



The World Bank

FIRST FISCAL MANAGEMENT AND STATE-OWNED ENTERPRISE PERFORMANCE DEVELOPMENT POLICY FINANCING
(P164545)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 31-Mar-2020 | Report No: PIDA27058

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Gambia, The	P164545	First Fiscal Management, Energy and Telecom Reform Development Policy Financing (P164545)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA	14-May-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s) Ministry of Finance and Economic Affairs, Government of The Gambia	Implementing Agency Ministry of Finance and Economic Affairs, Government of The Gambia		

Proposed Development Objective(s)

This programmatic Development Policy Financing series aims to support The Gambia's efforts 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.

Financing (in US\$, Millions)

SUMMARY

Total Financing	30.00
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DETAILS

Total World Bank Group Financing	30.00
World Bank Lending	30.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. The Gambia underwent a democratic transition in late 2016 following a 22-year long autocratic rule that left the country impoverished and highly indebted. This was the first democratic transfer of power since The Gambia achieved independence in 1965. The transition for the new administration has not been easy, with key institutions and administrative capacity severely weakened and a huge debt burden accumulated under the previous regime. The country ranked the 47th most fragile country out of 178 countries in the Fragile States Index in 2019, scoring particularly low on the state of its economy, human flight and brain drain, state legitimacy, and human rights. There are multiple drivers of fragility at play: institutional weaknesses, weak public sector governance, inequitable and poor quality of public services, a challenging macro-fiscal situation, and vulnerability to exogenous shocks. Weak growth and a legacy of fiscal mismanagement have contributed significantly to mounting public sector debt, which increased from 68 percent of GDP in 2015 to 86.6 percent of GDP in 2018.¹

2. Poverty incidence remains high and is associated with low endowment in human capital and assets. Due to lack of growth in per capita income, the proportion of the population living in poverty—measured using the national poverty line—remained unchanged between 2010 and 2015, at about 48 percent.² In absolute terms, however, the number of poor people grew from 0.79 million in 2010 to 0.93 million in 2015. Poverty remains concentrated in rural areas, with almost 70 percent of the rural population being poor. Inequality has been low and stable since 2010 with a Gini coefficient of 35.9 percent. Marked improvements have been achieved in literacy, especially among the youth (15-24 years) whose literacy rates doubled from 31.8 percent in 2010 to 67.2 percent in 2015. Chronic malnutrition (stunting) affects 25 percent of children under the age of five, and non-monetary indicators of poverty linked to infrastructure, health and nutrition illustrate that the country is lagging vis-à-vis peers in Sub-Saharan Africa. There remain considerable inequities in access to basic facilities and services such as electricity and sanitation facilities. Jobs are predominately informal, and lack of off-farm activities in rural areas results in underemployment and outmigration among youth. **Three years into transition, the Government of The Gambia has taken important steps to lay the foundations for democracy and set the country on a new development path.** Following Parliamentary elections in 2017, local elections were conducted in April 2018. The Government has allowed for a free press, rejoined the Commonwealth, and rebuilt relations with Senegal and International Financial Institutions (IFIs). Further, it has taken critical measures to restore independence of the judiciary, strengthen the governance and operational independence of the central bank, establish a Treasury Single Account (TSA), and audit the civil service, uniformed services, and strategic state-owned enterprises (SOEs). In February 2018, the government adopted a National Development Plan (NDP) 2018-2021 for more inclusive and private sector led growth, with strong financial support from donors.

3. The macroeconomic framework is adequate for the purpose of this operation. Following strong performance under the 2019 IMF Staff-Monitored Program (SMP), with a sharp reduction in the fiscal deficit, and debt relief from key plurilateral and bilateral creditors, The Gambia was able to exit from debt distress paving the way for an Enhanced Credit Facility (ECF) approved by the IMF Board on March 23, 2020. The fiscal deficit was reduced from 6.2 percent of GDP in 2018 to 2.6 percent of GDP in 2019, supported by increased tax revenues and strong donor inflows. Growth has remained robust at around 6 percent despite the fiscal adjustment and external shocks, including in the tourism sector. International reserves have been brought closer to prudential levels, interest rates have eased, and inflation has remained stable.

Relationship to CPF

4. The proposed operation is aligned with the objectives of the Country Engagement Note (CEN) for The Gambia and the forthcoming Systematic Country Diagnostics (SCD). The CEN aims to assist The Gambia over FY18-21 to build resilience and stability for transitioning out of fragility. The forthcoming SCD also places an immense focus on resolving foundational challenges such as macro-fiscal stability and public service delivery. The DPF series is fully aligned with the WBG twin goals of ending extreme poverty and promoting shared prosperity in a sustainable manner. The DPF supports reforms that are critical for ensuring stable macro-economic development and structural improvements needed to reignite growth in a low-inflation environment. This programmatic DPF series will also help catalyze private investment. The proposed operation is directly aligned with the Digital Economy for Africa (DE4A) initiative, which is supporting the operationalization of the African Union's Digital Transformation Strategy for Africa. This DPF series is also aligned with the WBG Climate Change Action Plan 2016-2020 that focuses on scaling up climate action and integrating climate change across its operations. The following operations are complementing the DPF to achieve CEN outcomes: Integrated Financial Management Information System Project; The Gambia Fiscal Management Development Project; OMVG Regional Interconnection Project; The Gambia Electricity Support Project; The Gambia Electricity Restoration and Modernization Project; the ECOWAS - Regional Access Project; and the Regional Off-Grid Electrification Project.

C. Proposed Development Objective(s)

5. This programmatic Development Policy Financing series aims to support The Gambia's efforts to (i) improve debt and public investment management; (ii) improve the financial performance and quality of service delivery in the energy and telecom sectors; and (iii) enhance the transparency and governance framework of SOEs.

Key Results

6. The DPF series supports the authorities' efforts to undertake fundamental yet difficult reforms. A new Medium-Term Debt Strategy provides the anchor for maintaining sustainable debt and fiscal policies, and a new Strategic Review Board and revised Gambia Public Procurement Authority Act will enhance the efficiency of public investment. Restructuring the debt of the energy utility and ensuring full payments by public sector clients along with a new strategic development plan, new management, and introduction of a performance contract will enhance financial viability and pave the way for private sector participation and renewable energy generation. Ringfencing of the telecom infrastructure and restructuring of the SOEs in that sector will support a better use of assets and a greater role for the private sector. And special purpose audits of all SOEs and clearance of cross-arrears will enhance fiscal transparency and reduce fiscal risks of SOEs until a new legal framework for these can be introduced following adoption of the new Constitution.

D. Project Description

7. The program supports a set of reforms aimed at strengthening fiscal and debt management, while starting to address the overarching binding constraints to sustainable growth as identified in the forthcoming SCD. The SCD proposes two foundational pathways: macro-fiscal stability and public service delivery; and three

¹ The authorities rebased the GDP series in April 2019; all figures in the Program Document are reported using the new GDP series.

² Based on the country's absolute poverty line of GMD 18,040 per person per year. These are the latest official data; a new household survey will not be available until 2020.

pathways on agriculture, economic diversification and human capital that build on these foundations. The DPF program is closely linked to the priorities identified under the first two foundational pillars and the fourth pillar of the SCD. These are expected to create fiscal space and strengthen the public administration needed to finance and implement a reform agenda aimed at lifting and diversifying the economy's growth potential. Priorities include: (i) instilling prudent debt management; (ii) enhancing revenue mobilization; (iii) improving public investment management and procurement processes; (iv) enhancing the effectiveness of public administration; (v) improving electricity reliability and affordability; and (vi) building an enabling environment for a digital economy.

8. Specifically, the DPF supports a program of three pillars:

- **Pillar 1 on debt and public investment management supports:** (i) strengthening fiscal risks and debt management by improving the recording and reporting of debt operations and through linking the debt strategy with medium-term fiscal planning informed by development priorities; (ii) strengthening public investment management through the creation of a centralized review body; and (iii) enhancing the procurement act to ensure consistent use of competitive bidding and proper oversight of the procurement process.
- **Pillar 2 on financial viability and service delivery in the energy and telecom sectors supports:** strengthening the financial position and governance framework of NAWEC through debt restructuring, enhanced payment discipline, a new tariff methodology, new Board charter and management for the company, and introduction of a performance contract. In the telecom sector, this pillar supports further liberalization of the sector, protection and increased use of the wholesale fiber backbone assets and restructuring of the state-owned telecom companies: Gambia Telecommunications Company (GAMTEL) and Gambia Cellular Company (GAMCEL). These reforms will encourage greater private-sector participation in the sector, enhanced competition, and improved service delivery for both businesses and consumers.
- **Pillar 3 on transparency and governance framework of SOEs supports:** establishing financial positions of key SOEs and addressing cross-arrears as well as strengthening the fiscal management and executive oversight of SOEs including the development of performance accountability mechanisms. This pillar supports the establishment of reliable financial statements of SOEs and improved corporate governance, with an adequate internal control environment and streamlined reporting and disclosure arrangements including public dissemination. It also supports the introduction of a modernized legal and institutional framework for SOEs in line with international best practices.

9. The DPF series is closely linked to the development priorities of the Government as reflected in the NDP for 2018-2021. The NDP emphasizes economic stabilization, growth stimulation and structural transformation as key priorities for The Gambia, and all pillars of the DPF series support these objectives. This DPF series also builds on the 2017 Emergency DPF and the 2017-19 IMF SMPs.

E. Implementation

Institutional and Implementation Arrangements

10. The Ministry of Finance and Economic Affairs (MOFEA) is leading the effort in coordinating the overall implementation of the DPF. The MOFEA has experience and is conversant with World Bank policies and procedures through project lending and TA operations. The 2017 emergency budget support operation supported

some institutional capacity building on data requirements and overall monitoring arrangements needed for a DPF. Lately, the MOFEA has formed an Inter-ministerial DPF Committee to ensure required coordination on the reform program. The committee includes relevant stakeholders from within the MOFEA and other ministries pertaining to both pillars of the operation. Most of the data for tracking progress is generally available within the MOFEA and on the websites of the CBG and the Gambia Bureau of Statistics. 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

11. The DPF program supports policy reforms that improve debt and public investment management (Pillar 1), improve financial viability and service delivery in the energy and telecom sectors (Pillar 2), and enhance the transparency and governance framework of SOEs (Pillar 3). The ex-ante assessment of the poverty and social impact of the reforms supported suggests that reforms under Pillar 1 will strengthen fiscal sustainability and thereby create fiscal space that could be used for urgently needed investments in human capital and physical infrastructure. Reforms under Pillar 2 are expected to enhance the financial and operational performance as well as service delivery in the energy and telecom sectors, which facilitates private investment and the expansion of service delivery. Prior actions under Pillar 3 are expected to reduce fiscal risks arising from subsidies and outstanding cross-arrears to SOEs. While the measures supported by the DPF program are not expected to have a significant direct impact on poverty or social outcomes, some prior actions could have an indirect and positive impact, such as increased fiscal space for urgently needed investments in human capital and better service delivery, which are likely to impact poor and vulnerable households in the medium and long term.

12. Prior action #1 improves debt sustainability and management, and prior actions #2 and #3 enhances the efficiency of public investment management and public procurement. These are likely to support fiscal sustainability and higher productivity of public spending and help to create fiscal space that can be utilized for pro-poor spending. Accounting for climate resilience as one of the project selection filters is likely to benefit poor and vulnerable households as they are more exposed to weather and climate-related shocks. **Prior actions #4 and #5 enhance the financial and operational performance of the energy utility, which in the medium term could contribute to improvements in electricity supply and expansion of service.** Policy reforms under this DPF help restore the financial viability of the energy sector, and in the medium term are likely to impact household welfare through multiple channels. **Prior actions #6 and #7 improve performance and protection of critical telecom infrastructure and strengthens competition in the telecom sector which could contribute to higher economic activity and household welfare.** Better access and higher affordability of the ICT can empower poorer households and vulnerable groups, like women and youth, offering access to new services and markets. **Prior actions #8 and #9 enhance the transparency and governance framework of the SOEs and contribute to fiscal transparency and better operation of service delivery.** Findings from the special audits inform the upcoming clearance of cross-arrears between the Government and the SOEs. In the medium term, these reforms are expected to reduce fiscal risks arising from subsidies and outstanding cross-arrears to SOEs and provide fiscal space that can be utilized for pro-poor spending under the NDP. **The impact of prior actions under this DPF on poverty and social inclusion also depends on a well-functioning monitoring and evaluation system for evidence-based policies.** Future efforts to expand basic services in an equitable manner and demonstrate the benefits of above-mentioned policy reforms will depend on continued monitoring of existing gaps through regular household surveys.

Environmental, Forests, and Other Natural Resource Aspects

13. The DPF series is not expected to have any significant direct impact on the environment though a few of the policy actions could have indirect impacts, positive or negative. The DPF series would not only ensure that proper safeguards and due diligence measures are put in place to prevent a negative environmental footprint, it would also attempt to improve environmental conditions under relevant actions. Promoting improved competitive bidding and adequate oversight by the government; project screening for climate resilience; environmental sustainability, climate resilient communities, and appropriate land use (Prior Actions #2 and #3) and promoting efficient use and pricing of energy, focusing on renewable energy as well as striving to reduce technical losses should benefit the environment (Prior Actions #4 and #5). Other actions under the DPO would be environmentally neutral: restructuring of debt, audits of SOEs, strengthening the organization and performance of the telecom sector, would be neutral towards the environment.

G. Risks and Mitigation

14. The overall risk to the series is rated as high. Political and governance risks are high. The lack of strong support and leadership to pursue further reforms could affect targeted results during implementation. To mitigate these risks, the measures supported in the DPF have been selected considering areas where the Government has already initiated reforms and have been the object of support from other development partners, including the IMF. Macroeconomic risks are high. The Gambia has gone through a difficult and prolonged process of establishing a positive track record on macroeconomic performance and securing financial support and debt relief needed to address its unsustainable debt. While the economic recovery strengthened further in 2019, external factors such as donor support and external shocks (like Coronavirus pandemic) could still negatively impact the macroeconomic path and derail reforms. These risks could jeopardize the achievement of program objectives but are mitigated by the fact that the IMF has approved a 3-year ECF program. Also, additional support from the IMF, the Bank, and other donors will help mitigate these risks. Sector strategies and policies risks are substantial. Significant deficiencies in the capacity of the public service to implement sectoral reforms have delayed the reform process in the past. Achieving the objectives of the DPF program will require a continuous commitment to the reform plan and strict discipline. Institutional capacity risks are substantial. Weak institutional capacity is a key risk for achieving the DPF objectives, particularly on SOE reforms, including that of telecom sector, but the IMF, WB and other development partners are providing large-scale TA to develop capacity and support program implementation.

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APPROVAL

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Approved By

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