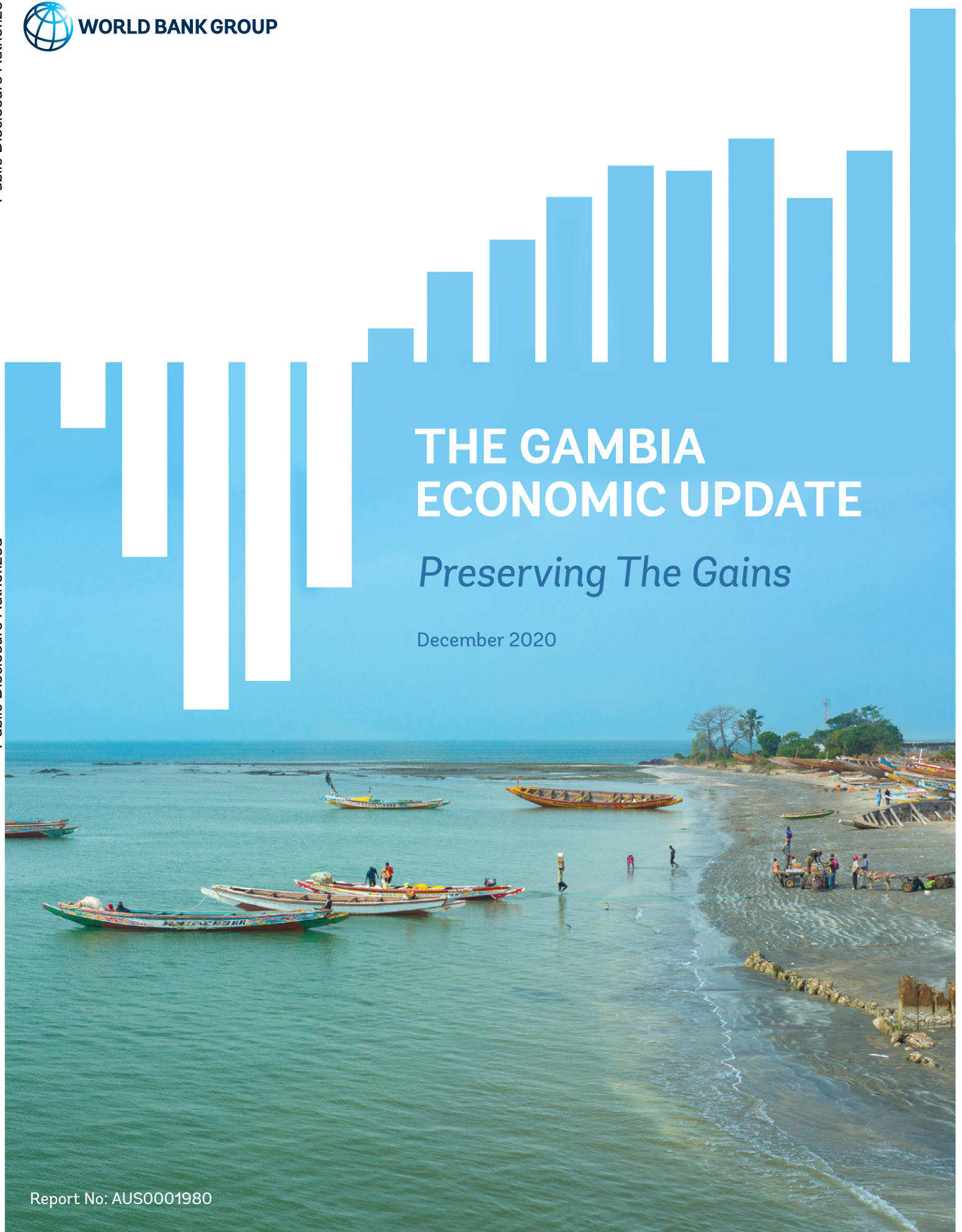


THE GAMBIA ECONOMIC UPDATE

Preserving The Gains

December 2020



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THE GAMBIA ECONOMIC UPDATE

Preserving The Gains

December 2020

Preface

The objective of this report is to update the Government of The Gambia, think-tanks and researchers, the public, and the World Bank's senior management on the state of the Gambian economy and its outlook, together with the structural reforms it requires and the development challenges it faces. The report begins with a chapter on economic developments, with sections on growth, fiscal policy, public debt, the external sector, monetary developments and inflation, and poverty. The second chapter provides a medium-term macroeconomic outlook and describes the risks the country faces and upcoming challenges. The third chapter stresses the importance of creating a skilled labor force that is more productive and better able to adopt and adapt to new technologies—the core of The Gambia's growth path – and finally the fourth chapter emphasizes building the resilience of the economy to withstand shocks of varying nature and to preserve macroeconomic stability. This report is based on data available as of October 31, 2020.

Acknowledgements

This update was prepared by the Macroeconomics, Trade and Investment Global Practice under the guidance of Nathan M. Belete (Country Director, AWCF1), Theo David Thomas (Practice Manager, EAWM1) and Feji Boroffice (Resident Representative, AFMG). The overall effort was led by Mehwish Ashraf (Economist, EAWM1). Analyses were contributed by Besart Avdiu (Young Professional, ETIFE) who authored the 'Real Sector' and the 'Monetary Policy and Inflation' sections. Mehwish Ashraf authored the 'Fiscal and Debt Dynamics' and the 'Balance of Payments' sections. Moritz Meyer (Senior Economist, ESAPV) authored the 'Poverty: Patterns and Trends' section with inputs from Djibril Ndoye (Economist, EAWPV), Sidi Mohamed Sawadogo and Yra Fonton (both Consultant, EAWPV) on the impact of COVID-19 on household welfare. Besart Avdiu authored the 'Outlook' and the 'Risks' sections.

The first special section on 'For a More Inclusive Jobs Agenda' was co-authored by Moritz Meyer and Immo Schott (Universite de Montreal) with inputs from Alison Marie Grimsland (Education Specialist, HAWE2) and Penny Williams (Senior Social Protection Specialist, HAWS2). The second special section on 'Strengthening Resilience' was authored by Maya Eden (Consultant, EAWM1) with inputs from Chris Trimble (Senior Energy Specialist, IAWE2), Dambudzo Josephine Mugenda (Water Supply and Sanitation Specialist, SAWW1) and Naomi Halewood (Senior Digital Development Specialist, IDDO4). The section benefited from pertinent background information shared by Ana Campos Garcia (Senior Disaster Risk Management Specialist, SAEU2) and useful comments provided by Philippe Ambrosi (Senior Environmental Economist, SAWE1). Emilia Skrok (Program Leader, EECDR) helped with the finalization of the section.

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Sally Hinchcliffe (Consultant, EAWM1) drafted the Executive Summary and edited the report. Florencia Micheltorena developed the cover page and designed the report. Maude Jean-Baptiste (Program Assistant, EAWM1), Aji Oumie Jallow (Team Assistant, AWMGM), and Micky O. Ananth (Operations Analyst, EAWM1) provided helpful administrative and operational assistance.

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Acronyms and Abbreviations

AfDB	African Development Bank	IMF	International Monetary Fund
AMRC	Asset Management Recovery Corporation	ITFC	Islamic Trade Finance Corporation
CBG	Central Bank of The Gambia	kWh	Kilowatt hour
CPI	Consumer price index	MOFEA	Ministry of Finance and Economic Affairs
DSSI	Debt Service Suspension Initiative	MoU	Memorandum of Understanding
EU	European Union	NAWEC	National Water & Electricity Company
FDI	Foreign direct investment	NEET	Neither employed nor in education or training
GAMCEL	Gambia Telecommunications Cellular Company	NFSPMC	National Food Security Processing and Marketing Corporation
GAMPOSTS	Gambia Postal Services	PER	Public Expenditure Review
GAMTEL	Gambia Telecommunications Company	PFM	Public financial management
GBoS	Gambia Bureau of Statistics	SAP	Supplementary Appropriation Bill
GCAA	Gambia Civil Aviation Authority	SCF	Standing credit facility
GDP	Gross domestic product	SDF	Standing deposit facility
GIA	Gambia International Airline	SOE	State-owned enterprise
GLF	Gambia Local Fund	SSA	Sub-Saharan Africa
GLFS	Gambia Labor Force Survey	SSHFC	Social Security and Housing Finance Corporation
GMD	Gambian dalasi	SVL	Statistical value of life
GNPC	Gambia National Petroleum Company	UNDRR	United Nations Office for Disaster Risk Reduction
GPA	Gambia Ports Authority	US\$	United States Dollar
GPPC	Gambia Public Printing Corporation	VAT	Value-added tax
GRA	Gambia Revenue Authority	WASH	Water, sanitation, and hygiene
GRTS	Gambia Radio and Television Services	WDI	World Development Indicators
H1	First half of the year	y/y	Year-on-year
HCI	Human Capital Index		
IHS	Integrated Household Survey		
ILO	International Labour Organization		

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Executive Summary

Recent Developments

Prior to the pandemic, The Gambia's economic prospects had been improving.

Real GDP growth exceeded 6 percent during the two years before COVID-19 struck, supported by rebounding confidence, investment, low interest rates, and growing tourism. Investment accounted for over 22 percent of GDP in 2019, three-fifths of which was private. The tourism market had weathered the collapse of Thomas Cook UK and expanded into new markets. Industry was the fastest-growing sector in 2019, partly due to the issuance of oil-prospecting licenses, but also due to strong investment in construction fueled by remittances from the diaspora. On the other hand, agriculture had contracted, affected by erratic rainfall and the late supply of inputs.

The pandemic interrupted a promising start to 2020.

Tourism arrivals had started the year in line with 2019 but collapsed by 50 percent in March and are expected to fall by 63 percent in 2020. However, official remittances grew at record pace in the second quarter, perhaps due to travel restrictions closing informal channels. Favorable rainfall, good access to inputs, and few pest outbreaks bode well for agriculture.

The Gambia reinstated fiscal discipline in 2019.

It registered the lowest fiscal deficit since 2009 and a primary surplus after 2009. This came despite increased expenditure, as revenues rose due to increased excises and levies and improved revenue administration capacity. Both budget and project grants also increased. The Government continues to make large transfers to state-owned enterprises (SOEs), however, the fiscal burden of which is estimated to be around 6 percent of 2019 GDP.

However, COVID-19 is exerting pressure in 2020.

Pressures from COVID-19 saw the deficit rise in the first half of 2020 although the tax authorities still managed to exceed their revised collection targets. Tax exemptions, although declining, continue to be sizeable—without discretionary exemptions, the deficit in the first half of 2020 would have been reduced by 0.7 percent of GDP. Non-tax revenue has been boosted by one-off items such as the sale of assets, which partly compensated for the tax decline. The Government initially responded to pandemic-related spending pressures through budgetary reallocation. In July, the National Assembly passed a supplementary bill aimed at providing further relief and stimulating recovery.

Much of the pandemic-related spending has been covered by multilateral credit, official grants and various debt service relief schemes such as the G20 Debt Service Suspension Initiative and the IMF Catastrophe Containment and Relief Trust. Public debt has continued to decline as a share of GDP, from 74 percent at end-June 2019 to 73 percent at end-June 2020, but is expected to increase at the year end. Moreover, almost 60 percent of domestic debt is in the form of Treasury bills, exposing the country to refinancing and repricing risks.

The current account deficit improved from 9.5 percent of GDP in 2018 to 5.3 percent in 2019. Imports of goods outpaced the recovery of exports, leading to a widening trade deficit, but on the services side, strong tourism receipts led to an overall services surplus. Transfers (grants and remittances) in 2019 increased three-fold over 2018, covering three-quarters of the trade deficit. Foreign direct investment (FDI) was stable, partly due to private investment inflows from the diaspora.

With tourism at a standstill from March 2020, and travel income falling, imports of essential supplies to contain the pandemic put further pressure on the trade account. As projects were put on hold, FDI also slowed but remittances reached record levels. These inflows, together with massive donor support, overcame the mounting trade deficit. The dalasi has remained stable thanks to the prudent exchange rate policy of the central bank. International reserves increased substantially in 2019 and continue to rise in 2020.

Headline inflation increased to 7.1 percent in 2019, up from 6.5 percent in 2018, but core inflation remained subdued, allowing for monetary easing. In response to the COVID-19 outbreak, the Central Bank of The Gambia (CBG) cut its monetary policy rate twice, reaching 10 percent in May 2020, and eased liquidity conditions. The pandemic has put downward pressure on prices due to declining domestic demand and food price controls, with inflation falling to a low of 4.8 percent in July. However, food prices increased in August due to seasonal factors and pandemic-related disruption. The September data show an uptick in non-food inflation—the first increase since March—signaling that consumer confidence is starting to revive.

Private sector credit grew strongly in 2019 but has stagnated in the first half of 2020. Credit to the construction and distributive trade sector grew strongly in 2020 but credit to the tourism sector collapsed by over 30 percent and credit to the agriculture sector contracted by 14 percent. As a result, broad money growth decelerated in 2020, interrupting the acceleration of previous years.

Rising economic activity has been an important factor behind the poverty reductions. However, progress has been geographically uneven, and the COVID-19 crisis has undone some of the reduction in 2020. Living standards differ dramatically across the country but although poverty rates are higher in the rural interior than the coastal urban areas, the greatest concentration of poverty is found close to Banjul. High levels of rural-to-urban migration has led to concentrations of poverty in congested urban areas. Poverty is often multidimensional, reflecting limited education, poor access to basic services, and greater exposure to climate risks.

Despite a rising fiscal deficit, net domestic borrowing has been well contained.

Remittances and investment inflows offset a widening trade deficit in 2019.

As COVID-19 took its toll on tourism and FDI, the external position deteriorated but private and official flows held up.

Inflation had been increasing but the crisis has put downward pressure on prices.

Broad money growth had been increasing but decelerated in 2020 due to sluggish private sector credit.

Poverty rates have declined in recent years but spatial differences remain, exacerbated by COVID-19.

The pandemic has affected households through declining incomes, rising food prices, and school closures.

Urban and richer households have been less affected than rural and poorer ones with most households reporting declining income from agriculture and fishing, non-farm businesses, and salaried employment. Remittances from both internal and international migrants have fallen. Some households have reported being unable to stock up on food also because a rise in food prices reduced their real purchasing power, and almost 80 percent report being unable to meet loan payments, bills, or transport costs. Food distribution and the expansion of the Nafa Quick cash transfer program have helped to close some of these gaps. School closures have disrupted learning with less than half of students engaging in any educational activity at home, while visits to health centers have also declined.

Outlook and Upcoming Challenges

The impact of COVID-19 has dampened The Gambia's growth outlook.

GDP is projected to stagnate in 2020 due to trade disruption and the fall in tourism arrivals. Domestic economic activity has also been suppressed by containment measures, with the services sector projected to contract by 3.3 percent and industrial growth falling from 14.3 percent in 2019 to 6.4 percent. The economy is expected to gradually recover in 2021 if the pandemic recedes and the global economy starts to recover, with growth spurred by a rebound in services and industrial activity, and by increased private consumption and continued public investment.

Current account and fiscal deficits are projected to increase.

The current account deficit is forecast to rise and remain high over the medium term, reflecting subdued tourism receipts and the high import content of public investment projects. The fiscal deficit is projected to reach 1.9 percent of GDP in 2020, while public debt declines to 76.6 percent of GDP as increased health spending and social transfers were mostly supported by donor grants. The deficit is expected to rise in 2021 as the Government responds to challenges caused by the pandemic and attempts to restart the economy while strengthening the governance of subvented agencies and SOEs. Inflation is also expected to continue to decline towards the central bank's target of 5 percent as the central bank narrows the interest rate corridor.

The outlook is uncertain, with the main variable being the depth and duration of the pandemic.

If it is prolonged and continues to disrupt tourism, exports, supply chains, and the domestic economy, then GDP will fall further than predicted and the trade balance and deficit will deteriorate further. If the Government is unable to implement fiscal reforms while pursuing an expansive monetary and fiscal policy in response to COVID-19, then increased domestic borrowing and debt pressures could undermine growth. Weather-related shocks could also disrupt the agricultural sector.

Political and governance risks are also high.

Presidential elections scheduled for December 2021 could make it harder to implement difficult but necessary reforms which could in turn exacerbate existing fiscal risks. Achieving macroeconomic stability will require improving spending efficiency and increasing tax revenues, as well as strengthening public financial management and SOE governance, combined with better service delivery for crucial infrastructure including energy, water, and telecommunications.

Special Section 1: For a More Inclusive Jobs Agenda

Labor force participation is low, at 53 percent, with an unemployment rate of 35 percent, with women, young people, and rural areas particularly affected. The services sector is by far the largest provider of regular employment. Tourism and agriculture are both highly seasonal, causing large fluctuations in employment over the course of the year. Half of all workers are classified as self-employed, reflecting the large informal sector, meaning they are unlikely to have access to benefits or pensions. They also tend to earn less than their counterparts in formal employment. Wages are relatively low, with under 4 percent of employees earning more than GMD10,000 per month (around US\$200).

Labor mobility has been high in The Gambia, with people moving from rural areas into the more urban West Coast Region, and from agriculture to the services sector. However, these movements have not translated into higher wages due to the low productivity of the services sector and the predominance of low-skilled and informal jobs. Low levels of education are reducing people's chances of employment and the wages they can earn, with The Gambia ranking 137th on the Human Capital Index. High returns to education suggest persistent skills gaps in the labor market, with better-qualified workers and those who attend work-related training reporting higher wages.

This will mean creating better-paid jobs and reallocating workers to the most productive sectors. Better skills through both formal education and training will be key. The tourism and hospitality sector offers the most scope for creating formal, well-paid, and productive jobs. High levels of internal migration are already contributing to some reallocation, but these migrants need to be successfully integrated into formal urban labor markets. Social safety nets could also help broaden the workforce and draw more women into the labor market.

Special Section 2: Strengthening Resilience

The economy is small and highly concentrated in agriculture and tourism, making it more volatile than its peers, with the same shocks appearing to have a greater effect on its growth and household consumption than for its neighbors. The country needs to strengthen its resilience across three dimensions: climate, infrastructure, and fiscal.

Variations in rainfall affect crop production which in turn affects GDP—with agriculture accounting for 24 percent of the economy, low rainfall is expected to cause GDP to fall by at least 3.5 percent once every eight years. Climate change could exacerbate the situation but brings great uncertainty: current models suggest that rainfall may either increase or decrease by 40 percent. Floods have already affected over 50,000 people in 2020 and inundated Banjul's port. Reducing the country's vulnerability to climate shocks should increase macroeconomic stability. This will require government leadership both in mitigation measures such as irrigation schemes, zoning and building regulations to make the economy less vulnerable to flooding, and in insurance against climate risk.

The Gambia has a young population and a growing labor force but is not fully exploiting this demographic dividend.

The economy's inability to create enough high-quality jobs could explain the underuse of the country's working-age population.

Future economic growth will depend on a structural transformation of the labor market.

The Gambia's economy is highly vulnerable to external shocks.

Climate shocks have economic implications for both the agricultural and non-agricultural sectors.

Robust digital infrastructure will be crucial to build resilience in the face of shocks including the pandemic.

Digital infrastructure enables remote working and education during lockdowns and allows e-commerce to replace bricks-and-mortar retail, as has been seen across the globe during COVID-19. Mobile phone penetration is high in The Gambia but internet usage is hampered by issues of affordability and the quality of connections. Liberalizing the wholesale fiber backbone infrastructure and reforms to telecoms SOEs could improve both issues.

Equally important will be a robust electrical system.

A resilient electricity system requires sufficient generation reserve capacity that can absorb shocks from voltage fluctuations. The transmission and distribution network needs enough redundancy that a storm affecting one part of the network does not cause system-wide blackouts, and the utility operator needs to be able to rapidly respond during such events. The Gambia also remains 100 percent dependent on imported heavy fuel oil for its generation, exposing the country to exchange rate and global oil price shocks. Connecting to the West Africa Power Pool will enable The Gambia to import high volumes of lower-cost, cleaner electricity, while investing in large-scale domestic solar energy will further diversify its mix.

Most of the population faces inadequate water, sanitation, and hygiene (WASH) infrastructure.

This issue is made more acute by the COVID-19 pandemic, but also worsens human capital outcomes more widely through water-borne diseases and exacerbating childhood stunting. With much of the country at or below 10 meters above sea level, rising sea levels are another risk, with salt water and sewage already contaminating the shallow aquifer serving the Greater Banjul Area. September's floods further damaged the country's WASH infrastructure. Investing in water supply and sewerage infrastructure should be a key priority, particularly in schools, health facilities, and other public institutions, combined with better management of water resources to mitigate climate risks.

The Gambia needs access to additional funding during crises to address rising expenditure needs.

Although The Gambia's tax revenue is well below its potential, increasing taxes can be difficult during a crisis and could put further pressure on the economy. Government spending has tended to be pro-cyclical, and so has tax revenues during downturns. Other sources of funding, such as grants and fees, are also unreliable, especially during a global crisis. The Government could reallocate existing funds towards its crisis response, although only 22 percent of the budget is flexible enough to be repurposed without serious consequences. Public debt is already high, giving the Government limited access to additional borrowing.

In the longer term, The Gambia needs to reduce its debt burden and diversify its tax revenues.

Reducing its debt burden would enable the Government to spend in response to crises without forcing it to cut essential services. One way could be to review its existing pipeline of loans before contracting new debt. It should also seek to diversify its revenue sources, particularly reducing its dependence on taxation of international trade, by improving its capacity to collect direct taxes such as income tax.

A. Recent Developments

Real Sector

The Gambia's gross domestic product (GDP) grew by 6.1 percent in real terms in 2019, following growth of 7.2 percent in 2018 (Figure 1). Overall, growth was supported by rebounding confidence and low interest rates. Further growth factors included a more reliable power supply as well as strong activity in tourism and other services, complementing the impetus from public investment. The slowdown in growth in 2019 was mainly due to the impact of delayed rainfall on agriculture. This illustrates the country's vulnerability to shocks and scope to improve resilience (see Special Section 2). While the economy was operating very close to potential in 2018, estimates show a slight overheating in 2019 with a positive output gap of 1.9 percent.¹

Gross investment, which accounted for 22.5 percent of GDP in 2019, grew at a rate of 25.3 percent. Close to 80 percent of investment's contribution to growth came from construction, of which three-fifths was private. This was supported by the diaspora's healthy investment of remittances in real estate, with credit to the sector growing by 25.5 percent in 2019.

Household consumption has historically been the largest expenditure component, accounting for 83.9 percent of GDP in 2019 and contributing 3.4 percentage points to growth. However, in 2019 private consumption growth slowed down to 3.9 percent, from 10.0 percent in 2018. Furthermore, the negative GDP contribution of net exports continued.² This was due to the performance of the goods sector, with a 16.4 percent drop in exports and a 4.5 percent increase in imports. Meanwhile exports of services grew by 9.1 percent, driven by tourism, and imports fell by 3.3 percent.

Services were the main growth driver in 2019, contributing 4 percentage points to the growth rate and 61.5 percent to real GDP. However, growth in this sector slowed from 10.1 percent in 2018 to 6.5 percent in 2019. The deceleration was due to a weaker

The Gambia's growth exceeded 6 percent during the last two years.

On the demand side, growth in 2019 was driven by investment, especially in construction ...

... coupled with growth in private consumption, while net exports fell.

On the supply side, growth in 2019 was driven by services ...

1 We define the output gap as the difference between actual and potential GDP as a percent of potential GDP.

2 Net exports' contribution to GDP has always been negative, but its contribution to growth in 2018 was slightly less negative.

performance in all sub-sectors, but particularly wholesale and retail trade (3.4 percent growth) and financial and insurance activities (7.0 percent). Despite the bankruptcy of Thomas Cook UK, which had accounted for 40 percent of tourist arrivals, a collapse in tourism was avoided.³ Other tour operators quickly picked up cancelled reservations and expanded into new markets, especially Germany, while the Government also acted swiftly.⁴ As a result, tourist arrivals set a record in 2019, growing 12.7 percent year-on-year (y/y), and only contracted by 4 percent y/y in the fourth quarter of the year.

... and construction ...

Industry was the fastest-growing sector in 2019, expanding by 14.3 percent, compared to 2.0 percent in 2018. This was driven by growth in mining and quarrying (22.5 percent); electricity, gas, steam, and air conditioning (23.5 percent); and construction (19.9 percent). The mining and quarrying growth was due to licenses being issued to British Petroleum (BP) and FAR Gambia Limited to prospect for oil. Improvements in the water and electricity supply also contributed to growth. Nevertheless, construction, as the largest industrial sub-sector, has been the main driver, adding 2 percentage points to GDP growth in 2019. This has been partially fueled by the strong performance of remittances. With hotels close to maximum capacity in 2019, construction may raise potential GDP.

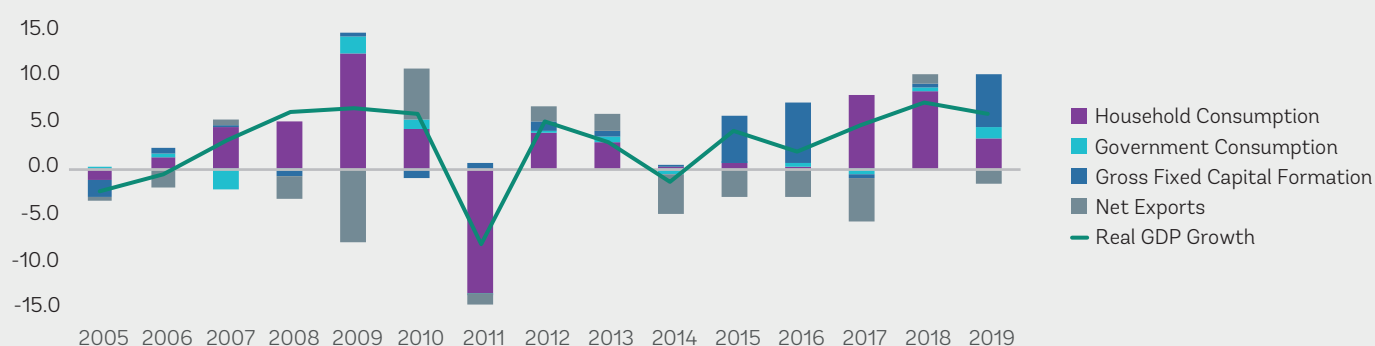
... while agriculture contracted.

Agriculture has continued to struggle, contracting by 1.3 percent in 2019. Erratic rainfall had severe impacts, especially on crops and livestock. Crops were also affected by the late supply and insufficient application of fertilizer, as well as farmers' use of their own stored seeds, which are typically low quality. Hence, the crop sector continued to decline, falling by 16.7 percent in 2019. Livestock contracted by 1.7 percent, while forestry and logging fell by 24.3 percent. Due to consistent substantial growth since 2015, fishing

³ The company declared bankruptcy on September 22, 2019.

⁴ Measures included a tax reduction for hotels (as an incentive to tour operators), reductions of airport charges (handling, landing, and lighting), outreach missions to meet airlines and tour operators, and the formulation of a strategy to prevent bird collisions at the airport.

Figure 1: Point contribution to real GDP growth, aggregate demand
Percent



Source: Staff calculations based on Gambia Bureau of Statistics (GBoS) data .

Note: Data labels refer to real GDP growth. Differences between real GDP growth and the sum of its components are due to the contribution of the statistical discrepancy.

and aquaculture replaced crops as the largest primary sub-sector in 2019, following growth of 18.4 percent in that year. Overall, agriculture's contribution to GDP fell from 21.6 percent in 2018 to 20.1 percent in 2019 (Figure 2).

COVID-19 has spread with extraordinary speed to every part of the world. Due to the pandemic, the Global Economic Prospects global growth forecast for 2020 has been revised from 2.5 percent in January to -5.2 percent in June (World Bank 2020a).⁵ COVID-19 and associated mitigation measures have severely affected consumption and investment, while restricting labor supply and production. Cross-border spillovers have disrupted financial and commodity markets, global trade, supply chains, and tourism. Financial markets have been extremely volatile and global financial conditions have tightened, reflecting exceptionally high uncertainty. Commodity prices have also declined sharply as a result of falling global demand.

Tourist arrivals to The Gambia have been consistently rising since 2016, growing by 29.0 percent in 2018 and 12.7 percent in 2019 (Figure 3). Notably, the number of non-traditional tourists grew faster in 2019 (17 percent) than those from traditional markets (10.2 percent).⁶ This reflects the immediate need to diversify after the Thomas Cook bankruptcy. The first two months of 2020 also saw similar growth compared to 2019 (Figure 4). However, due to COVID-19, numbers collapsed in March by 48.3 percent, followed by zero arrivals in Q2 and Q3⁷, highlighting the sector's vulnerability to external shocks, with potentially strong employment effects (see Box 4).

The COVID-19 pandemic has created a global economic shock of enormous magnitude ...

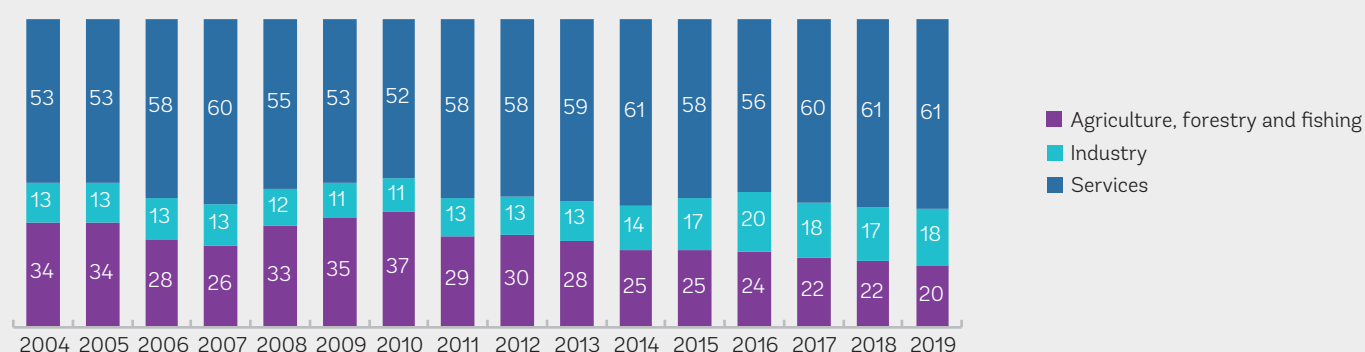
... and interrupted The Gambia's strong economic performance, particularly in tourism.

⁵ The October issue of Africa's Pulse forecasts growth of -3.3 percent for Sub-Saharan Africa in 2020 (Zeufack et al. 2020).

⁶ Traditional tourists are Belgian, German, Danish, Spanish, Finnish, British, Dutch, Norwegian, and Swedish. All others are non-traditional.

⁷ With the easing of the lockdown since mid-September and reopening of the airport in end-October, the tourism season has kicked-off. Although no data for Q4 is available yet, tourist arrivals are likely to remain subdued this year due to the ongoing second wave of the pandemic and ensuing lockdowns in most of the Europe and UK – The Gambia's key markets.

Figure 2: Contribution to GDP by sector
Percent



Source: Staff calculations based on GBoS data.

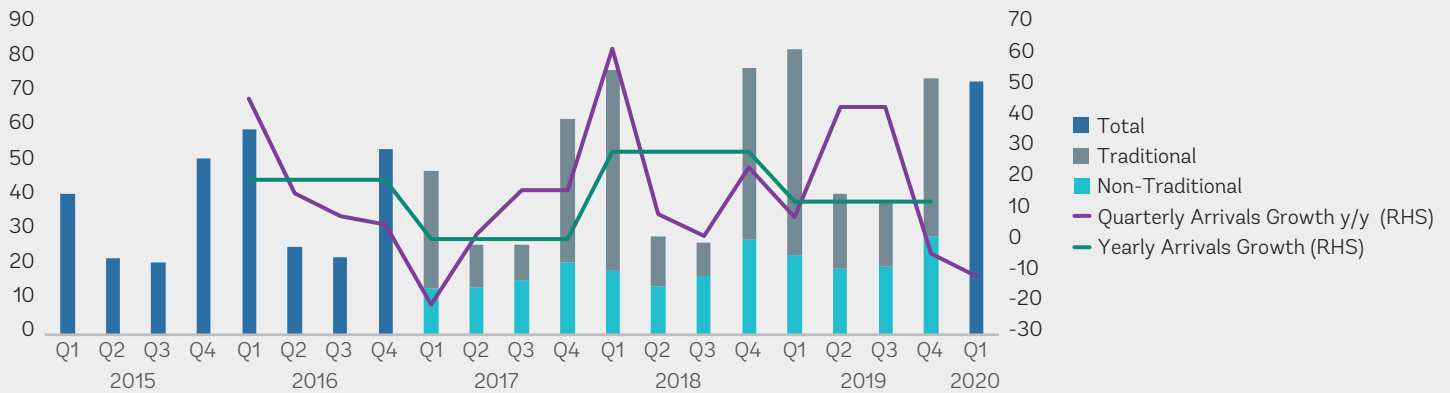
Official remittances have, however, continued with record-breaking growth in 2020, which could support private investment in construction.

Remittances⁸ have been growing strongly, increasing by 22.6 percent in 2018 and 18.7 percent in 2019 (Figure 5). Despite the COVID-19 shock, official data for 2020 show record increases beginning in Q2 (Figure 6). As a result, net remittances increased by 48 percent in the first half (H1) of 2020. Given travel restrictions in Europe and the United States—the Gambia’s main originating markets for remittances—it is possible the data are capturing the replacement of informal remittance channels with official ones. Nevertheless, remittances, which typically fund private construction, could mitigate the pandemic’s impact, as evidenced by the 64.2 percent y/y credit growth to the construction sector in H1 2020.

⁸ This consists of all remittance inflows to the balance of payments, including both consumption and investment.

Figure 3: Quarterly tourist arrivals and growth

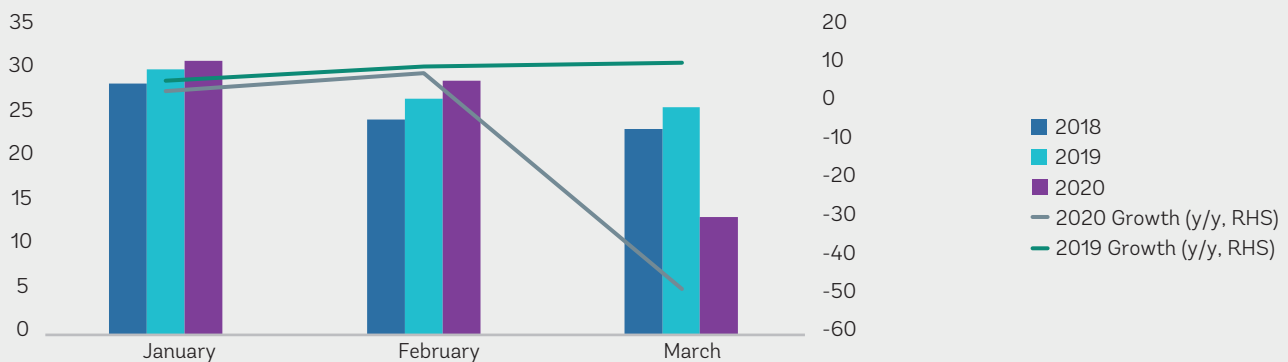
Left axis: thousands of people, right axis: percent



Source: Staff calculations based on GBoS data.

Figure 4: Tourist arrivals and growth, first quarters

Left axis: thousands of people, right axis: percent



Source: Staff calculations based on GBoS data.

Data up to end-August 2020 show positive signs for agriculture, mainly due to favorable rain patterns, which should more than offset the impact of COVID-19 on the sector.⁹ On average, rainfall was 37.4 percent more than the same period last year, and 19.1 percent above the country’s long-term average (1981–2010).¹⁰ No significant pest damage has been reported, even though there have been pockets of cases in some areas. Planting mostly started on time and the cultivated area for cereals for the 2020/21 season has almost doubled compared to the year before, with a 66 percent increase for cash crops. Farmers are also more satisfied with the quality of seeds and fertilizer provided to them as support in this cropping season compared to last year.

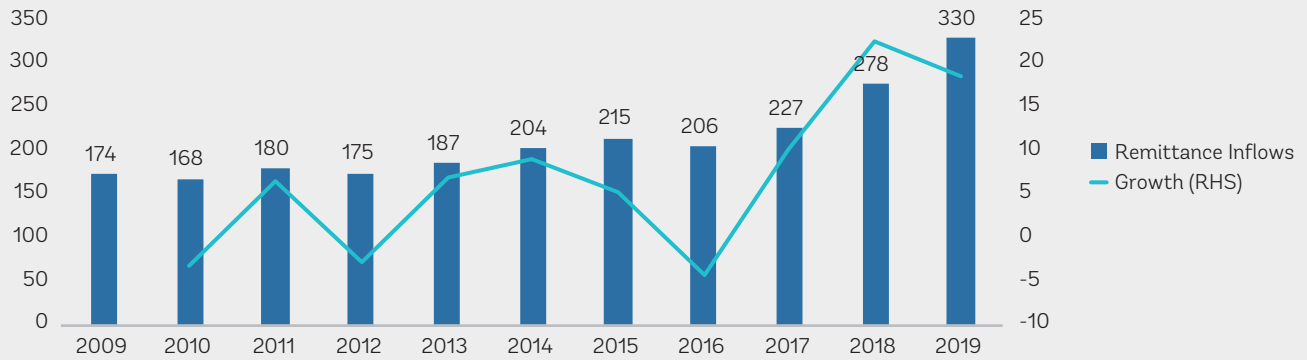
Favorable rains in H1 2020 bode well for agriculture.

9 COVID-19 mitigation measures have reduced demand and prices. Worker training was reduced or postponed, while access to labor, including from neighboring countries, has been restricted.

10 However, there have also been some negative general effects from excess rain, notably adverse effects on vegetable harvests in August and some structural damage due to flooding.

Figure 5: Remittance inflows and growth

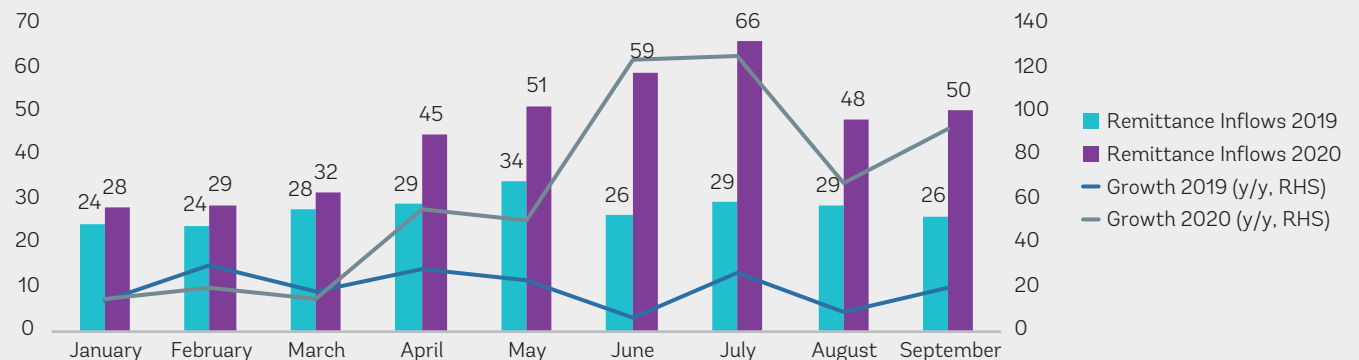
Left axis: million USD, right axis: percent



Source: Staff calculations based on IMF and Central Bank of The Gambia (CBG) data.

Figure 6: Monthly remittance inflows

Left axis: million USD, right axis: percent



Source: Staff calculations based on IMF and CBG data.

Fiscal and Debt Dynamics

2019 saw The Gambia restore fiscal discipline after a decade.

The fiscal deficit (including grants) was 2.5 percent of GDP in 2019 (Table 1)—a level last seen in 2009 and 3.6 percentage points below the figure in 2018. The primary balance was in surplus (0.6 percent of GDP), after a deficit of 3 percent the year before. This fiscal adjustment was cyclical—due in part to higher grants despite a faster execution of externally financed projects—as has been the norm historically (see Special Section 2). Moreover, tax revenues rose by 0.8 percent of GDP due to an increase in excises on alcohol and vehicle imports, and other additional levies on imports. Strengthened audit capacity, stepped-up enforcement efforts, and legal actions on tax arrears, particularly from state-owned enterprises (SOEs), also contributed. The fiscal deficit was financed by external project disbursements while domestic borrowing fell from 3 percent of GDP in 2018 to 0.5 percent in 2019.

However, COVID-19 related pressures affected the discipline somewhat in the first half of 2020.

The fiscal deficit reached 2.4 percent of GDP (a primary deficit of 0.7 percent of GDP), up by 1.1 percentage points compared to the same period in the previous year. Revenues, including grants, contracted by 1.5 percent compared with the same period in 2019, as a result of a large fall in budget¹¹ and project grants. Project grants fell as project execution slowed down considerably in Q2 2020 due to the pandemic and ensuing lockdown. Total expenditure grew by 10.2 percent. Recurrent spending remained high to accommodate emergency needs but capital expenditure decelerated due to slower project execution.

Tax collection by the Gambia Revenue Authority (GRA) has been impressive despite dismal economic activity.

Taxes grew by 3.5 percent in H1 2020 compared with growth of 22.6 percent in H1 2019 (Table 2). Nonetheless, tax collection for H1 2020 has exceeded the revised target.^{12,13} Domestic taxes on goods and services contributed to half of the total collection while the other half came equally from direct and international taxes. The revision of reference prices of imports, combined with the adoption of transactional-value-based customs and excise levies, increased customs revenue, despite a decline in import volumes caused by the pandemic. Value-added tax (VAT) collection and revenue from the telecommunications sector bolstered domestic taxes. This was despite the negative impact of COVID-19 on the economy (exogenous factors) and the subsequent relief measures (endogenous factors).¹⁴

Tax exemptions declined slightly but remain sizeable.

Tax exemptions during H1 2020 amounted to GMD1,165.7 million, 6.7 percent lower than those granted in the same period of last year. Almost 60 percent of these waivers were recommended on a discretionary basis. Had these discretionary exemptions not been granted, this alone would have reduced the fiscal deficit by 0.7 percent of GDP.

¹¹ The disbursement of US\$30 million (≈GMD1,500 million) World Bank budget support projected for Q2 was delayed to early Q3.

¹² The budget target for 2020 was revised downwards by GMD2 billion accounting for the loss of economic activity and relief measures due to COVID-19.

¹³ The preliminary data for up to end-October 2020 show a continuation of this trend. With two months remaining in 2020 and the reopening of the economy, the GRA is likely to exceed the revised target for tax collection.

¹⁴ These include: (i) a 20 percent reduction on acceptable values for essential food products; and (ii) a ban on the re-export trade which accounts for 20-40 percent of imports initially destined for The Gambia.

Non-tax revenues increased by 90 percent in H1 2020 compared to the same period last year. This was attributable to sales of assets in Q1 2020 authorized by the Janneh Commission,¹⁵ totaling GMD850 million. These proceeds partly compensated for the COVID-19 induced shortfall in taxes.

Non-tax revenues have been boosted by one-off items.

Development partners including the World Bank were quick to deploy a large array of technical and financial assistance to help the Government mitigate the impact of the pandemic. The World Bank approved a COVID-19 Health Preparedness and Response Project (US\$10 million) in April 2020. The already-approved Social Safety Net Project (US\$30 million) was restructured in June 2020 to widen the cash transfer program to 60,000 households. The Emergency Education COVID-19 Response Project (US\$3.46 million) was approved in July 2020. The European Union (EU) and African Development Bank (AfDB) disbursed additional US\$19.4 million and US\$7 million respectively as budget support grants in 2020. This was on top of the implementation and technical support being provided by United Nations and other donor agencies.

Grants have increased in the aftermath of the pandemic.

Current expenditure grew by 26.8 percent during H1 2020 compared to the first half of 2019 (Table 3). The Government was able to spend on pandemic-related priorities partly by reallocating funding from lower-priority areas (such as travel, vehicles, and training expenses)¹⁶ and partly through donor assistance. This spending included: (i) a GMD500 million COVID-19 emergency fund for immediate health expenditure; and (ii) GMD867 million in food aid for 84 percent of households. Current spending also included transfers to the National Water & Electricity Company (NAWEC) and to the National Food Security Processing and Marketing Corporation (NFSPMC) for repayments to the Islamic Trade Finance Corporation (ITFC; see Box 1 on fiscal costs generated by SOEs).

Growth in recurrent expenditure was largely necessitated by pandemic priorities ...

Capital expenditure declined by 17.7 percent in H1 2020 relative to the same period last year due to implementation challenges created by the pandemic. However, GMD440.6 million of Gambia Local Fund (GLF) capital was spent on roads and bridges,¹⁷ exhausting the approved budget for all of 2020 (MOFEA 2020).

... while capital spending lagged.

On July 22, the National Assembly approved a Supplementary Appropriation (SAP) Bill totaling GMD2.85 billion (3 percent of GDP). The Bill includes further provisions for health and social support, totaling GMD494.3 million. Several construction projects have also been planned, of about GMD854.3 million, which could provide much-needed economic stimulus.¹⁸ The Bill provided relief to the hospitality industry by settling fees and licenses on their behalf (GMD19.4 million) and support for its recovery plan (GMD100 million). However, the supplemental budget includes large subventions to SOEs, mainly the settlement of ITFC payments on behalf of the NFSPMC, which is concerning.

The supplementary budget is expected to accelerate spending in H2 2020.

15 The Government's White Paper summarizing the findings of the Janneh Commission of Enquiry was published in September 2019. The paper detailed the scale of stolen assets and illegally acquired proceeds by the former President and his close associates. The sale of domestic vehicles, land, and property raised GMD700 million in 2019 (IMF 2020).

16 Via virements authorized under the Public Finance Act 2014. The Act provides two options to accommodate new spending priorities: (i) budget reallocation; and (ii) the creation of an emergency fund (capped at 1 percent of the current budget) as a dedicated spending line within the treasury single account.

17 This mostly included expenditure incurred on the Banjul Rehabilitation Project.

18 As per media reports, the Government has recently started implementing some of these projects.

Table 1: Summary of fiscal operations

	GMD billion unless indicated otherwise				Percent growth	
	2018	2019	H1 2019	H1 2020	2019	H1 2020
Total revenue and grants	12,135	19,238	9,055	8,917	58.5	-1.5
Domestic revenue	9,502	12,753	6,165	7,221	34.2	17.1
Tax revenue	8,139	9,978	5,194	5,376	22.6	3.5
Non-tax revenue	1,363	2,775	971	1,845	103.6	90.0
Grants	2,633	6,485	2,890	1,696	146.3	-41.3
Budget support	794	2,790	1,424	508	251.4	-64.3
Project	1,839	3,695	1,466	1,188	100.9	-19.0
of which: COVID-19 assistance	-	-	-	521
Total expenditures	17,008	21,552	10,137	11,171	26.7	10.2
Current of which:	11,004	13,287	6,353	8,057	20.7	26.8
Interest	2,477	2,843	1,431	1,554	14.8	8.6
Capital	6,004	8,265	3,784	3,114	37.7	-17.7
Fiscal balance	-4,873	-2,314	-1,082	-2,254	-52.5	108.3
% of GDP	-6.1	-2.5	-1.2	-2.4		
Deficit financing						
Net acquisition of financial assets	68	-329	0	0		
Net incurrence of liabilities	4,387	2,866	1,636	2,373		
Domestic	2,379	452	401	1,417		
Of which: Net borrowing	2,623	1,063	517	550		
Of which: RCF				1,095		
External	2,008	2,414	1,235	956		
Statistical discrepancy	417	-223	-552	-118		
Gross financing needs	21,174	21,385	...	19,058		
% of GDP	26.3	23.4		20.3		
Memorandum items:						
Tax exemptions	2,039	2,522	1,250	1,166		
GDP (nominal)	80,446	91,418	91,418	94,006		

Source: Ministry of Finance and Economic Affairs (MOFEA), IMF, and World Bank staff calculations.

Note: Gross financing needs are the sum of the primary deficit, debt service on medium- to long-term debt, and outstanding short-term debt of previous year.

Despite a rising fiscal deficit, net domestic borrowing was well contained.

The additional pandemic-related spending was partly covered by the US\$21 million IMF Rapid Credit Facility disbursement approved on April 15 (GMD1,107 million or 1.2 percent of GDP)¹⁹ and debt service relief under the Catastrophe Containment and Relief Trust (GMD77 million in Q2 2020). Prudent execution of the GLF budget (a utilization rate²⁰ of 37 percent in H1 2020 versus 41 percent in H1 2019) also helped limit domestic borrowing for end-June 2020 to GMD550 million (or 0.6 percent of GDP).

¹⁹ Which was on-lent to the budget.

²⁰ The utilization rate is calculated as expenditure during a specified period of the year divided by the approved GLF budget for that year (MOFEA 2020).

The ratio of total public debt to GDP declined by 1 percentage point and stood at 72.8 percent of GDP at the end of June 2020 (Figure 7). Nearly two-thirds of the medium- and long-term external debt is owed to multilateral and plurilateral creditors, in equal proportions. Non-Paris Club creditors hold the bulk of the debt owed to bilateral creditors, while the Paris Club debt represents only 0.1 percent of The Gambia's external debt and has been fully amortized in 2020. The Gambia owes debt to one external private creditor, namely M.A. Kharafi and Sons, and has contracted a short-term trade credit facility with the ITFC.

Public debt has declined relative to GDP.

Table 2: Gambia Revenue Authority tax collection

GMD billion unless indicated otherwise					Percent growth	
	2018	2019	H1 2019	H1 2020	2019	H1 2020
Taxes on income, profits, and capital gains	2,048	2,625	1,541	1,393	28.2	(9.6)
Indirect taxes	6,071	7,339	3,646	3,983	20.9	9.2
Domestic taxes on goods and services	3,978	4,840	2,342	2,689	21.7	14.8
Taxes on international trade and transactions	2,093	2,499	1,304	1,294	19.4	(0.8)
Other taxes	20	14	7	-	(30.0)	...
Total taxes	8,139	9,978	5,194	5,376	22.6	3.5

Source: Gambia Revenue Authority (GRA), IMF, and World Bank staff calculations.

Table 3: Analysis of spending

GMD billion unless indicated otherwise					Percent growth	
	2018	2019	H1 2019	H1 2020	2019	H1 2020
Total expenditures	17,008	21,552	10,137	11,172	26.7	10.2
Current	11,004	13,287	6,353	8,057	20.7	26.8
Personnel emoluments	3,058	3,955	1,917	2,006	29.3	4.6
Other charges	7,946	9,332	4,436	6,051	17.4	36.4
Goods and services	3,066	3,179	1,431	2,290	3.7	60.0
Subsidies and transfers	2,403	3,310	1,595	2,207	37.7	38.4
Interest	2,477	2,843	1,410	1,554	14.8	10.2
External	420	371	178	266	(11.7)	49.4
Domestic	2,057	2,472	1,232	1,288	20.2	4.5
Capital	6,004	8,265	3,784	3,115	37.7	-17.7
Externally financed	5,535	7,584	3,355	2,556	37.0	-23.8
Gambia local fund	469	681	429	559	45.2	30.3

Source: MOFEA, IMF, and World Bank staff calculations.

However, the domestic debt profile deteriorated further, raising risks.

As of end-June 2020, almost 60 percent of domestic debt was in the form of Treasury bills,²¹ creating substantial refinancing and repricing risks.²² In November 2019, the authorities issued a two-year bond which aimed to extend the maturity of domestic debt and build the yield curve. On July 29, 2020, the authorities issued three-year bonds at a fixed coupon rate of 9 percent. These bonds were reopened twice in August 2020.²³ The updated medium-term debt management strategy, prepared with support from the World Bank and the IMF, is expected to serve as a blueprint for the development of the government debt market. To that end, the Government is currently developing an annual borrowing plan (ABP) for 2021 with support from the World Bank.

Relief under the G20 Debt Service Suspension Initiative (DSSI) has been modest, due to the 2019 debt restructuring.

The Gambia received confirmed offers for debt service relief from most of its official creditors following the 2019 initiative.²⁴ As a result, debt service relief under the DSSI in 2020 amounted to US\$4.15 million (0.23 percent of GDP). An extension of the DSSI to 2021 would lead to US\$3.0 million (0.15 percent of GDP) in debt service deferrals. The authorities are actively involved in ongoing discussions on DSSI, seeking recognition that a deeper treatment of the country's external debt would be helpful.

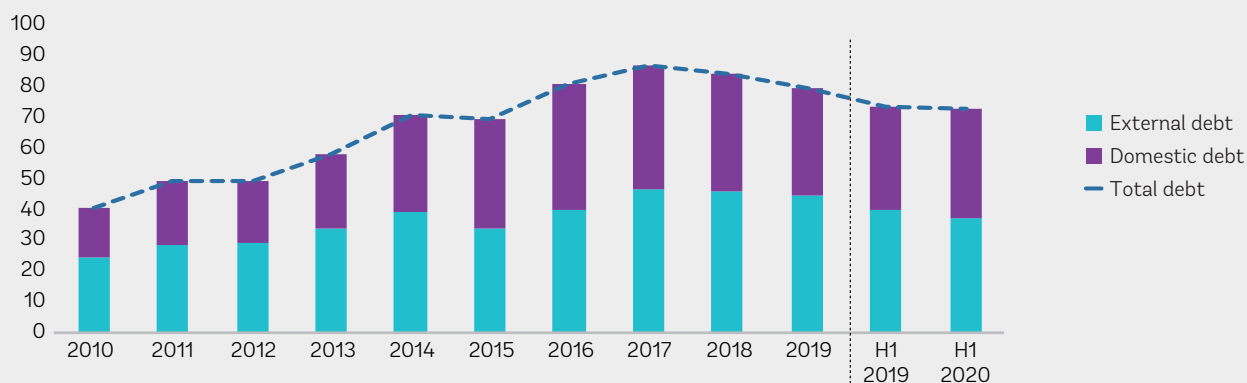
21 Compared to 55 percent as of end-2019.

22 Refinancing risk refers to the risk that debt may be refinanced at an unusually high cost or, in extreme cases, cannot be refinanced at all. Repricing risk refers to the risk of increases in the cost of the debt arising from changes in interest rates.

23 The Government raised GMD1.34 billion with these three issuances.

24 The debt service from these creditors already deferred or was expected to defer amounts of up to US\$158 million (or 9 percent of 2019 GDP) between 2020 and 2024.

Figure 7: Trends in public debt
Percent of GDP



Source: MOFEA, IMF and World Bank staff calculations.

Box 1: The Gambia's state-owned enterprises: A source of fiscal risks

The Gambia's SOEs²⁵ operate in key sectors of the economy and have a poor track record of service delivery and financial performance. They are a source of contingent liabilities through loan guarantees, on-lending from the Government, and high levels of indebtedness. In recent years, this has resulted in sudden unforeseen requirements for capital injections and other transfers from the Government. Staff estimates, based on available data sources, show the SOE sector imposes an aggregate fiscal burden of GMD5,616 million (US\$111.7 million) on the Government, or 6.1 percent of the 2019 GDP (Figure B1).

Reasons for poor performance include: (i) an inadequate legal and institutional framework for SOE ownership and oversight; (ii) inadequate monitoring and reporting of SOE's financial performance and fiscal risks; (iii) political interference causing poor business decisions and diversion of resources; (iv) non-reimbursement of the costs of SOEs' public service obligations, including the setting of tariffs and purchasing/selling prices at levels that negatively affect SOEs' financial viability; (v) lack of professionalism in the composition and performance of SOEs' boards; (vi) a breakdown in financial discipline including serious weaknesses in financial management and accounting practices; and (vii) overstaffing.

Figure B1: Fiscal transfers to SOEs, 2017 or latest available GMD million

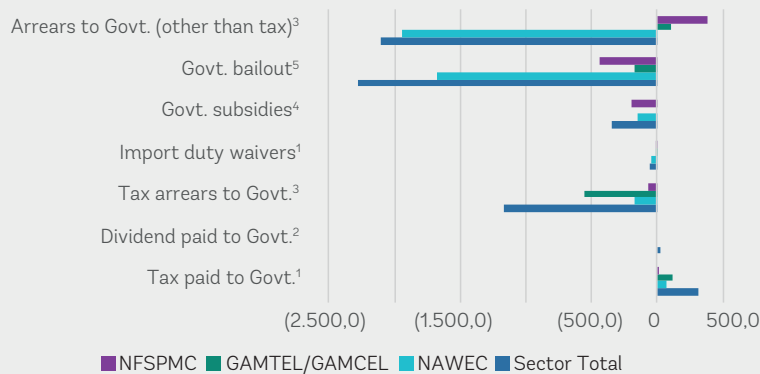
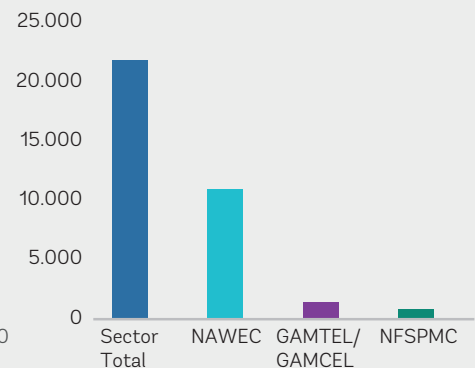


Figure B2: SOE total liabilities, 2017⁶ GMD million



Source: Special Purpose Audit Reports, IMF country reports, MOFEA and GRA.

Note: Some of the data in the figure are approximations as records are not available to verify. 1/ 2017 tax and import duty waiver data obtained from GRA. 2/ Dividend from the GPA in 2018. 3/Data on tax arrears and other arrears to the Government from the June 2019 assessment. As of today, NAWEC's tax arrears have been wiped clean. 4/ 2020 Subsidies to NAWEC and NFSPMC (adjusted for the reimbursement by the corporation) from fiscal accounts. Total is the sum of the two. 5/ NAWEC restructured bond and SSHFC loan as of end-June 2020 from statistical debt bulletin plus the debt service to ITFC repaid by Govt. in 2020. Debt service arrears for GAMTEL/GAMCEL National Broadband Network and Economic Community of West African States Wide Area Network (ECOWAN) repaid by the Government in 2020. The NFSPMC's debt service to the ITFC repaid by the Government in 2020. The total is a sum of all these bailouts. 6/ SOE liabilities for end-2017 as presented in the Special Purpose Audit Reports.

25 These are, by sector: energy and water: National Water and Electricity Company (NAWEC) and Gambia National Petroleum Company (GNPC); telecommunications and media: Gambia Telecommunications Company (GAMTEL), Gambia Telecommunication Cellular Company (GAMCEL), Gambia Postal Services (GAMPOSTS), Gambia Public Printing Corporation (GPPC), and Gambia Radio and Television Services (GRTS); services: the Social Security and Housing Finance Corporation (SSHFC) and Asset Management Recovery Corporation (AMRC); air and sea transport: Gambia Ports Authority (GPA), Gambia Civil Aviation Authority (GCAA), and Gambia International Airline (GIA); and agriculture: National Food Security Processing and Marketing Corporation (NFSPMC, formerly GGC).

Box 1: Continued

The SOEs' problems reached crisis proportions in 2014 when the Government had to service the external debt obligations of NAWEC, GAMTEL, and the NFSPMC by a sum equivalent to 5 percent of GDP. In the same year, tax and other arrears owed by SOEs reached the equivalent of 4.3 percent of GDP and the overall fiscal deficit (excluding grants) rose to 14 percent of GDP.²⁶

Since 2015, SOE reform programs, with support from the World Bank and the IMF, have brought about some positive changes, but the reform agenda is still far from complete. By the end of 2017, the SOE sector's total liabilities were estimated at 31.3 percent of GDP (Figure B2) with NAWEC's liabilities accounting for 50 percent of this total. Recent Special Purpose Audits of the largest SOEs by Ernst & Young concluded that the former regime had diverted or misused funds equivalent to around 4 percent of GDP between mid-2014 and 2017. For the period 2018–2025, the IMF has estimated the sector's explicit liabilities at 2.5 percent of GDP in terms of potential legal claims, and at 20 percent of GDP in terms of potential requirements for capital injections (Harris et al. 2017).

Poor financial discipline has been evidenced by a recurring problem of cross-arrears in payments between the Government and SOEs, and among the SOEs themselves. The most recent cross-debt reconciliation, completed by MOFEA in June 2019, found the total net amount owed by SOEs to the Government and each other was GMD3,033 million (3.3 percent of GDP). NAWEC was the largest debtor, with net debts to government and other SOEs of GMD4,140 million (4.5 percent of GDP), meanwhile public sector institutions owed NAWEC GMD862 million through unpaid electricity and water bills.²⁷ Other major debtors included the GCAA (GMD1,447 million) and GAMCEL (GMD832 million).

Between 2010 and 2017, the taxes paid by SOEs ranged from 2.5 percent to 6.3 percent of total tax revenues. In 2017 the SOEs paid GMD315.6 million in taxes, 3.4 percent of the total revenue excluding grants. The largest SOE taxpayers in 2017 were the GPA (29 percent of taxes paid by SOEs), NAWEC (23 percent), GAMCEL (21 percent), and GAMTEL (16 percent). At end-2017, SOEs' tax arrears amounted to GMD462.8 million (5.8 percent of total revenue excluding grants). By end-June 2019, they had risen to GMD1,162.7 million (9 percent of total revenues excluding grants). The only SOE to have paid dividends to the Government in recent years is the GPA which paid GMD5 million in 2017 and GMD20 million in 2018.

The sections that follow describe specific problems for NAWEC, GAMTEL/GAMCEL, and NFSPMC. Problems affecting other SOEs have included poor business models and capital structures which have (i) overburdened some with debt (for example the GCAA); (ii) limited their revenues (the GRTS); and (iii) prevented them from purchasing inputs at more favorable prices in the world markets (the GNPC).

NAWEC

NAWEC is responsible for The Gambia's power and water supply. It is by far the largest of the SOEs, with operating revenues equivalent to 5 percent of GDP, almost a half of the entire SOE sector's revenues. It also holds more than a quarter of the sector's assets. The company plays a critical role in the economy and is also a major source of fiscal risk. Historically, NAWEC has represented a significant fiscal drain, but important steps have been taken to improve the company's operational performance and financial viability.

²⁶ The authorities rebased the GDP series in 2018 but the figures in this paragraph use the old GDP series.

²⁷ These arrears were wiped clean through a cross-arrears Memorandum of Understanding, signed in October 2019.

Box 1: Continued

NAWEC has been insolvent since 2011, reporting a negative net worth of US\$79 million (GMD4.2 billion) in 2017. Over recent years, it accrued operating losses of US\$10–20 million per year. In 2019, World Bank staff estimated that the cost of supplying electricity in The Gambia was approximately US\$0.27 per kilowatt-hour (kWh) on a cash needs basis,²⁸ but average tariffs were only US\$0.23/kWh, making cost recovery impossible.

In 2014, the Government was forced to assume the servicing of NAWEC's debts, adding over 3 percent of GDP to the budget. In 2015 and 2016, government fuel purchases on behalf of NAWEC cost US\$20 million per year, while the Government was also servicing about one-third of the company's debt. Despite this support, NAWEC defaulted on its debt service obligations, including payments on a GMD2 billion bond that had been issued in 2015 to consolidate its liabilities to commercial banks. The bond was later restructured, and the Government has since cleared all arrears and assumed full responsibility for servicing it.

In March 2018, as part of the efforts to transform NAWEC into a financially viable utility which could attract reasonably priced independent power producers, MOFEA signed a Memorandum of Understanding (MoU) with NAWEC to transfer responsibility for much of its debt to the Government. This agreement removed 75 percent of NAWEC's loans by: (i) converting debt to equity; and (ii) government assumption of debts. A cross-arrears MoU helped NAWEC collect what public sector customers owed it and has been followed by measures to prevent future buildups. The majority of NAWEC's public sector customers are expected to be supplied through prepayment meters by the end of 2020. For critical customers such as hospitals, the military, and the Office of the President, a cash allocation earmarking system has been put in place to ensure that their bills are paid. Bills for street lighting have been centralized and are now paid directly by MOFEA.

A new methodology for setting electricity tariffs was developed in 2020, incorporating several important changes to ensure tariffs are fully cost-reflective, including a transition to a multi-year tariff model, correct treatment of long-term debt, and an automatic pass-through mechanism for fuel costs. A tariff assessment is underway following the new methodology, which is expected to be completed early 2021.

Despite these measures, public sector payments arrears to NAWEC have continued to rise and amounted to 0.2 percent of GDP as of end-October 2020. As a result of this, the Government stepped in to repay GMD137 million to the ITFC in early 2020 on behalf of NAWEC, which the Company has committed to repay in six installments starting July 2020²⁹, while the Government has committed to clear the buildup of arrears.

GAMTEL and GAMCEL

GAMTEL, the state-owned fixed line telephone operator, and GAMCEL, the mobile telephone operator, are second and third only to NAWEC in terms of the SOE losses incurred since 2010. The two companies' combined tax arrears also make up over 48 percent of total SOE tax arrears. GAMCEL was insolvent as of December 2017 and it would take an estimated US\$15–20 million to upgrade its mobile network to provide the same level of service as other mobile operators. Revenue from its former main source of income, the international voice gateway, has shrunk drastically over the years for various reasons including the increasing use of services such as Skype and Viber.

²⁸ i.e., the cash needed to cover its immediate operating costs and debt servicing.

²⁹ NAWEC has so far repaid only the July installment of GMD 22.8 million.

Box 1: Continued

As of end-2018, the Government has assumed responsibility for servicing telecom-related loans, equivalent to 3.6 percent of GDP, and will continue to be responsible for two decades.³⁰ On June 19, 2020, MOFEA made a payment of US\$0.25 million on behalf of GAMTEL to clear its March 2020 interest payment arrears. The authorities also cleared debt service payment arrears of around US\$8.8 million by end-November 2020 on an Istisna'a³¹ loan. GAMCEL's financial statements for the end of 2018 show commercial debt totaling 1.3 percent of GDP. The Government is considering establishing a public-private partnership to manage the essential fiber infrastructure and is seeking more options for debt burden reduction.

NFSPMC

The NFSPMC is The Gambia's main agro-industrial processing and trading corporation and specializes in groundnut purchasing, processing, and exporting. It operates warehouses, a river transport fleet, and processing facilities to produce edible groundnuts, groundnut oil, groundnut cake, cashew nuts, and sesame seeds. It has a social role in that it is obliged to buy groundnuts offered by buying agents and private traders. The NFSPMC provides crop finance, for which it is dependent on a line of credit from the ITFC.³² It also provides fertilizer at subsidized prices for which it is supposed to be reimbursed by the Government. The NFSPMC also has a US\$30 million loan from the Islamic Development Bank for the rehabilitation of the groundnut industrial complex.

There are conflicts between the Corporation's social and commercial roles. Historically the Government has set its selling price for fertilizer at below the purchase price; for example, in 2015 it was set at 40 percent below cost. But subsidies received from the Government have been inadequate to cover the shortfall. As a result, since 2014 the Government has had to reimburse the NFSPMC's debts and arrears directly to the ITFC. In 2015 it provided US\$1.2 million for this purpose.

Similarly, the NFSPMC's purchase prices for groundnuts are often set at levels that have kept the Corporation's operating margins low or negative. While its net worth was reported at US\$0.6 million in 2016 and US\$2.1 million in 2017, inadequacies in its accounting system led the Special Purpose Audit to raise questions about the accuracy of these numbers. Historically, its net worth has been reported as negative or close to zero.

In 2020, the Government committed to reforming the NFSPMC's pricing and subsidy policies, including close monitoring of its financial position, alongside other subsidized SOEs. The aim is to reduce the Government's obligations related to the ITFC facility to zero by 2022. It included GMD350 million in the 2020 budget to meet subsidy commitments to the NFSPMC out of which the Corporation has reimbursed GMD156 million. In June 2020, the Government directly settled US\$8.3 million (0.4 percent of GDP) in payments due from the NFSPMC to the ITFC.³³

30 The debt servicing schedules require on average GMD247 million (US\$5 million) annual payment during 2018–2038.

31 A Shariah-compliant (Islamic) form of lending.

32 The ITFC trade credit facility is used by the GNPC, NAWEC, and NFSPMC. While the debt is contracted by the Government, it is to be serviced by the beneficiaries directly.

33 The transaction was processed through the SAP.

Box 1: Continued

Next Steps

There is a need to broaden, deepen, and maintain the momentum of the SOE reforms. The new law governing SOEs needs to be adopted and implemented. A comprehensive SOE performance monitoring and fiscal risk assessment framework needs to be designed and implemented and regular reports on SOE sector performance prepared and published. The monitoring framework needs to include an early warning system to identify SOEs in imminent financial distress so that rapid corrective actions can be taken. To promote transparency and disclosure all audited financial statements of SOEs should be published as soon as they are completed. To promote financial discipline and allow financial viability, SOEs should be reimbursed for all costs resulting from their non-commercial public service obligations, including those imposed through the tariff mechanisms and price controls. Alternatives to using price controls, such as providing targeted subsidies, should be considered.

Restructuring and performance improvement plans should be prepared and implemented for the remaining SOEs beyond NAWEC. This should start with those SOEs with the most significant impact on the economy and on public finances: GAMTEL, GAMCEL, the NFSPMC, the GPA, the SSHFC, and the GCAA. These plans should include promoting private provision in key sectors, along with increased private participation in ownership and management of the SOEs themselves.

Balance of Payments

The current account deficit (including official transfers) declined from US\$158.3 million (9.5 percent of GDP) in 2018 to US\$96.4 million (5.3 percent of GDP) in 2019 (Table 4). This improvement came as exports recovered, remittances registered record inflows, the Government received substantial budget support grants, and the tourism sector continued to grow.

The current account deficit improved in 2019.

The Gambia has a narrow goods export base dominated by groundnuts, fish and crustaceans, cashews, and wood.³⁴ Its services exports are dominated by travel (tourism), which suffers from seasonality over the course of the year.³⁵ Exports of goods grew by 24.1 percent (y/y) during 2019, compared to a contraction of 0.9 percent in 2018. However, imports grew 14.7 percent (y/y) outpacing the recovery in exports, resulting in a trade deficit of US\$453.6 million. This widening trade deficit, even with a healthy increase in exports, indicated growing domestic demand. On the services side, tourism receipts boosted exports by 14.1 percent while imports grew modestly by 9.3 percent, leading to a sizeable surplus of US\$116.4 million.

The trade deficit soared as import growth outpaced that of exports...

³⁴ Source: own estimates based on COMTRADE data.

³⁵ This narrow export base is reflected in the high Hirschman-Herfindahl index of 0.45 (2018) for The Gambia compared to peers such as Mauritania (0.31), Rwanda (0.38), Senegal (0.24), and Uganda (0.27).

... while current transfers rose by more than 50 percent.

The increase in financial flows offset the current account deficit and boosted reserves.

The nominal exchange rate remained stable, but the real exchange rate appreciated slightly.

Of these, budget support grants³⁶ (official transfers) increased by almost three times the level in 2018. After a contraction in 2018, remittances reached a record high in 2019, amounting to US\$202.7 million (11.1 percent of GDP).³⁷ Together, these covered more than three-quarters of the trade deficit (Figure 8).

The capital account almost doubled to US\$73.5 million in 2019 compared to the previous year, associated with larger disbursements of project grants. Despite the stable flow of foreign direct investment (FDI), partly spurred by private inflows from the Gambian diaspora investing in real estate, the financial account deteriorated moderately, reaching US\$110.8 million. This was due to an increase in net foreign assets of commercial banks. These capital and financial flows more than adequately covered the modest current account deficit, bolstering international reserves to 3.9 months of import coverage³⁸.

Drawing on the increased private external inflows in 2019, the Central Bank of The Gambia (CBG) made frequent foreign exchange purchases, which helped ensure enough liquidity to meet the demand for credit expansion, facilitated the build-up of international reserves, and prevented undesirable appreciation of the dalasi.³⁹ The real effective exchange rate demonstrated modest appreciation in 2019 compared to the past three years.⁴⁰ However, strong official inflows, remittances, and tourism income as well as a 20.7 percent (y/y) increase in the volume of net foreign exchange transactions is expected to improve The Gambia's competitiveness over time.

36 This includes the disbursement, in January 2019, of US\$30 million in delayed EU budget support (from 2018) and another disbursement of US\$24.6 million from the EU in late December 2019.

37 This refers to the current transfer component of remittances and excludes investment related inflows.

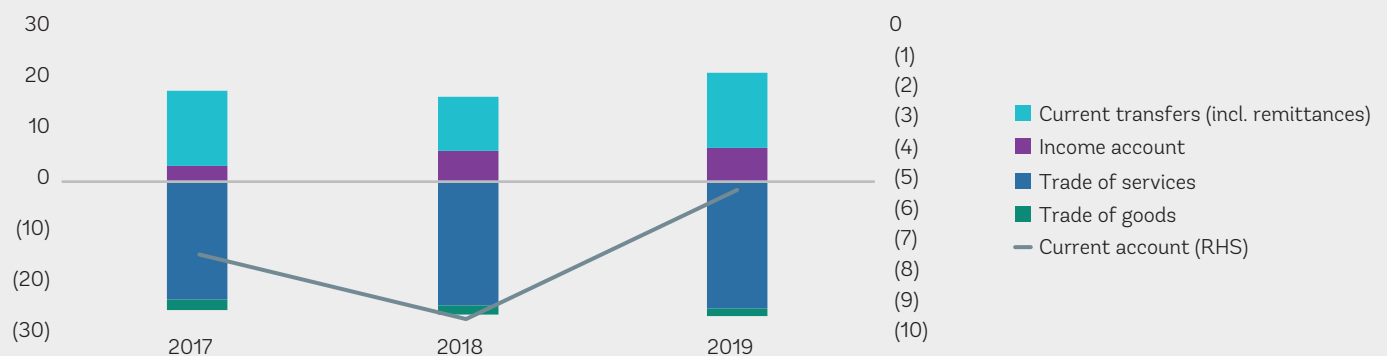
38 In months of next year's imports of goods and services.

39 The dalasi depreciated by 3.9 percent against the US dollar in 2019 (point-to-point).

40 The draft October 2020 IMF External Sector Assessment indicates that the real effective exchange rate was overvalued by 5–6 percent in 2019. Compared to the previous assessment (in 2017), the current account gap has narrowed, reflecting an ongoing alignment of the external position with the level implied by fundamental and desirable policies.

Figure 8: Composition of Current Account Balance

Percent of GDP



Source: CBG, IMF, and World Bank staff calculations.

Table 4: Balance of payments summary

	US\$ million unless indicated otherwise			Percent growth	
	2017	2018	2019	2018	2019
1. Current account					
A. Goods (net)	(348.8)	(405.0)	(453.6)	16.1	12.0
Exports, f.o.b.	116.0	115.0	142.7	(0.9)	24.1
Imports, f.o.b.	(464.8)	(520.0)	(596.2)	11.9	14.7
B. Services (net)	43.5	97.8	116.4	125.0	19.1
Services exports	132.2	198.6	226.6	50.2	14.1
of which: Travel income	103.0	153.8	181.3	49.3	17.9
Services imports	(88.8)	(100.8)	(110.2)	13.6	9.3
C. Income (net)	(28.3)	(29.1)	(30.0)	2.9	3.1
Income credits	2.2	2.3	2.3	2.9	3.1
Income debits	(30.5)	(31.4)	(32.4)	2.9	3.1
D. Current transfers	222.9	178.1	270.8	(20.1)	52.0
Official transfers	55.4	15.0	55.8	(72.9)	272.1
Remittances	153.6	150.8	202.7	(1.8)	34.4
Other transfers	13.9	12.3	12.3	(11.9)	-
Current account (excluding official transfers)	(166.2)	(173.3)	(152.2)	4.3	(12.2)
Current account (including official transfers)	(110.7)	(158.3)	(96.4)	42.9	(39.1)
2. Capital and financial account					
E. Capital account	60.0	38.0	73.5	(36.7)	93.4
F. Financial accounts	165.2	134.7	110.8	(18.5)	(17.7)
Foreign direct investment	83.3	90.8	93.9	9.0	3.5
Portfolio investment	3.8	4.2	4.1	11.0	(2.5)
Other investment	78.1	39.7	12.8	(49.2)	(67.7)
3. Errors and omissions	(39.3)	6.5	(13.6)	(116.5)	(311.0)
Overall balance (1+2+3)	75.2	20.9	74.3	(72.3)	256.0
Financing					
Net international reserves (increase -)	(75.2)	(20.9)	(74.3)		
Change in gross international reserves	(84.1)	(13.0)	(68.0)		
Use of IMF resources (net)	8.9	(7.8)	(6.3)		
Memorandum items					
Current account (percent of GDP)	(7.4)	(9.5)	(5.3)		
Remittance (percent of GDP)	10.3	9.1	11.1		
Overall balance (percent of GDP)	5.0	1.3	4.1		
Gross international reserves					
US\$ million	144.0	157.0	225.0		
Months of next year's imports of goods and services	2.8	2.7	3.9		

Source: CBG, IMF, and World Bank staff calculations.

The external position deteriorated in the first half of 2020 as COVID-19 took its toll on tourism and FDI...

In H1 2020, the external sector was hit by the pandemic, with the current account deficit approaching 3.4 percent of GDP⁴¹ compared to 1.4 percent of GDP in the same period of 2019 as tourism came to a standstill and travel income dipped. Additional official imports to support containment efforts and ensure food security and continuity of other essential supplies led to a 43 percent increase in merchandise imports in H1 2020 and placed added pressure on the trade account. A slowdown in project execution coupled with significantly slower FDI meant a deterioration in the financial account. However, capital transfers moderated some of this decline.

... but remittances and official support came to rescue.

Remittances were higher than ever recorded before, reaching US\$239.1 million in H1 2020, compared to US\$165.4 million for the same period in 2019.⁴² This performance partly reflected a reporting effect (see the Real Sector section above) and partly increases in the number and scope of money transfer operators.⁴³ These inflows, combined with the massive donor support in the aftermath of the pandemic, overcame the mounting trade deficit.

International reserves were boosted, as a result.

The CBG's exchange rate policy has been prudent, with its limited presence (usually on the purchasing side) in the foreign exchange market, as the dalasi remained stable.⁴⁴ Gross international reserves therefore increased from US\$225 million at end-2019 to US\$265 million (or 4.0 months of imports) at end-June 2020. As of end-September 2020, gross reserves stood at US\$314 million.

Headline inflation increased in 2019, but core inflation remained subdued, allowing for monetary easing.

The headline consumer price index (CPI) inflation rate reached 7.1 percent (annualized) in 2019, compared to 6.5 percent in 2018 (Figure 9). The jump was due to a one-time hike in postal charges in March 2019 and increases in food prices associated with a poor harvest. Non-food inflation, which makes up 47.4 percent of the consumption basket, reached an annualized 7.7 percent. Despite the overall increase, the inflation trend was benign, as core inflation⁴⁵ remained subdued at 5.6 percent. Coupled with favorable business sentiment and well-anchored inflation expectations, the CBG was able to proceed with cautious monetary easing in 2019. This was supported by improved foreign reserves, which reached 3.9 months of next year's imports of goods and services in 2019.

The COVID-19 crisis has pushed the CBG to loosen monetary policy.

The COVID-19 outbreak in late January 2020 has led central banks across the globe to adopt expansionary monetary policies. In response to COVID-19, and in light of falling inflation, the CBG cut its monetary policy rate to 12 percent, effective February 2020, and again to 10 percent in May 2020. It also cut the statutory reserve requirement ratio by 200 basis points to 13 percent. These actions eased liquidity conditions and, combined with prudent budget execution and muted inflation prospects, enabled a drop

⁴¹ As per preliminary data by the CBG.

⁴² This shows a COVID-19 effect on remittances, as the exponential growth began when the pandemic hit, with the Q1 2020 performance similar to that of previous year.

⁴³ The number increased from 31 at end-2019 to 36 by end-September 2020.

⁴⁴ The dalasi depreciated by 2.1 percent against US dollar as of end-September 2020 (point-to-point).

⁴⁵ Core inflation here excludes food, energy, and communications.

in Treasury bill rates.⁴⁶ At end-August 2020, the CBG decided to maintain the policy rate at 10 percent for the next three months. The decision was due to subdued inflation, continued economic slack, and expectations of a good agricultural harvest.

The crisis has put downward pressure on prices in 2020. While inflation in the first quarter (Q1) of 2020 averaged 7.6 percent, there was a sharp decline in April, with an inflation rate of 5.6 percent y/y. This was driven by a decline in domestic demand due to the pandemic, low oil prices and the dissipation of the base effect from the postal charges increase.⁴⁷ Another factor has been price controls on food and essential commodities imposed in response to the pandemic. Inflation continued to fall each month until July when it reached 4.8 percent y/y. In August, there was an uptick to 5.4 percent y/y, as food prices increased due to seasonal factors, containment measures, and trade disruptions.⁴⁸ September saw the first increase in non-food inflation since March, driven by clothing (4.4 percent y/y) and furnishings (4.7 percent y/y).

Starting in 2020, inflation reporting was also affected by the recent revisions to the CPI coverage. Expenditure weights were introduced to the CPI, based on the 2015/16 Integrated Household Survey. Methodological improvements were also made. These include better treatment of missing values and the use of geometric means, following international best practice. Chain-linking of the old series with the new using a referenced base year (January 2020) was also implemented. As a result, these improvements have removed anomalies and biases in the CPI series.

A downward trend in inflation since the COVID-19 outbreak has supported the CBG's expansionary monetary policy stance.

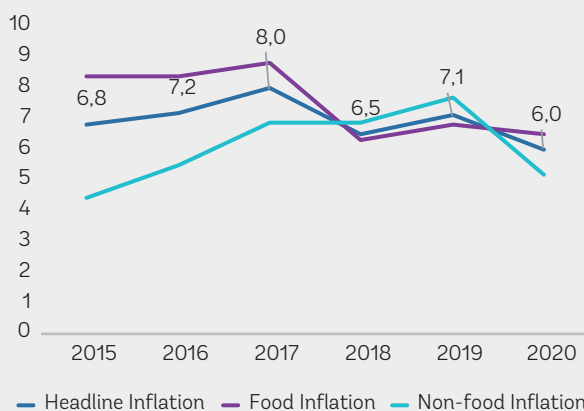
The quality of inflation data was improved in 2020.

46 Compared to May, monthly average one-year T-bill yields fell by 767 basis points in October.

47 The government gradually and partially passed on the decline in oil prices to consumers, leading non-food inflation to decline.

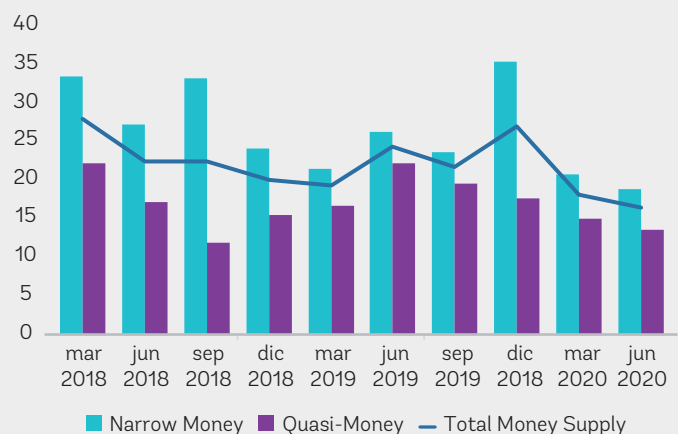
48 The onset of the rains adversely affected the supply of vegetables. Further, the COVID-19 containment measures barred fishermen from neighboring countries from accessing the local market, while cereal imports fell as global supply links weakened.

Figure 9: Inflation rate
Percent



Source: Staff calculations based on CBG data.
Note: 2020 inflation refers to the annualized rate as of September 2020.

Figure 10: Money growth
Year-on-year, percent



Source: Staff calculations based on CBG data.

After increases in recent years, broad money growth decelerated in 2020.

In recent years, broad money (M2) growth had been increasing, with a growth of 20 percent in 2018 and 27.1 percent in 2019. This was largely driven by growth in net foreign assets, with contributions of 14.0 percentage points in 2018 and 18.7 percentage points in 2019. However, M2 growth slowed from 24.4 percent at end-June 2019 to 16.4 percent at end-June 2020, as credit to the private sector was sluggish (Figure 10).

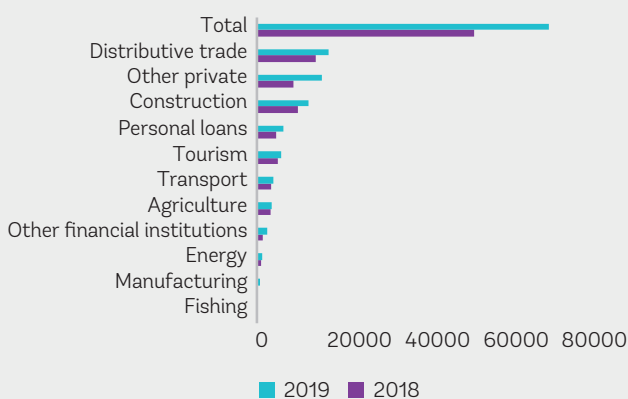
Private sector credit grew strongly in 2019 but has stagnated in the first half of 2020.

Private sector credit had a 34.4 percent growth rate in 2019, compared to 15.7 percent in 2018 (Figure 11). All sub-sectors expanded their private credit inflows in 2019. The largest sectors, such as distributive trade (20.9 percent growth), construction (25.5 percent), and tourism (17.3 percent) performed very well. In H1 2020, private credit growth continued, with a y/y growth rate of 26.0 percent. However, credit to the private sector remained stagnant by June 2020 (GMD7,347 million), compared to December 2019 (GMD 7,350 million). Private sector credit continued to be sluggish in Q3 2020, standing at GMD 7,290 million at end-September 2020.

Credit to construction, grew strongly in the first half of 2020, while agriculture and tourism experienced a drop.

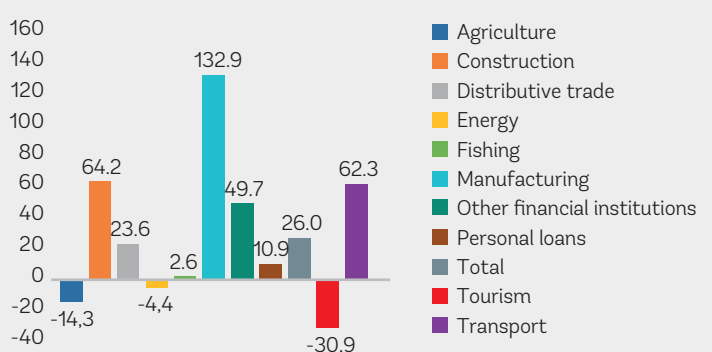
In H1 2020, construction (64.2 percent y/y) and distributive trade (23.6 percent y/y) made the strongest contribution to credit growth (Figure 12). The performance of the construction sector, partially fueled by increased remittances, augurs well for the recovery due to its importance to GDP growth. However, credit to the tourism sector collapsed by 30.9 percent, as tourism remains at a standstill. Another concern is the 14.3 percent contraction in agriculture, despite favorable rains. This could reflect the impact of COVID-19 on exporting agribusinesses through reduced demand and trade disruptions. Currently, agribusinesses can only export through maritime routes, which are only suitable for certain products and require processing, and are constrained by limited port capacity.

Figure 11: Private sector credit million GMD



Source: Staff calculations based on CBG data.

Figure 12: Private sector credit growth, H1 2020 Year-on-year, percent



Source: Staff calculations based on CBG data.

Poverty: Patterns and Trends

According to the latest available national household survey, in 2015 48.6 percent of the population lived below the national poverty line.⁴⁹ Since then, rising economic activity has contributed to higher household incomes and by 2019, the poverty rate was expected to have declined. Strong remittances supported household incomes both directly and through increased construction activity. The continued inflow of tourists and higher value-added through more upscale tourism helped to generate additional employment. However, poverty reduction has been geographically uneven, as rural areas saw agricultural output fall.

In the Greater Banjul Area, which includes Banjul City and Kanifing, the country's economic hub, the poverty rate was below other urban areas, while rural rates were the highest (Figure 13). Even though poverty rates are high in the interior, the greatest concentration of poverty is found close to Banjul, in the local government area of Brikama. Rapid urbanization due to high levels of rural-to-urban migration has led to concentrations of poor people, many of them young, in congested urban areas where inequality is high, traditional support systems are typically weak, and women face barriers to entering labor markets.

In 2015, 15.5 percent of Gambians were multidimensionally poor, reflecting low consumption levels, limited educational attainment, and gaps in access to drinking water, sanitation, and electricity (World Bank 2020b). Access to basic services and facilities is worse in rural areas and there is a strong divide between the capital city region and the rest of the country. Deprivations often overlap, contributing to the depth, complexity, and persistence of poverty. These deficits translate into lower productivity and limited resilience, as well as economic and social exclusion. The poor are more likely to live in

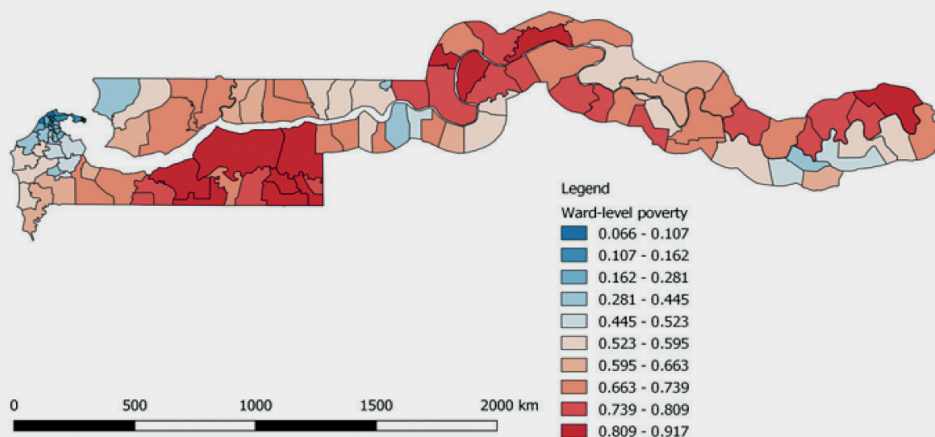
Rising economic activity between 2015 and 2019 is likely to have reduced poverty rates.

Living standards differ dramatically across the country, reflecting differences in economic activity between urban and rural areas.

High levels of poverty are closely connected to deficits in human capital accumulation and limited access to basic infrastructure.

49 The national poverty line was estimated at GMD1,503 per person per month. In 2015, 10.3 percent of the population lived below the international poverty line of US\$1.9 a day in 2011 purchasing power parity terms or GMD26.2 per person per day.

Figure 13: Poverty at the ward level, 2015



larger family units which are more likely to be polygamous and have more dependent children. They also have high adult and youth illiteracy rates and are significantly more exposed to weather shocks.

The COVID-19 crisis has undone some of the poverty reduction in 2020.

In 2020, the spread of COVID-19 prompted a national health emergency, and social distancing measures reduced economic activity, triggered job losses, and reduced incomes from labor and remittances⁵⁰. Despite emergency government support, households experienced a rapid decline of their incomes and the poverty rate is likely to have increased in 2020⁵¹ (see Box 2 on the costs and benefits of lockdown). A comparison across the sub-region show that the increase of poverty has been higher than in neighboring Senegal, but lower than in Guinea-Bissau⁵².

The spread of COVID-19 and the subsequent economic downturn is affecting households.

The impact has come through four channels: (i) declining labor income; (ii) lower non-labor incomes, including remittances and private transfers; (iii) rising food prices; and (iv) the closure of schools. The latter is expected to lead to learning losses, affecting human development outcomes in the long term, due to extended school closures while limited digital infrastructure hampered online learning (see Special Section 2). The World Bank estimates an additional 1,700 students may remain out of school when they reopen, which will contribute to an already high out-of-school rate.

50 Private transfers/remittances received by households are a combination of formal international remittances (through the banking system and captured by the Balance of Payments) and informal international remittances sent by diaspora.

51 In October 2020, the World Bank published the Macro Poverty Outlook and estimated that the international poverty rate declined from 10.3 percent to 8.4 percent between 2015 and 2019, and then increased to 9.6 percent in 2020.

52 World Bank estimates based on the international poverty rate published in respective country's Macro Poverty Outlooks, October 2020.

Figure 14: Share of households with a decline in income between mid-March and August 2020
Percent

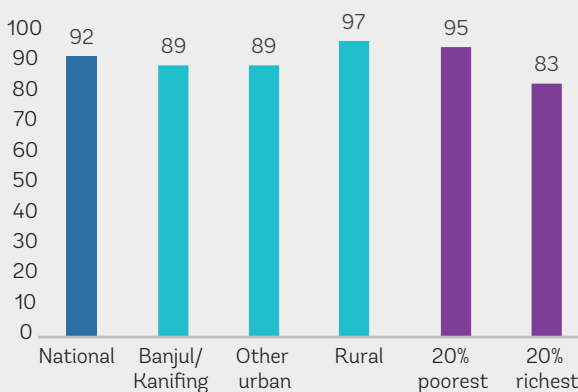
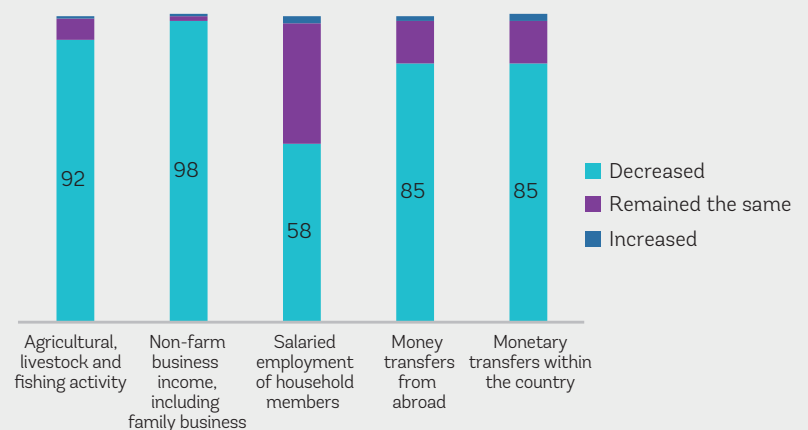


Figure 15: Share of households reporting change in income by source between mid-March and August 2020
Percent



Source: Authors' calculations based on 2020 High Frequency Survey on the Impact of COVID-19 on Households in The Gambia.
Note: Data collected in August and September 2020.

This section presents key findings from a high frequency phone survey conducted to monitor the impact of COVID-19 on household welfare.⁵³ Overall, households in urban areas seem to be slightly less affected by the COVID-19 crisis than rural ones (Figure 14). The crisis has had a greater impact on the poorest 20 percent of households than the richest 20 percent. These numbers are consistent with subjective measures of well-being: 87 percent of households reported a deterioration of living standards overall, but the share was higher in rural areas and among the poorest households.

An international travel ban led to an early end of the tourist season and social distancing measures introduced in response to the health emergency triggered a decline in internal mobility (Knippenberg and Meyer 2020). Most households reported a decrease in income from agriculture, livestock and fishing (92 percent of households reporting a decline in income), non-farm business, including family businesses (98 percent), and salaried employment (58 percent) (Figure 15). Poor households and rural ones were more likely to experience a fall in income, and, given the high level of informal employment, were unlikely to be able to mitigate this loss through unemployment insurance payments.

In recent decades, the number of internal and international migrants has risen as people sought better access to services and economic opportunities. According to the IHS, 35.9 percent of households reported receiving transfers from either a member of the household or another individual. The share is higher for rural households (39.6 percent) than for urban ones (33.7 percent), and the data suggest that rich households are more likely to receive remittances. Migrants often work in informal service jobs or construction, and so job losses are likely to reduce remittances. Internal migration into the capital city region has been high, so the collapse of labor markets in Banjul City and Kanifing has reduced transfers, which were often received by rural households.

Nearly half of households were unable to stock up on food as usual, with 98 percent citing lack of money as one of the reasons (78 percent cited a rise in food prices which also reduced real purchasing power). As a result of falling household incomes, almost 80 percent of households reported problems honoring payment of their commitments, including difficulties in repaying loans (53 percent), electricity bills (43 percent), and transportation costs (41 percent).

When schools closed, only 46 percent of households with school students as household members reported they had engaged in any educational activity at home (ranging from classroom instruction on TV and radio to printed assignments). The share is lower in rural areas and among poor households and could lead to permanent losses in human capital among children (World Bank 2020c). In addition to widening learning gaps, many poor children will miss school meals while schools are closed, with potential nutritional

⁵³ The High Frequency Survey on the Impact of COVID-19 on Households in The Gambia is a collaboration between the World Bank and the GBoS, and financed through the State and Peace-building Fund. Results are representative at the national level and at strata level and are based on phone interviews with 1,437 households between August 21 and September 9.

⁵⁴ In contrast, the Balance of Payments section reports an increase in international remittances. This likely reflects a substitution of payment channels as international travel restrictions required migrants to change from informal to formal payment channels. It is estimated that during the pre COVID-19 period, around 30 percent of remittances in The Gambia were sent through informal channels (World Bank forthcoming).

Between mid-March and August 2020, nine out of ten households (92 percent) experienced a decline in total income.

The drop in total household incomes was largely driven by lower labor income.

Among households receiving private transfers, 85 percent reported a decline of private transfers (remittances) either from abroad or within the country.⁵³

The decline in income from labor markets and remittances had a profound impact on households' ability to stock up on food as usual, and honor payments.

The spread of the COVID-19 virus and subsequent limitations to free movement disrupted public services, including schools, training centers, and health centers.

consequences. There is also evidence that regular visits to health centers declined sharply as people were afraid of contracting the virus.

The Government intervened early on to mitigate some of the pandemic's impact ...

The Government has adopted several mitigation mechanisms, increasing the capacity of the health sector and introducing response and resilience measures in the education sector. These included food distribution to families with school-age children who previously relied on school meals but could not access them during the school closures (targeting over 85,000 children and their families⁵⁵), radio and television educational programming, and assessment and remediation programs once schools reopened with the aim of mitigating learning losses.⁵⁶ The Government also distributed food packages to 84 percent of households, and accelerated and expanded the World Bank-supported cash transfer program (Nafa Quick) to 30 districts, now being extended to food-insecure households in more districts by the World Food Program.

... but more could be done.

As the pandemic endures and risks disrupting the tourism season, the Government needs to scale up its support to service sector businesses and informal workers who risk falling into poverty. Interventions could include cash transfers for vulnerable workers and households; targeted grants for micro, small and medium enterprises; or an extended deferral of taxes and utility fees.

⁵⁵ With additional coverage provided by the World Food Program.

⁵⁶ These efforts were supported through a Global Partnership for Education grant for which the World Bank is the grant agent.

Box 2: The costs and benefits of lockdown in The Gambia during COVID-19

Since mid-March 2020, the Government has instituted various restrictions in an attempt to contain the spread of coronavirus (see Table B1 for a partial list).⁵⁷ The ultimate goal of these measures was to save lives but the lockdown also led to a loss of income and missed schooling. How should the public weigh the benefits from these containment policies against their costs?

Table B1: COVID-19 containment measures

Containment measure	Period
Lockdown (state of emergency)	March 27 – September 17, 2020
Quarantine/self-quarantine	March 20 –
Business restrictions (including closures and capacity regulations)	March 27 – October 6, 2020
School closures	March 17 – October 28, 2020
Closures of places of worship	March 27 – June 7, 2020
Travel restrictions	March 20 – October 16, 2020

Source: The OECD Country Policy Tracker (updated June 10, 2020) and The IMF, Policy Responses to COVID-19: Policy Tracker.

⁵⁷ For a description of lockdown measures in other sub-Saharan African countries, see Haider et al. 2020.

Box 2: Continued

A background paper prepared for this update, Eden (2020), discusses a possible approach to this question. It considers an array of possible lockdown policies of differing intensities, where the intensity relates to the share of the population who are under lockdown. In practice, the intensity of the lockdown may change over time, but this model is restricted to simple policies in which the intensity is chosen at the start of the pandemic and remains the same until it is over. The model assumes that, when instructed to be under lockdown, individuals reduce their contact with others by 50 percent, capturing the possibility that the lockdown is only partially enforceable. Depending on the intensity, the duration of the lockdowns was between 150 and 200 days.

The model suggests that stricter lockdowns ultimately save more lives, in three ways (Figure B3). First, they slow the spread of the disease, thereby reducing the overcrowding in the healthcare system. Given the limited healthcare capacity in The Gambia,⁵⁸ the model suggests that demand for hospital beds will exceed supply, and that overcrowding is inevitable; despite this, there are still advantages to having fewer active infections, because it allows a higher proportion of patients to receive life-saving medical care.

Second, lockdowns can save lives by delaying infections until the arrival of a vaccine. How many lives depends on the timing of the arrival of a vaccine, which remains highly uncertain. The model assumes that a vaccine arrives within 6–18 months of the start of the outbreak. For less intense lockdowns, the arrival of a vaccine does not matter much; however, for stricter lockdowns (affecting over 60 percent of the population), the arrival of a vaccine significantly reduces the fatality rate.

Third, even in the absence of a vaccine and with limited healthcare capacity, slowing the spread of the virus may reduce the cumulative number of COVID-19 deaths. This is because an uncontrolled spread will eventually reach more people, whereas a slower spread that keeps the active number of infections low will halt once the population achieves herd immunity.⁵⁹

An important insight from the model is that even a relatively modest lockdown can prevent many deaths: a lockdown of 40 percent of the population reduces the fatality rate from 0.36 percent of the population to 0.12 percent. Increasing the intensity to 70 percent further reduces the mortality rate to 0.02 percent.

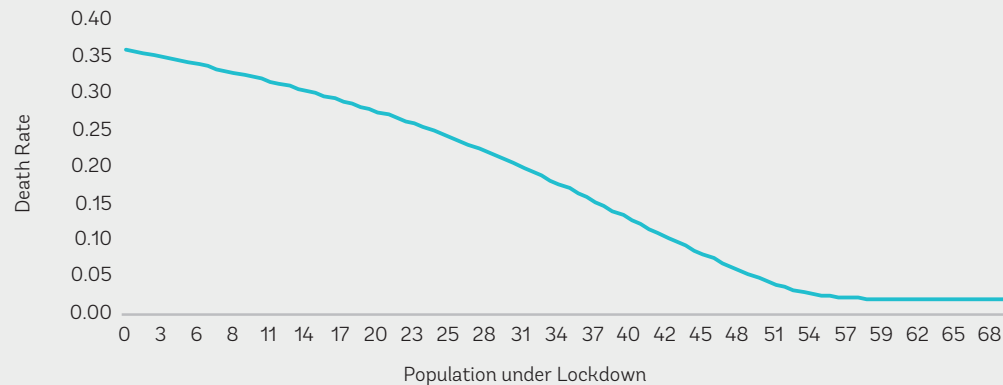
To model the economic costs of the lockdown, the paper considers two approaches. The first is a simple linear specification, in which the loss to GDP is proportional to the share of people under lockdown. The second considers costs to be non-linear, reflecting the view that lower levels of lockdown impose lower costs. In The Gambia, a large share of the population is employed in subsistence agriculture, which would be unaffected by the lockdown. Many people also derive their livelihoods from providing services to tourists during the tourist season, but as tourism is expected to drop substantially, the revenue from these activities would be low regardless of the lockdown. Based on these observations, the model assumes that a lockdown of less than 40 percent of the population could be done at no cost to GDP, but that a stricter lockdown would entail some costs.

58 According to the World Development Indicators (WDI), The Gambia has more hospital beds per capita than its peers (1.1 beds per 1,000 people, compared to Senegal, which has 0.3 beds per 1,000 people). However, the availability of medical staff, as measured by physicians per capita, is comparable to its peers. The paper estimates that a 1 percent increase in hospital capacity can reduce the death toll by over 0.5 percent.

59 The model assumes that recovered patients have no risk of reinfection. This is still subject to some debate.

Box 2: Continued

Figure B3: The COVID-19 death rate as a function of the share of population under lockdown
Percent



Source: Projections based on the model in Eden (2020).

The question then becomes: how should the public weigh the economic damage of the lockdown against the benefits from saving lives? The standard approach is to express the value of life in nominal terms, using the statistical value of life (SVL). The SVL is based on estimates of how much individuals are willing to pay to reduce their own mortality risks—for example, how much they will pay for additional safety features on their vehicles. The SVL is then used by policy makers to make decisions that entail the risk of loss of lives. Estimates suggest that, for The Gambia, the SVL is equal to roughly 170 times its GDP per capita (Viscusi and Masterman 2017).

Using this estimate, the model suggests that, regardless of the cost structure, an intermediate level of lockdown is optimal. Under the linear cost structure, the optimal proportion of the population under lockdown is 58 percent, resulting in a loss of GDP of 28 percent. Under the non-linear structure, 53 percent of the population would be optimal, at a loss of 11 percent of GDP. Both policies reduce the death toll by approximately 90 percent, saving the lives of 0.33 percent of the population.

B. Outlook and Upcoming Challenges

Outlook

Due to the crisis, real GDP growth is projected to stagnate (0 percent growth) in 2020 (Figure 16). Externally, the main impact will come from trade disruption and a reduction in tourists, as arrivals for 2020 are expected to fall by 63 percent. Imports from the Eurozone could suffer price and supply disruptions. Prices for its agricultural exports could also fall given subdued demand and increased costs due to logistical and supply-chain issues. Domestic economic activity has also been suppressed by containment measures. The services sector is projected to contract by 3.3 percent in 2020, compared to growth of 6.5 percent in 2019. Industrial output will grow by 6.4 percent, down from 14.3 percent in 2019. Increases in remittances will support private investment in construction, helping to avoid a drop in GDP. Further, favorable weather augurs well for agriculture, which is expected to grow by 5 percent.⁶⁰

Assuming the pandemic recedes by late 2021, the global economy starts to recover, and tourism resumes, growth is expected to recover to 3.1 percent in 2021. Over the medium term, growth will be spurred by a rebound in services and increased industrial activity, while agriculture will also grow (Figure 15). This assumes renewed focus on policy implementation, political stability, and normal weather conditions. On the demand side, growth is forecast to be driven by a sustained increase in private consumption and public investment in infrastructure, notably in roads, bridges, and energy. This reflects a full pipeline of projects ready to resume ahead of the 2021 Presidential elections.

The current account deficit (including grants) is forecast to increase to 5.7 percent of GDP in 2020 (Figure 19). Despite a growth in remittances, the increase reflects a contraction in service exports driven by subdued tourism receipts, while essential imports continue. Supply disruptions and subdued global demand are also expected to widen the merchandise trade balance. The current account deficit is projected to stay high over the medium term reflecting the high import content of public investment projects as the

The impact of COVID-19 has dampened The Gambia's growth outlook.

The economy is expected to gradually recover over the medium term as the pandemic recedes.

Pressure on the current account balance will persist.

⁶⁰ Relatedly, the area of land devoted to cereal crops has almost doubled for the 2020/21 season compared with the previous year, with cash crops increasing by 66 percent. Planting mostly started on time and farmers are more satisfied than they were last season with the quality of seeds and fertilizer provided to them as support.

recovery begins in 2021. While project grants will meet over half of external financing needs, the deficit will be affected by declining grants and private inflows over time. However, the completion of the two additional bridges on the Gambia river could open opportunities to expand trade with Senegal and other neighboring countries.

The pace of fiscal consolidation will be affected over the medium term.

The fiscal deficit will reach 1.9 percent of GDP in 2020 (Figure 17), while public debt will reach 76.6 percent of GDP (Figure 18). Tax revenues will decline due to lower economic activity, while health and social transfers will increase in response to the crisis, supported mostly by donor grants. As the economy recovers, tax revenues are projected to increase, supported by improved revenue administration and a tight tax expenditure monitoring framework. Development expenditure is expected to accelerate as the Government executes infrastructure projects to support the recovery. Transfers

Figure 16: Growth in real GDP and its components
Percent

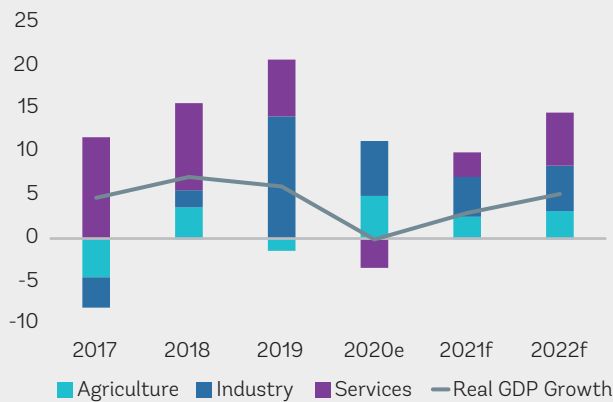


Figure 17: Fiscal performance
Left axis: million USD, right axis: percent of GDP

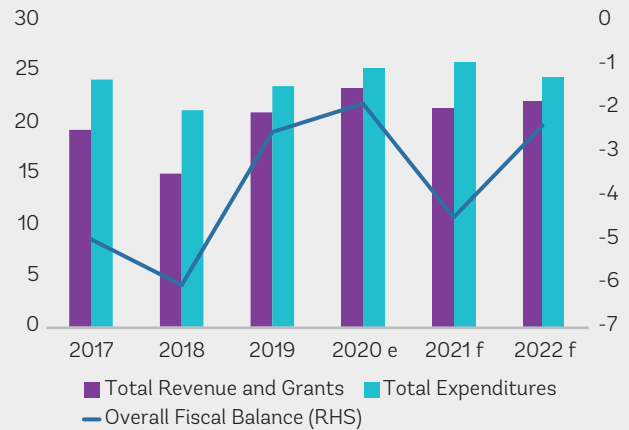


Figure 18: Public debt
Percent of GDP

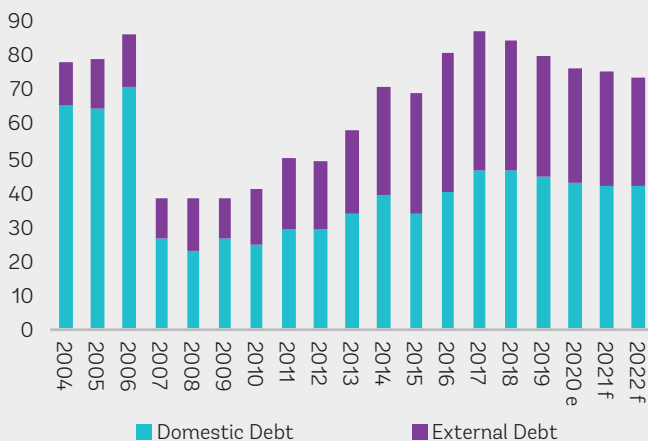


Figure 19: Export and import growth (nominal) and the current account balance
Left axis: percent, right axis: percent of GDP



Source: World Bank staff calculations and estimates based on data from MOFEA, GBoS, and the CBG.
Note: e = estimate; f = forecast.

Table 5: Key macroeconomic indicators

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.8	7.2	6.1	0.0	3.1	5.3
Private consumption	9.5	9.7	4.1	1.5	2.6	5.1
Government consumption	-6.1	3.7	14.6	13.9	4.3	1.4
Gross fixed capital investment	-1.2	2.0	25.3	17.1	4.2	9.9
Exports – goods and services	9.6	44.2	-1.2	-20.7	16.6	6.1
Imports – goods and services	19.1	17.6	3.1	6.0	8.7	8.0
Real GDP growth, at constant factor prices	4.8	7.2	6.1	0.0	3.1	5.3
Agriculture	-4.4	3.7	-1.3	5.0	2.6	3.3
Industry	-3.5	2.0	14.3	6.4	4.6	5.2
Services	11.7	10.1	6.5	-3.3	2.8	6.1
Inflation (consumer price index)	8.0	6.5	7.1	6.1	6.0	5.5
Current account balance (% of GDP)	-7.4	-9.5	-5.3	-5.7	-11.3	-10.8
Fiscal balance (% of GDP)	-5.0	-6.1	-2.5	-1.9	-4.5	-2.4
Debt (% of GDP)	87.0	84.6	80.1	76.6	75.6	73.8
Primary balance (% of GDP)	-0.2	-3.0	0.6	1.1	-1.7	0.2

Source: World Bank staff calculations and estimates based on data from MOFEA, GBoS, and the CBG.

Note: e = estimate; f = forecast.

to SOEs and subvented agencies are expected to fall as the Government strengthens corporate governance, improves SOEs' balance sheets, and rationalizes the agencies. As a result, public debt as a share of GDP will maintain a downward path from 80.1 percent of GDP in 2019 to 73.8 percent of GDP in 2022.

The CBG plans to sharpen its assessments of the monetary policy stance. A main measure will include regularly updating its liquidity template with inputs from the Ministry of Finance and Economic Affairs' (MOFEA) monthly cash management meetings. Furthermore, it plans to develop a foreign exchange cashflow. The CBG also aims to progressively narrow the interest rate corridor to reduce interest rate volatility and ensure an adequate anchor for the interbank money market.⁶¹ As a result, inflation is projected to steadily drop, reaching 5.5 percent in 2022, before reaching the target of 5 percent in 2024.

Inflation is expected to decline toward the central bank's target of 5 percent over the medium term.

⁶¹ The interest rate corridor consists of the standing credit facility (SCF) and the standing deposit facility (SDF). The SCF is an overnight lending facility that provides funds to commercial banks at a predetermined interest rate to cover end-of-day liquidity shortfalls. The SDF is an overnight deposit facility allowing commercial banks to place excess funds at the Central Bank for remuneration at a predetermined rate. The existing corridor is 2.5–11 percent.

Risks

The outlook is uncertain with substantial risks related to COVID-19 and limited upside.

A key factor is the depth and duration of the COVID-19 pandemic, particularly the second wave. A prolonged suspension of tourism, reduced export demand, supply disruptions, and local economic transmission channels could depress GDP even further.⁶² Domestic consumption and private investments would be even harder hit by the external conditions and social distancing measures. Local contagion would also hit manufacturing, commerce, and transport hard, and reduce the labor supply. The Gambia would come under additional pressure from a sharp deterioration in the trade balance, reduced capital flows, and lower foreign direct investment. Lower tax revenues coupled with increased expenditure could push the fiscal deficit to 5 percent of GDP in 2021. On the upside, if the recovery from the pandemic is faster than expected, then tourism could rebound more strongly.⁶³

The medium-term outlook is subject to fiscal and weather-related risks.

Fiscal risks are high, particularly those related to a lack of fiscal reform, along with shocks from SOEs. If the Government pursues an expansive fiscal policy in response to COVID-19 without effectively controlling non-priority spending, this would further weaken fiscal management. This in turn could undermine growth by increasing domestic borrowing, renewing pressure on debt sustainability and foreign reserves and crowding out private investment. Strengthening public financial management (PFM), cash management and budget execution, and implementing SOE and governance reforms will be key to mitigating these risks. In addition, erratic rainfall could lead to drought or flooding and disrupt the agricultural output.

Political and governance risks are high.

The Gambia faces a difficult legacy of political tension and weak governance. With Presidential elections scheduled for December 2021, political activism is building up. The election cycle could amplify fragilities in the security situation and pose challenges to implementing difficult reforms, which could in turn weaken fiscal discipline. Although the authorities remain committed to implementing the necessary reform agenda, they lack solid institutional and governance structures to back up and support the reform momentum. As a result, fiscal risks may be further exacerbated. These risks are mitigated to some extent by the fact that the country is under a three-year IMF Enhanced Credit Facility program⁶⁴ and that substantial support from the IMF, the World Bank, and other development partners is being provided in implementing these reforms.

Appropriate structural reforms are needed to maintain macroeconomic stability while promoting jobs and resilience.

Macroeconomic stability will hinge on improving spending efficiency, increasing tax revenues, and reducing debt. That will create the space for necessary investments in irrigation and other infrastructure to increase resilience to climate and health shocks. Fiscal resilience could further be achieved by strengthening SOE governance and PFM and phasing out discretionary tax exemptions. SOE reforms will also allow better service delivery in crucial infrastructure, including energy, water, and telecommunications.

⁶² In the downside scenario, real GDP growth is projected to reach -5.5 percent in 2020 and 0.2 percent in 2021.

⁶³ Recent potential COVID-19 vaccines appear to show positive progress and are raising hopes this crisis may be beginning to end.

⁶⁴ Approved on March 23, 2020.

Promoting jobs will require productivity increases, which will partly be aided by these infrastructure improvements. However, structural economic transformation will also be necessary. Improvements in education and reforms related to labor demand would accelerate this process.

SPECIAL SECTION 1

C. For a More Inclusive Jobs Agenda

The Gambia has a young population with a rapidly growing working-age population, but low labor force participation rates and high unemployment undermine this demographic dividend. Every year, around 60,000 men and women enter the labor market, but job creation has not kept pace, partly due to sluggish economic growth. Low levels of education reduce people's chances of employment and keep wages low. Although there is high labor mobility across regions and, to a certain extent, reallocation across sectors, shifts into urban areas and the services sector have not led to rising wages, due to issues on both the demand and supply sides of the labor market. As a result, many Gambians have left the country in search of better economic opportunities abroad. An inclusive labor market will require job creation and wage growth, which depend on a successful transformation of the economy and higher productivity. The Gambia already has a strong base in the tourism sector, which could play an important role in future job creation.

The Gambia's Workforce is Underutilized

The Gambia is a young country with a rapidly growing working-age population.

More than half of its 2.3 million people are aged under 17 (Figure 20), and its high fertility rate of 5.3 children per woman is contributing to a quickly growing population.⁶⁵ According to the most recent Gambia Labor Force Survey (GLFS) from July 2018,⁶⁶ the working-age population is 1.3 million.⁶⁷ The large youth bulge suggests that the working-age population will continue to grow for the next few decades.

⁶⁵ According to United Nations World Population Prospects data, the average fertility rate in Sub-Saharan African countries was 4.5 in 2017. The fertility rate of The Gambia's direct neighbor, Senegal, was 4.7 in the same year.

⁶⁶ Source: The Gambia Labor Force Survey (GLFS 2018) was implemented by the Gambia Bureau of Statistics. The field work for the survey was completed in July 2018 and 57,799 individuals in all parts of the country were interviewed.

⁶⁷ The working-age population consists of all individuals between the ages 15 and 64.

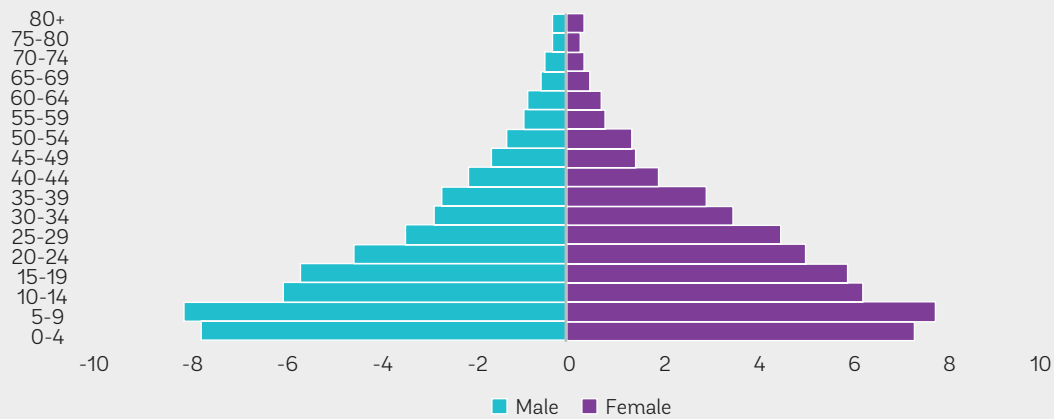
In 2018, the labor force participation rate was 53 percent⁶⁸ and the unemployment rate was 35 percent.⁶⁹ There are also large geographical and gender differences. Participation rates are lower among women (43.2 percent) than among men (63.9 percent). Almost two-thirds of all employed workers are male (Figure 21). Women account for more than half of the unemployed and over 60 percent of the inactive population. Furthermore, while 43 percent of the working-age population live in rural areas, only 35 percent of employment is located there and rural unemployment is more than twice the urban

Low labor force participation rates and high unemployment limit the potential of the labor market to contribute to more inclusive economic growth.

68 The labor force participation rate is defined as the share of the working-age population in employment or unemployment. The unemployment rate is defined as the fraction of the economically active population which is unemployed.

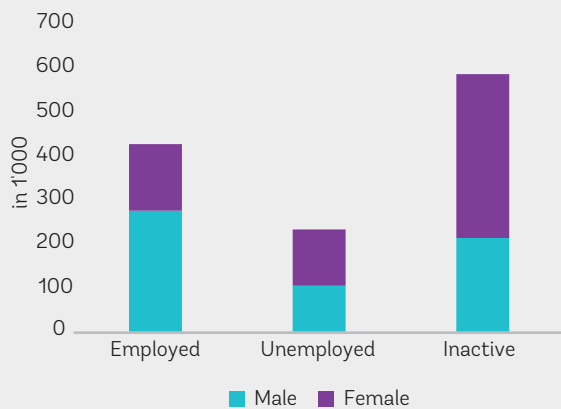
69 Following recommendations from the ILCS12 conference, the ILO classifies individuals who are currently not working, or working as unpaid family workers in subsistence farming, available for work, and actively looking for work as unemployed.

Figure 20: Population pyramid, 2018
% of population



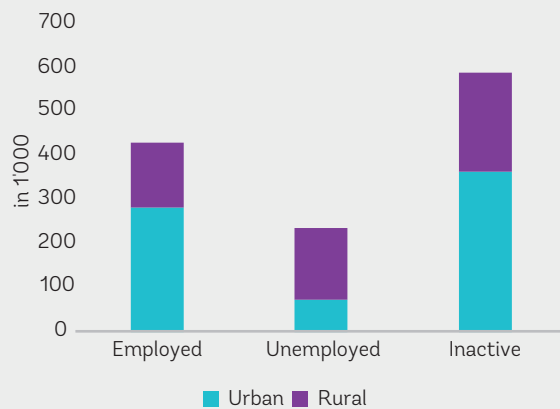
Source: Gambia Labor Force Survey (GLFS) 2018.

Figure 21: Economic status by gender, 2018



Source: GLFS 2018.

Figure 22: Economic status by location, 2018



Source: GLFS 2018.

rate (Figure 22). These figures suggest that integrating⁷⁰ and providing labor market opportunities to a growing and underused workforce offers good potential for growth.

The untapped potential of the labor market is also reflected in a high youth unemployment rate.

The unemployment rate among those aged 15–35 is 41.5 percent,⁷¹ and unemployment is especially high in rural areas, indicating a lack of job opportunities beyond the agricultural sector. Young workers who are neither employed nor in education or training (NEET), around 57 percent of this age group, are most at risk of becoming economically and socially excluded.

The majority of those employed work in the services sector.

The services sector is by far the largest provider of regular employment in The Gambia, with public administration, transportation and tourism, and trade playing important roles (Figure 23).⁷² The seasonal nature of tourism, with two-thirds of tourists arriving between November and March, leads to large fluctuations in total employment numbers over the year (see Box 3). Regionally, except for agriculture, most jobs are in urban areas. This highlights the important role of internal migration in connecting workers in rural areas to labor market opportunities in urban districts.

Half of workers are self-employed, or “own-account”, workers.⁷³

The remaining workers are paid employees (49 percent) or employers (1 percent). The prevalence of self-employment reflects the economy’s large informal sector and the high proportion of low-productivity subsistence jobs. Own-account workers are unlikely

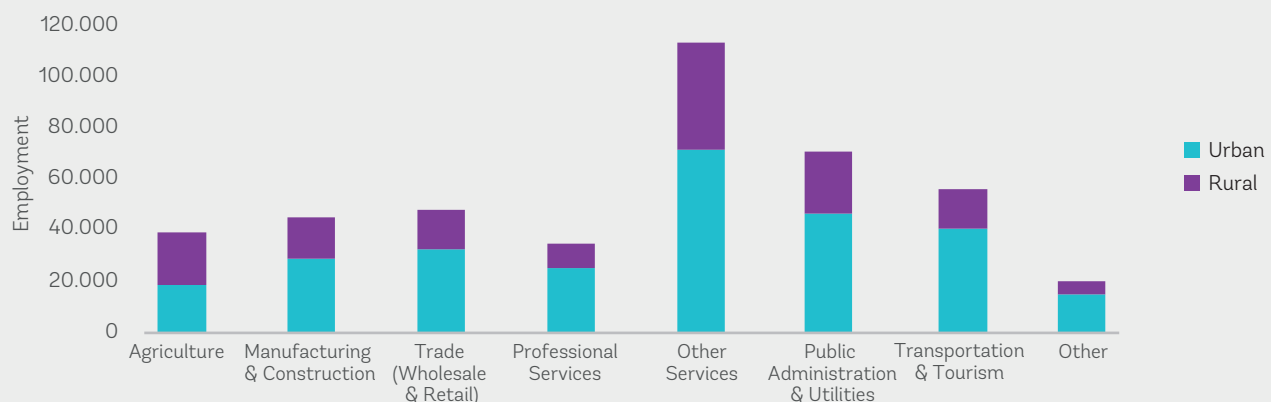
70 i.e., increasing their attachment to labor markets, and providing them with jobs.

71 Youth unemployment rates are calculated for those aged between 15 and 35, following the methodological standards set by the African Union.

72 The public administration sector is composed of the three sub-sectors: public administration and defense, compulsory social security (34 percent of employment); education (51 percent); and human health and social work activities (15 percent).

73 According to the International Labour Organization (ILO) definition, employees are all those workers who hold the type of jobs defined as “paid employment jobs”, including an employment contract that give them a basic remuneration that is not directly dependent upon the revenue of the unit for which they work. Own-account workers are defined as working on their own account or with one or more partners, hold the type of jobs defined as a “self-employment jobs”, and do not have any employees engaged on a continuous basis.

Figure 23: Employment by sector and location, 2018



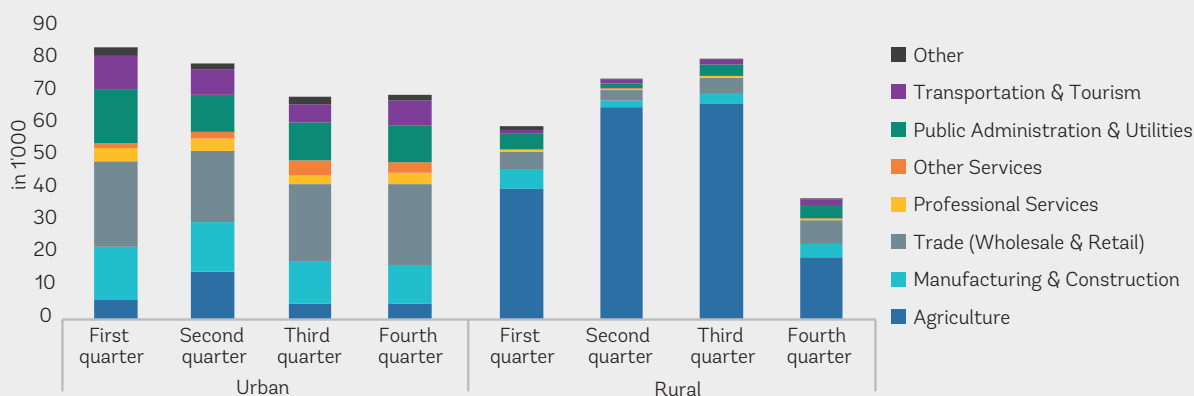
Source: World Bank staff calculations based on the GLFS 2018.

to have formal employment arrangements and often lack access to benefits and social protection, making them vulnerable to both idiosyncratic and covariate shocks. This type of employment is significantly more prevalent among women (60 percent of female workers) and among those with less education (71 percent of employed individuals with only elementary education). Employees also earn significantly higher wages than own-account workers. High-paying jobs, especially in the information technology, finance, and government sectors are almost exclusively based on regular employment relationships with accompanying insurance measures.

Box 3: Seasonality of employment in The Gambia

Data from the Integrated Household Survey (IHS) in 2015/16 reveal a strong seasonal pattern to employment.⁷⁴ Figure B4 shows the composition of employment by sector over the course of the year for urban and rural areas. In urban areas, employment peaked during the tourist season (November to March, or the first and fourth quarters), and in rural areas employment was highest during the harvest season (July to September, or the third quarter). These fluctuations in employment are tightly linked with internal migration. In addition, the temporary increase in the labor force participation rate during the harvest season points towards the mobilization of many contributing family workers.

Figure B4: Seasonality of employment in urban and rural areas, by quarter, 2015/16

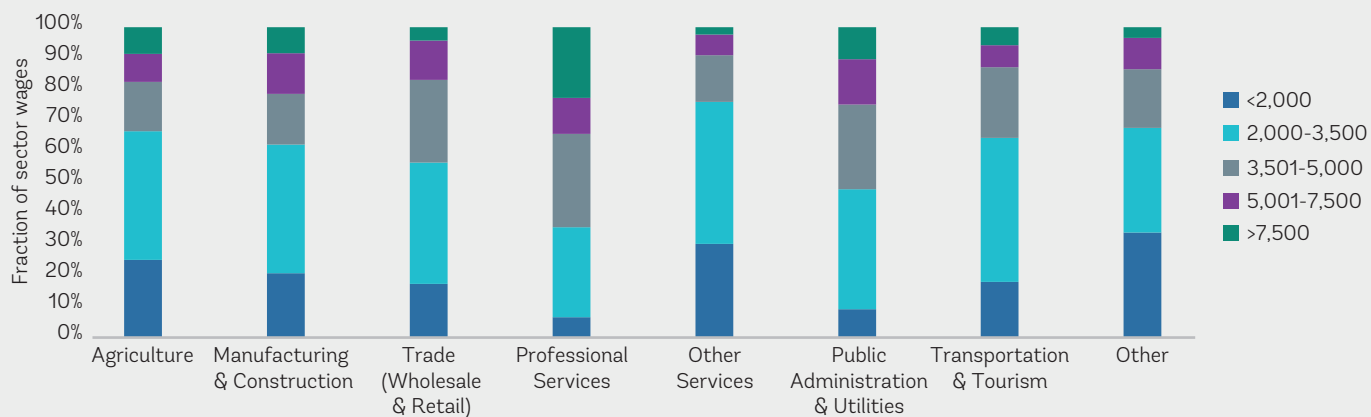


Source: World Bank staff calculations based on Integrated Household Survey 2015/16.

Note: The first quarter refers to the period January to March 2016, the second quarter to April to June 2015, the third quarter to July to September 2015 and the fourth quarter to October to December 2015.

74 The Integrated Household Survey is an annual survey which was conducted during the April 2015 and March 2016 period. It provides quarterly data of employment; in contrast the Labor Force Survey was conducted over a one-month period and shows patterns of employment for a snapshot in July 2018. Differences in survey methodologies limit a direct comparability between the two surveys.

Figure 24: Wages by sector, 2018



Source: World Bank staff calculations based on the GLFS 2018.

Note: Wages are measured in Gambian dalasi per month.

Wages are relatively low in The Gambia.

Among employed workers, 17 percent earned a net income of less than GMD2,000 (Gambian dalasi; around US\$40) per month, and only 4 percent earned more than GMD10,000 (around US\$200). Figure 24 shows the large wage differences within and across sectors. High wages were significantly more prevalent among individuals working in professional services, such as finance, and information technology. On the other hand, employed workers in agriculture, construction, and services other than trade or professional services activities were more likely to earn low wages.

Box 4: The impact of COVID-19 on labor markets in The Gambia

The spread of COVID-19 in The Gambia triggered a health and economic crisis. It is expected to profoundly impact the labor market through three channels: (i) growing numbers of cases affecting the health of workers and requiring family members to act as caregivers; (ii) the direct impact of interrupted economic activities and job losses; and (iii) the indirect impact through reductions in private consumption which, in turn, negatively affect the economy. This box highlights the direct supply-side impact of the lockdown implemented by the Government during end-March to mid-September 2020 which entailed the closure of workplaces and required most of the population to stay at home.

The direct supply-side impact of lockdowns depends on workers' ability to work from home, which differs widely across occupations. While professionals and managers are likely to be able to work from home (if they have adequate connectivity – a problem throughout The Gambia), this is less the case for elementary occupations such as waiters or hairdressers, trade workers, and machine operators (Saltiel 2020). According to the 2018 GLFS, 52 percent of workers are in elementary occupations, and 72.5 percent are self-employed, with many engaged in contact-intensive petty trade. Two-thirds of employment occurs in urban areas and, based on their occupational profile, around 70 percent of The Gambia's urban workforce are unable to work from home (Gottlieb et al. 2020a).

Those working in essential sectors—such as agriculture, transport, and utilities—were allowed to continue working during the lockdown.⁷⁵ The total employment effect of lockdowns therefore depends on which occupations and sectors are categorized as essential. Low-income countries typically have a higher share of employment and value-added in essential sectors than middle- and high-income countries (Gottlieb et al. 2020b). In The Gambia, 37.5 percent of non-agricultural employment occurs in essential sectors. Given the high share of workers in essential sectors, 67 percent of The Gambia's workforce were effectively able to work during a hard lockdown (Figure B5). As a result, the impact of the lockdown on employment in The Gambia should be similar to that in middle- and high-income countries.⁷⁶

Figure B5: Effective employment relative to trend under a hard lockdown



Source: Penn World Tables and ILOSTAT.

Note: Real GDP per capita of each country corresponds to the 2017 purchasing power parity-adjusted series from Penn World Tables, normalized to the United States. The trend line is a quadratic fit of the logarithm of real GDP per capita.

⁷⁵ A list of essential sectors during lockdowns is reported in Table A.10 (Gottlieb et al. 2020a). The share of non-agricultural employment in essential sectors relies on data from the 2018 GLFS.

⁷⁶ This analysis does not account for the implementation and degree of enforcement of the lockdown.

Box 4: Continued

While the effect on employment may not be much more than in high-income countries, the lack of social safety nets, the high levels of self-employment and ensuing informality, and inadequate fiscal stimuli will put the livelihoods of an already vulnerable population under additional strain. Cash transfers were provided through the Nafa Quick program on a near universal basis in almost all rural districts to facilitate compliance with stay-at-home orders and to mitigate the impact of lost labor and remittance income during the lean season (July through October). Recent phone survey data suggest that migrants are returning to rural agricultural jobs from urban non-agricultural work, which is likely to undo the urban-based productivity gains and poverty reduction of the past decade.

Low Growth has Meant Limited Labor Market Development

Sluggish growth and insufficient new jobs to absorb the growing working-age population could explain the underutilization of labor.

Between 2012 and 2018, the working-age population grew by 3.4 percent annually. Over the same period, the number of employed workers remained constant,⁷⁷ and GDP increased by less than 0.1 percent annually in per capita terms.⁷⁸ These trends suggest job creation has been limited and labor productivity growth has been slow. This section focuses on the supply side of labor markets and highlights how limited labor reallocation and low levels of human capital are key explanations for the lack of economic transformation.

The reallocation of capital and labor is an essential part of a successful economic transformation.

Factors of production must be able to move into the regions and sectors of the economy where they are the most productive. Reallocation of labor can increase productivity, economic growth, and household incomes. This can be facilitated by reducing existing labor market frictions that prevent labor from moving both geographically (spatial transformation) and between sectors (sectorial transformation).

Labor mobility has been high across regions and, to a certain extent, across sectors.

Figure 25 shows that around 20 percent of the population who were born in the Central or Upper River Region had moved to the West Coast Region, which is predominantly urban.⁷⁹ The data from the 2018 GLFS suggest there is a stark wage differential across regions. While more than 20 percent of all employed workers in the West Coast Region received a net income of more than GMD5,000, the share was only 6.2 percent in a remote region such as Kerewan. Such wage differentials could be an important pull factor for the West Coast Region. Movement into urban areas is also associated with people leaving agriculture for the services sector.

⁷⁷ Findings from the Gambia Labor Force Survey 2012 suggest that the total number of employed workers was around 700,000 women and men, very similar to the corresponding figures for 2018.

⁷⁸ Staff calculations based on the WDI data on GDP per capita in constant 2010 US dollars.

⁷⁹ The Upper River Region consists of Mansakonko, Kerewan, Kunaur, Janjanbureh and Basse, while the West Coast Region is comprised of Banjul, Kanifing, and Brikamana.

According to the 2018 GLFS, one in six households reported that at least one of their members had migrated internationally during the last five years. Of these emigrants, 94 percent were male, and 52 percent had either lower or upper secondary education. Most international migrants left to look for better job opportunities (85 percent). Most ended up in Italy (45 percent), Germany (13 percent), or Spain (10 percent). High levels of international migration reduce the pressure on the dysfunctional domestic labor market and provide remittances that are important for poverty reduction, but also result in brain drain and challenges of reintegration. A Youth Empowerment Project specifically aims to reduce migration pressure by improving the employability of youth, especially potential and returning migrants.

Given the country's history of limited job creation and lack of economic transformation, many Gambians have left in search of better economic opportunities abroad.

Low wages reflect the low productivity of the services sector with workers concentrated in low-skilled and/or informal jobs. Workers who moved to urban areas are likely to end up in such jobs, due to skills gaps and lack of urban planning, which undermines the potential role of urban labor markets in promoting inclusive growth and higher productivity.

Movements into urban areas and the services sector have not been accompanied by rising wages.

The Gambia ranks 137th out of 174 countries on the Human Capital Index (HCI). On average, Gambians have 9.5 years of schooling and only 5.4 years of learning-adjusted years of school (World Bank 2020d). Those with higher levels of education are more likely to be employed, and those with vocational certificates or diplomas show very high employment rates. A large fraction of unemployed individuals have only early childhood or primary education. Furthermore, while more than 90 percent of employed workers with below lower secondary education report wages of less than GMD2,000 per month, virtually all the higher-paying jobs are held by individuals with at least an upper secondary education, vocational certificate, or a diploma.

Low levels of education reduce people's chances of employment and reduce their wages.

Figure 25: Regions of birth and residence

		Local Government Area of Birth								Total
		Banjul	Kanifing	Brikama	Mansakonko	Kerewan	Kuntaur	Janjanbureh	Basse	
Local Government Area of Residence	Banjul	40.8%	0.2%	0.2%	0.2%	0.4%	0.1%	0.2%	0.1%	1.4%
	Kanifing	38.9%	79.3%	5.8%	9.1%	9.1%	4.9%	5.7%	6.2%	19.4%
	Brikama	18.9%	18.7%	92.5%	22.0%	15.1%	11.2%	12.5%	6.1%	37.3%
	Mansakonko	0.3%	0.4%	0.5%	66.2%	0.6%	0.6%	0.8%	0.1%	4.4%
	Kerewan	0.7%	1.0%	0.6%	1.3%	74.2%	1.1%	0.6%	0.2%	12.0%
	Kuntaur	0.1%	0.1%	0.1%	0.2%	0.2%	79.0%	1.2%	0.3%	5.4%
	Janjanbureh	0.1%	0.2%	0.2%	0.8%	0.2%	2.5%	78.0%	0.6%	6.9%
	Basse	0.2%	0.2%	0.2%	0.3%	0.1%	0.6%	1.1%	86.4%	13.1%
	Total	3.0%	16.3%	29.6%	6.0%	15.3%	6.5%	8.3%	14.9%	

Source: World Bank staff calculations based on the Population Census 2013.

Note: 1/ Residence pertains to 2013. Birth depends on individuals surveyed in the Census. 2/ The blue rectangular area is the group of the population born in "more remote LGAs", but now residing in the wider capital city region. The grey diagonal refers to households which stayed in the same LGAs.

Large returns to education suggest persistent skill gaps among employed workers.

Individuals with more education have a significantly increased probability of receiving higher wages than their less well-educated peers (Figure 26), even when controlling for gender, age, and employment sector.⁸⁰ The probability of an individual being in the highest wage category, compared with someone with only an elementary or primary education, increases with every level of educational attainment. Although these large returns to education suggest it is difficult for employers to find well-qualified workers, they create incentives for further human capital accumulation.

Workers' training has a similar, albeit smaller, effect on wages.

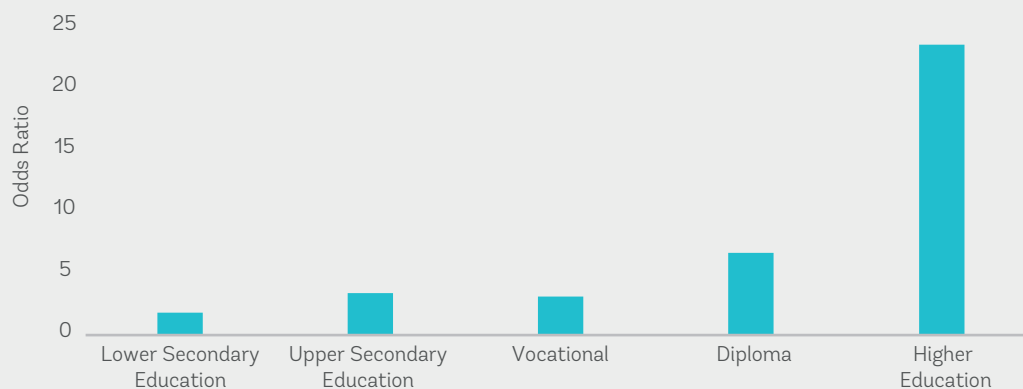
Workers who have attended training also reported higher wages. A large majority of these workers already had higher levels of education and participated in training as part of their regular work. To the extent that training and on-the-job learning builds on existing levels of human capital, they can exacerbate pre-existing inequalities in the labor market. While better-qualified workers can expect to gain from an economic transformation because they can leverage their education levels, individuals in occupations that do not enable them to continue to accumulate human capital—such as agriculture and the informal sector—might not benefit as much.

The Gambian labor market is heavily skewed towards small and micro enterprises.

The 2018 GLFS found 71 percent of all self-employed workers do not employ anyone else. Of all firms which do employ anyone, only 2.3 percent employ more than five workers. Informality continues to play an important role in the labor market. Only 3.6 percent of self-employed individuals sampled by the GLFS reported having registered their business with the Gambia Chamber of Commerce and Industry. A more thorough analysis of the Gambian labor market would require a stronger focus on the labor demand side.

⁸⁰ The following sample restrictions were applied. The GLFS 2018 data report wage data as a categorical variable in six groups. Only employees who reported a monthly net income were considered for the empirical analysis. This comprised 87.3 percent of employees. For the Mincer regressions the two lowest education groups (early childhood education and primary education) were combined.

Figure 26: Results from Mincer regression, 2018



Source: World Bank staff calculations based on the GLFS 2018.

Note: Figure reports estimated coefficients from a Mincer equation. Odds ratios from ordered logistic regression controlling for gender, age, and sector of employment.

Future Growth will Depend on Transforming the Labor Market

Key to achieving this will be the continued reallocation of workers into the country's most productive sectors. Economic transformation is likely to accelerate the growth of the services sector. Within the service sector, the tourism and hospitality sub-sectors are more likely to create formal jobs with higher productivity and wages. Diversifying tourism, for instance non-conventional activities in inland regions, could also help to reduce the seasonality of employment and expand opportunities to lagging regions. Reforms to the business environment will increase the demand for labor, enabling this transition. Formalization and protection of workers are also essential to ensure quality of jobs. Using social safety nets to ease consumption pressures and allow low-income households to make small investments will help to broaden the base of workers, drawing more women into the labor market.

Growing urbanization can be a driver for expanding the services sector and improving productivity and wages. However, this is possible only if newly arriving workers are integrated successfully into formal urban labor markets. This requires well-functioning education, training, and healthcare systems for workers and access to electricity, roads, and financing for businesses. Better skills, through formal education and on-the-job training, can also increase labor productivity and provide the skills needed by expanding sectors.

COVID-19 has exposed how dependent the labor market is on the tourism sector. In the short term it is unlikely that tourism will return to its pre-pandemic level. The domestic services sector also remains affected due to mobility restrictions and containment measures. Policies are therefore needed to focus on mitigation: protecting workers and businesses so that they remain active through the pandemic. Cash transfers to households will not only protect the poor, but also boost domestic consumption and economic activity.

The slowdown of economic activities could provide opportunities for workers to obtain new skills for future jobs. Continued investments to promote access to education, especially for the most vulnerable, as well as in digital infrastructure are key measures to support that process. Improving labor market policies, including facilitating formalization of jobs and protection of workers, will provide the basis for a job-enhancing economic transformation once the pandemic is over. Policies to support businesses, such as temporary grants or subsidized loans, can encourage formalization and private sector investments, accelerating the recovery. In this area, the recently legislated Women's Empowerment Fund aims to help women access small loans, guarantees, and technical assistance to boost their entrepreneurial activities.

Future economic growth will depend on a successful transformation of the economy, creating jobs and raising wages.

High levels of internal migration contribute to the reallocation of labor, but deficits in the labor market undermine urban productivity.

In the short term, the growth of the services sector and associated reallocation of labor is likely to be affected by COVID-19.

The Government should focus on policies that prepare the economy for a resilient recovery.

SPECIAL SECTION 2

D. Strengthening Resilience

The Gambia's economy is highly vulnerable to external shocks, such as pandemics, global recessions and price shocks, and natural disasters. The ongoing COVID-19 pandemic highlights the need for The Gambia to develop resilience. This section focuses on three aspects of resilience: climate, infrastructure, and fiscal resilience. To increase climate resilience, the Government should invest in mitigation measures such as irrigation and provide insurance against climate risk. Investments in digital, electricity and water infrastructure will strengthen the country's resilience during the pandemic and beyond. To increase fiscal resilience, the Government should improve the efficiency of its spending, increase and diversify its tax revenue, and, in the medium run, reduce its debt burden.

Growth is Volatile in the Face of External Shocks

“Resilience” refers to a country’s ability to avoid or withstand a shock and for growth to recover quickly.

Shocks can take different forms, including pandemics, global recessions and price shocks, and natural disasters. However, the extent of the disruption they cause depends on the country's (i) vulnerability to shocks; (ii) shock absorption capacity; and (iii) ability to recover quickly from the shock. Policy reforms can influence economic resilience for each of these elements. For example, an increase in market interest rates will only jeopardize the Government's ability to service its debt if its liabilities are predominantly short-term. A natural disaster will have smaller economic impact if the country's infrastructure is designed to withstand it. Shock absorption can be strengthened through automatic stabilizers, making taxes and expenditures sufficiently responsive to the economic cycle. Preserving growth-friendly public expenditure, such as public investment, could support recovery from downturns.

Economic growth in The Gambia is more volatile relative to its peers.

One aspect of resilience is the extent to which external shocks translate into changes in GDP. As Table 6 shows, The Gambia's GDP is volatile relative to its peers. This could be either because it is exposed to more severe shocks, or because the shocks have a greater impact on GDP. The comparison with neighboring Senegal is particularly illuminating: GDP growth rates in Senegal and The Gambia are positively correlated⁸¹ suggesting that the two countries face many of the same external shocks (Figure 27), which makes sense given their geographic proximity and close ties. However, GDP growth in The Gambia

⁸¹ The coefficient of correlation is 0.4.

is significantly more volatile.⁸² This suggests that the same shocks have more severe effects on the economic activity in The Gambia than in Senegal.

The Gambian economy is heavily concentrated in two sectors, agriculture and tourism. This lack of diversification means that shocks to either of these sectors are likely to have large aggregate effects. More generally, the small size of the economy would tend to make it relatively vulnerable to microeconomic shocks, such as the failure of a large firm. High indebtedness,⁸³ and reliance on highly volatile and short-term financing also create vulnerabilities to shocks.

The Gambia’s structural characteristics and limited fiscal buffers may be contributing to the volatility of its economy.

GDP measures how much the country produces. However, the well-being of its people depends not on how much they produce, but on how much they consume. Ideally, even if

Another aspect of resilience is the extent to which changes in economic activity translate into changes in well-being.

82 The standard deviation of GDP growth between 1995 and 2019 in constant local currency units is twice as high as in Senegal.

83 Despite benefitting from the Heavily Indebted Poor Countries (HIPC) Initiative in 2007, The Gambia remained at high risk of debt distress every year during 2006–2012 and during 2017–2018 while it went in external debt distress in 2019. The Gambia graduated out of that distress in early 2020 and is currently rated at high risk of debt distress.

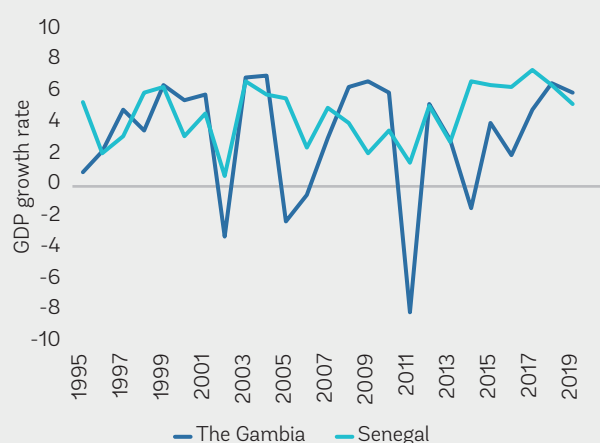
Table 6: Volatility of GDP growth and its transmission to consumption

Country	Standard deviation of GDP growth	The average effect of a 1 percent decrease in GDP on consumption (%)
The Gambia	4.2	1.13
Senegal	2	0.8
Guinea	2.8	0.6
Guinea-Bissau	2.5	0.8
Mauritania	4.7	0.3

Source: World Bank staff calculations based on the WDI, GDP (constant local currency units), during the period 1999–2019.

Figure 27: GDP growth in The Gambia and Senegal, 1995–2019

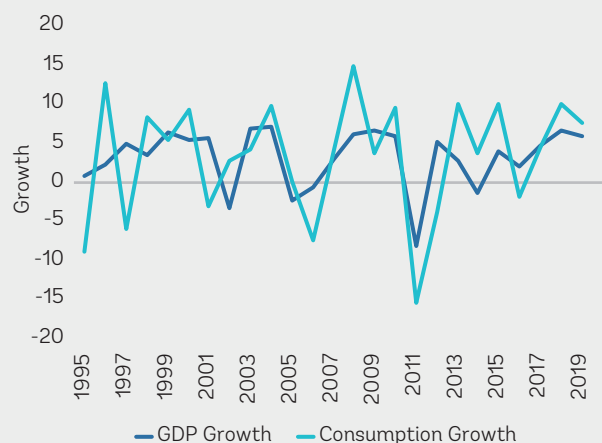
Percent



Source: World Bank staff calculations using data from the WDI on GDP in constant local currency units.

Figure 28: Consumption and GDP growth in The Gambia, 1995–2019

Percent



Source: World Bank staff calculations using data from the WDI on GDP in constant local currency units and consumption expenditure shares.

a shock reduces an economy's production, its consumption would remain intact. This is the principle of insurance: if the economy is insured against shocks, consumption should be less volatile than income.

In The Gambia, consumption tends to move more than one-for-one with output.

The Gambia is far from achieving this ideal: changes in consumption closely track changes in GDP (Figure 28). While it is common to have some co-movement between aggregate income and consumption, countries differ in their ability to insulate consumption from output shocks. As Table 6 shows, a 1 percent decline in GDP among the country's peers translates into a 0.3–0.8 percent decline in consumption. In The Gambia, consumption tends to change more than output.⁸⁴ This implies that its population has less insurance against shocks to aggregate output.

This section discusses climate, infrastructure, and fiscal resilience.

The rest of this section discusses three approaches to strengthening resilience in The Gambia. The first considers strengthening climate resilience, the second looks at investment in resilient infrastructure, and the third covers strengthening fiscal resilience.

The Economy is Vulnerable to Climate Shocks

Variation in rainfall creates substantial macroeconomic risk.

An important category of external shocks relates to climate variability. Climate shocks have economic implications for both the agricultural and for non-agricultural sectors. In the agricultural sector, variations in rainfall affect crop production. On average, a 1 percent increase in rainfall generates a 1.15 percent increase in crop production.⁸⁵ Given the variability in rainfall, this implies a 13 percent chance that low precipitation will reduce crop production by over 15 percent in any given year. As agriculture accounts for 24 percent of the country's GDP,⁸⁶ this variation constitutes significant macroeconomic risk: a 15 percent drop in agricultural production generates a 3.5 percent drop in GDP. Given the variability of rainfall in The Gambia,⁸⁷ this means that roughly once every eight years, low rainfall could cause GDP to fall by at least 3.5 percent.

Although current losses from droughts and floods are relatively minor, they may increase with climate change.

At the same time, the Disaster Risk Profile for The Gambia (Rudari et al. 2018) commissioned by the United Nations Office for Disaster Risk Reduction (UNDRR) concludes that, under current climate conditions, agricultural losses from extreme variation in rainfall (droughts and floods) are relatively minor. However, climate change creates uncertainty about future levels of precipitation: the climate projection models suggest that, over the next century, rainfall may either increase by 40 percent or decrease by 40 percent (World Bank 2020e). Depending on the change in precipitation levels, future losses from droughts or floods may be larger.

84 A regression of consumption growth on output growth results in a regression coefficient of slightly above 1 in The Gambia, and 0.4 in Senegal. Output growth is calculated based on GDP in constant local currency units, as reported by the WDI, and consumption is calculated by multiplying the GDP variable by the consumption expenditure share of GDP (also from the WDI).

85 This estimate is derived from regressing the WDI measure of crop production in The Gambia on its annual rainfall, obtained from the supplementary material to Brückner and Ciccone (2011). Data for The Gambia are available for the years 1981–2004. The dependent variable is annual growth in crop production, and the explanatory variables are growth in rainfall and lagged growth in rainfall.

86 The agricultural share of GDP is estimated based on the average share in the years 2010–2019, as reported in the WDI: Agriculture, forestry, and fishing, value added (percentage of GDP).

87 Data on annual rainfall was obtained from the supplementary material to Brückner and Ciccone (2011). Data for The Gambia are available for the years 1981–2004.

For the non-agricultural sector, the primary risk is from flooding. The UNDRR estimates that the average annual loss from floods is around 0.2 percent of GDP, primarily due to damage to productive assets, housing, and transportation systems. In addition, coastal flooding as a result of rising sea levels may result in the permanent loss of land and urban infrastructure, as well as losses to beach resorts that are central to the tourism industry.

It is important to note that these average annual losses mask substantial variation. While in some years, there may be no flood damage, in other years the damage may be substantial. In September 2020, over 50,000 people were affected by floods, windstorms, and fires. Flooding caused damage to buildings and inundated the Banjul port. Both the agricultural and the non-agricultural sectors were affected (NDMA 2020).

The Government should take measures to reduce the economy's vulnerability to climate shocks for two reasons. First, in The Gambia, climate risk is macroeconomic risk. Even under current climate conditions fluctuations in rainfall have a substantial effect on aggregate GDP. In the long run, changes in climate may affect the growth prospects of the economy. Uncertainty about climate therefore creates both short-run and long-run macroeconomic uncertainty. Reducing the economy's vulnerability to climate shocks will increase macroeconomic stability, which may foster growth.

The second reason is that the people of The Gambia cannot be expected to adequately insure against these risks on their own. Some mitigation measures, such as the development of irrigation networks, require collective action because of their scale. The Government is the only stakeholder that can finance and coordinate such projects (possibly through private partnerships).

The Government can reduce the economy's exposure to climate shocks in two main ways. First, it can put in place mechanisms to reduce the transmission of climate shocks into changes in GDP. For example, implementing irrigation systems will make crop yields less vulnerable to droughts. Zoning and building regulations could make the economy's urban capital stock less vulnerable to floods. Protecting forests and mangroves may help reduce flooding damage and, in the long run, mitigate the effects of rising sea levels. Investing in resilient physical, water, and electricity infrastructure can help prevent disruptions during natural disasters.

Second, the Government can play a role in providing insurance against climate risk. Ideally, farmers and property owners should be able to reduce their exposure to climate risks by obtaining market insurance against damages from natural disasters. In practice, access to finance is limited in The Gambia, even compared to its peers (IMF 2018, World Bank 2019). In the absence of private alternatives, the Government has a role in providing insurance, either directly or by adopting mitigation measures. The Government will need to improve its fiscal resilience if it is to take on this role.

Flood damage to capital assets generates an average annual loss of around 0.2 percent of GDP.

In September 2020, floods, windstorms and fires affected over 50,000 people.

Reducing the economy's vulnerability to climate shocks could increase its macroeconomic stability.

Some mitigation measures require government involvement.

The Government should invest in the economy's ability to withstand climate shocks.

In the absence of market solutions, the Government has a role in providing insurance against climate risk.

Resilient Infrastructure is Needed to Withstand Crises

Digital, electricity, and water infrastructure are crucial for developing resilience.

Infrastructure is a key aspect of a country's resilience. Without resilient infrastructure, the country's ability to respond to crises is compromised. This section discusses three types of infrastructure that are particularly important during the ongoing COVID-19 pandemic: digital, electricity, and water infrastructure.

Digital infrastructure can be used to strengthen and reinforce country resilience in several ways.

The continuity of economic and social activities during the COVID-19 pandemic has largely depended on how robust a country's digital infrastructure is. Countries with affordable broadband services saw a large part of their workforce transitioning to working from home while students could also continue their education from home. E-commerce has become more relevant at the local level as bricks-and-mortar stores found ways to market their products and make transactions online or through mobile applications. Young entrepreneurs could find job opportunities in the digital space that can be conducted remotely.

There is scope to expand internet usage in The Gambia.

Mobile phone penetration in The Gambia is high, at 135 percent.⁸⁸ Internet usage is at 20 percent, which is comparable to Guinea and Rwanda, higher than Togo (12 percent), but lower than Senegal (46 percent).⁸⁹ Affordability is a key barrier to the adoption of broadband technology, as is the persistently low quality of connections. Improvements on these dimensions may come from liberalizing the wholesale fiber optic backbone infrastructure and reforming the telecom SOEs.

Digital infrastructure can provide immediate solutions during the current COVID-19 crisis.

In the short-term, a digital platform using multi-media channels (such as text messaging, interactive voice response, television, and radio) could be used to push public health announcements related to COVID-19. They could also be used for contact tracing, and to gather real-time data from citizens to inform policy makers and public health officials. Digitalization of government processes and public services can improve efficiency, transparency, and accountability at a time when already scarce resources, such as medical and food supplies, are becoming even scarcer. Existing digital financial services could be strengthened and expanded to ensure cash transfers are delivered to the intended beneficiaries and economic transactions can continue as people reduce their visits to stores and handling of cash.

The electricity system remains vulnerable to external shocks.

While significant improvements have been made in the energy sector in recent years, the electricity system remains operationally fragile and financially vulnerable to external shocks. In particular, the 100 percent dependence on imported heavy fuel oil for electricity generation exposes the Government to global oil price and exchange rate shocks. The new tariff methodology introduces an automatic pass-through mechanism which should protect NAWEC in the short-term. The energy sector roadmap projects a medium- to long-term vision to transition to domestic solar and imports of regional

⁸⁸ TeleGeography 2020 (<https://www2.telegeography.com>). Data as of end March 2020. A figure of above 100 percent reflects a large share of multiple SIM ownership.

⁸⁹ See Table 1 in World Bank (2020f).

renewables. This vision, combines greater resilience with the objective of universal access to affordable and clean energy.⁹⁰

To withstand natural disasters, a resilient electricity system requires (i) sufficient generation reserve capacity that can absorb shocks from voltage fluctuations; (ii) redundancy in the transmission and distribution network such that it will not cause system-wide blackouts if one part of the network is affected in a storm; and (iii) an operationally efficient utility company that is able to rapidly respond during such events. NAWEC's network management systems should be able to isolate network events to minimize total system blackouts, and its operational crews need the capacity to rapidly respond to network events and restore supply.

A resilient electricity system would be able to guarantee electricity supplies to critical health facilities, such as hospitals and testing centers during global pandemics like COVID-19. This would require a reliable electricity grid, as well as back-up generation to ensure security of supply.

Water infrastructure is another important determinant of resilience. There is strong evidence that regular handwashing with soap can help stem the transmission of COVID-19. However, in The Gambia, as in many countries, most of the population faces inadequate water, sanitation and hygiene (WASH) infrastructure. While the Government and NAWEC have deployed temporary arrangements such as water trucks and handwashing stations, these stopgap measures have limited impact and are not sustainable. Poor water and sanitation systems also worsen human capital outcomes. They are a key driver of childhood stunting, which currently affects 19 percent of the country's children. They also lead to water-borne diseases such as diarrhea and worsen maternal health outcomes.

Other water-related risks are linked to climate change. A third of the country's surface area is at or below 10 meters above sea level and, according to projections,⁹¹ The Gambia is expected to face a sea level rise of 35 cm by 2050. The effects of sea level rises are already being felt in the Greater Banjul Area, which is dependent on a water source that is prone to contamination from untreated sewage and saline intrusion from rising sea levels. The increasing salinization means there will be less fresh water available in the future unless alternative water sources are developed.

In addition to these long-term effects of climate change, extreme climate events pose an immediate risk to the country's WASH infrastructure. In September 2020, windstorms, flooding, and fire outbreaks affected water points and sanitary facilities in all the Local Government Areas. In Banjul, there were no working water sources and only one working sanitary facility (NDMA 2020).

90 This vision is being operationalized by various development partners including the World Bank. For more details, see World Bank (2020i).

91 As per the Intergovernmental Panel on Climate Change's Representative Concentration Pathway 8.5. This global warming scenario is frequently referred to as "business as usual", suggesting that is a likely outcome if society does not make concerted efforts to cut greenhouse gas emissions.

The Gambia can develop an electricity system that is resilient to external shocks.

A resilient electricity system is critical to ensure the delivery of vital services during a pandemic.

Water, sanitation and hygiene infrastructure can help improve health outcomes.

Unless alternative water sources are developed, rising sea levels will lead to less fresh water being available in the future.

The country's WASH infrastructure was affected by the September 2020 floods.

In order to boost its resilience to future health and climate crises, The Gambia needs structural water solutions.

A key priority is to invest in water supply infrastructure. These include new sources of water production, especially sustainable groundwater sources; rehabilitating and extending piped water networks; increasing household connections; and offering decentralized solutions in rural areas. There is also an urgent need to develop sewerage networks in urban areas and a mix of on-site and off-site sanitation, including constructing latrines and fecal sludge management solutions in both urban and rural areas. Special attention should be paid to installing and maintaining WASH facilities in schools, health facilities, and other public institutions. These investments should go hand in hand with institutional reorganization and capacity enhancements at NAWEC.⁹² Lastly, improved management of the country's water resources will be essential to mitigate climate change risks such as sea level rise and flooding.

Fiscal Resilience is a Necessary Condition to Respond to Shocks

Fiscal resilience refers to the extent to which government services can withstand external shocks.

The Government provides important services, including public health services, education, security services, and investment in infrastructure. However, its ability to do so depends on whether it can access the funds needed to finance its operations. Fiscal resilience refers to the Government's ability to continue to provide essential services, and expand its operations as necessary, during crises and economic downturns.

The need for government spending rises during crises.

The need for government assistance rises during economic downturns for two reasons. First, government spending can mitigate the economic effects of external shocks: for example, tax deferrals during the COVID-19 pandemic may have helped firms stay open, preventing costly closures. Second, government spending during downturns is often necessary to guarantee that people's basic consumption, health, and safety needs are met.

Government spending tends to be pro-cyclical...

The stabilizing power of fiscal policy depends largely on its ability to mitigate cyclical fluctuations. But in The Gambia fiscal policy tends to be pro-cyclical, expanding in booms and contracting in recessions—a pattern that makes it one of the sources of macroeconomic instability. The Public Expenditure Review (PER) for The Gambia (World Bank 2020g) found that, between 2004 and 2019, government spending was pro-cyclical, largely driven by the pro-cyclicality of public investment. Lack of access to credit markets in bad times and high spending rigidities could have contributed to this. On a positive note, spending on social buffers has tended to increase during crises (Figure 29). This suggests that the Government has been responsive to households' needs for additional assistance during downturns.⁹³

...and so is Government revenue.

The Government has three sources of revenue: tax revenue, non-tax revenue and grants. Non-tax revenue and grants are pro-cyclical, and tend to decline during downturns. Tax

⁹² The Government is reorganizing NAWEC's operating activities (electricity, water, and sewerage) as separate Business Units with fully identifiable financial statements and beefing the Company's HR, IT and logistical capacity with support from the World Bank..

⁹³ This has been the case during COVID-19 when the Government provided emergency health support and social assistance to households through its regular and supplementary budget.

revenues were also mostly pro-cyclical. The only exception was corporate income tax, with a positive but not statistically significant coefficient, indicating counter-cyclical response (Figure 30). The pro-cyclicality of tax revenues requires further investigation. It is important to judge the stance of tax policy based on the policy instrument (the tax rate) and not on a policy outcome (tax revenues), which is heavily influenced by the strong dependence of the tax base (income or consumption) on the economic cycle. If confirmed, the pro-cyclicality of tax policy may suggest that either tax rates were increased or enforcement improved during economic downturns.⁹⁴

Creating fiscal space will be important to support counter-cyclical policies in the face of external shocks. The Government can increase its fiscal capacity by expanding its tax revenues during good times. Currently, tax revenue is well below potential: according to the PER, it could be increased by 4–6 percent of GDP (World Bank 2020g). Its current tax revenue is insufficient to meet its needs and is below the Sub-Saharan African (SSA) average. The PER suggests several strategies for increasing it, including phasing out discretionary tax exemptions (around 3 percent of GDP). While such reforms may not immediately increase revenue, the promise of future tax revenue might enable the Government to increase its borrowing capacity, which would help finance its operations during crisis.

Because The Gambia's tax revenue is well below its potential, increasing tax revenue during good times could help fund its crisis responses.

94 During the pandemic affecting most of 2020, tax revenue collection almost stayed put despite relief measures (see the Fiscal Sector section above) which likely implies better enforcement and revenue administration.

Figure 29: Correlation Coefficient Between Cyclical Components of Expenditure and GDP, 2004-2019

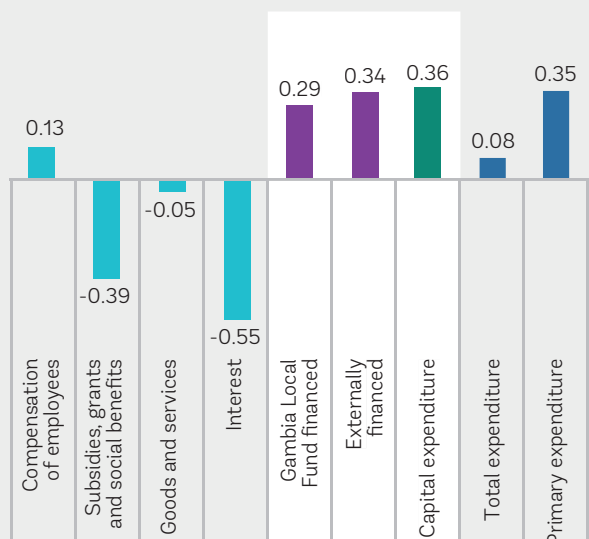
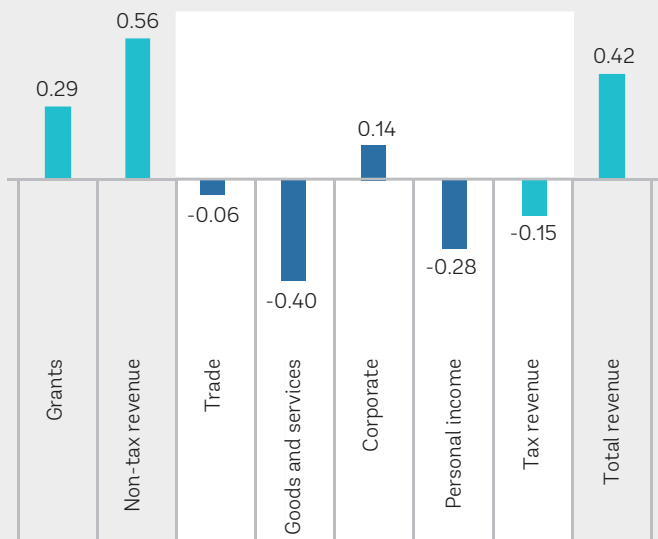


Figure 30: Correlation Coefficient Between Cyclical Components of Revenue and GDP, 2008-2019



Source: PER. The expenditure figure corresponds to Figure 4.2 in the PER. The revenue figure is based on reported revenue in Figures 2.3 and 2.4 in the PER. For spending, positive correlations indicate pro-cyclical behavior and negative correlations indicate counter-cyclical behavior. In case of tax revenue, there is an inverse relation: positive correlation indicates counter-cyclical behavior. Estimated cyclical components are based on the Hodrick-Prescott Filter.

- Non-tax revenue and grants are unreliable sources of funding during downturns.** Non-tax revenue consists of licensing fees and other payments for government services, as well as sales of government assets such as land. These are unlikely to increase during downturns, when economic activity is low.⁹⁵ The availability of grant money depends on the nature of the crisis. Grants are likely to increase during crises that are confined to The Gambia, such as local droughts or floods. However, global crises lead to greater demand for bilateral and multilateral assistance than there are funds available. The Gambia has been flush with budget support and project grants as development partners and donors frontloaded their portfolios to support its response to the pandemic. Such an acceleration, however, will limit the availability of similar funding for the next 1–2 years.
- Repurposing existing funds during downturns can facilitate the funding of crisis response.** Finally, the Government can repurpose existing funds towards its crisis response. The Public Finance Act of The Gambia also allows for spending to be repurposed either through budget reallocation or through the creation of an emergency fund (capped at 1 percent of the current budget) (World Bank 2020h). Historically, the Government has tended to reduce its capital expenditures during downturns, allowing it to allocate more funds to social assistance and the purchase of goods and services (Figure 28). Cutting investment should be a last resort and should target projects with lower cost-benefits (economic and social). The PER suggests modifications to government spending that could generate savings of up to 1.6 percent of GDP.⁹⁶ These primarily come from reducing defense spending and improving public financial management.
- The high levels of rigidity of government spending makes it difficult to reallocate existing funds.** The Government's ability to reallocate funds to respond to crises depends on the rigidity of its budget. Some budget items, such as salaries and interest payments, cannot be repurposed without serious consequences while others are more flexible. The PER found that only 22 percent of the Government's budget is flexible,⁹⁷ with the rest mostly pre-committed to highly rigid expenditure categories, such as wages, interest payments, and externally financed capital expenditure.
- Borrowing during downturns will only be possible if government debt is sustainable.** Borrowing is another way to finance a crisis response during downturns, but the Government's ability to do so depends on its fiscal position. The Gambia entered the COVID-19 crisis with a ratio of public debt to GDP of over 80 percent, the sixth highest in SSA. Part of the reason for the Government's high debt is its absorption of contingent liabilities issued by its SOEs. The country's SOEs are heavily indebted, perform poorly and pose serious fiscal risks (see Box 1). The high level of debt limits new borrowing and reduces the scope for counter-cyclical responses. A study by the Asian Development Bank found that lower government debt is more conducive to counter-cyclical government spending (Aizenman et al. 2019).
- Reducing government debt can strengthen future resilience.** The Government needs to make several important changes to strengthen its resilience. First, it should reduce its debt burden. The joint IMF-World Bank Debt Sustainability Analysis ranks The Gambia's overall and external debt distress risk as "High" with limited space for additional borrowing (IMF 2020). If the Government is unable to repay or roll

95 Recovery of stolen assets as per the Janneh Commission findings is a one-off phenomenon specific to The Gambia. Nonetheless, sale of assets is not a sustainable source of revenue. Instead, revenue generation from commercial utilization of assets (e.g. through leasing, concessions) is a much better alternative.

96 See Table 0.1 in World Bank (2020g).

97 Excluding highly and medium rigid expenditure categories.

over its debt, it would have to cut essential services and liquidate some of its assets at a loss. Reducing its debt burden is the only sustainable way to transform itself from a source of risk to a source of resilience. The Government could start by reviewing and reprioritizing the large pre-existing pipeline of external project loans⁹⁸ before contracting new ones.

The Government should also seek ways to diversify its revenue. Nearly half of the country's tax revenue comes from taxes on international trade. This leaves it particularly vulnerable to shocks that lead to disruptions in trade, such as the ongoing pandemic. Global recessions causing declines in global demand may also have similar effects. A study conducted by the IMF found that as countries improve their tax administration capacity, they are more able to diversify their tax revenues (Compaoré et al. 2020). A natural avenue for diversification is increasing the collection of direct taxes, such as personal or corporate income taxes.

In the short run, the Government should respond to the current crises with the budgetary tools it has at its disposal. These include repurposing existing funds toward its crisis response⁹⁹ and creating fiscal space by improving the efficiency of government spending. In the medium term, the Government should strengthen its fiscal resilience by increasing and diversifying its tax revenue and reducing its debt burden.

Diversifying tax revenue can increase resilience to global shocks.

The Government should improve efficiency, increase and diversify its tax revenue, and reduce its debt.

98 17 percent of GDP as of end-2019.

99 which the Government undertook to cover part of pandemic-related emergency spending.

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