Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 12-Oct-2022 | Report No: PIDA34757

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Gambia, The	P179543	The Gambia Second Fiscal Management, Energy and Telecom Reform DPF: Supplemental Financing: (P179543)	P173150
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
WESTERN AND CENTRAL AFRICA	07-Dec-2022	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Republic of the Gambia	Ministry of Finance and Economic Affairs, Government of The Gambia		

Proposed Development Objective(s)

The program development objective is to (i) improve debt and public investment management; (ii) improve financial viability and service delivery in the energy and telecom sectors; and (iii) enhance the transparency and governance framework of State-owned Enterprises (SOEs).

Financing (in US$, Millions)

SUMMARY

Total Financing	20.00

DETAILS

Total World Bank Group Financing	20.00
World Bank Lending	20.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **This document seeks the approval of the Executive Directors for a proposed Supplemental Financing (SF) of SDR XX million (US$20 million equivalent) to The Gambia Second Fiscal Management, Energy and Telecom Reform Development Program (FMETDP 2), $20 million equivalent, approved by the Board on May 10, 2022.** The development objective of the FMETDP 2, is to (i) strengthen debt and public investment management, (ii) improve financial viability and service delivery in the energy and telecom sectors, and (iii) enhance the transparency and governance framework of State-owned Enterprises (SOEs). While supporting the same objective, the proposed SF operation responds to the effects of the war in Ukraine on Gambian's economy. Following more than 2 years of the Coronavirus (COVID-19) pandemic, the spillover effect of the conflict and slowdown of China's economy will lead to a sharp deceleration of the global economy. The war is leading to higher commodity prices, adding to supply disruptions, increasing food insecurity and poverty, exacerbating inflation, contributing to tighter financial conditions, magnifying financial vulnerability, and heightening uncertainty. Global economic activity is now expected to slow to 2.9 percent in 2022 – 1.2 percentage points below previous projections.[1] The proposed operation will contribute towards closing The Gambia's unanticipated financing gap of 1.8 percent of GDP in 2022, which will be financed by grants and domestic debt.

2. **In The Gambia, the spillover effects of the war in Ukraine are already having significant economic and social impacts**. The conflict disrupted agricultural supply chains and food trade, driving inflation up to 12.9 percent and food inflation to 14.9 percent in August 2022 (year-on-year) – reaching double digits for the first time in three decades. Products and services whose prices increased the most, compared to their levels a year earlier, include oils and fats (+19.5 percent), cereals (+18.3 percent), health (+48.2 percent), and education (+25.3 percent). Recent data from the Harmonized Framework (Cadre Harmonise, CH) for The Gambia indicates the projected number of people in The Integrated Food Security Phase Classification (IPC)[2] 3 and more – IPC3+ – between June and August 2022 is expected to be 206,713, or 8.4 percent of the population. This represents an almost 45 percent increase since October 2021 in the expected number of people facing IPC 3+ conditions. An additional 606,782 people are in IPC 2+ conditions but face an imminent risk of progressing to IPC3+. The CH projections are from March 2022, and conditions in the country have continued to deteriorate due to the worsening global food crisis impacting food, feed, fertilizer, and fuel prices and ongoing floods affecting 47,104 (about 2 percent of the population) as of August 25, 2022. The July 2022 Hunger Map for the Gambia shows that 400,000 Gambians (17.4 percent of the population) have insufficient food consumption.

3. **The proposed SF operation will contribute to closing the unanticipated financing gap of 1.8 percent of GDP (around US$41 million) in 2022**. The GoG does not have the capacity to fill this gap on its own due to a lack of fiscal buffers and limited domestic revenues and borrowing capacity. Therefore, the GoG has requested assistance from development partners to help address the negative impacts of a terms-of-trade shock related to the war in Ukraine and floods. The proposed operation is part of a coordinated effort to fill the financing gap and will contribute to closing the Gambia's total financing needs of US$ 74.8 million (3.3 percent of GDP) in 2022, of which US$41 million (or 1.8 percent of GDP) was unanticipated.[3] The proposed request would complement the on-lending of the IMF Extended Credit Facility (ECF) disbursements in 2022[4] and 2021 SDR allocation from the CBG to the GoG to support its effort to provide food security

[1] World Bank. 2022. Global Economic Prospects, June 2022. Washington, DC: World Bank.

[2] The IPC describes the severity of food emergencies. See https://fews.net/sectors-topics/approach/integrated-phase-classification for detailed information on integrated phase classification.

[3] This includes the non-disbursement of expected budget support from African Development Bank and European Union in 2022 due to internal processes in these institutions.

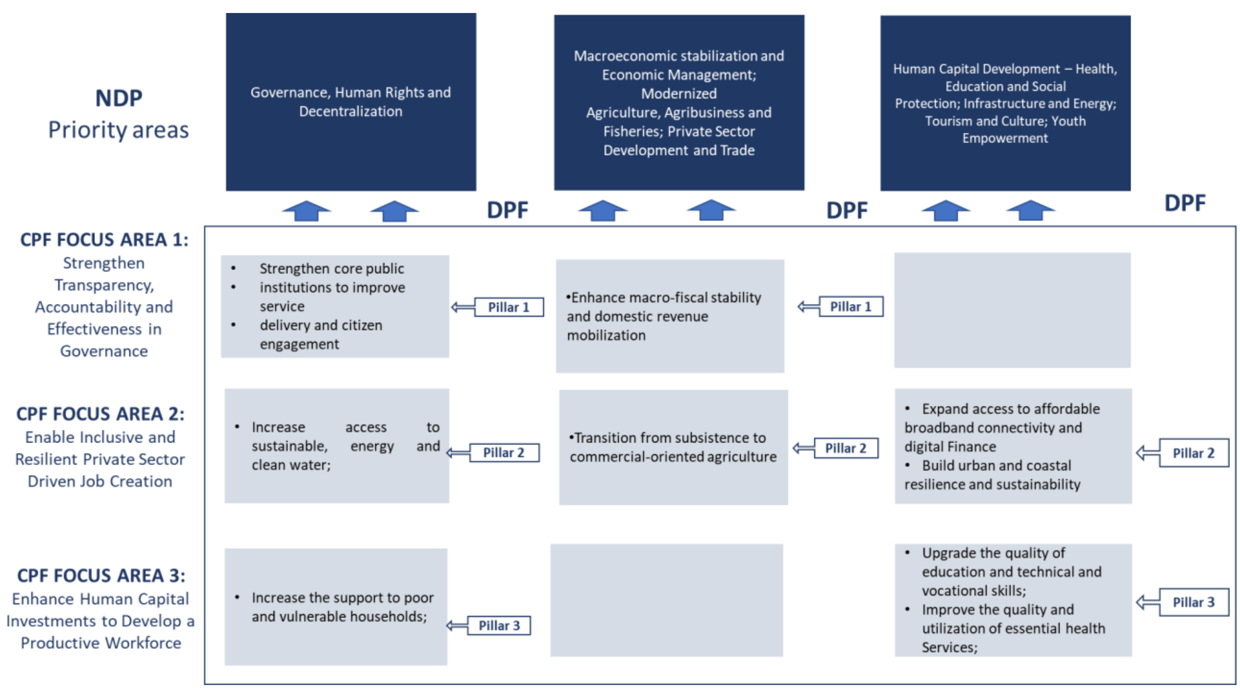
[4] The proposed operation follows the International Monetary Fund (IMF) approval of an of SDR 5 million (US$6.72 million) on June 10, 2022. The IMF is expected to allow on-lending from the central bank of the fifth ECF disbursements (Fifth Review) by the end of the year.

assistance to the most vulnerable households while meeting its financing needs. If not filled, the financing gap would jeopardize the reform program supported by the FMETDP 2, which otherwise is proceeding on schedule and in accordance with the agreed policy agenda. The SF will ensure that the reforms supported under FMETDP 2 remain on track and are implemented without significant delays due to competing budgetary or capacity priorities arising from crisis-related spending and measures. The SF will be followed by a new DPF series supporting the country's development agenda.

Relationship to CPF

4. **The reform program under the FMETDP continues to be highly relevant by supporting The Gambia's inclusive growth agenda and enhancing service delivery in key infrastructure sectors and is fully aligned with the WBG engagement (CPF) in the country** (Figure 1). The operation is designed around three pillars supporting 8 prior actions aligned with the Government's NDP 2018-2021 (which has been extended to December 2022). Under Pillar 1, the FMETDP 2 supports strengthening fiscal risks and debt management by introducing a framework to manage government loan guarantees and issuing an annual borrowing plan (ABP) and public investment management by improving project selection and appraisal and implementing the procurement act to ensure consistent use of competitive bidding and proper oversight of the procurement process. Under Pillar 2, the operation supports strengthening the overall financial position and governance framework of the National Water and Electricity Company (NAWEC) through a new tariff compensation mechanism and the introduction of a performance contract and quarterly performance monitoring framework. In the telecom sector, this pillar supports further liberalization of the sector and increased use of wholesale fiber backbone assets. Under Pillar 3, the program supports enhancing fiscal transparency, reducing fiscal risks, and improving the corporate governance of SOEs by establishing an SOE oversight institution within the Ministry of Finance and Economic Affairs (MOFEA).

Figure 1. Contribution of the FMETDP to Inclusive Economic Recovery



Source: World Bank staff elaboration

C. Proposed Development Objective(s)

The program development objective of the parent operation is to (i) improve debt and public investment management; (ii) improve financial viability and service delivery in the energy and telecom sectors; and (iii) enhance the transparency and governance framework of SOEs.

Key Results

- A reduction in the deviation between domestic debt issuance and annual borrowing plan
- An increase in the coverage of government loan guarantees in public debt reporting
- An increase in the share of new projects approved by SRB in a three-year Public Investment Program (PIP)
- A reduction in the value of single source contracting regulated by Gambia Public Procurement Authority (GPPA)
- An increase in NAWEC current ratio (current assets/current liabilities)
- A reduction in NAWEC aggregated technical, commercial and collection losses
- An increase in the proportion of female directors in NAWEC leadership team
- An increase in the proportion of base stations using the Economic Community of West African Network (ECOWAN) with transmission via fiber optic network
- An increase in the share of the population covered by 4G network
- A reduction in transfers and subsidies to SOEs as a percent of GDP
- A reduction in the timely publication of annual audited financial statements for all SOEs

D. Project Description

5. **This SF operation aims to safeguard the implementation of critical reforms in fiscal and debt management, energy, and telecom sectors achieved under FMETDP 2.** It does so by providing immediate support to close an unexpected financing gap, providing fiscal sustainability, and continued commitment to reform implementation during this challenging economic, fiscal, and energy crisis due to the war in Ukraine.

6. **The FMETDP 2 supported reforms to improve debt and public investment management, strengthen the financial viability and service delivery in the energy and telecom sectors, and enhance the transparency and governance framework.** Reforms under Pillar 1 focused on (i) reducing fiscal risks and enhancing debt management by introducing a framework to manage government loan guarantees and issuing an annual borrowing plan (ABP) and (ii) strengthening public investment management by improving project selection and appraisal and implementing the procurement act to ensure consistent use of competitive bidding and proper oversight of the procurement process. In Pillar 2, reforms aimed at facilitating greater private-sector participation in the energy and telecom sectors, enhancing competition, improving the much-needed water and telecommunication service delivery, and ultimately reducing costs for businesses and consumers through four policy actions. Finally, Pillar 3 supported the transparency and governance framework of SOEs by enhancing fiscal transparency, reducing fiscal risks, and improving the corporate governance of SOEs by establishing an SOE oversight institution within the Ministry of Finance and Economic Affairs (MOFEA).

7. **The reform program supported by the FMETDP series remains highly relevant for the GoG's response capacity to overlapping crises**. In the short term, measures under Pillars 1 and 3 create fiscal space, improve public resource management for growth-enhancing and requisite social spending, and increase the efficiency of countercyclical fiscal policies during adverse external shocks, such as the spillover effects of the war in Ukraine or the COVID-19 pandemic. In the medium-term, improving fiscal, debt, and SOE management will reduce fiscal risks and support the creation of fiscal space for new infrastructure investment. This is a critical part of the improvement in the business climate needed to attract private investment and build the resilience of the Gambian's economy. Moreover, fiscal risks and debt management reforms provide creditors with a necessary assurance of the government's commitment to debt sustainability and transparency. This is particularly important in a context where The Gambia exited from debt distress in 2020 after

restructuring its external debt and remains at high risk of debt distress, according to the latest DSA. In Pillar 2, reforms to improve the financial viability of NAWEC through a new tariff compensation mechanism and the introduction of a performance contract and quarterly performance monitoring framework are helping reduce the costs of high international oil prices thanks to the new financial model. Introducing a performance contract and quarterly performance monitoring framework should also help build buffers to the rising costs as NAWEC relies entirely on heavy fuel oil utility. Finally, reforms in the telecom sector should expand access to public services information, create favorable conditions for the recovery of the private sector and foster digital inclusion through increased coverage and lower prices for vulnerable households affected by overlapping crises.

E. Implementation

Institutional and Implementation Arrangements

8. **The MOFEA is leading the effort to coordinate the overall implementation of the DPF**. Most of the data for tracking progress on the results indicators is generally available within the MOFEA and on the CBG and the Gambia Bureau of Statistics (GBoS) websites. The MOFEA has the experience and is conversant with World Bank policies and procedures through project lending and TA operations. The 2017 Emergency DPF supported some institutional capacity building on data requirements and overall monitoring arrangements needed for a DPF. Under the first operation of the current series, the MOFEA formed an Inter-ministerial DPF Committee to ensure the required coordination of the reform program. The Committee includes relevant stakeholders from within the MOFEA and other ministries pertaining to all three pillars of the operation. The Committee has been re-initiated for the second operation of the series. The World Bank team is a member of the DPF Committee and continues to provide support to Government in monitoring reform progress.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

9. **The reform program's poverty and social impact assessment remains positive and unchanged. Still, the relevance of reforms supported by the FMETDP 2 is renewed with the spillover effects of the war in Ukraine**. Reforms supported by Pillars 1 and 3 are expected to strengthen fiscal sustainability and create fiscal space, hence building buffers and resilience to shocks. The reform program supports preventing fiscal imbalance that could threaten inclusive growth and poverty reduction spending. An improved debt and public investment management could free fiscal space, finance infrastructural projects such as improving electricity access, road networks, and markets, and prove essential for the effectiveness of countercyclical fiscal measures during adverse external shocks, such as the war in Ukraine, and improve government response capacity. In addition to the COVID-19 pandemic, which has undermined the accumulation of human capital and constrained access to services, particularly for the poorest households, the spillover effects of the war in Ukraine, resulting in rising food, fertilizer, and fuel prices, are expected to affect the welfare of the households – especially the poorest, who spend more on food and rely on agriculture as a source of livelihood. Improved public investment management and enhanced transparency and governance framework of SOEs will minimize leakages and lead to spending and subsidies efficiency that can be directed to improving service delivery, especially for the most vulnerable.

10. **The relevance of actions supported under Pillar 2 is also renewed in the current context.** Reforms under Pillar 2 will improve the financial performance and service delivery in the energy and telecom sectors. These reforms are expected to create a more competitive market environment, facilitating better access and quality, improving the business environment, and contributing to private sector-led growth. Previous studies[5] indicate that the reform program remains

[5] See Blimpo et al (2018) Electricity access in Sub-Saharan Africa- Uptake, Reliability, and Complementary Factors for Economic Impact. Chapter 4 of the book examines the economic impact of (un)reliability of electricity through several channels.

relevant to improve household welfare through the same channels. First, improved service delivery and reliability of electricity support better health and education outcomes, minimize widening inequality in times of economic shocks such as the war in Ukraine and promote economic recovery and job creation driven by the private sector. Second, improved financial viability allows investments to expand access to electricity services in remote areas and among poor households, strengthening the social contract between the Government and its citizens and enabling a sustained and inclusive recovery. Moreover, supported actions such as the Performance Contract provide a unique opportunity to monitor the performance of NAWEC and other SOEs in times of crisis and anticipate and provide appropriate responses to risks. In the telecom sector, supported reforms will increase the coverage of services in underserved areas, enable more competition, lower prices, and affordability of services for poor households, and ultimately promote a solid post-crisis recovery.

Environmental, Forests, and Other Natural Resource Aspects

11. **The policies supported by the FMETDP 2 are not expected to negatively affect The Gambia's environment, forests, water resources, habitats, or other natural resources.** This assessment remains environmentally neutral.

G. Risks and Mitigation

12. **The overall risk rating of the operation remains high, and some risks (sector strategies and institutional capacity) have increased on account of the impacts of the war in Ukraine.** The main risks stem from overlapping external crises (in particular, COVID-19 and the war in Ukraine) and the residual risks of political instability, insecurity, and violence. Institutional capacity for implementation and environmental and social risks have increased with the spillover effects of the war in Ukraine.

CONTACT POINT

World Bank

Wilfried Anicet Kouakou Kouame
Economist

Borrower/Client/Recipient

Republic of the Gambia
Abdoulie Jallow
Permanent Secretary, MOFEA
liejallow@hotmail.com

Implementing Agencies

Ministry of Finance and Economic Affairs, Government of The Gambia
Baboucarr Jobe
Director, Directorate of Economic Policy & Research
baboucarrjobe@hotmail.com

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Wilfried Anicet Kouakou Kouame

Approved By

Country Director:	Feyifolu Adeyosola Boroffice	18-Oct-2022