competition policy framework.

9. **The country needs to strengthen institutional arrangements for SOE financial oversight**. The government could strengthen the monitoring of SOE performance by ensuring that SOE financial information is timely and comprehensively collected from SOE audited financial statements; and build capacity for periodic financial analysis and assessments of fiscal risks associated with individual SOEs.

[5] World Bank (2022) The Gambia Integrated State-Owned Enterprises Framework (iSOEF) Assessment

10. **The authorities recognize the role of a strong business environment in promoting inclusive growth.** Noting the drop in The Gambia's ranking on the Ease of Doing Business, despite considerable improvements in absolute terms, the authorities have set up a business incubation center and are (i) streamlining the business regulatory environment; (ii) adopting systems for efficient tax declarations and payments; and (iii) taking measures to address potential loss of correspondent banking relationships.

11. **The Board of Directors of the African Development Bank Group approved a $6.72 million grant on October 3, 2023, to The Gambia to support implementation of the first phase of the Public Financial Management and Economic Reforms Program.** The goal of the program is to improve governance and fiscal resilience in The Gambia, by supporting public financial management reforms and strengthening social protection systems to reduce poverty affecting vulnerable populations. The program will support reforms through participatory budgeting, including climate budget allocation, transparency in public procurement, effective financial reporting and improved external audit and parliamentary oversight of budget management. The program will also strengthen governance, in particular the legal and regulatory frameworks of the government's nascent social protection system. The objective is to support the establishment of an inclusive and well-targeted system, while developing a framework for extending social protection coverage.

3.2. Climate change

3.2.1. The extent of climate change and the main challenges

12. **The Gambia is facing significant challenges in the face of climate change, including more frequent and intense droughts, flooding, coastal erosion, windstorms, high temperatures, and erratic rainfall in recent years.** According to documentation on the country's second nationally determined contribution (2021), annual average temperatures are projected to increase by 1.7ºC to 2.1ºC from 2000 to 2050, and by 3.1ºC to 3.9ºC by 2100. The sea level is expected to rise by 19 cm to 43 cm by 2050. The 2020 Intergovernmental Panel on Climate Change (IPCC) lists The Gambia among the top 100 countries most vulnerable to climate change and among the top ten countries most vulnerable to coastal erosion and sea-level rise worldwide. These extreme weather events severely hinder the country's sustainable development and poverty eradication efforts.

13. **Floods constituted 45.45 percent of weather/climate-related hazards in The Gambia between 1980 and 2020 and storms accounted for 22.73 percent**[6]. Around 20 percent of the country is covered by wetlands and swamps, and flood-prone areas are hit by floods each year after heavy rains, subjecting local populations to life-threatening situations and property damage. The hazard of water scarcity is classified as high, and droughts are expected to occur on average every 5 years. In 2011–2012, for example, the Sahel drought crisis impacted The Gambia's agricultural sector and food and nutrition security. Droughts accounted for 13.64 percent of climate-related hazards between 1980 and 2020 and affect rain-fed agriculture, water resources, soil quality, food security, public health, and environmental degradation. Drought in the country has affected 428,000 people in 2012, one out of five of the total population, and 63,100 people in 2015 (EM-DAT database, 2024). Also, the storm in 2021 affected 16,949 people and the flood in 2022 affected 17,201 people. According to the 2021 Global Climate Risk Index, The Gambia is the 41st most climate-vulnerable and climate-change-sensitive country in the world.

14. **The country's climate change situation is amplified by the weak capacity to maintain the ecological balance necessary for sustainable economic growth**. Some 4,750 km2 (47.5 percent of the land area) is covered by forests, but weak governance has led to a loss of 8.09 hectares of tree cover, equivalent to 498 tons of CO_2 emissions. Furthermore, ThinkHazard[7] classifies the hazard of coastal

[6] Source: World Bank, Climate Change Knowledge Portal https://climateknowledgeportal.worldbank.org/country/gambia/vulnerability
[7] Source: World Bank, Global Facility for Disaster Reduction and Recovery. https://thinkhazard.org/en/report/90-gambia

flooding as high, meaning that potentially damaging waves are expected to flood the coast at least once in the next 10 years. The hazard level is high across the western coastal regions and inland up The Gambia River. An estimated 20 percent of The Gambia is flooded annually and the mangrove ecosystems are already affected by saline intrusion as well as flooding.

15. **Natural disasters also generate significant social costs in terms of lost lives, worsening food insecurity, and deterioration in human capital,** with longer-term ramifications for growth and poverty in poorer countries (IMF, 2024). Koks et al. (2019) recognize The Gambia among the top twenty countries with the highest multi-hazard Expected Annual Damages (EAD) relative to the country's GDP, attributable to the exposure of road infrastructure, at above 0.2 percent of GDP annually. Beyond macroeconomic impacts, climate change has significant impacts on socioeconomic outcomes. These include the increased risk of mortality and morbidity and a high risk of resource-related conflicts, internal displacement, and migration.

16. **As of 2024, The Gambia's Environmental Performance Index (EPI) score improved to 37.6, ranking 142nd out of 180 countries.** This reflects progress from its 2022 score of 36.4, where it ranked 122nd. The 2024 assessment indicates advancements in areas such as biodiversity and habitat protection, with a score of 38.3, ranking 125th globally. However, challenges remain in ecosystem vitality, where The Gambia ranks 156th with a score of 36.4, suggesting ongoing needs for environmental improvements.

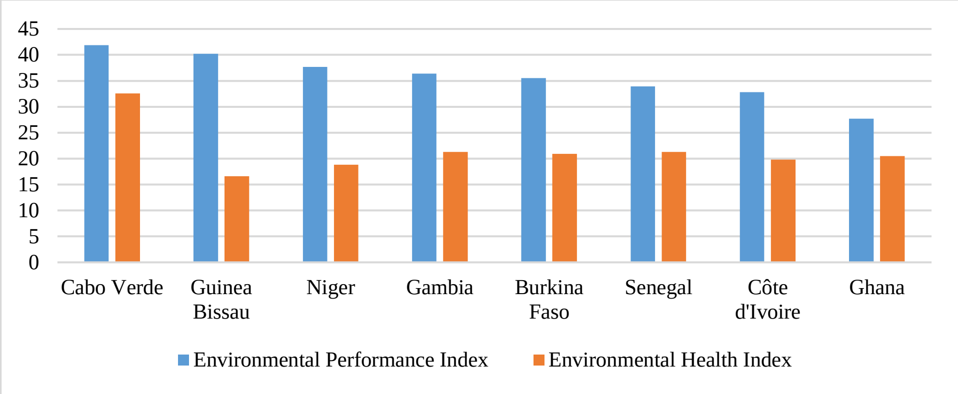
17. **The Gambia initiated the formulation of its National Adaptation Plan in 2015**. In 2021, the country submitted an updated Nationally Determined Contribution (NDC) which is guided by the aspiration to achieve net-zero emissions by 2050. The country also conducted a review of circular economy opportunities and applied a more comprehensive approach to its second NDC. The Gambia's second NDC priorities include measures in agriculture and land use, energy and transport, waste management and industrial processes.

18. **From 2017 to date, estimated total climate funding received by The Gambia from various funding agencies and development partners is at least USD263 million, with USD46 million in the pipeline.** The current Second NDC of The Gambia has set the year 2030 to achieve its ambitious targets. It is accompanied with an initial 5-year work plan, estimated at a little above that of the Strategic Programme for Climate Resilience (SPCR) at USD400 million[8]. Most of the second NDC targets are conditional upon the receipt of support from the bilateral and multi-lateral funding processes.

19. **To reduce greenhouse gas emissions, The Gambia is committed to promoting renewable energy resources to achieve net-zero emissions by 2050.** The country's updated electricity strategy targets a 30% share of renewable energy in the sector by 2030. The National Energy Policy, which is currently being revised, includes a long-term goal to progressively increase the share of renewables in the energy mix, aiming for a substantial reduction in emissions over the coming decades. If successfully implemented, this strategy will help The Gambia reach zero net emissions in the power generation sub-sector by 2050.

[8] See The Gambia`s Long-Term Climate-Neutral Development Strategy 2050, developed in 2022.

Figure 20: Environmental Performance Index, 2022 (scores: 0-worse, 100-best)



Source: African Development Bank Statistics Department

3.2.2. Institutional framework and the responses to climate change

20. **African Economic Outlook 2022 estimates The Gambia's climate resilience index score over 2010–2019 as moderately high (score of 41.8).** The Gambia ranks 37th, making it one of the continent's least resilient countries. The Notre-Dame Global Adaptation Initiative takes into account both vulnerability and level of preparedness and ranked The Gambia 144th out of 182 countries in 2020, with an index score of 39.2. The Gambia ranked 155th on vulnerability and 139th on preparedness. The country is thus classified in the category of high vulnerability, low readiness. The country is particularly vulnerable in five sectors: ecosystem services, food systems, human habitat, health, and water.

21. **Achieving The Gambia's Nationally Determined Contribution (NDC) targets by 2030 will require huge financial resources and strong institutional capacity.** The cumulative financing that The Gambia needs to respond adequately to climate change are estimated to range from about US $1.55 billion to US $1.71 billion (AfDB, 2022) for an average of US $1.6 billion in 2020–2030. Annually, this comes to about US $163.8 million, or 8 percent of GDP in 2022, with lower and upper amounts of US $157.4 million and US $170.2 million, respectively.

22. **The Gambia has updated its NDCs in 2021 and committed to achieve a GHG reduction target of 49.7 percent by 2030, compared to the baseline emission expected to increase from 4,935 GgCO2e in 2020 to 6,617 GgCO2e in 2030.** The Gambia 2050 Climate Vision (2021) sets the government's vision to meet commitments made under the Paris Agreement, move towards resilience and net zero carbon emissions by 2050. The Vision underscores the high level of commitment to decarbonization and establishes the political aspiration for The Gambia to achieve net zero emissions by 2050. Four strategic axes of policy action are identified: 1) Climate-resilient food and landscapes: Agriculture, food security, forestry, and natural resources (including water, biodiversity and wildlife), 2) Low emissions and resilient economy: Energy, transport, infrastructure and the key economic sectors of tourism and financial services, 3) Climate-resilient people: Health, education, equitable social development and human settlements, and 4) Climate-aware Integrated Coastal Zone Management.

3.3. Gender issue

23. **The Gambia recorded gender inequality in several areas including house ownership, literacy rate, wage, and access to finance.** The World Bank gender data portal[9] highlights several inequality gaps notably, in literacy rates (65.3 percent for men against 52.3 percent for women in 2022); House ownership (40.6 percent of men and 16.8 percent of women owned dwelling either alone or jointly in 2020); gender-wage inequality (31.1 percent of men are wage and salaried workers in 2022 against 18.4

[9] https://genderdata.worldbank.org/en/economies/gambia-the#:~:text=62.8 percent25 percent20of percent20girls percent20and percent2046.4, percent2DSaharan percent20Africa percent20aggregate percent2C percent203.1.

percent for women); about 25 percent of women have been victim of Gender-Based Violence (GBV). Women have less access to formal financial services than men, with only 28.1 percent of women having bank accounts compared to 38.4 percent of men in 2022 (World Bank 2022). Disparities also exist in the representation of women in managerial and political positions. The share of women in parliament is 8.6 percent in 2023 compared to the Sub-Sahara Africa average of 27 percent. Only 3 out of 22 cabinet ministers are women, and none of the regional governors or heads of SOEs are women. Women hold only 36.1 percent of managerial positions despite accounting for more than half of the population. Customary and early marriages prevent women from furthering their education and acquiring the necessary skills for productive employment. This ultimately drives huge differences in labour force participation (56.3 percent for women and 65.6 percent for males in 2023).

24. In pursuit of gender equality, the Gambia has ratified the Convention on the Elimination of All Forms of Discrimination Against Women, the Maputo Protocol and adopted the United Nations' (2022) 2030 Agenda for Sustainable Development, whose Goal No. 5 – "achieve gender equality and empower women and girls" – underlies many of its other objectives as well (Afrobarometer, 2023). Despite this, women remain disadvantaged, and the country ranks 121st of 146 on the Global Gender Gap Index.

25. **Civil Society engagement in The Gambia plays an essential role in democratic governance, the promotion of human rights and social development.** Since the 2017 political transition, with the election of Adama Barrow as head of state, civil society organizations (CSOs) have gained considerable momentum in advocating for accountability, transparency and citizen participation in national affairs. Organizations like the Gambia Center for Victims of Human Rights Violations work to address the abuses of the former regime, advocating justice and reparations for victims. Civil society groups also engage with the Truth, Reconciliation and Reparations Commission (TRRC) to ensure that its recommendations are implemented. Groups such as the National Youth Council and others focus on empowering young Gambians through advocacy, training programs and initiatives to foster entrepreneurship and innovation.

26. **While civil society engagement has improved, several challenges remain. Many CSOs face financial and logistical constraints, limiting their ability to implement projects effectively.** In addition, some organizations find it difficult to maintain their independence from political influence. The main challenge is to ensure that the voice of civil society is heard at all levels. Its role in decision-making, in holding government to account and in acting as a counterweight needs to be further strengthened, by ensuring that it is properly consulted and that its voice is taken into account. To be able to take on this monitoring role, civil society organizations could benefit from additional support in the form of funding for these activities, as the capacity for such an exercise exists but is limited.

3.4. Sources of fragility and resilience

3.4.1. Political factors

27. **The Gambia's political environment remains fragile, with divisions along political and ethnic lines that challenge its longstanding inter-ethnic and inter-religious harmony.** According to the Country Resilience and Fragility Assessment (CRFA), by 2023, pressures had eased on three dimensions compared to 2021, though challenges in inclusive politics and climate/environmental impacts persist. While these improvements are encouraging, sustained efforts are necessary to consolidate gains and build lasting resilience. Following the 2021 presidential election, opposition parties made significant gains in local contests—securing key mayoral, chairmanship, and councilor positions—even as the National Assembly remains competitive. Maintaining the constitutionally mandated two-term presidential limit for the December 2026 election will be crucial for ensuring future political stability.

28. **However, The Gambia has made some effort to improve its political life through the completion of the revision of key strategies and programs and reestablished good relations with Senegal.** The Bank's 2021 Joint Fragility Assessment undertaken with the Islamic Development Bank

(IsDB) identified potential sources of resilience, including the improvement in the relationships with the neighbouring governments and regional institutions, (e.g. Economic Community of West African States -ECOWAS- through its political involvement in state building); Civil Society Organizations (CSOs), and women and youth activism.

3.4.2. Economic and social factors

29. **The Gambia registered an improvement in economic activity in 2023, with real GDP growth of 5.6 percent from 4.9 percent in 2022.** Yet rapid population growth has fueled land disputes and unregulated settlements in flood-prone areas of Greater Banjul, while a 31.6 percent unemployment rate in 2022 has driven some into crime and dangerous "back-way" migration. Although the Fragile States Index score improved from 80.5 in 2021 to 76.1 in 2023, poverty climbed from 45.8 percent in 2019 to 53.4 percent in 2020—reflecting COVID-19 income losses and higher food and energy costs. Structural transformation remains hampered by weak governance, limited finance and infrastructure, and an inability to absorb unskilled labor. Global food and energy price shocks from the Russia-Ukraine war have also fueled inflation, eroding household purchasing power.

3.4.3. Environmental factors

30. **Climate-fragility risks in The Gambia are related to key climate sectoral impacts including agriculture and food security, water, energy, and infrastructure.** For the agricultural sector, which is the main source of income for a large proportion of households, the main threats are increasing damage to crops, livestock and land from drought and flooding, and intensifying competition between farmers and herders for dwindling resources. Increased flooding, reduced river flows and less water available for irrigation, drinking and sanitation, will have an impact on water availability. The July-August 2022 floods affected around 2 percent of the population, with direct damage to buildings, content and agriculture estimated at 80 million USD (CSP 2021-2025, ADB 2024).

31. **The Gambia has made efforts to establish legal and regulatory frameworks for environmental and social management.** The 2022 Long-Term Climate Neutral Development Strategy (LTS) outlines mitigation and adaptation actions that could help the country reach net-zero emissions by 2050. The Government also adopted a Disaster Risk Management (DRM) regulation to strengthen DRM institutions, coordination frameworks, and partnerships and to improve disaster preparedness and response.

3.5. Private sector development

3.5.1. Overview of The Gambia private sector

32. **The Gambia's private sector has huge potential to be the engine of transformative and inclusive growth, but it remains small, undiversified, and constrained by adverse business environment.** Opportunities for private sector investment abound in light industries, notably in rice milling, agro-oil mills, feed mills, industrial fishing, groundnuts and cashew nuts processing, food and beverage and glass container manufacturing. However, several factors pose serious constraints to private sector development. High taxes, small market size, limited access to finance, unreliable electricity and transport infrastructures, inadequate investment dispute settlement and anti-corruption framework continue to pose serious constraints to private sector development.

33. **Private sector credit grew by 25 percent in 2022, compared to 20.7 percent in 2021, driven mainly by strong recovery in tourism and trade activities.** However the cost of private sector credit remains high, with a wide lending interest rate spread above 10 percent (World Bank, 2024). In addition, The Gambia is confronted with a severe energy (especially electricity) crisis that hampers private sector development. The country also suffers from an infrastructure gap, particularly in the energy, transport, and information and communication technologies (ICT) sectors. Poor coverage and low-quality infrastructure increase costs in terms of both time and resources, which lower the return on capital and

work, discourage domestic and foreign investment, and constrain private sector development. Furthermore, The Gambia private sector includes a large number of firms that are subject to incidence of informality, with 70.5 percent of formal sector firms competing with informal firms (The Gambia Enterprise Survey, World Bank 2023). In addition, as highlighted by the Integrated SOE Framework report of the World Bank 2022, SOEs are not subject to similar market rules as their private sector peers.

3.5.2. Business environment: recent reforms and remaining challenges

34. **The Gambia's business environment remains unconducive to private sector development.** The Gambia's private sector operates below potential and contributes 20 percent to GDP, but 70 percent of the MSMEs are in the informal sector. According to The Gambia Enterprise Survey 2023, The Gambia is doing well in the areas of time to obtain an operating license, and clearing customs for exports and imports. However, the country is faced with significant challenges related to accessing electricity connections, quality of transportation infrastructure, access to finance, corruption in the public sector, weak spending on research and development, and lack of quality certifications. Moreover, The Gambia suffers from lack of a robust competition policy framework. While the 2007 Competition Act continues to be implemented by the Ministry of Trade, there is a need to effectively implement this essential legal reform to ensure a well-functioning competition policy framework.

35. **The Bank supports the Gambia Investment and Export Promotion Agency (GIEPA), whose mission is to attract foreign investment and promote exports.** The Gambia encourages investment in all sectors, but focuses on agribusiness, information and communication technologies (ICT), renewable energies, light industry, transport and tourism. In 2021, GIEPA launched a new national export strategy for 2021-2025, which supports export-ready Gambian companies with export potential seeking to enter regional and global value chains, particularly in horticulture, agro-processing, peanuts, cashews, fisheries, light manufacturing and hospitality.

3.5.3. Opportunities in the Private Sector

36. **The Gambia is a net importer of foodstuffs, and almost half its population depends on subsistence farming and a few cash crops (mainly groundnuts) for their livelihood.** The agricultural sector suffers from under-investment and low productivity, with most staple foods (rice) being imported. There is therefore an opportunity for the private sector, particularly in agricultural equipment, extensive irrigation systems, post-harvest handling systems and storage facilities.

37. **In addition, resolving the infrastructure deficit will improve the business climate and expand investment opportunities for the private sector especially in energy, roads, ICT, water and sanitation.** In the energy sector, potential investment opportunities in power generation are substantial, given the projected growth in national demand to 200 MW by 2025. More specifically, investments in solar and wind power as well as biofuels present an investment opportunity for private investors in the energy sector.

CHAPTER 4: DIAGNOSTIC OF GAPS/ CONSTRAINTS BY THE HIGH 5s

4.1. Assessing gaps in the energy sector

4.1.1. Status of the sector

1. **The energy sector in The Gambia is characterized by the predominance of biomass and fuel wood and oil imports.** The electricity is produced using Heavy Fuel Oil (HFO) in the Greater Banjul Area and diesel oil for the provincial operations. The current installed capacity of 102 MW falls short of peak demand by 11 MW and average electricity tariff is among the highest in the world at GMD 0.15 (or USD 0.24) per kWh. Access to electricity is estimated at 56.2 percent of the population with only 13 percent access in rural areas (CSP 2021-2025, AfDB 2021).

2. **The power infrastructure is aging and breaks down frequently.** The network distribution aggregate technical and commercial losses have been reduced in recent years from 27 percent in 2017 to 22 percent in 2022. However the grid still has major bottlenecks that should be addressed. As a result, technical and commercial losses remain well above international norms (10 percent), especially for a small system. Public sector receivables arrears amounted to $13.4 million, as of April 2020 and continues to weaken the National Water and Electricity Company (NAWEC) cash position.

3. **The Gambia's Electricity Sector Roadmap (2019-2025) aims to scale up electricity generation to 200 MW of available capacity at peak in 2025**, with 14MW expected from the OMVG project with Guinea and Senegal, and 50MW from the Souapiti project and the remainder through Independent Power Producers (IPP). The electricity sector roadmap also prioritizes investments in transmission and distribution to reduce power losses from 22 percent in 2020 to 17 percent by 2025, lower electricity tariffs from USD/kWh 0.26 in 2020 to USD/kWh 0.18 by 2025 and achieve a target of 40 percent of renewable energy by 2030 with a combination of grid extension and mini-grids and including the OMVG hydropower project.

4. **In April 2023, The Gambia inaugurated its first large-scale solar power plant in Jambur**. Built by Chinese manufacturer Tebian Electric Apparatus, the 23 MW solar power plant - equipped with an 8 MW electricity storage system - serves to reduce the country's dependence on imported fossil fuels. The Jambur solar park aims to accelerate the country's transition to a 50 percent renewable energy electricity supply by 2030.

4.1.2. Regulatory framework

5. **The power network is principally owned and operated by NAWEC.** The Electricity Act of 2004 partially liberalized the energy market, essentially opening electricity generation to independent producers. In addition to NAWEC, there are two Independent Power Producers (Global Electric Group and Karp Power ship) and a regional cross border interconnection from Senegal (West Africa Power Pool), together supplying half of the current electricity generation.

6. **Regarding renewable energies, the government has created the Gambia Renewable Energy Centre (GREC) and seeks to collaborate with interested entities in the development of renewable energies through research and development**. The government encourages the use of alternative energy sources, and, at present, the use of solar photovoltaic equipment is increasing in the country for industrial, commercial and domestic uses (the country receives around 3,000 hours of sunshine a year); the use of biomass is also increasing, although it tends to be limited to agricultural waste such as sawdust, groundnut husks and straw. The use of wind turbines to power water pumps is also being encouraged and is increasing throughout the country.

4.1.3. Main challenges

7. **The energy sector in The Gambia faces a number of challenges that need to be addressed to allow the sector to play its proper role in economic growth and well-being.** The sector is characterized by heavy dependence on imported fossil fuels, non-diversified energy sources in the electricity supply, poor access to modern energy services, limited investment in new assets and inadequate maintenance of old and aging electrical installations (Manneh, 2020). Inadequate energy supplies and high energy costs severely limit investment in The Gambia, particularly in productive sectors such as agro-industry and manufacturing. The Gambian government is well aware of the critical importance of a modern, reliable and efficient energy supply. Accordingly, one of the main objectives of The Gambia's national development plan is to ensure reliable and adequate production, transmission and distribution of electricity at affordable prices for all.

8. **To improve electricity access, and reduce tariffs, as well as the country's vulnerability, and dependence on heavy fuel oil, substantial investments and reforms are needed** to increase renewable energy penetration, diversify the country's energy mix and reduce transmission and distribution losses.

In this context, the Government issued a regulation for green mini grids in September 2023 to facilitate private sector participation in expanding energy access, diversifying the energy mix, and improving renewable energy penetration, in line with the Gambia's Universal Access by 2025 and the 2021-2040 Electricity Sector Strategic Roadmap. Pipeline projects such as the Eastern Transmission corridor represent potential investment opportunities for the Bank.

4.2. Assessing gaps in the agricultural sector

4.2.1. Global overview of the sector

9. **Agriculture is a vital sector of The Gambian economy. The sector is characterized by subsistence production of food crops, including cereals (early millet, late millet, maize, sorghum, rice), and semi-intensive production of cash crops (groundnuts, cotton, sesame and horticulture).** Farmers generally practice mixed farming, although crops account for a larger share of production. The agricultural sector is characterized by low diversification, mainly rain-fed subsistence farming, with a food self-sufficiency rate of around 50 percent. Agricultural sector accounted for 24.63 percent of gross domestic product in 2023, ranking behind the services sector, which recorded 51.48 percent of GDP (value added) in 2023 (World Development Indicator 2024). While many sectors in The Gambia face challenges, agriculture has remained robust, with its share of GDP rising from 21.24% in 2020 to 23.58% in 2021 and 24.39% in 2022. This growth is largely driven by smallholder farmers, who produce the bulk of domestic agricultural output. However, their reliance on traditional farming methods and limited access to modern technology constrains further productivity gains.

10. **In 2022 the agriculture sector provided 47.52 percent of total employment in The Gambia, according to International Labour Organization (ILO) estimates.** Employment in agriculture appears to be mainly driven by women (62.22 percent), who are more likely to engage than men (34.27 percent), leading to gender gap participation in the sector of 28 percentage points in 2022. A large proportion of households derive their income from agricultural activities such as livestock breeding and/or sales, and the production and sale of food crops, including cash crops. The crops sub-sector generates approximately 40 percent of the foreign exchange earnings and provides about 75 percent of total household income[10]. Yields of the main crops in The Gambia have remained fairly low due to limiting factors such as erratic rainfall, inappropriate farming techniques, limited access to modern input markets, weak tenure systems and producer organizations. This is reflected in the consistent decline of the agricultural value added per worker from US$ 1160.1 in 2000-2009 to US$ 941.5 in 2010-2019 and to US$ 891.1 in 2020-2022 (World Development Indicator 2024).

4.2.2. Major constraints

11. **The Gambia has great potential for irrigated agriculture, with fresh water from The Gambia River, rainwater if harvested, and fossil water that can be drilled**. It also benefits from a climatic regime that is suitable for almost all crops. However, major bottlenecks affecting agricultural productivity include:

- Widespread deforestation due to strong demographic pressure on natural resources and accelerating desertification are eroding the country's productive land. In addition, rising salinity is making vast areas of the west coast and north shore region unproductive for agriculture. Likewise, the heavy reliance on rain-fed agriculture and traditional farming methods is leading to a decline in productivity.
- The predominance of small-scale farmers with limited access to finance for inputs, services, infrastructure and technology limits productivity in agriculture sector.

[10] https://www.trade.gov/country-commercial-guides/gambia-agriculture

- Inefficient marketing systems and formal, functional producer marketing institutions are non-existent to support value chain actors.
- Difficulty to access land for young people and women due to unequal land tenure.
- Climate change and variability, with the increasing frequency and severity of weather shocks, are a further brake on productivity growth in the sector.

4.2.3. Reforms

12. **The Gambia's agricultural sector has been shaped by several reforms and policies aimed at boosting productivity and improving food security.** Programs like the Gambia National Agricultural Investment Program II–Food and Nutrition Security (2019–2026)—and the National Trade Policy (2011–2016) and its successor, have boosted smallholder yields, value chains, and infrastructure. Yet technology uptake, financing, and market integration remain weak. The 2017–2026 Agriculture and Natural Resources Policy targets food, nutrition, and income security for all—especially women and youth—and stronger institutions, but underdeveloped rural infrastructure and slow commercialization persist. Unlocking growth will require cross-sector coordination with finance, technology, and education, plus a focus on climate resilience, digital transformation, and expanded market access.

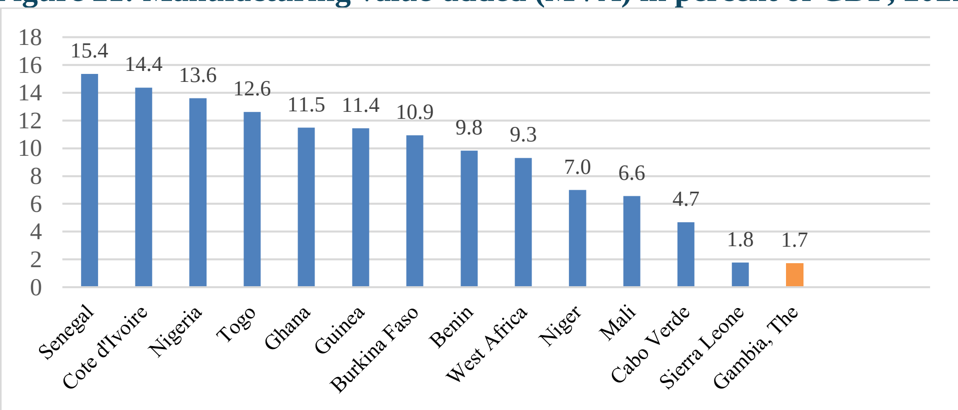
4.3. Assessing gaps in the industrial sector

4.3.1. Global overview of the sector

13. **The Gambia's manufacturing sector remains underdeveloped, with a limited manufacturing base that focuses mainly on the domestic market and uses a limited range of skills and technologies.** The value added by the manufacturing (MVA) sector as a percentage of GDP declined in 2022 to 1.7 percent from 2.6 percent and 1.9 percent in 2020 and 2021, respectively (Figure 21). The performance of the Gambian manufacturing sector remains the weakest in the West African region and is well below the average value added for West Africa (9.3 percent in 2022).

14. **The share of the industrial sector in employment has slightly increased over the period 2015-2022.** The Gambia's industry employment as a percentage of total employment has increased from 6.6 percent in 2015 to 7.5 percent in 2022 as indicated by the world development indicator. There are large gender disparities in the sector. Unlike the agricultural sector, the industry sector is dominated by male employment. Females' employment in the sector was only 1.1 percent in 2022, an increase of 0.3 percentage points compared to 2015, while males' employment increased to 13.3 percent in 2022 from 11.2 percent in 2015 (an increase of 2.1 percentage points).

Figure 21: Manufacturing value-added (MVA) in percent of GDP, 2022



Source: African Development Bank Statistics Department

4.3.2. Constraints to industrial development

15. **Factors hindering the industrial sector's development in The Gambia include lack of investment in the sector, which is hampered by limited access to affordable finance, poor access to and unreliable electricity**, which can raise operational costs and hinder industrial growth. In addition, the tax system for manufacturing impedes the survival of the sector. According to the Gambian Manufacturers' Association, these taxes represent 51.3 percent of profits, which is high compared to the rest of sub-Saharan Africa (47 percent) and OECD countries (40.9 percent) (see The Trade Strategy and Industrial Policy for The Gambia, 2018).

16. **There is still huge potential in the sector as the country continues to import ceramic tiles and sanitaryware, among other products.** The foundry industry, which uses scrap metal to produce metal plates and finished iron used in construction and small repair shops, offers considerable potential. The country also boasts a light pharmaceutical industry, as well as a local appliance manufacturing and assembly industry. The country's strategic location enables it to export to regional markets. The country can also develop agro-industry by investing in industries that could process surplus tomatoes, lemons, oranges and peppers. Investment in these industries will significantly reduce the country's imports and boost its exports.

4.3.3. Strategies to Foster Successful Industrial Development

17. **The Gambia introduced a national industrial policy and strategy in 2016, complemented by a national policy and strategy for micro, small and medium-sized enterprises (MSMEs).** The industrial strategy was designed to focus on two key areas: value addition, particularly in agro-industry, and enhancing renewable energy and energy security. However, the industrial sector has not seen the expected growth, and several challenges have hindered the success of the strategy. These include inadequate infrastructure, limited access to finance, low levels of technology adoption, and a lack of skilled labor. The slow pace of policy implementation, compounded by weak institutional coordination and insufficient monitoring and evaluation frameworks, has also impeded progress. To foster industrial development, The Gambia could consider implementing the following measures:

- Facilitate the creation of new businesses and monitor the growth of start-ups. Government policies should facilitate access to finance, promote encourage investment by existing businesses, reduce market distortions (e.g., by reforming state-owned enterprises), and enforce labor market regulations to enhance labor mobility and foster entrepreneurship.
- the country must also take advantage of the African Continental Free Trade Agreement and other trade agreements to strengthen regional value chains, expand access to external markets and increase the gains from Global Value Chain integration.
- Boost productivity to ensure job and income growth prospects. Long-term industrialization prospects depend on productivity growth. To this end, the government should support research and development and encourage innovation efforts by new entrants and incumbents.
- Industrial policy measures must be accompanied by investment in growth sectors such as digital infrastructure and energy, as well as specific skills development programs that incorporate the adoption of emerging technologies.

4.4. Assessing gaps in regional integration and trade

4.4.1. Institutional Framework for Regional Integration and Trade

18. **Regional integration remains a cornerstone for achieving inclusive growth in The Gambia.** As a member of the World Trade Organization (WTO) since 1996 and ECOWAS member since 1975, it adopted the common external tariff in 1997 and follows the ECOWAS Trade Liberalization Scheme (ETLS), waiving non-tariff barriers except for security-related bans. In 2023, The Gambia met two of four ECOWAS convergence criteria—limited central bank deficit financing and over three months'

import cover—but its fiscal deficit and a 72% debt-to-GDP ratio exceeded thresholds. Still, ETLS-compliant Gambian goods enjoy duty- and quota-free access across ECOWAS. Globally, Gambian exports benefit from the EU's Everything But Arms (EBA), the US AGOA, the Generalized System of Preferences, and duty-free/quota-free or reduced-tariff schemes offered by India, Brazil, South Korea, Morocco, China, and others to LDCs.

19. **The country ratified the African Continental Free Trade Agreement (AfCFTA) in April 2019, and it ranks 22nd/55 countries in terms of commitment and readiness for AfCFTA.** This agreement, which came into effect in January 2021, creates a free trade area between the signatory states. It is the largest free trade area, by number of states, since the launch of the World Trade Organization in 1995. The agreement covers trade in goods and services, investment, intellectual property rights, and competition policy.

4.4.2. Trade structure: flows and performance

20. **The Gambia has struggled with a persistent trade deficit, averaging USD 4.22 billion between 2010 and 2023, reflecting structural weaknesses in the country's production and trade capacity**. The deficit has widened from USD 568.5 million in 2021 to USD 733.3 million in 2023, driven by heavy reliance on imports (fuel, rice, equipment) and low-value exports (fish, fruits, nuts). High-tech exports slumped from 4.0 percent of manufactured exports in 2011 to 0.9 percent in 2020, and the export complexity index was just 0.22 in 2023. Re-exports—mainly textiles and machinery—make up over 70 percent of exports but do little for domestic industrialization. In 2021, top export markets were Mali (44.7 percent), China (29.1 percent) and Senegal (10.9 percent); top import sources were Togo (25.5 percent), Côte d'Ivoire (12.4 percent) and China (7.6 percent). Boosting value-added manufacturing, industrial diversification and strategic infrastructure is key to narrowing the deficit and enhancing resilience.

Table 1: Top Trade partners of The Gambia

Export Partners	Share in total export	Import Partners	Share in total import
Mali	44.69	Togo	25.45
China	29.07	Côte d'Ivoire	12.38
Senegal	10.93	China	7.62
Guinea-Bissau	4.47	Denmark	5.97
India	3.66	India	5.64
Vietnam	2.18	Brazil	4.89
Guinea	.99	Senegal	4.38
Korea, Rep.	.61	Spain	3.96
Greece	.55	Turkey	3.68
Thailand	.4	Belgium	2.32
Netherlands	.38	Netherlands	2.19

Source: World Integrated Trade Solution (WITS), date???

4.4.3. Regional integration

21. **According to the African Regional Integration Index, The Gambia scored 0.39 within CEN-SAD, classified as average performance.** The country has good performance in 3 dimensions which are trade integration, free movement of people, and macroeconomic integration, while its performance in terms of infrastructural integration and productive integration is weak[11]. The Gambia has a high level of visa openness, ranking 1st (Benin, Seychelles and Rwanda also rank 1st) out of 54 African countries

[11] https://www.integrate-africa.org/rankings/countries/gambia/#undefined

with a score of 1 out of 1 in the African Visa Openness Index (AVOI). This is because the country does not require that travelers have a visa prior to entry.

22. **The Bank is supporting the country in the modernization of the Port of Banjul to serve as a catalyst for regional integration.** The completion of the Senegambia bridge is transforming travel and trade in the region, but insufficient funding and lack of coordination of regional protocols have delayed the construction of the One Stop Border Posts.

4.4.4. Barriers to Trade and Regional Integration

23. **The Gambia's major challenges in trade and regional integration include low road network and limited access to infrastructure financing.** The Gambia fell five places in the 2019 Global Competitiveness Index (GCI) ranking 124th out of 141 countries surveyed, and with a score of 45 in a scale of 0 to 100, where 100 is the top. The country ranked 68^{th}/141, with a score of 76.7, in terms of road connectivity in the 2019 Global Competitiveness Report. In terms of quality of road infrastructure, its ranking dropped to 83^{rd}/141 with a score of 45.8. The country has a road density of 34.7km/100km^2, which is below the African average of 50km/100km^2. The quality of the roads is poor, with surveys classifying only 20 percent of the whole network as in good condition with the remaining 80 percent ranging from fair to poor condition. In addition, the country has limited air transport and port infrastructure. The country performs poorly in terms of 'airport connectivity' ranking 137^{th}/141 in the 2019 Global Competitiveness Report. The port infrastructure falls short of standards necessary to ensure competitiveness. The country needs to increase efficacy in key areas, such as container dwell times (days), which is 10-15 days against the international benchmark of less than 7 days. Another challenge is the limited internal resource mobilization options for funding road maintenance and expanding network connectivity.

24. **To enhance transport infrastructure and support economic growth, the Gambian government has prioritized investments in land, sea, and air transport under the Recovery-Focused National Development Plan (RF-NDP) 2023–2027.** Recognizing transport as a key enabler of trade and development, the plan focuses on expanding the Banjul Port to improve cargo handling capacity, restructuring state-owned enterprises (SOEs) to enhance efficiency, and strengthening road safety measures. Additionally, investments in airport modernization aim to boost connectivity and attract more international traffic. Public-private partnerships (PPPs) are being promoted to finance and develop critical infrastructure, particularly in road network expansion and maintenance. The government is also accelerating the completion of national road projects and prioritizing secondary and feeder roads to enhance rural accessibility. These measures are expected to reduce transport costs, facilitate regional trade, and improve overall economic competitiveness.

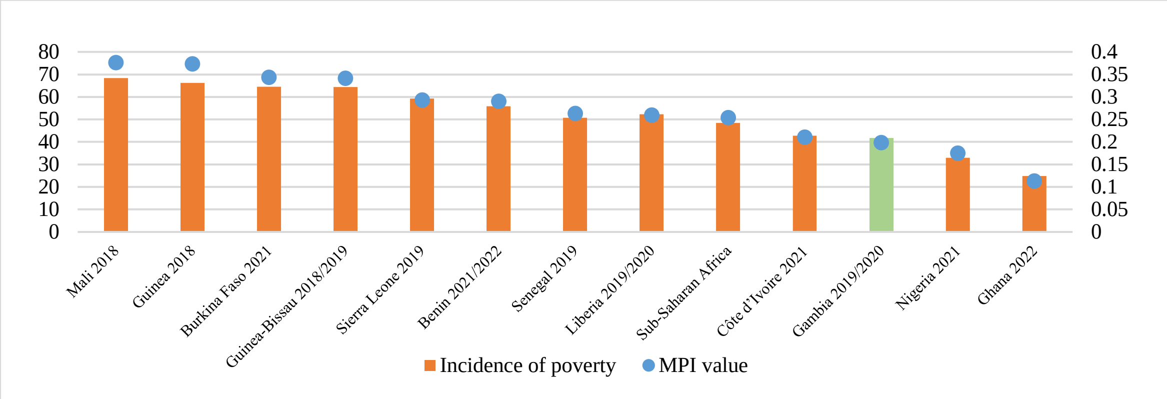
4.5. Assessing gaps in the social sector

4.5.1. Poverty, inequality, and social protection

25. **The** Multidimensional Poverty Index (MPI) **for The Gambia reveals that** 41.7 percent **of the population is multidimensionally poor, based on the most recent survey data from** 2019/2020**.** This equates to around 1.1 million people in 2021**.** Additionally, 28.0 percent of the population, or roughly 740,000 people**,** are classified as vulnerable to multidimensional poverty. In comparison, The Gambia performs better than the sub-Saharan African average of 48.4 percent in terms of multidimensional poverty incidence. The intensity of deprivation—which measures the average deprivation among those living in multidimensional poverty—stands at 47.5 percent**.** This indicates that those living in poverty face significant shortfalls in multiple aspects of well-being. The most notable areas of deprivation are health (32.7 percent), education (33 percent), and living standards (34.4 percent)**.** Furthermore, indicators such as nutrition (23.5 percent)**,** child mortality (8.9 percent)**,** and school attendance (25.1 percent) also show significant challenges. The headcount ratio of multidimensional poverty is 24.5

percentage points higher than the incidence of monetary poverty**,** meaning that a significant number of people who are not considered poor based on income still suffer from deprivation in crucial areas such as health, education, and living standards. This highlights the need for more comprehensive poverty reduction policies that address these broader aspects of human well-being, beyond just income levels.

Figure 22: Multidimensional Poverty Index (MPI) value and the incidence of poverty



Source: African Development Bank Statistics Department

26. **Multitude of social protection projects, schemes and programmes exist in The Gambia that address a variety of risks and deprivations facing poor and vulnerable groups** (Preventative, Protective, Promotive, and Transformative social protection)[12]. However, while they generally provide important support for the poor and vulnerable, the majority of interventions are short-term, emergency-oriented, and have limited reach. The current social protection system suffers a range of shortcomings related to scope, coverage, and financing, as well as institutional weaknesses in design and delivery. The gaps and challenges identified to be addressed through the National Social Protection Policy 2015-2025 include:

- Social transfers, which generally have extremely limited reach, and the size of transfers are inadequate for the attainment of basic needs.
- Social security is only accessible to a tiny minority of formal sector employees. It excludes unemployment insurance and paid maternity benefits.
- There is no national health insurance programme.
- Inadequate budgets and human resources lead to less-than-optimal enforcement of the relevant laws.
- Social assistance Programmes suffer from resource shortfalls, resulting in inadequate coverage and provision of benefits.

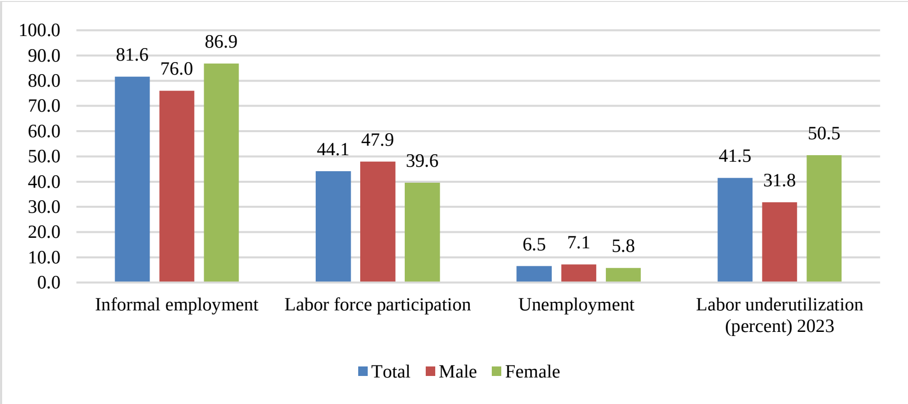
4.5.2. Employment and entrepreneurship

27. **The Gambia's labor market faces significant challenges, including low labor force participation, underutilization of skills, and a high reliance on informal employment.** As of 2023, the labor force participation rate is just 44.1% of the working-age population, with notable disparities: 47.9% for men and only 39.6% for women (World Bank Economic Update 2024). This suggests that more than half of the working-age population is disengaged from formal economic activities, limiting the potential for broader economic growth. Consequently, the impact of labor force participation on per capita value-added growth is minimal, highlighting the need for policies that can better integrate this untapped labor pool into the formal economy. The low labor force participation rate in has profound

[12] The Gambia National Social Protection Policy 2015-2025
https://faolex.fao.org/docs/pdf/gam210883.pdf

implications for the country's economic development and social stability. Labour underutilization hampers inclusive economic growth, as fewer people are contributing to productive activities that drive the economy forward. With only 39.6 percent of women participating in the labor market compared to 47.9 percent of men, there is a clear need to address barriers that prevent women from engaging in economic activities. Empowering women to join the workforce can lead to substantial economic gains and promote gender equality Overall, contribution of the labor force participation rate in per capita value-added growth seems marginal.

Figure 23: Labor force participation, unemployment, and informal employment, labor underutilization 2023 (percentage)



Source: African Development Bank Statistics Department

28. **There are also many underemployed workers.** The unemployment rate was 6.5 percent in 2023, while the labor underutilization rate - which combines unemployment, time-related underemployment, and persons who are outside the labor force but are considered as potential labor force - was 41.5 percent (50.5 percent among women and 31.8 percent among men) in the same period. Underemployment often results in low productivity, as workers are not engaged in roles that fully utilize their skills and capabilities. Low productivity is closely linked to low wages, which affects the standard of living and economic well-being of individuals and families. Addressing underemployment requires targeted interventions to create more quality jobs, enhance skills development, and ensure that all segments of the population, including youth and women, have equal access to employment opportunities.

29. **Employment is mainly informal and unwaged in The Gambia..** Informal sector dominates the labor market, with limited access to stable jobs and social protections, leaving many Gambians, particularly young men and women, in precarious economic conditions. Almost 81.6 percent of all workers are engaged in informal employment, ranging from 86.9 percent of female workers to 76 percent of male workers. Moreover, employment is concentrated in low or non-wage-paid agriculture. In 2019, only 27.9 percent of workers had waged jobs, ranging from 15.7 percent of female workers to 35.7 percent of male workers (World Bank Economic Updated of Gambia, 2024).

30. **Similarly, the latest Gambia Labor Force Survey (GLFS 2022-23) shows that youth unemployment was 10.5 percent in 2022 - higher than the rate at national level of 7.6 percent -** mainly driven by lack of essential skills required by the private sector. Inadequate skills and lack of integration of technical and vocational education with labor market needs constrains employment prospects for young people, thus undermining their ability to contribute meaningfully to economic growth and perpetuating cycles of poverty. The government is aware of these challenges and is focusing on mainstreaming Technical and Vocational Educational Training (TVET) in primary, secondary and open-school education to build workforce skills.

31. T**hese structural issues constrain The Gambia's ability to achieve inclusive growth, as marginalized groups, including youth, women and rural populations, are disproportionately**

affected. Addressing these challenges requires targeted interventions such as active labor market programs, investments in education and skills development, and policies promoting entrepreneurship and formal job creation to foster sustainable economic progress.

32. **Entrepreneurship in The Gambia is a vital component of the country's economic landscape, contributing significantly to GDP and employment.** The MSME sector in The Gambia plays a pivotal role in the country's economic landscape, accounting for approximately 20% of the nation's GDP and employing about 60% of the active labor force[13]. As of recent data, MSMEs constitute 95% of businesses in The Gambia, highlighting their significance in economic development[14]. However, the sector faces several challenges, including limited access to finance, with over 80% of enterprises lacking access to loans. Additionally, the regulatory environment is often burdensome, with high tax rates and inadequate infrastructure hindering growth[15]. Despite these challenges, MSMEs remain crucial for poverty alleviation and job creation, underscoring the need for supportive policies and infrastructure to enhance their competitiveness and contribution to the economy.

33. **In recent years, The Gambia has witnessed a promising growth of incubators, accelerators, hubs, and networks that support digital innovation and micro, small, and medium-sized enterprises (MSMEs)[16].** This burgeoning ecosystem is fostering entrepreneurship and technological advancement among young people. However, it faces significant challenges, including limited access to finance, markets, and skilled talent, as well as regulatory and policy barriers that impede the scaling of digital businesses. The World Bank Enterprise Survey and other initiatives highlight the critical need for improved human capital and access to quality education to enhance employment outcomes for youth. Addressing these challenges is essential for The Gambia to fully leverage its entrepreneurial potential and drive sustainable economic growth.

4.5.3. Education, health and nutrition

34. **The Gambia continues to face challenges in ensuring equitable access to education and improving education quality.** Although enrollment has increased in recent years, overall access remains below the Sub-Saharan Africa (SSA) average at all education levels. Primary school enrollment rose from 89.3 percent in 2019 to 93.7 percent in 2023. However, gender disparities persist, with 100 percent of girls enrolled compared to 87.3 percent of boys, indicating higher participation among girls at the primary level. The primary school completion rate also improved, reaching 75.5 percent in 2023, an increase of 6.9 percentage points from 2019.At the secondary level, enrollment stood at 101.4 percent in 2023, with girls continuing to outpace boys (110.3 percent versus 92.6 percent). However, the lower secondary school completion rate remained low at 54.5 percent, highlighting the challenge of ensuring that students complete the full cycle of schooling. Despite progress, high dropout rates, especially among boys, and persistent quality gaps underscore the need for targeted interventions to enhance retention and learning outcomes.

35. **Enrollment and completion rates remain lower in rural areas, especially for girls and students with disabilities, due to persistent barriers such as restrictive social norms, limited transportation options, poor road infrastructure, and a shortage of schools designed to meet their specific needs.** According to the 2020 Human Capital Index, a child in The Gambia who starts school at age four is expected to complete 9.5 years of education by the age of 18. However, when adjusted for actual learning outcomes, this translates to only 5.4 years of effective schooling, highlighting significant gaps in education quality. Despite improvements in teacher recruitment and training, a shortage of qualified teachers—particularly in Science, Technology, Engineering, and Mathematics (STEM)—remains a pressing issue**.** Combined with broader challenges in education quality, these gaps continue

[13] https://sdgs.un.org/sites/default/files/2022-03/Promoting%20MSME%20Formazlization%20in%20The%20Gamabia.pdf
[14] Commonwealth chamber of Commerce, 2023, Empowering Tomorrow: MSMEs and Sustainable Development in The Gambia
[15] Gambia National Policy for MSMEs 2019-2024
[16] The-Gambia-Digital-Economy-Master-Plan-2023-2033.

to hinder efforts to improve student learning outcomes and overall educational attainment. Notably, girls have been outperforming boys in national exams and academic performance, a trend that reflects higher school engagement and achievement among female students. However, despite their academic success, girls still face structural barriers that may limit their transition to higher education and the labor market. Addressing these challenges is crucial to ensuring that educational gains translate into broader economic and social opportunities.

36. **The Government expenditure on education represented 17.5 percent of GDP in 2023 higher than the West Africa average of 15.7 percent.** The government had implemented a number of interventions to mitigate financial and socio-cultural barriers to accessing and completing Early Childhood Development (ECD) and basic education, but additional resources are needed for addressing remaining challenges in the education system. To increase educational enrollment and completion rates, the country should work towards bringing quality education services closer to children and communities. This should include building more schools accessible to people with disabilities, with the equipment and resources needed for learning, and giving teachers the means and motivation to deliver quality lessons. In addition, the government must help families in difficult circumstances to cover the costs associated with education and other basic needs that hinder their children's education.

37. **The health system in the country needs to be improved.** Despite the priority given to basic health services in national strategies, budget allocations are skewed towards tertiary care and core activities at the central level to the detriment of primary care**,** contributing to inefficiency in health service delivery (only 20% is allocated to basic health services). The country's efficiency score is at 72% for 11 health facilities, meaning that on average, the same level of services can be provided with 28% fewer resources at health facility level (World Bank 2024, The Gambia Economic Updated).

38. **Spatial disparities in access to clinics and hospitals remained in the country**. Inhabitants of districts in the middle regions are particularly far from clinics. On the other hand, people living in the far east of the country, in the Upper River districts, are particularly far from hospitals. In addition, many households in the eastern half of the country have only limited access to health services. Given the difficulties of travelling in rural areas, some households have to travel considerable distances to access health services. In the east, the average person lives some distance from the nearest tertiary care hospital.

39. **Maternal mortality in The Gambia, though reducing, is still unacceptably high estimated at 289/100,000 live birth** (GDHS 2019-2020)[17]. The inadequate availability of life-saving obstetric and neonatal emergency care continues to be a major factor contributing to maternal and neonatal deaths. Progress has been recorded in child health, particularly in child mortality, which declined from 20 deaths per 1,000 live births in 2013 to 15 per 1,000 in 2020. However, neonatal mortality remains high at 29 deaths per 1,000 live births**,** accounting for nearly half of all deaths among children under five (GDHS 2019–2020). Malnutrition remains a significant public health concern, though recent trends show improvement. Stunting decreased from 25% in 2013 to 18% in 2019, while **u**nderweight prevalence declined from 16% to 12% over the same period (GDHS 2019–2020). These figures indicate progress but highlight the ongoing need for targeted interventions to improve maternal and child health outcomes.

40. **Nutrition is fundamental to economic productivity and human development, yet food insecurity in The Gambia has escalated dramatically**—from 13.4% in 2021 to 29% in 2023—signaling an urgent crisis. Child malnutrition remains a critical challenge, with 18% of children stunted and 5% wasted, which severely undermines their survival, cognitive development, and future economic contributions[18]. The broader economic impact is equally concerning, as undernutrition cost The Gambia an estimated 5.1% of its GDP in 2018 through lost productivity, higher healthcare expenses, and diminished learning outcomes[19]. The cost of malnutrition on the nation is exacerbated by drivers of

[17] The Gambia Demographic and Health Survey (GDHS 2019-2020)

[18] The Gambia 2019 - 2020 Demographic Health Survey

[19] The Cost of Hunger in Africa: The Gambia Effects & Cost of Child Malnutrition

fragility, including limited livelihood opportunities and inadequate access to basic social services. These alarming trends underscore the necessity for immediate, multisectoral interventions.

41. **The Gambia should spend more and better on health, education and social protection to boost human capital and accelerate growth**. However, these efforts face funding challenges, including a budget that prioritizes recurrent spending over development spending, undermining education and health outcomes, with considerable efficiency losses. Reforms should improve service delivery by increasing investment spending on inputs and learning materials, rationalizing the allocation of the health budget in favor of primary care, and tackling inefficient spending in the health, education and social protection sectors.

4.5.4. Water and sanitation

42. **The challenges associated with the provision and management of basic water[20] needs in The Gambia vary widely**, particularly with respect to potable supplies, where the urban, peri-urban and rural sectors impose quite different and often incompatible demands. The opportunities presented by the PPPs to augment more traditional approaches to service delivery are attractive, were considered appropriate and have been highlighted in the Water Policy (2006) and Sanitation Policy (2015-2020). Access to clean water services in The Gambia improved in the past decade, but remains low. Proportion of population using safely managed drinking water services increased to 47.7 percent in 2021 from 35.1 percent in 2010, according to AfDB data. However , the share of people using safely managed sanitation services has dropped from 31.1 percent in 2017 to 28 percent in 2021, due to a sharp drop in the use of safely-managed sanitation in rural areas (30.6 percent to 22.6 over the same period). In urban areas, the use of safely managed sanitation systems has remained almost unchanged at 31 percent.

43. **The country faces some challenges as high population growth continues to weaken the ability of water and sanitation services, including poor maintenance culture of water systems, and multiple issues with improving sanitation facilities.** To achieve Goal 6 of SDGs -Ensure availability and sustainable management of water and sanitation for all by 2030 -, the country needs to undertake key measures and interventions to improve access to safe drinking water, affordable sanitation, and good hygiene practices at all levels. In addition, the government should improve community structures for effective maintenance and sustainable management of water resources and sanitation facilities.

CHAPTER 5: PRIORITY AREAS OF REFORMS

1. In the context of the analysis in the previous chapters, this chapter discusses the set of priorities for achieving the country's development objectives to maximize progress toward the goals of inclusive and green growth. These are the necessary priority reforms to respond to the gaps identified, with a focus on the reforms needed to achieve the High 5s.

2. The analysis identifies three priority areas that may need quick reforms towards achieving the structural transformation and sustainable inclusive growth of The Gambia. These are: i) Enhancing energy, clean water and transport infrastructure development; ii) Improving Human capital development; and iii) Strengthening governance and domestic revenue mobilization. In addition to these three priority areas, two cross-cutting areas will be added: iv) Enhancing resilience to climate change; and v) Promoting gender equality.

5.1. Enhancing energy, clean water and transport infrastructure development

3. **Energy - Access to electricity is pivotal for raising living standards and powering health, education, trade, and industry—but The Gambia still falls short.** Only 56.2 percent of Gambians are grid-connected, and that plunges to just 13 percent in rural areas, leaving nearly half the population

[20] Basic water needs include water to support life, subsistence agriculture and aqua-culture

in the dark. Service quality is equally problematic: frequent outages and extended blackouts in some neighborhoods disrupt not only lighting but water supply, health clinics, schools, and businesses. To close this gap, the government must make electricity access a priority. That means expanding transmission and distribution networks to carry new domestic generation and imports, while opening the grid's last-mile connections to private investment. At the same time, scaling up renewable technologies—solar mini-grids, off-grid systems, and distributed generation—will deliver more reliable, sustainable power, especially in remote areas. By combining public funding with private capital, The Gambia can ensure a stable, affordable supply that underpins broader economic growth.

4. **Water - The government should strengthen infrastructure development, institutional tools, and innovation to enhance clean water supply.** Like energy, the country faces challenges in providing clean water, with only 47.7 percent of the population having access to safely-managed drinking water services in 2021. To strengthen the supply of clean drinking water, the government must invest in infrastructure development. It must also strengthen institutional tools such as legal and regulatory frameworks to better allocate, regulate and conserve water resources. Investments in innovative technologies to improve productivity, recycle rainwater and wastewater and develop non-conventional water sources should be explored. In addition, the government can build resilience through investment in storage in a context of rapid population growth and increased climate variability. Improved natural storage can serve multiple purposes, including irrigation services essential for food security.

5. **Transport infrastructure - Upgrading transport infrastructure is essential for The Gambia's economic growth and job creation**. Priority should be given to improving rural-urban road links and boosting the efficiency of the Port of Banjul through better cargo handling and ICT integration. Since the launch of the Banjul Port Master Plan (2018–2038), berth expansion, a new container terminal, and digitalized operations have eased congestion and enhanced service delivery, strengthening the port's competitiveness. River transport remains underutilized despite its potential to complement road transport for goods and passengers. Given fiscal constraints, the government should explore public-private partnerships (PPPs) and innovative financing to fund infrastructure upgrades. This requires strong regulation and effective institutional coordination to attract investment and ensure sustainability.

5.2. Improving human capital development

6. **The development of a skilled and healthy workforce is crucial for The Gambia's economic transformation.** However, progress in human capital development is hindered by poor education quality, limited access to primary healthcare, and the lack of a comprehensive social safety net and adequate nutrition services. These challenges are further exacerbated by budgetary constraints, where recurrent expenditures take priority over development investments. This imbalance weakens education and health outcomes, leading to inefficiencies that undermine the country's long-term growth potential.

7. **In order to boost human capital and accelerate growth, The Gambia should prioritize reforms that enhance education and health service delivery.** In the short term, this includes increased investment in learning materials and upgrading infrastructure, equipment, and trainer capacity in TVET centers—especially for agribusiness, a key sector for youth and women employment. Adequate budgeting for recurrent costs is also essential. In health, reallocating resources to strengthen primary care—especially in underserved areas—is critical to improving population productivity. This requires better access to water, sanitation, and energy in health facilities, as well as enhanced diagnostic capacity to reduce costly overseas treatments, which rose from GMD 20 million in 2016 to a projected GMD 71 million in 2025. Tackling inefficiencies and improving accountability in health, education, and social protection will free up resources for better service delivery. Long-term sustainability will depend on

effective domestic resource mobilization and investment in nutrition to build a healthier, more productive workforce.

8. **To address the persistent skills mismatch and high youth unemployment, The Gambia should adopt an inclusive approach to improve training quality.** Engaging employers in curriculum design, skills certification, and job placement—through School-Business and Professional Integration Partnerships—can align training with labor market needs. Despite existing TVET and skills initiatives, outcomes remain modest. The government should expand graduate internships and support apprenticeship programs in sectors facing labor shortages, while also prioritizing STEM education and 4IR technologies to equip students with future-ready skills. Youth entrepreneurship must be a central pillar of job creation. This requires improving access to finance, entrepreneurship training, and a business-friendly regulatory environment. Support measures like business incubators, digital skills programs, and integration into value chains—alongside efforts to remove barriers such as limited market access—can unlock the potential of The Gambia's youth and drive sustainable economic growth.

5.3. Strengthening governance and domestic revenue mobilization

9. **Governance - The Gambia suffers from limited institutional capacity, which limits its performance in implementing new sectoral policies, development strategies and programs.** Since 2017, The Gambia has engaged in governance reforms, with new laws (Access to Information Act 2021, Public Procurement Act 2022, and bills on anti-corruption, anti-money laundering and combating the financing of terrorism, state-owned enterprises reform). However, challenges remain, which will require additional efforts to improve governance and reduce vulnerabilities to corruption. The country needs to implement governance and business environment reforms to accelerate economic growth and productivity. The difficulties encountered in advancing policy and institutional reforms are reflected in The Gambia's low Country Policy and Institutional Assessment (CPIA) score in areas such as macroeconomic policy and public sector governance (the CPIA score was 3 for both sectors in 2021-2022). The authorities need to develop a comprehensive national strategy focused on resolving governance and corruption issues and implementing a robust competition policy framework. This would require an independent and effective enforcement agency, independent regulators and also judicial support. The public procurement system requires further enhancement and the current success achieved in the ongoing reforms needs to be sustained by ensuring the operational effectiveness of the Gambia Public Procurement Authority (GPPA) and related fiduciary institutions. It will also require capacity building and institutional support to enable government institutions to perform their functions in a sustainable manner.

10. **Domestic Revenue Mobilization - Domestic revenue mobilization (DRM) is critically important for developing countries to sustainably finance the development projects that best suit their priorities.** However, weak state capacity is the main constraint that countries face in mobilizing domestic resources. In addition, high debt servicing obligations constrain government's ability to allocate significant resources to finance development. In the particular case of increasing DRM in The Gambia, the government needs to strengthen human and institutional capacity at the Gambia Revenue Authority (GRA). This means strengthening the core functions of tax and customs administration, in particular, to improve compliance with taxpayer obligations (registration, filing, payment and accurate declaration), with a focus on key economic sectors. The government should continue to support the digital transformation of the GRA, strengthen tax administration capabilities in tax policy analysis and revenue forecast modeling, and develop a medium-term revenue mobilization strategy. This could be achieved by strengthening collaboration with development partners. In addition, The Gambia needs to strengthen the Public Financial Management (PFM) system by improving performance monitoring and reducing subsidies for SOEs, improving tax data collection, risk monitoring, transparency and legislation. The implementation of these reforms could yield significant revenue gains.

6: CONCLUSION

1. **This Country Diagnostic Note (CDN) for The Gambia outlines key development challenges and opportunities aligned with national priorities.** The country has made progress in governance, economic reforms, and SOE restructuring. It benefits from a strong agricultural base and growing regional integration. The Port of Banjul and River Gambia enhance its role as a strategic re-export hub. There is notable potential for private sector-led growth in agro-processing, light manufacturing, and logistics. Despite progress, The Gambia faces structural constraints: an underdeveloped manufacturing base, weak infrastructure, fragile political institutions, and high unemployment and poverty. Rapid population growth has intensified land disputes and informal settlements. Key bottlenecks include unreliable energy supply, poor transport connectivity, water scarcity, limited access to finance, and low labor productivity. Cross-cutting challenges such as gender inequality, climate vulnerability, and weak public sector capacity also hinder inclusive growth.

2. **Based on the Country Diagnostic Note, The Gambia must tackle structural and policy challenges to achieve inclusive and sustainable growth.** The next Country Strategy Paper (CSP) should focus on two priorities: (i) enabling the private sector through energy and transport infrastructure development, and (ii) strengthening agro-industrial value chains and skills for inclusive growth. Under Priority Area 1, the Bank will support investments and reforms to improve roads, ports, and access to clean, reliable energy, while enhancing economic governance and domestic revenue mobilization. Priority Area 2 will focus on boosting agro-industrial development and equipping youth and women with the skills needed for jobs in related industries.

3. **Cross-cutting issues such as gender, youth, climate change, fragility, and governance will be mainstreamed throughout Bank operations.** These priorities build on the current CSP and respond to The Gambia’s evolving development needs, aiming to unlock private sector potential, promote economic diversification, and strengthen resilience.

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