Briefing

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Sustainable financing of The Gambia's development in a COVID-19 era

The Gambia urgently needs to adopt financing mechanisms that will underpin and ensure the delivery of its national development plan, which is being being reprioritised to support pandemic recovery, and its long-term climate vision, which has just been developed. In this second briefing on The Gambia, we consider the requirements of sustainable financing for development in a COVID-19 era and explore important factors required to support it, from a strong legal framework and enabling environment to risk and resilience financing, digitalisation and debt management options. As with the first briefing in this series,[1] the thinking will also apply to other Least Developed Countries as they seek to enhance sustainable financing for development against the backdrop of pandemic recovery.

Policy pointers

To strengthen the enabling environment for green financing, the government should establish a legal framework for financial mechanisms and policies that support low-emission, climate-resilient development.

To reduce poverty, the government must consider risks in vulnerable and marginalised communities and enhance financing for climate adaptation and resilience to help communities build their coping mechanisms and capacities.

Working with telecommunications companies, the government should scale up the digitalisation of government transactions to make its resources and financing more effective, efficient, transparent, inclusive and accountable.

Finally, the government should explore approaches for reducing macroeconomic pressures through debt management linked to climate and nature, to support urgent health and welfare priorities while maintaining investment in poverty-reducing climate-resilient economic development, even during the pandemic emergency.

For a smooth transition to low-carbon climate-resilient development, Least Developed Countries (LDCs) and other developing countries must adopt inclusive, pro-poor, relevant and flexible financing mechanisms. This will enable them to scale up investments that provide environmental and socioeconomic benefits while also considering inclusive governance. The backdrop of the COVID-19 pandemic makes this even more urgent.

For The Gambia, limited access to this type of finance from both domestic and international sources has long been an obstacle to socioeconomic development. Over the past two decades, the country's medium-term plans have been insufficiently and inadequately resourced, limiting progress towards its Vision 2020. Adopting and strengthening sustainable financing mechanisms can enable the more suitable and scaled-up financing needed to support its reprioritised National Development Plan and its new 2050 Climate Vision[2]. Ensuring that such mechanisms are in place is all the more urgent now as the impacts of the pandemic further reduce the volume of available finance.

To date, The Gambia's climate finance landscape has been mainly composed of grants and concessional loans, with public funds often co-financing internationally developed and managed projects. The government's planned national climate change fund can change this, mobilising and disbursing resources more efficiently and through a broader range of instruments, and prioritising the creation of risk reduction and transfer tools and social safety nets for the most vulnerable sections of society.

Under the National Climate Change Policy, this fund should channel at least 50% of climate finance received from national and international sources to local communities. However, as part of its commitments as a frontrunner country to the LDC Initiative for Effective Adaptation and Resilience (LIFE-AR),[3] The Gambia should look to step this up to 70%. In developing financing mechanisms that support low-carbon climate-resilient development, the government must also recommit to the Addis Ababa Action Agenda,[4] which provides a global framework for financing sustainable development. The government must ensure financing aligns to other global frameworks under this area, including Sendai Framework for Disaster Risk Reduction and the Paris Agreement on Climate Change. All LDC governments should introduce more proactive and stringent policies and strengthen collective action to address global challenges to sustainable development in line with their commitment to the agenda.

Adopting and strengthening sustainable financing mechanisms can enable the scaled-up financing needed to support The Gambia's reprioritised National Development Plan and its new 2050 Climate Vision

Enabling environment for green financing

Significant investments in green energy are required to widen access to energy in rural areas, help reduce The Gambia's dependence on fossil fuels and support its transition to low-carbon energy provision. Given that agriculture is the second-highest contributor to gross domestic product (GDP) (after services) and the main livelihood source for most of the rural population,[5] large investments are also needed to boost sustainable agriculture.

Enacting the capital market bill would enable the government to introduce green financing instruments such as green bonds, which can steer investment towards renewable energy, sustainable agriculture, clean transportation and other priority areas. Options to explore in the short-, medium- and long-term outlook of the pandemic recovery include the role of green central banks, carbon market instruments, green fiscal policy and community-based green funds. Such tools and instruments can significantly increase investment in these critical sectors of the economy.

It is also important to enhance coordination between the Ministries of Finance and Environment to identify, design and use financial instruments for climate actions. Without clear understanding and communication between them, the process of creating these instruments can stagnate.

To ensure effective climate change governance, the government should develop a strong legal framework with statutory targets and processes. Given The Gambia's vulnerability to the impacts of climate change, the government should consider enacting a law to make action on climate change more predictable, structured and evidence-based. By establishing a national climate change fund, such a law would help formalise the target of channelling 50% — and ideally 70%, to coordinate with The Gambia's newer policy commitments — of resources to local communities.

Risk and resilience financing

The World Risk Index 2020 ranks The Gambia as the 28th most climate-vulnerable country.[6] With its economy, people and environment all highly sensitive to climate variability and the effects of climate change, enhancing investments in climate adaptation and resilience is vital.

Droughts have become increasingly frequent over the past 20 years, with particularly severe droughts in 2002, 2005, 2011 and 2014. As well as causing significant crop failures, these events have put pressure on limited national resources, affecting lives and livelihoods and causing fluctuations in annual GDP growth or, in some drought years, even negative GDP growth (–0.9% in 2005; –4.3% in 2011).[7]

Given the risk and uncertainties in the agriculture sector, the government must target suitable safety nets and instruments at smallholder farmers. With almost 70% of the rural population living below the poverty line,[8] smallholder farmers have neither the absorptive capacity to cope when their crops are impacted by climate change nor access to insurance mechanisms without support. Table 1 shows how declining primary sector productivity, climate extremes and child malnutrition could push millions of people into poverty. If The Gambia's government does not consider the risks faced by vulnerable communities and how to build coping mechanisms and capacities, its poverty reduction strategies, including the pandemic recovery strategy, will fail. Financing resilience can help limit the impacts of climate change.

In 2015, The Gambia joined the African Risk Capacity (ARC) risk financing pool for drought, a parametric insurance scheme that provides timely payouts to drought-affected areas. But drought events since 2015 have not been big enough to trigger ARC payouts. As drought-affected regions still need support, the government must find alternative mechanisms for building resilience there.

The Emergency Relief Fund, mandated by the National Disaster Management Act and

Table 1. Risk of poverty under a 2°C average temperature change scenario, 2030–2050

Impact pathway	Impact	Description
Decline in primary sector productivity	250–500 million people in extreme or moderate poverty (living on less than US$2 a day) are exposed to multi-year, possibly decadal, setbacks to their efforts to exit extreme poverty	Estimated impact of the decline in agricultural and livestock productivity applied to the likely size and distribution of the rural poor in 2030 in sub-Saharan Africa and South Asia
Increased exposure to drought	100–150 million of the extreme or moderate rural poor are pulled deeper into poverty	Estimated impact of drought on poor rural household livelihoods combine historic damage data, projected future droughts and likely size and distribution of the rural poor beginning in 2030 across regions
Child malnutrition and stunting	About 120 million more children are malnourished and 90–120 million suffer stunting (30–40 million per decade).	Estimated impact of climate change on number of additional children suffering from malnourishment and stunting due to climate change over the course of each decade in sub-Saharan Africa and South Asia

Source: Granoff et al. (2014)[14]

established in 2010, is one such mechanism that could fill the gap. But although it can provide support for smaller-scale drought events, the fund has not been consistently capitalised. Given the increasing frequency of disaster events, the government must ensure the fund is replenished annually to provide a timely response to disaster-related events. Enhancing the administration of the fund would also avoid creating separate funds when disasters strike, which can lead to duplication and public fund mismanagement.

Digital finance

The COVID-19 pandemic has highlighted the role that digital finance can play in supporting businesses and protecting jobs and livelihoods. In the developing world, 65% of adults lack access to even the most basic transaction account, which would allow them to send and receive payments safely and easily. Even fewer have access to savings, insurance and credit services, which are useful for expanding business, mitigating risk and planning for the future.

The pandemic has allowed telecommunication companies and networks to showcase their role in delivering essential services and outreach to more remote communities. For example, mobile network operators are using mobile technology to provide business transactions for people across The Gambia. Internet and mobile phone usage is also increasing — the number of internet users rose from 472,000 (20% of the population) at the start of 2020 to 580,000 (23%) in 2021, and mobile connections increased by 174,000 (4.5%) in the 12 months from January 2020.[9]

Adopting new and practical digital financing solutions such as mobile money transactions can help promote economic recovery, create jobs and connect marginalised communities. The government should therefore explore policies that pursue the need for collaborative systems or platforms to safeguard the interests of consumers, businesses and institutions as they engage in online activities.

As part of this, it is important to maintain the principle of leaving no one behind. To become a people-centred, inclusive and development-oriented society where everybody can access the information they need, the government must establish legal frameworks to mandate supporting access to these technologies. It must also strengthen systems to safeguard against abuses, security breaches and privacy intrusions.

The Ministry of Information, Communication and Infrastructure continues its efforts to roll out initiatives to transform The Gambia into a digital nation, facilitating the automation of financial transactions while maintaining accountability and effectiveness through training, collaboration, upgrading and strengthening systems, and expanding access. Its national technology hub is spurring research and development in information and communications technology and breeding the country's next generation of software developers, while the ministry is also establishing an efficient and secure government communication network and developing an e-Gambia power project proposal to help achieve last-mile connectivity across the country.[10] The government must build on these efforts to support digitalisation at a much larger scale.

Debt management for climate and nature

The COVID-19 pandemic has caused an urgent increase in health and welfare spending at a time when many countries have also seen significant reductions in economic productivity, remittances from diaspora and foreign direct investment. This has narrowed sovereign fiscal space and increased borrowing, diverting funding away from other underlying priorities, including climate and environment activities, and intensifying the need to manage debt.

In 2019, The Gambia's total debt stock stood at US$1.4 billion (56.7% external; 43.3% domestic).[11] Although nominal debt fell as a percentage of GDP — from 89.1% in 2018 to 80.1% in 2019 — the continuous rise in total public debt, caused mainly by an increase in guarantees to state-owned enterprises and fiscal slippages, remains a concern. The economic impacts of the pandemic mean that its debt position is likely to worsen rapidly.

Debt management for climate and nature can improve the wellbeing of the planet while helping to relieve macroeconomic pressure on developing countries.[12] In the context of the pandemic and the ongoing global climate emergency and destruction of biodiversity and ecosystems, this approach offers a sustainable finance mechanism that can coherently address this triple crisis. Instead of continuing to make hard-currency external payments on outstanding loans, it allows governments to negotiate with their creditors to make payments in local currency or at a lower interest rate, alongside some level of debt write-off. This makes fiscal space for critical health and welfare needs while continuing to finance poverty-reducing climate resilience or climate mitigation and adaptation activities, ensuring that efforts to combat the debt crisis also provide opportunities to advance climate protection, health and economic goals.

Debt management for climate and nature allows governments to swap unsustainable public and private debt for climate protection, providing timely relief from rising sovereign debt distress, creating local green jobs, stimulating investment in clean technologies and driving a more resilient economic recovery. It could also help countries accelerate action to address harmful climate impacts by strategically supporting projects that cut short-lived climate pollutants such as methane and black carbon.[13] Reducing these provides the fastest temperature fall to slow feedbacks, avoid tipping points, protect nature-based solutions and increase energy efficiency.

As countries begin negotiations to restructure national debt to address the pandemic and wider debt crisis, focusing on climate and nature protection will help ensure long-term debt sustainability, deliver more resilient societies and protect economies by diminishing the economic risk of the climate crisis.

Delivering low-carbon climate-resilient development

As The Gambia plans its recovery from the pandemic, considering the architecture of sustainable financing will help it emerge a stronger country. Policies that strengthen the enabling environment for green financing are crucial for increasing the volume of flows to match its climate ambition. The pandemic has highlighted the need for financing to support risk and resilience, and this should be a focus of the recovery. Digitalisation is also key, both for collecting government revenue and for providing social protection to the poorest and most marginalised through tools such as mobile money.

Finally, as the pandemic continues to place a strain on the economy, The Gambia should consider approaches to relieve macroeconomic pressure. Climate and nature-linked debt management could help provide vitally needed health and education spending without diverting funds from climate spending, meeting the country's needs while also supporting progress towards a longer-term, low-carbon climate-resilient development pathway.

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Notes

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The Gambia's Secretariat for the Re-Prioritized National Development Plan / COVID-19 Socio-Economic and Recovery supports the Ministry of Finance and Economic Affairs to design and implement COVID-19 response and recovery strategies, including a re-prioritised National Development Plan.

United Nations Development Programme (UNDP, Gambia) supports national efforts for sustainable human development in line with the Gambian National Development Plan 2018–2021.

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