

Document of  
**The World Bank**  
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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED CREDIT

IN THE AMOUNT OF SDR 22.3 MILLION  
(EQUIVALENT TO US\$30.8 MILLION)

AND

FOR A PROPOSED GRANT

IN THE AMOUNT OF SDR 18.3 MILLION  
(EQUIVALENT TO US\$25.2 MILLION)

TO THE REPUBLIC OF THE GAMBIA

FOR THE

EMERGENCY DEVELOPMENT POLICY FINANCING

June 22, 2017

Macroeconomic and Fiscal Management Global Practice  
Africa Region

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## REPUBLIC OF THE GAMBIA

### GOVERNMENT FISCAL YEAR

*January 1- December 31*

### CURRENCY EQUIVALENTS

(Exchange Rate Effective as of *May 31, 2017*)

Currency Unit: Gambia Dalasi (GMD)

US\$1.00 = D 46.1550 GMD

US\$1.00 = SDR 0.72237633

### ABBREVIATIONS AND ACRONYMS

|        |  |
|--------|--|
| ACE    | African Coast to Europe                                |
| AfDB   | African Development Bank                               |
| ANRP   | Accelerated National Response Plan                     |
| CAD    | Current Account Deficit                                |
| CBG    | Central Bank of The Gambia                             |
| CEN    | Country Engagement Note                                |
| CMC    | Cash Management Committee                              |
| CPI    | Consumer Price Index                                   |
| CPIA   | Country Policy Institutional Assessment                |
| DeMPA  | Debt Management Performance Assessment Tool            |
| DLDM   | Directorate of Loans and Debt Management               |
| DPF    | Development Policy Financing                           |
| DPO    | Development Policy Operation                           |
| DSA    | Debt Sustainability Analysis                           |
| EU     | European Union   |
| FDI    | Foreign Direct Investment                              |
| GAMCEL | Gambia Telecommunications Cellular Company             |
| GAMTEL | Gambia Telecommunications Company                      |
| GBoS   | Gambia Bureau of Statistics                            |
| GCAA   | Gambia Civil Aviation Authority                        |
| GDP    | Gross Domestic Product                                 |
| GESP   | Gambia Electricity Support Project                     |
| GGC    | Gambia Groundnut Corporation                           |
| GMD    | Gambia Dalasi  |
| GNPC   | Gambia National Petroleum Company                      |
| GPA    | Gambia Ports Authority                                 |
| GRA    | Gambia Revenue Authority                               |
| HFO    | Heavy Fuel Oil   |
| HR     | Human Resources  |
| ICB    | International Competitive Bidding                      |
| ICT    | Information and Communication Technology               |
| IDA    | International Development Association                  |
| IFC    | International Finance Corporation                      |
| IFMIS  | Integrated Financial Management and Information System |
| IMF    | International Monetary Fund                            |

|         |  |
|---------|--|
| LDP     | Letter of Development Policy                                 |
| MCNHRP  | Maternal and Child Nutrition and Health Results Project      |
| MDA     | Ministry, Department, and Agency                             |
| MW      | Megawatt   |
| MoFEA   | Ministry of Finance and Economic Affairs                     |
| MoHSW   | Ministry of Health and Social Welfare                        |
| MoICI   | Ministry of Information and Communications Infrastructure    |
| MTEF    | Medium-Term Expenditure Framework                            |
| NAWEC   | National Water and Electricity Company                       |
| MTDS    | Medium-Term Debt Management Strategy                         |
| NAWEC   | National Water and Electricity Company                       |
| NDB     | Net Domestic Borrowing                                       |
| NDC     | Nationally Determined Contribution                           |
| NEMA    | National Environment Management Act                          |
| PAC     | Public Accounts Committee                                    |
| PAGE II | Second Program for Accelerated Growth and Employment         |
| PDO     | Program Development Objective                                |
| PEC     | Public Enterprises Committee                                 |
| PEFA    | Public Expenditure Financial Assessment                      |
| PER     | Public Expenditure Review                                    |
| PFM     | Public Financial Management                                  |
| PMO     | Personnel Management Office                                  |
| PPG     | Public and Publicly Guaranteed                               |
| PPP     | Public Private Partnership                                   |
| PV      | Present Value  |
| RCF     | Rapid Credit Facility  |
| ROSC    | Report on the Observance of Standards and Codes              |
| SDR     | Special Drawing Rights                                       |
| SMP     | Staff-Monitored Program                                      |
| SOE     | State-Owned Enterprise                                       |
| SSHFC   | Social Security and Housing Finance Corporation              |
| TA      | Technical Assistance   |
| UNDP    | United Nations Development Program                           |
| WAIFEM  | West African Institute for Financial and Economic Management |

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**REPUBLIC OF THE GAMBIA**  
**EMERGENCY DEVELOPMENT POLICY FINANCING OPERATION**

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The proposed Grant/Credit was prepared by an IDA team led by Christine Richaud (Lead Economist, GMF08) and Patricia Geli (Country Economist, GMF08) under the guidance of Louise Cord (Country Director, AFCF1), Paloma Anos Casero (Director, GMFD1), Lars Christian Moller (Practice Manager, GMF08), Paolo Zacchia (Program Leader, AFCF1), Eric Lancelot (Program Leader, AFCF1), Sophie Naudeau (Program Leader, AFC01), and Greg Toulmin (Country Program Coordinator, AFCSN). The team consisted of Hugues Agossou (GG031), Hocine Chalal (GEN07), Rafika Chaouali (GG026), Bernard Drum (consultant), Frank Anthony Fariello (Country Lawyer, LEGAM), Naomi Halewood (GT111), Riad Houry (Consultant), Ronette Jordan (WFALA), Remi Kini (GFA01), Ying Li (Consultant), Maiada F. Kassem (WFALA), Alvaro Manuel (Consultant), Rifat Hasan (GHN06), Cedric Mousset (GFM01), Rose Mungai (GPV07), Shiho Nagaki (GG013), Yassin S. Njie (AFMGM), Roberto Panzardi (GG013), Chris Trimble (GEE07), Clarence Tsimpo Nkengne (GPV01), and Maude Valembun (GMF08). The peer reviewers were Eric Leborgne (Lead Economist, GMF05) and Henri Fortin (Global Lead for Corporate Governance and Financial Reporting, GG021).

**SUMMARY OF PROPOSED CREDIT AND GRANT PROGRAM**  
**REPUBLIC OF GAMBIA**  
**EMERGENCY DEVELOPMENT POLICY FINANCING**

|   |  |
|---|--|
| Borrower  | Republic of The Gambia   |
| Implementation Agency   | The Ministry of Finance and Economic Affairs (MoFEA)   |
| Financing Data  | IDA credit in the amount of SDR 22.3 million (US\$30.8 million equivalent) to be extended on IDA regular terms with total maturity of 38 years including six years of grace period.<br><br>IDA grant in the amount of SDR 18.3 million (US\$25.2 million equivalent) to be on IDA standard grant terms.  |
| Operation Type  | Stand-alone development policy financing (DPF) operation   |
| Pillars of the Operation and Program Development Objective(s) | The program development objective (PDO) is to support strengthening the Government of The Gambia’s fiscal position while restoring the provision of essential public services.<br>The operation is structured around three intertwined pillars in support of the PDO: <ul style="list-style-type: none"> <li>● Pillar 1 – Supporting fiscal stabilization measures.</li> <li>● Pillar 2 – Addressing critical fiscal risks stemming from state-owned enterprises (SOEs).</li> <li>● Pillar 3 - Mitigates the social impact of the economic crisis in health centers.</li> </ul>  |
| Result Indicators (end December 2017)                         | <ul style="list-style-type: none"> <li>● Improvement in the overall fiscal balance. Baseline (2016): -9.8% of GDP. (Target: -2.5% of GDP);</li> <li>● Budget execution rates based on revised 2017 appropriations in health and education is equal to or above 2016 execution rates, or 100%, whichever is the minimum (Target (2017): Health= 100%, Basic and Secondary Education: =100%; Higher Education: ≥56%).</li> <li>● Fiscal savings are achieved through the elimination of ghost workers. Baseline (January 2017): 0. Target: (December 2017): 0.3% GDP).</li> <li>● Financial information of the SOEs is available to the public, including (for special purpose audits) (i) the extent to which funds have been diverted or misused; (ii) weaknesses in the financial control systems; and (iii) recommendations regarding necessary improvements to the systems and control framework, including proposals for necessary preventive measures. Baseline (2016): No financial information available to the public. Target (end-2017): Detailed financial information available to the public.</li> <li>● No new public on non-concessional terms is incurred or guaranteed debt by MoFEA on behalf of SOEs (including letters of comfort). Baseline (April 2017): Contingent liabilities = 10.7% of 2017 GDP. Target (end-2017): Contingent liabilities &lt;10.7% of GDP.</li> <li>● Up-to-date information on SOE-related government guarantees and letters of comfort is made publicly available on a quarterly basis. Baseline (2016): No information available. Target (December 2017): Updated information available.</li> <li>● The suppliers’ premium for shipping, storage and delivery of fuel to the National Water and Electricity Company’s (NAWEC) storage facilities is reduced from US\$150 to US\$90 or below per metric ton between end 2016 and end-2017, contributing to a reduction in the cost of fuel supplies for NAWEC. Baseline (2016): Savings = US\$0. Target: (2017): Savings = US\$1.5 million.</li> <li>● Increase in percentage of health facilities reporting no stock-outs of tracer items. Baseline (2016) 37%. Target (2017): 60%.</li> </ul> |
| Overall risk rating   | High   |
| Climate and disaster risks                                    | There are NO short and long term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating).  |
| Operation ID  | P163285  |

## IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT AND GRANT TO THE REPUBLIC OF THE GAMBIA

### 1. INTRODUCTION AND COUNTRY CONTEXT

**1. This program document proposes a US\$56 million standalone emergency development policy financing (DPF) to support The Gambia as it faces a looming economic crisis.** The financing consists of IDA credit in the amount of SDR 22.3 million (US\$30.8 million equivalent) and IDA grant in the amount of SDR 18.3 million (US\$25.2 million equivalent). The proposed operation is aligned with the government's immediate priorities, which are to reinforce macroeconomic stability while laying the groundwork for reforms and mitigating the social impact of the economic crisis. The program leverages ongoing investment-project financing operations, and it is supported by substantial technical assistance (TA) from the World Bank and other development partners. The proposed operation forms the core of the World Bank's rapid-response strategy for The Gambia, and its design is fully consistent with the priorities identified in the Country Engagement Note (CEN) currently being prepared, namely (i) establishing a pathway to macroeconomic stability; (ii) protecting the poorest; and (iii) restarting sustainable growth.

**2. The Gambia is experiencing a major political transition in the wake of the December 2016 presidential election and the subsequent forced departure of ex-President Yahya Jammeh after 22 years in power.** A contested presidential election plunged the country into political turmoil in late 2016. The inauguration of the new regime led by President Adama Barrow represents an opportunity for the people of The Gambia to consolidate democratic rule. It offers the nation's policymakers a chance to restore fiscal and external sustainability and lay the groundwork for a robust economic recovery. This is the first democratic transfer of power since The Gambia achieved independence in 1965. It ends a period of diplomatic isolation and strained relations with The Gambia's sole neighbor, Senegal. The reestablishment of strong diplomatic ties with regional and international trading partners could accelerate economic growth. Furthermore, peaceful parliamentary elections on April 6, 2017 have led to an absolute majority for the government, providing a strong mandate for reforms. The government has prepared an Accelerated National Response Plan (ANRP) covering July-December 2017, and is currently finalizing a Second Program for Accelerated Growth and Employment (PAGE II) for 2017-2020. The proposed operation is anchored in these strategies.

**3. The new administration must confront the legacy of unsustainable macro-fiscal policies and weak governance and inefficiencies in public sector management.** The new government has inherited large fiscal and external imbalances, a massive public debt stock and costly domestic debt-service obligations, compounded by high contingent liabilities stemming from several loss-making State-Owned Enterprises (SOEs). This legacy has been compounded by a weak agricultural season and the negative impact of the political crisis on the economy. The public debt stock exceeded 120 percent of gross domestic product (GDP) at end-2016. Debt is mainly domestic, with debt service absorbing almost half of domestic revenue, and is associated with a high degree of public sector exposure in the banking sector and crowding-out of credit to the private sector. The new government is also uncovering substantial looting of SOEs under the previous regime. Meanwhile, net international reserves have fallen to a precariously low level of less than one month of imports.

**4. The Gambia is a fragile country undergoing a period of rapid and fundamental changes, and the economic crisis may threaten the success of the political transition.** The drivers of fragility in The Gambia are multiple. Institutional weaknesses and a legacy of weak public sector governance hamper the country's development. The State's inability to provide quality public services in an equitable fashion, and the reliance of the previous authorities on the use of violence to maintain control over the society fueled discontent that

led to a unified opposition for the 2016 presidential elections and the successful candidacy of President Barrow. As such, the population's expectations are high following the transition. However, the macro-fiscal situation is dire; furthermore, the Gambian small economy is extremely susceptible to frequent external shocks, as it is heavily dependent on rain-fed crops for agricultural production, on imports for food security and on tourism receipts and remittances. Remittances make up a progressively large amount of the country's GDP, reaching 10 percent of GDP in 2016, and have become the most significant factor in allaying poverty levels in the country.

**5. Poverty has remained flat since 2010 and is associated with low endowment in human capital and assets.** Due to the poor macroeconomic performance and lack of growth in per capita incomes, the proportion of the population living in poverty—measured using the national poverty line—remained unchanged between 2010 and 2015, at about 48 percent. In absolute terms, however, the number of poor grew from 0.79 million in 2010 to 0.93 million in 2015. Inequality has also remained stable since 2010, and poor households are endowed with much lower levels of human capital and assets. Marked improvements have been achieved in terms of literacy, especially among the youth (15-24 years) whose literacy rates doubled from 31.8 percent in 2010 to 67.2 percent in 2015. However, the majority of Gambians, who derive their livelihoods from agriculture, remain highly vulnerable to climatic risks. Malnutrition remains a major chronic problem, and the quality and availability of basic health services is a concern especially in poor and hard to reach rural areas. Following the political transition, the population is keen to see a rebound in economic activity and improvements in living standards.

**6. The new administration is committed to strengthening fiscal and debt sustainability and implementing critical structural reforms.** It has reached out to the World Bank, the International Monetary Fund (IMF), and other development partners for financial and technical support. The Gambia's urgent financing needs require a swift and coordinated response by its development partners. A poor agricultural season, combined with the negative impact of the political crisis on the tourism sector, has exacerbated the already difficult challenges facing the country. Immediate efforts to re-establish and maintain a sound fiscal policy stance, drastically reduce domestic financing of the deficit, and lay the groundwork for improving public sector management, resolving the debt overhang, and boosting economic recovery will be necessary to safeguard political stability. To achieve these objectives, the rapid deployment of technical and financial support from The Gambia's development partners is crucial.

**7. The proposed operation would provide emergency financial assistance to facilitate the difficult fiscal adjustment and lay the foundation for reforms while protecting poor households and vulnerable groups.** The operation would directly reduce the government's heavy reliance on costly domestic borrowing and help moderate the exposure of the financial sector to sovereign risk. It also supports a reform program designed to rebuild the foundations for much-needed public sector reform and ensuring the continuity and efficiency of health services, so as to create an environment more conducive to robust private-sector-led growth and sustainable poverty reduction.

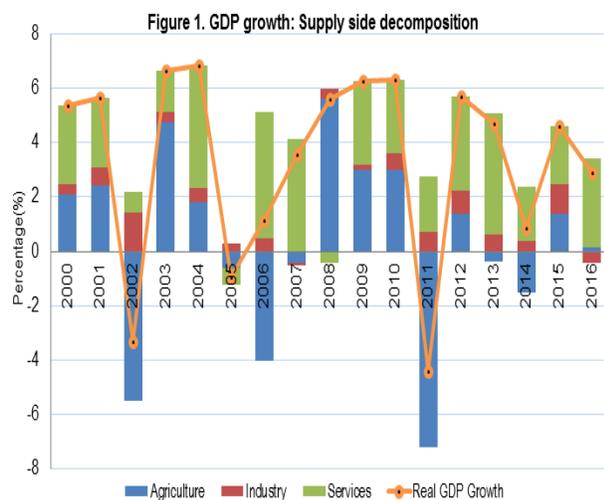
**8. In fragile states, appropriate external assistance linked to a carefully targeted engagement strategy can have a transformative impact,** and can mark the difference between the restoration of a functional public sector and a descent into a vicious cycle of institutional failure and conflict. A failure to engage the support of international financial institutions would threaten the stability of the new government, as the alternative would be a forced fiscal and external adjustment with deeply negative implications for the Gambian economy. GDP growth could stall, fiscal imbalances and public debt could continue to grow, inflation could accelerate further, and reserves could be further depleted.

9. **The operation is structured around three intertwined short-term pillars.** The first pillar consists of rapid-response fiscal stabilization measures to address the critical macroeconomic situation by revising the 2017 budget and eliminating irregularities in the payroll of the civil service and security forces. The second pillar aims to start addressing fiscal risks by enhancing transparency on the financial position of SOEs, reducing contingent liabilities, and setting the stage for much-needed reforms of state-owned enterprises -- which are critical for enhanced fiscal sustainability and service delivery. The third pillar focuses on mitigating the social impact of the crisis in the health sector by supporting the availability of drugs in health centers, while taking steps to enhance fiscal efficiency in the procurement of essential medicines.

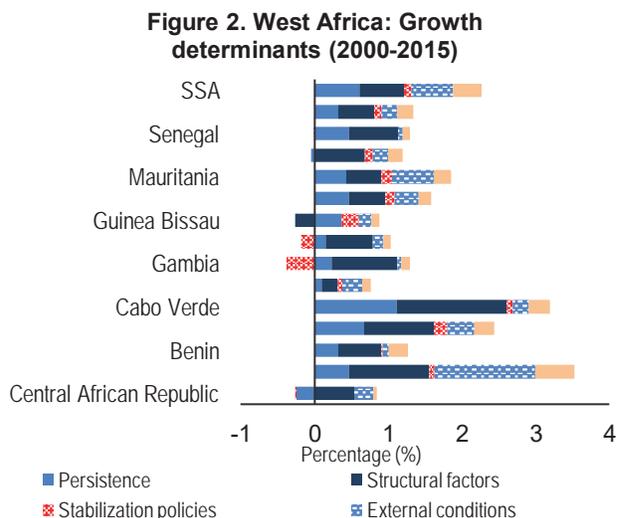
## 2. MACROECONOMIC POLICY FRAMEWORK

### 2.1 RECENT ECONOMIC DEVELOPMENTS

10. **The Gambia's GDP growth rate fell from 4.3 percent in 2015 to 2.2 percent in 2016 because of the difficult political transition and exogenous shocks.** The economy was hit by exogenous shocks caused by erratic rainfalls and the spillover effects of the regional Ebola crisis in recent years. Given the economic importance of the rain-dependent agricultural sector, GDP growth is highly sensitive to climatic shocks, and output growth has been volatile over the past few years (Figure 1). In 2016, an unusually short rainy season resulted in a sharp drop in agricultural production of at least 50 percent based on pre-harvest assessments. Furthermore, a 3-month border blockade by Senegalese transporters, after The Gambia doubled fees for trucks in transit, negatively impacted economic activity. The political crisis in the last quarter of the year compounded these already difficult conditions, disrupting transit trade, manufacturing and mining activities. In the tourism sector, which accounts for about a fifth of GDP, political uncertainty slowed tourist arrivals by 20 percent below expectations at the end of the year. Nevertheless, the sector was still able to recover some



Source: The Gambia authorities; IMF and World Bank estimates.



Source: The Gambia authorities and World Bank estimates.

of the losses incurred in 2014-2015. December arrivals increased year-on-year, though the total number of tourist arrivals remained below its pre-Ebola levels. The weak agricultural season also boosted food-price inflation. This drove the consumer price index (CPI) inflation rate from 6.8 percent in 2015 to 7.2 percent at end-2016.

11. **Macro-fiscal mismanagement also weighed on economic growth in recent years.** As detailed below, inadequate and unpredictable macro-fiscal policies—with major fiscal slippages, heavy reliance on domestic financing of the fiscal deficit, and ad-hoc monetary and exchange rate policy shifts—led to rapid public debt

accumulation and acute shortages of foreign exchange, thus curtailing investment and growth. World Bank staff estimates point to a reduction in the per capita growth rate by 0.4 percentage points per year in 2000-2015 due to poor macroeconomic management (Figure 2).

**12. Expansionary fiscal policy under the previous regime led to widening fiscal imbalances.** The fiscal deficit, which was already worrisome in 2015 at 8.1 percent of GDP, widened to 9.8 percent of GDP in 2016 (11.4 percent excluding grants). This deterioration was driven by weaker revenue performance compared to 2015, in the wake of the tourism and agricultural sector shocks as well as a declining business environment that drove hundreds of businesses to close. Total interest payments on government debt absorbed 42 percent of government revenues in 2016 (about 7.7 percent of GDP). Weak fiscal performance was compounded by large unbudgeted spending linked to the difficult financial situation of some of the SOEs, which represent a key source of fiscal risks. Poor governance in the management of SOEs, including massive embezzlement of funds under the previous regime (as recently uncovered and tentatively quantified at over US\$100 million – 10 percent of GDP – over the past two to three years), and weak oversight, have weighed heavily on the financial viability of the sector. High interest rates have also strained the finances of SOEs. This prompted the government to recurrently step in on behalf of SOEs to meet their debt service obligations and input purchases. An extensive network of cross-debts between the central government and SOEs weighs on tax collection and SOE financial viability.

**13. The authorities resorted increasingly to Central Bank of the Gambia (CBG) advances and the issuance of T-bills to meet their financing needs in 2016.** At end December 2016, net domestic borrowing (NDB) reached 11.4 percent of GDP. In a context of growing uncertainties and a thin financial market, yields increased sharply to 22 percent. The high level of yields has weighed heavily on the government's fiscal position, crowding out the private sector and hampering economic activity. In addition, new domestic arrears rose to about 1.4 percent of GDP.

**14. Total public debt increased from 83.3 percent to 120.3 percent of GDP between 2013 and 2016.** The external public debt stock is estimated at 52.4 percent of GDP and is largely concessional.<sup>1</sup> In contrast, the domestic debt stock reached 67.9 percent of GDP in 2016, up from 53.9 in 2015 and 37.1 percent in 2013. Public debt carries high roll-over risks as more than 62.4 percent of domestic debt is composed of T-Bills with maturities of less than one year. The “non-marketable” portion of domestic debt (37 percent) consists of bonds in the central bank portfolio. In an effort to address the debt overhang, central government liabilities to the CBG were consolidated into a single 30-year bond at a 5 percent interest rate issued in December 2016, to be paid off in 60 biannual installments starting in March 2017.

**15. The effectiveness of monetary policy has been undermined by recurrent monetization of the deficit.** The CBG targets reserve money as its main policy instrument, but also uses interest rates to signal changes in policy. Despite CBG's high policy rate (currently at 23 percent) and an increase in the reserve requirements over the past few years, unsustainable fiscal policies in recent years and repeated recourse to CBG advances have weakened the effectiveness of monetary policy. The CBG has been reluctant to raise interest rates any further, even though inflation continues to exceed its 5 percent target. Heavy government borrowing from domestic banks in particular has left little room for credit extension to private-sector borrowers, which

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<sup>1</sup> The main external creditors include the Islamic Development Bank (20.4 percent of the total external debt); IDA (11.7 percent), the African Development Fund (8.0 percent), the International Monetary Fund (7.8 percent) the Arab Bank for Economic Development in Africa (7.8 percent), and the Kuwait Fund for Arab Economic Development (6.6 percent). External debt maturities range from 20-37 years, with a 5-to-10-year grace periods and annual interest rates of around 1.5 percent, implying a “grant element” of around 35 to 60 percent.

declined by an estimated 3 percent in 2016<sup>2</sup>, continuing a downward trend. Money supply, which contracted in 2015, increased rapidly in 2016 (+15.3 percent), driven by a 24.8 percent increase in net credit to the government.

**16. The exchange rate peg was lifted in early 2016 following several years of ad-hoc presidential directives that had imposed fixed over-valued exchange rates.** Under these directives, the value of the exchange rate had been fixed at a level overvalued by more than 20 percent vis-à-vis the market rate. Following the lifting of the peg in January 2016, the dalasi depreciated by an estimated 10.4 percent in nominal terms over the year 2016. New foreign exchange directives were adopted on November 1, 2016, mandating commercial banks to sell 15 percent of their foreign exchange purchases to the CBG, and establishing a reference rate to guide foreign exchange transactions. Since then, the depreciation of the dalasi continued at a very gradual pace and there is no indication of large premiums in the forex bureaus, but there are reported shortages of foreign exchange in the banking system. In May 2017, the CBG rescinded with immediate effect these directives. Furthermore, the CBG's buying and selling of foreign currency in the market will henceforth be carried out through auctions that are open to all banks in the country. While an assessment of the potential misalignment of the real effective exchange rate (REER) is planned in the coming months, the current dynamics suggests that the REER is broadly in line with fundamentals.

**17. The current account deficit (CAD) almost halved to 8.9 percent of GDP in 2016 due to favorable terms of trade, a moderate rebound in tourism exports and a sharp decline in imports.** In 2014-2015, the Ebola crisis in neighboring countries depressed both tourism and transit-trade receipts, which represent important sources of exports and foreign exchange. However, favorable movement of terms of trade in 2016 helped mitigate the negative impact of exogenous shocks. The value of goods imports fell by 11.8 percent in US\$, in the wake of low oil prices, sluggish activity, and foreign exchange shortages, while the services-account surplus improved, reflecting a moderate recovery in the tourism sector. Despite a decline in official transfers, the current-account deficit narrowed markedly from 15 percent to 8.9 percent of GDP (9.7 percent excluding grants), driven by a reduction in the trade deficit.

**18. Despite the narrowing of the CAD in 2016 and the return to a floating exchange rate regime, the country faces an acute depletion of international reserves.** A marked slowdown in loan disbursements in 2016, as a result of recurrent policy slippages, contributed to a further decline in international reserves. Gross official reserves fell to US\$59.8 million or 1.6 months of next year import coverage at end-December (from a high of US\$183.8 million in 2012). Net usable international reserves (excluding the IMF reserve position) fell by more than two thirds, reaching 0.6 months of imports of goods and services. Moreover, this is predicated on the introduction, by the CBG, of swaps with some domestic banks to shore up reserves and enable servicing of external debt, for a total outstanding amount of about US\$32 million (i.e., over half of gross reserves). These swaps, which have been rolled over in recent months, have generated pressures on foreign exchange availability in the system and economic activity.

**19. The financial sector is relatively stable, but the exposure of commercial banks to government debt poses significant risks.** As of December 2016, at least 61 percent of commercial bank assets were directly or indirectly exposed to sovereign risk. Commercial banks hold 75 percent of all T-bills. Financial-soundness indicators present a positive image, with a capital-adequacy ratio above 33 percent and a nonperforming-loan ratio below 10 percent. However, these are misleading as sovereign risks do not attract any capital charge and classification is lax, including classification of SOE liabilities. In the short term, publicly guaranteed debts of the electricity utility National Water and Electricity Company NAWEC are weakening the soundness of six banks, including the country's largest bank.

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<sup>2</sup> Percentage change in beginning of period broad money – source: IMF.

**Table 1: Key Macroeconomic and Financial Indicators, 2013-2020**

|   | 2013  | 2014    | 2015    | 2016e   | 2017f   | 2018f   | 2019f   | 2020f   |
|---|---|---------|---------|---------|---------|---------|---------|---------|
|   | <b>Annual percentage change, unless otherwise indicated</b> |         |         |         |         |         |         |         |
| <b>National income and prices</b>         |   |         |         |         |         |         |         |         |
| Real GDP                                  | 4.8   | 0.9     | 4.3     | 2.2     | 3.0     | 3.5     | 4.0     | 4.5     |
| GDP deflator                              | 5.7   | 6.6     | 6.4     | 7.1     | 8.3     | 6.6     | 5.6     | 4.8     |
| CPI (annual average)                      | 5.2   | 6.3     | 6.8     | 7.2     | 8.3     | 7.1     | 5.8     | 5.0     |
| <b>External sector</b>                    |   |         |         |         |         |         |         |         |
| Exports                                   | -6.0  | -7.7    | -9.5    | 5.0     | -6.0    | 13.3    | 8.8     | 9.3     |
| Imports                                   | -8.3  | 9.5     | 11.3    | -10.2   | 12.3    | 12.0    | 8.0     | 6.1     |
| Terms of trade                            | 13.5  | -0.7    | -2.1    | 8.4     | -11.2   | -9.8    | -5.7    | -3.1    |
| <b>Selected Monetary Accounts</b>         |   |         |         |         |         |         |         |         |
|   | <b>Annual percentage change, unless otherwise indicated</b> |         |         |         |         |         |         |         |
| Reserve money                             | 28.1  | 11.9    | 10.0    | 25.2    | 17.3    | 11.5    | 9.0     | 8.9     |
| Credit to the economy (private sector)    | 20.5  | -7.5    | -7.9    | -12.3   | 14.9    | 14.9    | 15.0    | 15.0    |
| Broad money                               | 15.1  | 11.2    | -0.9    | 15.3    | 11.4    | 9.6     | 9.2     | 8.5     |
| Net foreign assets                        | -2.5  | 0.5     | -11.6   | -4.5    | 4.3     | 6.5     | 4.6     | 3.8     |
| Net domestic assets                       | 17.7  | 10.7    | 10.7    | 19.8    | 7.1     | 3.1     | 4.6     | 4.7     |
| <b>Fiscal Accounts</b>                    |   |         |         |         |         |         |         |         |
|   | <b>Percent of GDP, unless otherwise indicated</b>           |         |         |         |         |         |         |         |
| Revenue and grants                        | 18.5  | 22.2    | 21.6    | 20.0    | 26.0    | 22.9    | 22.8    | 22.8    |
| Expenditure                               | 27.1  | 32.0    | 29.7    | 29.8    | 28.5    | 26.5    | 25.8    | 25.5    |
| General government balance (incl. grants) | -8.6  | -9.8    | -8.1    | -9.8    | -2.5    | -3.6    | -3.0    | -2.7    |
| <b>Public Debt</b>                        |   |         |         |         |         |         |         |         |
| Total government                          | 83.3  | 104.9   | 105.3   | 120.3   | 113.0   | 108.1   | 103.8   | 99.8    |
| External debt                             | 46.2  | 58.4    | 51.4    | 52.4    | 51.7    | 51.2    | 50.9    | 50.6    |
| Domestic debt                             | 37.1  | 46.4    | 53.9    | 67.9    | 61.3    | 57.0    | 52.9    | 49.2    |
| <b>Balance of Payments</b>                |   |         |         |         |         |         |         |         |
|   | <b>Percent of GDP, unless otherwise indicated</b>           |         |         |         |         |         |         |         |
| Current account balance (excl. grants)    | -10.2   | -13.2   | -16.9   | -9.7    | -14.4   | -15.8   | -16.2   | -15.8   |
| Current account balance (incl. grants)    | -10.2   | -10.8   | -15.0   | -8.9    | -8.8    | -12.0   | -13.0   | -13.4   |
| Imports (goods & services)                | 41.1  | 48.5    | 50.4    | 41.9    | 43.7    | 46.5    | 47.6    | 48.0    |
| Exports (goods & services)                | 29.4  | 29.2    | 24.7    | 24.0    | 21.0    | 22.5    | 23.3    | 24.2    |
| Foreign direct investment                 | 9.5   | 9.2     | 8.2     | 7.5     | 8.0     | 8.3     | 8.6     | 8.9     |
| Gross Reserves (in million US\$, EoP)     | 161.1   | 111.9   | 76.1    | 59.8    | 99.3    | 111.4   | 127.0   | 147.3   |
| In months of next year's imports          | 4.8   | 3.0     | 2.3     | 1.6     | 2.4     | 2.4     | 2.6     | 2.9     |
| <b>Memorandum items</b>                   |   |         |         |         |         |         |         |         |
| GDP nominal (in million Dalasi)           | 32324.4   | 34773.6 | 38580.9 | 42251.9 | 47139.5 | 52040.9 | 57169.2 | 62617.1 |
| Current transfers (in million US\$)       | 36.3  | 94.0    | 123.9   | 114.8   | 174.6   | 160.1   | 161.2   | 159.1   |
| Official transfers (in million US\$)      | 0.0   | 19.5    | 17.0    | 7.7     | 59.7    | 41.3    | 36.3    | 29.3    |

Source: The Gambia authorities; IMF and World Bank estimates and projections. June 2017.

**Table 2: Financial Operations of the Central Government, 2013-2020**

|                                       | 2013                  | 2014  | 2015  | 2016e | 2017f            | 2018f | 2019f | 2020f |
|---------------------------------------|-----------------------|-------|-------|-------|------------------|-------|-------|-------|
|                                       | <b>Percent of GDP</b> |       |       |       |                  |       |       |       |
| Total Revenue (and grants)            | 18.5                  | 22.2  | 21.6  | 20.0  | 26.0             | 22.9  | 22.8  | 22.8  |
| Tax revenue                           | 14.2                  | 15.9  | 17.6  | 16.7  | 15.2             | 16.2  | 16.8  | 17.6  |
| Taxes on goods and services           | 9.9                   | 11.3  | 13.2  | 12.4  | 11.5             | 12.9  | 13.5  | 14.2  |
| Taxes on income, profits, and capital | 4.3                   | 4.6   | 4.5   | 4.3   | 3.7              | 3.4   | 3.4   | 3.3   |
| Non-tax revenue                       | 2.1                   | 2.6   | 2.1   | 1.7   | 3.4              | 1.1   | 1.1   | 1.1   |
| Grants                                | 2.2                   | 3.7   | 1.9   | 1.7   | 7.4              | 5.5   | 4.8   | 4.1   |
| Budget support                        | 0.0                   | 0.0   | 0.0   | 0.0   | 5.8              | 3.8   | 3.1   | 2.4   |
| Project grants                        | 2.2                   | 3.7   | 1.9   | 1.7   | 1.7              | 1.7   | 1.7   | 1.7   |
| Expenditure                           | 27.1                  | 32.0  | 29.7  | 29.8  | 28.5             | 26.5  | 25.8  | 25.5  |
| Current expenditure                   | 19.9                  | 20.8  | 23.6  | 23.4  | 22.9             | 19.3  | 18.9  | 18.6  |
| Compensation of employees             | 5.8                   | 5.5   | 4.7   | 5.0   | 5.7              | 4.9   | 4.9   | 4.9   |
| Goods and services                    | 6.2                   | 6.1   | 5.4   | 6.5   | 6.0              | 5.2   | 5.3   | 5.3   |
| Interest payments                     | 4.0                   | 5.4   | 7.3   | 7.7   | 5.9              | 5.0   | 4.6   | 4.2   |
| Current transfers (Subsidies)         | 3.9                   | 3.8   | 6.2   | 4.1   | 5.3              | 4.2   | 4.1   | 4.1   |
| Capital expenditure                   | 7.1                   | 7.2   | 6.2   | 6.4   | 5.6              | 7.2   | 6.9   | 6.9   |
| Through domestic resources            | 1.5                   | 1.9   | 1.8   | 1.8   | 1.8              | 2.0   | 2.5   | 2.9   |
| Through external resources            | 5.6                   | 5.3   | 4.4   | 4.6   | 3.8              | 5.2   | 4.4   | 4.0   |
| Overall balance (incl. grants)        | -8.6                  | -9.8  | -8.1  | -9.8  | -2.5             | -3.6  | -3.0  | -2.7  |
| Overall balance (excl. grants)        | -11.1                 | -13.5 | -10.0 | -11.4 | -9.9             | -9.1  | -7.8  | -6.8  |
| <i>Memo:</i>                          |                       |       |       |       |                  |       |       |       |
| Primary balance (incl. grants)        | -4.8                  | -4.3  | -0.9  | -2.0  | 3.3              | 1.3   | 1.6   | 1.5   |
| Primary balance (excl. grants)        | -7.0                  | -8.0  | -2.7  | -3.7  | -4.1             | -4.1  | -3.2  | -2.6  |
| Net incurrence of liabilities         | 8.8                   | 10.0  | 12.1  | 13.7  | 2.5              | 3.6   | 3.0   | 2.6   |
| Domestic                              | 7.0                   | 12.0  | 12.0  | 12.6  | 2.0              | 0.5   | 0.5   | 0.5   |
| Net domestic borrowing                | 7.1                   | 12.1  | 11.8  | 11.4  | 2.0 <sup>3</sup> | 1.0   | 1.0   | 1.0   |
| Change in arrears                     | -0.1                  | -0.2  | 0.2   | 1.2   | 0                | -0.5  | -0.5  | -0.5  |
| Foreign                               | 1.8                   | -2.0  | 0.0   | 1.1   | 0.5              | 3.1   | 2.4   | 2.1   |
| Borrowing                             | 3.5                   | 1.6   | 2.5   | 2.9   | 3.9              | 7.1   | 6.4   | 5.9   |
| Amortization                          | -1.7                  | -3.5  | -2.5  | -1.8  | -3.4             | -4.0  | -4.0  | -3.8  |

Source: The Gambia authorities; IMF and World Bank estimates and projections. June 2017.

Note: Additional measures to reduce the fiscal deficit by 0.3 percent of GDP following the human resources (HR) audits could reduce further the 2017 fiscal deficit but have not been incorporated in the revised budget as the audits are still ongoing. The government decision to pay down a fraction of domestic debt by end 2017 is not reflected in these projections as it will be part of the full debt resolution package currently being defined with external partners and creditors.

<sup>3</sup> Includes on-lending to the budget of the IMF proposed RCF (1.5 percent of GDP).

## 2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

**20. Real GDP growth is projected to accelerate over the medium-term, driven primarily by agriculture and the service sector.** In 2017, GDP growth is expected to reach 3.0 percent, led by a recovery in agriculture, assuming a normal rainy season, and a pickup in the service sector. Tourism activity is expected to rebound as the disruptive impact of the political crisis wanes. However, this improvement will only be gradual, because of the lingering reputational effects of the political crisis. Industrial activity is projected to remain subdued in 2017. Over the medium-term, agricultural activity is projected to increase as decisive actions are taken to develop irrigation schemes and develop select value chains, particularly groundnut, cashew, sesame, rice and horticulture, in accordance with President Barrow's stated priorities and the PAGE II under preparation. Accelerated growth in construction and the service sector will also stem from continued implementation of structural reforms and projects as described in the government strategy, with improvements in the energy supply as a top priority. As a result, GDP growth will gradually increase from 3.5 percent in 2018 to 4.5 percent in 2020, above its 10-year historical average of 3.6 percent. Over the longer-term, better and cheaper energy supply, which is expected as a regional hydropower project comes on stream in 2020, would also support economic growth.

**21. The positive growth outlook is also critically dependent on the authorities' ability to restore and maintain macroeconomic stability and improve public sector performance, but reforms will take time.** The authorities are well aware of the difficult challenges facing the economy and their impact on growth, and have expressed strong commitment to restore and maintain macroeconomic stability. Key objectives include a sharp reduction in domestic financing of the deficit and the mobilization of external concessional resources, gradual fiscal consolidation from 2018 onward, and a monetary policy that stabilizes inflation under the 5 percent target over time. However, although the new administration is committed to pursuing corrective policy actions, specifying and implementing the necessary reforms will take time.

**22. Improved macroeconomic stability and public sector performance are expected to have a significant positive impact on the supply-side of the economy.** The authorities expect that reduced reliance on domestic borrowing will drive interest rates down and create room for private sector credit, while clearing up domestic arrears will support business development. Furthermore, the government has started reviewing the situation of loss-making SOEs, and expects that the implementation of urgently-needed reforms will help improve the delivery of essential public services for growth, particularly in the energy and ICT sectors. Enhanced and more predictable macro-fiscal policies are also expected to help restore investor confidence, and create fiscal space for public investment in physical and human capital.

**23. The government has revised the 2017 fiscal deficit target down to 2.5 percent of GDP (including grants), compared to 9.8 percent of GDP in 2016.** With the support of this operation, a revised budget has been approved by Cabinet and is expected to be submitted in May to the National Assembly, in replacement of the expansionary original 2017 budget. An overall decline in expenditures by 1.3 percent of GDP is planned in 2017 compared to 2016 even though a subsidy for covering the electricity utility NAWEC's debt service arrears in the amount of 0.7 percent of GDP has been included. The decline is driven mainly by reduced interest payments. With due protection of social spending in health and education, cuts have primarily been made in the budget of the President's Office, as well as embassies, travel expenses, and public works. To bring interest payments down, the government has also taken steps to better control budget execution, and minimize the recourse to NDB. The objective is a reduction in net domestic borrowing to a maximum of 1 percent of GDP from December 2017 onward. Yields on T-bills have significantly declined across all maturities over the past few months to reach about 10 percent for 90-days T-bills, largely because of continued strong demand from commercial banks. They are expected to remain at about 11.5 percent across maturities in 2017 (and around 10 percent thereafter), leading to a decline in interest payments from 7.7 percent of GDP

in 2016 to 5.9 percent in 2017. Furthermore, although not yet incorporated in the budget, it is expected that the elimination of ghost worker cases identified through ongoing audits undertaken with the support of the proposed DPF, could lead to a further reduction in expenditures by 0.3 percent (about US\$3 million) in 2017.

**24. An important step towards fiscal sustainability is to bring back revenue sources that were previously diverted or not properly included in the budget, and to sell some of state assets.** Revenue projections have been revised downward by 1.4 percent of GDP compared to the original 2017 budget to reflect more realistic growth forecasts. To offset this, the government has identified and is implementing additional measures, and domestic revenue is expected to increase to 18.6 percent of GDP in 2017 (compared to 18.4 percent in 2016). First, by plugging the leakages from the international voice gateway, the Government expects to receive substantial additional revenues. Secondly, measures to ensure that fees and revenue sources previously diverted (including petroleum fee concessions, heavy metal sand mining, and fees from the use of the container scanner in the port) are channeled to the budget are also being taken. Sales of a plane that was acquired by ex-President Jammeh and two other defunct planes are also expected to yield 0.5 percent of GDP; and the sale of land, including in prime tourist areas, could yield 0.5 percent of GDP and attract tourist-related investments. As a result of these measures, non-tax revenue is expected to increase from 1.7 percent of GDP in 2016 to 3.4 percent of GDP in 2017. This will be complemented by a substantial increase in grants, from 1.7 percent to 7.4 percent of GDP between 2016 and 2017.

**25. Over the medium term, the government targets a decline in the primary deficit from 4.1 percent (excluding grants) in 2017 to 2.6 percent in 2020.** It has embarked on several audits to lay the groundwork for additional measures in support of medium-term fiscal consolidation. Streamlining the civil service and Security forces and rationalizing agencies are likely to generate savings that will need to be quantified further. The government has also undertaken audits of the main SOEs as a prior action for this DPF, as part of a broader SOE reform program which is expected to directly yield significant fiscal gains by improving tax revenue collection and reducing fiscal risks. In this respect, an important measure, which is being considered by the new government, would be to address the issue of the cross-debt situation between the central government and SOEs, and audit and clear public sector arrears. The overall fiscal deficit (excluding grants) is expected to decline from 9.9 percent to 6.8 percent of GDP between 2017 and 2020.

**26. External financial support will be key to support the transition in the short-term and achieve the government fiscal objectives.** Reforms will take time and are expected to be complemented in the short to medium term by substantial external budget support by The Gambia's development partners to help meet financing requirements. Several partners, including the World Bank, the IMF, the African Development Bank (AfDB) and the European Union (EU) promptly committed to support the country following the political crisis, and have already pledged substantial financial support on concessional or grant terms.

**27. The external current account deficit, which is expected to remain high over the medium-term, would be financed by grants and foreign investment.** The current account deficit is expected to widen from 9.7 percent of GDP in 2016 to 14.4 percent in 2017 in the wake of the economic and political transition and recovering oil prices. It would remain high over the medium-term, reaching 15.8 percent in 2020 (excluding grants), and is only expected to decline afterwards, supported by a slow rebound in tourism and agricultural exports. Over time, improved regional integration and relations with Senegal would support re-exports and trade with the sub-region. The high CAD reflects a persistent savings-investment gap.

**28. External financing needs are expected to increase substantially from 2017-2020, driven primarily by a sharp increase in loan amortization, but external reserves will build up progressively.** Scheduled loan amortizations are expected to increase from 1.8 percent of GDP in 2016 to 3.4 percent in 2017 (US\$35.1 million), and an average 3.9 percent in 2019-20 (US\$40.5 million). On the other hand, the return to policy

predictability, and planned improvements in the business environment will drive foreign investment up in 2017-2020, especially in support of tourism, commercial agriculture, mining, and oil and gas exploration. Sustained foreign investment and external financing will contribute to rebuilding international reserves, which are expected to gradually increase from 1.6 months of imports cover in 2016 to 2.9 in 2020.

**29. Reduction of fiscal dominance and the normalization of monetary policy resulting from greater central bank independence should help bring inflation below the 5 percent target in the medium-term.** Inflation is expected to abate to 7.1 percent in 2018, and reach the 5 percent target by 2020, helped by improved monetary policy effectiveness and a rebound in agricultural production.

**Table 3: The Balance of Payments, Financing Requirements and Sources (US\$), 2013-2020**

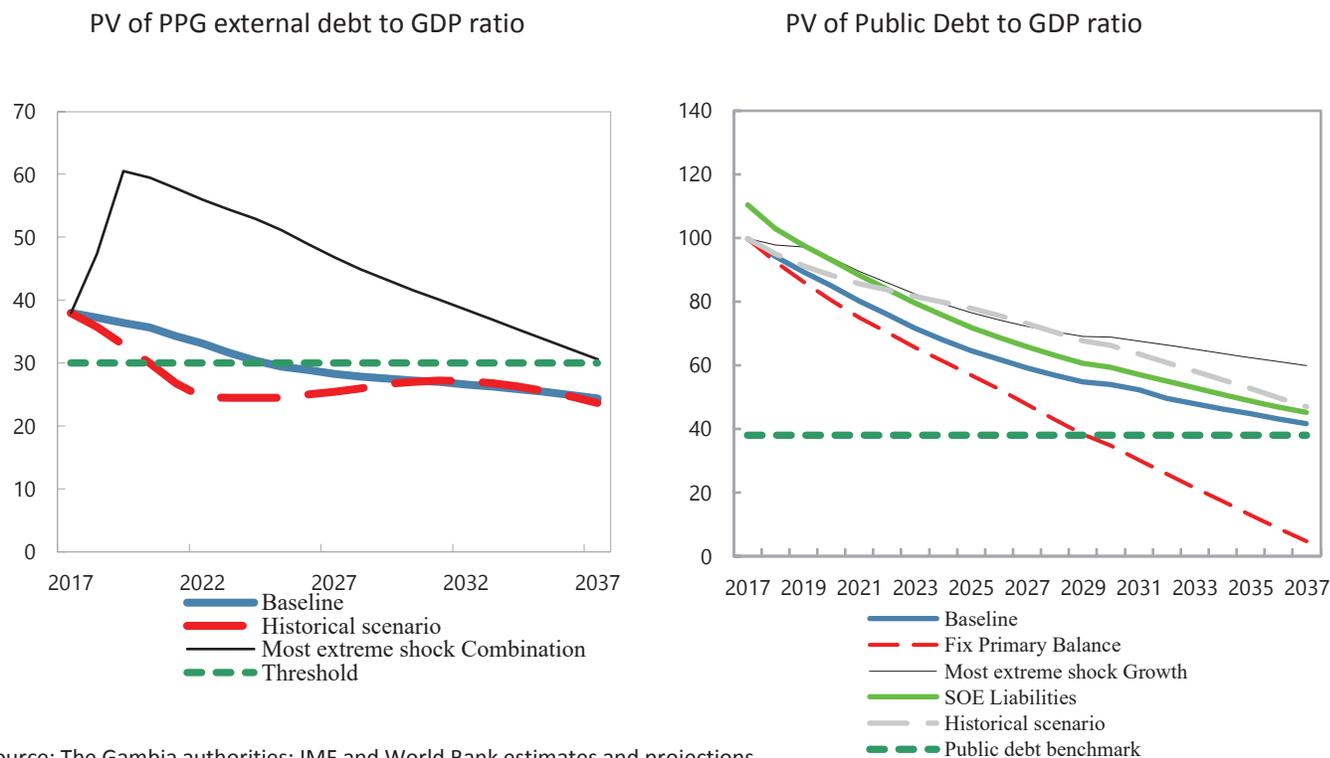
|                                     | 2013          | 2014          | 2015          | 2016e         | 2017f         | 2018f         | 2019f         | 2020f         |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| In millions of US Dollars           |               |               |               |               |               |               |               |               |
| <b>Financing Requirements</b>       | <b>-108.0</b> | <b>-119.7</b> | <b>-157.9</b> | <b>-103.1</b> | <b>-125.4</b> | <b>-168.2</b> | <b>-190.0</b> | <b>-203.6</b> |
| Current account balance             | -91.6         | -90.2         | -133.9        | -85.7         | -90.3         | -131.4        | -150.5        | -162.2        |
| Amortization of loans               | -16.4         | -29.5         | -24.0         | -17.4         | -35.1         | -36.8         | -39.5         | -41.4         |
| <b>Financing sources</b>            | <b>129.1</b>  | <b>202.6</b>  | <b>161.1</b>  | <b>99.3</b>   | <b>125.4</b>  | <b>168.2</b>  | <b>190.0</b>  | <b>203.6</b>  |
| Capital grants                      | 20.2          | 28.8          | 23.2          | 26.1          | 25.9          | 18.6          | 19.6          | 20.6          |
| FDI and portfolio investment (net)  | 83.5          | 74.7          | 76.1          | 75.8          | 87.0          | 94.5          | 102.7         | 111.8         |
| Other private net investment        | -30.5         | -31.1         | -42.8         | -28.3         | 0.6           | 11.1          | 15.9          | 24.5          |
| Disbursement of loans               | 32.3          | 84.2          | 63.3          | 15.4          | 40.3          | 78.0          | 73.6          | 71.8          |
| Change in net reserves (increase -) | 23.6          | 46.0          | 41.3          | 10.3          | -28.4         | -34.0         | -21.8         | -25.1         |
| Errors and Omissions                | -21.1         | -82.9         | -3.2          | 3.8           | 0             | 0             | 0             | 0             |

Source: The Gambia authorities; IMF and World Bank estimates and projections. June 2017.

**30. The Joint World Bank-Fund DSA of June 13, 2017, concluded that The Gambia was in external debt distress, a deterioration from the previous moderate risk rating.**<sup>4</sup> The main drivers of this change were the weakening in The Gambia's overall institutional capacity in the most recent Country Policy Institutional Assessment (CPIA) and deterioration of several debt burden indicators at the start of the projection horizon associated with past fiscal slippages. Under the baseline scenario, all five external debt indicators are projected to breach their respective indicative thresholds for a sustained period, signaling that The Gambia is in debt distress. Under the most extreme stress tests, all five external debt burden indicators also breach the respective thresholds. The ratios of debt service to exports and to revenue are vulnerable to an exports shock and one-time depreciation shock, respectively, with the remaining indicators vulnerable to a combination shock.

<sup>4</sup> In 2016, 93.2 percent of Gambia's external debt was public and publicly guaranteed debt.

**Figure 3: The Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2017-2037 (left); Public Debt Indicators under Alternative Scenarios, 2017-2037 (right) – 2017 DSA.**



Source: The Gambia authorities; IMF and World Bank estimates and projections.

**31. The June 13, 2017 DSA also indicated that that public debt was not sustainable.** In the baseline, the stock of total public debt (NPV of 108 percent of GDP in 2016) remains above its indicative benchmark for the entire projection horizon which, combined with risks from higher domestic interest rates, rollover risks from short-maturity public debt and bank exposures to sovereign debt, indicates a heightened overall risk of debt distress. The DSA underlines therefore that restoring debt sustainability will require proactive debt restructuring to complement planned sustained fiscal consolidation over the medium-term, and the government has launched the preparation of a debt restructuring strategy with the support of its partners.

**32. On June 21, 2017, additional commitments and assurances of highly concessional support were received from some of the major official bilateral creditors as well as additional planned commitments from Multilateral Development Banks and this improves the debt risk ratings.** With these commitments and assurances, IMF and World Bank staff are able to conclude that The Gambia’s total public debt is sustainable in the medium term, although risks remain very elevated, and the risk of external debt distress is ‘high’. In this context, over the coming months, it will be important for the authorities to continue to pursue a coordinated approach to secure assurances from other official creditors in support of the government’s debt restructuring plan. These assurances and additional highly concessional resources, along with the government’s commitment to debt management and fiscal consolidation will be important to further reduce the country’s debt vulnerabilities.

**33. The government has taken additional steps to restore debt sustainability, with due attention to the soundness of the financial sector.** Following the consolidation of central government liabilities at the CBG

into a 30-year bond, the government is making progress on the preparation of its debt strategy with the support of the IMF and the World Bank. To this purpose, the CBG has established a Committee on Government Bonds. At its inaugural meeting on May 18, an action plan for the issuance of government bonds with detailed draft guidelines was presented and a road map is being prepared. Options under consideration include issuing medium and long term public debt instruments with better terms in replacement of a fraction of the T-bills stock; and paying down domestic debt, depending on the availability of resources on grant or concessional terms. The government has already committed to allocate a fraction of external concessional financial support to pay down some of the expensive domestic debt in 2017 (at least US\$15 million). Furthermore, gradually moving to longer maturity public debt instruments would help reduce rollover risks and high near-term debt servicing costs. It would also help to meet demand for longer-dated instruments by banks and nonbanks and help establish a benchmark yield curve for securities market development. Options under consideration also include restructuring of a fraction of external debt. In parallel, the government is committed to improving debt management. Technical assistance will continue to be provided by the WAIFEM (West African Institute for Financial and Economic Management), the World Bank and other partners.<sup>5</sup> These actions would complement medium-term reforms to address the root causes that have led to the high level of debt, including fiscal discipline, SOE reforms, and structural reforms to boost growth and enhance economic resilience. The recovery of stolen assets from the previous regime could also contribute to debt resolution.

**Table 4: External Debt Composition, December 2016**

| External Debt Composition       |                |                              |          |
|---------------------------------|----------------|------------------------------|----------|
|                                 | US\$ (million) | Share of total external debt | % of GDP |
| <b>Multilateral</b>             | 358.80         | 71.1%                        | 37.3%    |
| <b>Bilateral</b>                | 138.17         | 27.4%                        | 14.3%    |
| <b>Guaranteed External Debt</b> | 7.75           | 1.5%                         | 0.8%     |
| <b>Total External Debt</b>      | 504.72         | 100%                         | 52.4%    |

Source: The Gambia authorities; IMF and World Bank estimates.

**34. Downside risks are high, as delays in specifying and implementing the debt strategy, a credible fiscal consolidation path, and structural reforms could derail ongoing efforts to restore macroeconomic stability.** Options to address the debt overhang are being articulated, a number of fiscal measures have been identified to reduce spending and boost revenue, critical audits of the payroll and SOEs have been launched, and the government is working closely with development partners to strengthen the macroeconomic framework. However, developing a full medium-term program will take time, and will require decisive efforts to revisit tax policy, further improve tax collection, streamline expenditures, clear public sector arrears, and reform SOEs. Given the magnitude of the challenges, success will require sustained efforts and continued support within the administration and the public at large around the reform path. Fiscal slippages, or the realization of significant SOE-related contingent liabilities would likely derail efforts to stabilize the debt dynamics, and would put downward pressures on the dalasi. Slippages would also likely affect the timely mobilization of budget support, and undermine investor confidence. These unfavorable developments would likely prompt a forced and painful adjustment.

<sup>5</sup> This includes for example a training session in May 2017 on the Debt Management Performance Assessment Tool (DeMPA).

**35. Exogenous shocks are also important sources of downside risk to macroeconomic stability and growth, underscoring the need to rebuild fiscal and external buffers.** The Gambia is a fragile country. Renewed political instability in the country or exogenous global or regional shocks could derail the recovery of the tourism sector, transit trade, and FDI, resulting in lower-than-projected GDP growth, inflation, and could further exacerbate external vulnerabilities. The economy remains also highly vulnerable to climatic shocks, and while the government is committed to structural reforms to boost agricultural productivity and develop irrigation schemes, these reforms will take time.

**36. Despite its fragility, the macroeconomic policy framework is deemed adequate for the proposed operation, provided the government's policy objectives are successfully implemented.** The authorities are committed to proactive debt restructuring with the support of development partners, fiscal discipline, reducing the reliance on domestic financing, and maintaining a flexible exchange-rate regime. They intend to implement reforms of the public sector, streamline the wage bill based on ongoing audits, rationalize agencies and pursue ongoing reforms of SOEs, which are a key source of fiscal risks. They aim to rebuild private-sector confidence by signaling a return to consistent and predictable fiscal and monetary policies. They recognize the critical importance of fiscal consolidation and improved debt management, and a suspension of non-concessional borrowing in the short to medium-term. The government is striving to build its institutional capacity to conduct debt-sustainability analyses with the support of development partners. Success will hinge on sustaining these efforts, and the mobilization of substantial external support to support the adjustment.

### **2.3 IMF RELATIONS**

**37. The IMF is currently preparing emergency support through its Rapid Credit Facility (RCF), coupled with a Staff-Monitored Program (SMP).** An IMF mission took place from March 30 to April 12, 2017 to start negotiating the IMF engagement and to update the DSA, jointly with the World Bank. The IMF support will be discussed at its Board of Directors on June 26, 2017. The SMP is aimed at framing the authorities' macroeconomic policy framework, supporting debt restructuring, and building a satisfactory track record. If successfully implemented, it could pave the way for support under the IMF Extended Credit Facility. The World Bank team has been working closely with IMF counterparts and the authorities to develop a strategy for improving the fiscal and debt position. The IMF and the World Bank teams are coordinating in key areas such as public financial management, debt management, structural reforms in the energy and telecommunications sector, and overall macroeconomic stability. The teams are also collaborating on statistical capacity development to support improved macroeconomic monitoring and more detailed analysis of national-accounts dynamics and price changes. Coordination between the IMF and World Bank teams will continue to ensure that the authorities receive consistent advice and information.

## **3. THE GOVERNMENT'S PROGRAM**

**38. President Barrow has stated that integrating The Gambia into the regional and global economies, enhancing energy services, improving health outcomes and supporting agriculture are key objectives** of the government's development agenda. At the first Cabinet Meeting of April 13, 2017, President Barrow reiterated the importance of fighting poverty, hunger and diseases, and ensuring unity and security of the nation; he reaffirmed the need to reform the civil service and security forces, as well as SOEs.

**39. The authorities' immediate priorities are articulated in the Accelerated National Response Plan (ANRP) covering July-December 2017.** The ANRP has been prepared by the Ministry of Finance and Economic Affairs (MoFEA) and aimed at guiding the government's response to the crisis and the policy dialogue with development partners. The Plan articulates Specific Objectives (SOs), including (i) enhancing macroeconomic

management and good governance; (ii) reinforcing key social and economic drivers (health, energy, agriculture and tourism); and (iii) supporting National Development Planning, donor coordination and resource mobilization.

40. **For the medium term, the authorities are currently finalizing a Second Program for Accelerated Growth and Employment for 2017-2020 (PAGE II)**, with support from UNDP, AFDB, the EU and the World Bank. The process is expected to be completed by the summer of 2017 and a roundtable is planned to be organized in the Fall to mobilize donor support for implementation. PAGE II builds on the gains registered during the first PAGE (2012-2015, extended to 2016). Anchored in the President's stated priorities and the country's Vision 2020, PAGE II seeks to reduce poverty and inequality and attain prosperity through better management of scarce resources, private sector-led growth and job creation. A priority is to foster employment and sustainable livelihoods, especially for the youth. At the core of this objective, is the need to reduce fiscal imbalances and debt and reform the public sector.

#### 4. THE PROPOSED OPERATION

##### 4.1 LINKS TO THE GOVERNMENT'S PROGRAM AND OPERATION DESCRIPTION

41. **The proposed DPF operation's program development objective (PDO) is to support strengthening of the government's fiscal position while restoring provision of essential public services.** The operation will provide emergency financial support to The Gambia as the authorities strive to restore macro-fiscal sustainability while shielding poor and vulnerable households from the impact of the economic crisis. While a successful fiscal consolidation is expected to shift the primary balance to surplus over the medium term and enable the authorities to bring public debt down to manageable levels, the external financing provided through the DPF is urgently needed during the transition period to reduce costly domestic borrowing and ease the fiscal burden of high domestic interest payments.

42. **The design of the proposed operation reflects the capacity constraints of the public administration and the urgency of the country's current political and economic context.** Confronted with a legacy of unsustainable macroeconomic policies, excessive state intervention in the economy, economic and diplomatic isolation, and low institutional quality, the government faces a set of critical macro-fiscal challenges. To avoid overwhelming the government's limited administrative capacity, the proposed operation is highly selective in its design, as it seeks to leverage ongoing World Bank projects and builds on strong complementarities with other partners' programs. The program focuses on a narrow range of priority issues that are at the heart of the country's dire macroeconomic situation. These include streamlining public expenditures, setting the stage for rationalizing the civil service and security forces, reforming loss-making state-owned enterprises, which are the core of fiscal risks and poor service delivery, and improving the value for money in the health sector.

43. **The proposed operation is articulated around three mutually reinforcing objectives** which are critical for enhanced fiscal sustainability and service delivery.

44. *The first pillar* consists of rapid-response fiscal stabilization measures, including:

- (i) Revising budgeted expenditure and revenue for 2017 with due protection of the social sectors.
- (ii) Eliminating irregularities in the payroll of the civil service and security forces.

45. *The second pillar* starts addressing critical fiscal risks from SOEs by:

- (i) Assessing and enhancing transparency on the financial situation of SOEs.
- (ii) Monitoring and limiting contingent liabilities.

(iii) Laying the groundwork for reforms of the state electricity utility (NAWEC) and the two national telecommunications companies (GAMTEL/GAMCEL).

46. The *third pillar* is to mitigate the social impact of the economic crisis in health centers. The proposed operation will help to:

- (i) Prevent disruptions in the supply of vital medicines to health facilities.
- (ii) Enhance fiscal efficiency in the procurement of essential medicines.

47. **The DPF-supported program is fully aligned with the government’s immediate priorities as articulated in the ANRP, and sets the stage for longer-term reforms** that are consistent with the country’s development agenda. Several of the actions included in the Plan, particularly relating to enhancing macroeconomic management and good governance, are specifically included in the program supported by the proposed operation. The DPF also seeks to start addressing issues affecting the financial situation of the energy and telecom utilities, which over time is expected to help support sustainable delivery of quality services for enhanced competitiveness and inclusive growth

48. **Lessons learned from the implementation of previous World Bank operations in The Gambia, as well as DPFs in other fragile states, have informed the design of the proposed operation.** Policy slippages under the last years of the previous regime were not conducive to the provision of development policy financing. However, the experience in earlier years and in other fragile states underscores the importance of: (i) selectively identifying reforms that minimize the administrative burden on the government; (ii) maintaining close coordination with donors and aligning external support with the government’s stated priorities; (iii) focusing on measures that will have an immediate positive impact on the living conditions of the population; (iv) supporting measures that demonstrate the new government’s commitment to reform and help rebuild trust in public institutions; (v) enhancing economic governance to promote the development of critical sectors; and (vi) establishing strong monitoring and evaluation mechanisms tailored to the local context. A more detailed description of the lessons learned from international experience and how they are incorporated into the proposed operation is presented in Annex 5.

## 4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

### PILLAR 1: SUPPORTING FISCAL STABILIZATION MEASURES

*Revising the 2017 budget with due protection of social spending*

49. **Restoring fiscal and debt sustainability will require a combination of medium-term fiscal consolidation, external financing, and actions on the debt.** Concessional external financing and grants will be especially crucial in the short to medium-term to reduce the need for costly domestic borrowing. While the government is new and is still in the early stages of formulating a detailed medium-term fiscal consolidation plan with the support of its partners, it has already taken action and expressed a strong commitment to fiscal discipline. Through a combination of fiscal restraint and concessional external financing and grants, the authorities are targeting a sharp reduction in Net Domestic Borrowing to a maximum of 1 percent of GDP starting at end-2017 (achieving negative NDB going forward would largely depend on the availability of external concessional financing and grants). Reduced reliance on domestic financing in the first few months of the year have already driven T-bills yields down<sup>6</sup>, and this is expected to alleviate the heavy burden of domestic interest payments on the overall fiscal deficit. In parallel, the government targets a substantial

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<sup>6</sup> 12-month notes yielded 13 percent as of early April, down from above 22 percent a year ago.

improvement in the primary fiscal balance (including grants) from a deficit of 2.0 percent of GDP to a surplus of 3.3 percent between 2016 and 2017, and plans to maintain a primary surplus afterwards.

**50. As a first step towards fiscal stabilization, the government has submitted to the National Assembly a revised 2017 budget, which reflects more realistic revenue projections.** The original 2017 budget reflected an untenable expansionary fiscal stance and overoptimistic revenue projections based on an unrealistic annual GDP growth projection of 6.7 percent. The authorities have since revised original domestic revenue projections for 2017 downward by 1.4 percentage points of GDP but identified new domestic revenue sources amounting to 2.2 percent of GDP, complemented by a sharp increase in grants. In particular, by plugging the leakages from the international voice gateway, the government expects to receive substantial additional revenues. Further measures are also being taken to ensure that fees and revenue sources previously diverted (including petroleum fee concessions, heavy metal sand mining, and fees from the use of the container scanner in the port) are channeled to the budget.

**51. In parallel, the government has cut public expenditures in non-priority areas,** targeting a non-interest expenditure-side reduction<sup>7</sup> equal to 1 percent of GDP in 2017, compared to the original 2017 budget, with due protection of budget appropriations in the health and education sectors. Cuts have primarily been made in the budget of the President's Office, as well as embassies, travel expenses, and public works. This will be compounded by the expected decline in interest payments. The proposed DPF supports this important step toward more responsible fiscal management as a prior action.

**52. As a result, by the end of this operation (end December 2017), it is expected that fiscal outturns will reflect the new government's commitment to fiscal stabilization** through a narrowing of the overall fiscal deficit compared to 2016 – from 9.8 to 2.5 percent of GDP – while budget execution in health and education will be in line or above 2016 rates based on revised 2017 appropriations. Once completed, audits of the payroll and SOEs supported by this operation, as well as the resolution of public sector arrears and the cross-debt situation between SOEs and the central government, will be instrumental to identify further opportunities to better align revenues and expenditures in the future. In particular, to close the remaining financing gap, it is expected that the elimination of ghost worker cases identified through ongoing audits undertaken with the support of the proposed DPF, could lead to a further reduction in expenditures by 0.3 percent (about US\$3 million) in 2017.

**53. The government has in parallel strengthened control over budget execution by barring public agencies from making expenditure commitments unless the MoFEA has verified that the expenditure is properly budgeted.** This control has significantly enhanced expenditure discipline, enabling the government to limit domestic borrowing during the first months of 2017.

**Prior Action # 1: The government, acting through its Cabinet, has approved and, acting through its MoFEA, submitted to Parliament, a revised 2017 budget consistent with fiscal stabilization objectives and revised revenue forecasts (as described in the Letter of Development Policy-LDP), while maintaining health and education appropriations at the same levels as in the original 2017 budget or above.**

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<sup>7</sup> This is in comparison to the 2017 budget that was approved by Parliament in December 2016.

**54. Public employment has grown rapidly in recent years, particularly in the security forces, leading to a substantial increase in the wage bill.** The overall size of the civil service is relatively small and represents only 1.3 percent of the total population.<sup>8,9</sup> However, it has more than doubled in recent years, increasing from 11,035 in 2010 to 23,923 in 2016, particularly at the lower grade levels (administrative grades 1–6). In addition, the size of the uniformed services<sup>10</sup> is very large, and grew significantly in the last year of the previous Presidency, from 15,375 (2015) to 16,790 (2016), driven by hiring in the public security and military sectors. Importantly, hiring is not systematically based on the establishment list, and there are suspicions of irregularities, especially with respect to security forces. Information provided by the government’s Personnel Management Office (PMO) indicates that the civil service wage bill (including both salaries and allowances) has increased substantially in recent years, absorbing 27 percent of domestic revenue in 2016. Meanwhile, subsidies and transfers to subvented agencies increased by nearly 340 percent between 2010 and 2016, and it is estimated that more than 50 percent of these transfers also funded personnel emoluments. The size of the wage bill represents therefore a burden that limits the government’s ability to implement essential development programs. Moreover, ineffective oversight mechanisms and limited information complicate efforts to control and rationalize staffing, and to improve the remuneration of civil servants, which is necessary to attract skilled professionals to the civil service and incentivize performance.<sup>11</sup>

**Box 1: Organization of the staff audit<sup>12</sup>**

The staff audit is organized in two phases:

**Phase I - Staff verification**

Following the official approval by the President’s Office on March 9, 2017 and an official announcement on March 22, 2017, the PMO launched a staff identification operation on March 27, 2017. The field operation was completed in May 2017 and a progress report was prepared. By May 31, 2017, all unseen staff are requested to verify and justify their absence of the duty station on the day of verification. If not justified, those cases will be considered as ghost workers and removed from the payroll records, and payment will be suspended. A final report will be prepared by June 30, 2017.

**Phase II - Payroll audit**

Upon completion of the staff verification operation, the internal auditors, the National Audit Office and the Accountant General's office in the MoFEA plan to begin the payroll audit (verification of all payroll related payments, cross-checking with HR records, verification of bank account information and transactions with commercial banks, verification of charged cost center, and other criteria).

<sup>8</sup> This figure does not include employees in subvented agencies, parastatals and SOEs, for which the figures are unknown.

<sup>9</sup> The population is estimated at 1.85 million as of 2013.

<sup>10</sup> The Gambia Armed Forces, the Gambia Police, the Gambia Immigration Department, the Gambia Prison Service, the Gambia State Intelligence Services, Fire and Rescue Service, and National Drug and Law Enforcement Agency.

<sup>11</sup> Base salaries are low in The Gambia by comparable standards. The last comprehensive salary adjustment for civil servants was in 2010, and since then wage increases have been awarded through promotions or allowances. These promotions and allowances have not been allocated based on transparent criteria, and as many as 33 different allowances are paid to civil servants, of which only two (transport allowances and special allowances) are paid across the board. Allowances are not considered when calculating pension payments, which results in a substantial imbalance in real compensation between active and retired civil servants.

<sup>12</sup> The PMO is auditing the uniformed services, while a multidisciplinary team of officials from the PMO, the Accountant General Department, the National Audit Office, the Internal Audit Directorate, the Ministry of Finance, and the Ministry of Basic and Secondary Education is auditing the civil service. The PMO Permanent Secretary, the Deputy Permanent Secretary, the Deputy Accountant General, and the Director General of Internal Audit are coordinating both auditing teams.

55. **In order to reassert control over the payroll and generate fiscal savings, the new government has undertaken a nation-wide staff audit coupled with a payroll-verification exercise for the civil service and security forces.** As a prior action for this operation, the PMO has embarked on a staff audit for civil servants and security forces since March 2017 (excluding agencies and SOEs). This is an important step forward, particularly in the security sector, where such audit has never been conducted. The objectives of the audit are to identify and resolve irregular and invalid HR and payroll cases in the current payroll records, and reestablish solid HR and payroll records. *As a result* of the audit, ghost worker cases are expected to be addressed, leading to an estimated savings on the payroll of 0.3 percent of GDP in 2017.

56. **As a result, the audits will allow for an improvement in the accuracy of personnel data and the resolution of identified irregularities in the payroll, including the removal of ghost workers.** The audits will provide important information on personal emoluments and job profiles and enable the authorities to eliminate filled and unfilled positions outside the established personnel hierarchy. They will thereby allow for some fiscal savings and tighter oversight of the evolution of human resources within the public administration. In the medium term, which extends beyond the scope of this operation, these audits would lay the foundation for more sophisticated structural reforms in personnel management.

**Prior Action # 2: The government, acting through the Office of the President, has initiated a nationwide staff/payroll verification and audit by the PMO and the Auditor General for the entire Civil Service and Security Forces, for the purpose of eliminating “ghost workers” and improving payroll integrity.**

## **PILLAR 2: ADDRESSING CRITICAL FISCAL RISKS FROM STATE-OWNED ENTERPRISES**

### *Assessing and enhancing transparency on the financial situation of SOEs*

57. **Gambian SOEs are a major burden for the government budget and pose critical risks to fiscal and debt sustainability.** Recent analyses by the Government and the World Bank have revealed major weaknesses in the performance of SOE sector, which consists of 13 commercial enterprises providing goods and services across the economy. The situation began to reach crisis proportions in 2014 when the largest SOEs started to be unable to service their debts and the government had to step in to meet SOE external debt servicing requirements, amounting to the equivalent of 5 percent of GDP. The National Water and Electricity Company NAWEC has incurred the biggest losses, followed by the Gambia Telecommunications Company and its subsidiary the Gambia Telecommunications Cellular Company (GAMTEL/GAMCEL). Other major loss-makers include the Gambia Civil Aviation Authority (GCAA), the Gambia Groundnut Corporation (GGC), and the Gambia Radio and Television Service. Difficulties include increasing financial losses, decreasing net worth and erosion of the SOEs capital base, accumulating tax arrears and cross debts with the central government and inter-SOEs, and accumulating SOE indebtedness representing a contingent -- and in some cases a real -- liability on the government, all accompanied by a deterioration in the quality of public services delivered. Loss-making SOEs represent a significant source of extra-budgetary spending and fiscal risks for the central government.

58. **Major factors contributing to the precarious situation of SOEs have included poor governance and poor financial management within the SOEs and a growing breakdown in financial discipline in the relations between the state and the SOEs.** An examination of the causes of these problems shows that many SOEs have been required to sell their products and services at prices below their cost of production and delivery, and that SOEs' non-profitable public service obligations have not been reimbursed by the government. Some SOEs also have inherently non-viable business models. There are similarly deficiencies within the operational and financial management of the SOEs themselves, and their corporate governance at the level of the SOE

boards of directors is sometimes inadequate. Some enterprises, particularly NAWEC, also face the non-payment of bills by the central government, municipalities, and other SOEs. There is an extensive network of cross-debts between the central government and SOEs. A one-off debt-reconciliation process between the SOEs and government in early 2016 eliminated most SOE tax arrears to the Gambia Revenue Authority (GRA), which had stood at GMD 1.4 billion at end-2014. However, the process did not address the structural financial imbalances of the SOE sector, and as of January 31, 2017, the stock of SOE arrears had risen again to GMD 0.4 billion. Furthermore, weak controls over SOE borrowing have contributed to the accumulation of heavy debt burdens.

**59. In addition to the above factors, the new government is uncovering cases of massive illicit diversion of SOE funds from their intended purposes under the previous regime,** with substantial adverse impact on the SOE sector financial position and government revenue collection. The SOE auditors' annual management letters, and reports from the National Audit Office and the Public Enterprise Committee/Public Accounts Committee of the National Assembly, have repeatedly confirmed that financial controls and procedures throughout the SOE sector have been highly inadequate. There is growing consensus that these inadequacies have provided opportunities for the misuse of SOE funds and other assets. In addition to the above, a diagnostic study commissioned in June 2015 with the help of the World Bank identified serious weaknesses in corporate governance and accounting practices.

**60. The government has declared its firm intention to break from past practices and is launching a comprehensive reform program of SOEs.** The government strategy builds on the above-mentioned policy note, which formed the basis of a program endorsed by Cabinet in April 2016, and which was updated in February-March 2017 (Annex 4).

**61. As a first priority and with the support of this operation, the government has embarked on Special Purpose Audits of the main SOEs.** The following five SOEs will be audited by international firms over the next 9-12 months: (i) NAWEC; (ii) The Gambia National Petroleum Company (GNPC), (iii) GAMTEL/GAMCEL; (iv) the Social Security and Housing Finance Corporation (SSHFC), and the Gambia Ports Authority (GPA). The World Bank is financially supporting this process through the IFMIS Additional Financing 2 project (P159000).

**62. The scope of the Special Purpose Audits is broader than standard annual audits.** The audits will: (i) establish the financial position of the five SOEs concerned; (ii) examine in depth and quantify the extent to which funds have been diverted or misused; (iii) identify the weaknesses in the financial control systems and the specific actions which have led to these losses and leakages; and (iv) recommend necessary improvements to the systems and control framework, including preventive measures. The audits will also assess the corporate governance of the SOEs and the institutional oversight arrangements, determine to what extent they are conducive to sound and transparent operational and financial management practices, and make appropriate recommendations. These audits will therefore be a major complement to the regular annual audits which are executed in accordance with the existing regulation. *As a result*, the audits will provide a key source of information for addressing the financial situation of SOEs, strengthening controls, identifying opportunities to improve revenue collection from SOEs, and potentially recovering diverted assets and revenues, thus contributing to the government fiscal goals.

**Prior Action #3: The government, acting through MoFEA, has initiated Special Purpose Audits of the following SOEs: National Water and Electricity Company (NAWEC), the Gambia National Petroleum Company (GNPC), the Gambia Telecommunications Company (GAMTEL) and its subsidiary Gambia Telecommunications Cellular Company (GAMCEL), the Social Security and Housing Finance Corporation (SSHFC), and the Gambia Ports Authority (GPA), as evidenced by the short list report on expressions of interest dated May 9, 2017.**

### *Monitoring and limiting contingent liabilities from SOEs*

**63. Progress in strengthening SOE oversight has been slow, and SOE compliance with reporting obligations to MoFEA remains weak.** MoFEA was tasked with monitoring the SOE sector and a dedicated SOE reform unit was appointed in April 2016 (Directorate of Public-Private Partnerships-PPP). Since then, the PPP unit has steadily expanded its oversight capacity, collecting basic SOE data, completing performance assessments of selected SOEs, developing performance monitoring and reporting guidelines, and requiring their full compliance with statutory requirements. Following intensive stakeholder discussions, a Code of Good Corporate Governance for SOEs was finalized in October 2016. However, the difficult political transition has slowed Cabinet approval of the Code of Good Corporate Governance and delayed the establishment of an SOE reform steering committee and working group.

**64. The proposed DPF supports measures to enhance financial transparency in the SOE sector and strengthen financial reporting mechanisms.** As a first step towards setting up a systematic mechanism to ensure timely publication of SOE audited financial statements every year, MoFEA has inventoried and published on its website the most recent audited financial statements for all SOEs, confirming the government's commitment to transparency and accountability. *As a result*, information on the SOEs financial performance will be available to the public.

**65. Over the medium term, the government plans to further tighten SOE monitoring and oversight.** The Directorate of Public-Private Partnerships plans to systematically collect information from the central bank, the GRA, the MoFEA Loans and Debt Department, and the customs authority on the financial performance of SOEs, including taxes paid and tax arrears, import duty exemptions, international and domestic debt and arrears, contingent liabilities and cross-debts among SOEs and between SOEs and the central government. Increased data collection would provide the analytical basis necessary to establish an SOE performance-management information system.

**Prior Action #4: The government, acting through MoFEA, has published on its public website the most recent audited financial statements for all thirteen SOEs.**

[http://mofea.gov.gm/index.php?option=com\\_content&view=article&id=58&Itemid=46](http://mofea.gov.gm/index.php?option=com_content&view=article&id=58&Itemid=46).

**66. Contingent liabilities generated by SOE-related external borrowing and government guarantees to SOEs have increased significantly in recent years.** External borrowing on behalf of SOEs is under the responsibility of the MoFEA. It has increased in recent years, mostly driven by disbursement of existing loans, reaching GMD 5.7 billion at year end 2016, i.e., 13.5 percent of GDP. Of the 2016 outstanding external debt, NAWEC accounted for 51 percent of total outstanding external debt, while the GCAA accounted for 21 percent, and GAMTEL accounted for 17 percent. A comprehensive inventory of guarantees and letters of comfort given by the government is [being prepared]. Domestically, the practice is for MoFEA to issue “letters of comfort” to SOEs as needed to facilitate borrowing from commercial banks, and this is done without thoroughly assessing contingent financial implications and risks. The Public Finance Act of states explicitly that letters of comfort do not engage the guarantee of the State, and the Act also includes provisions for ensuring proper evaluation of fiscal risks before guarantees are granted by the central government to SOEs, but these provisions are not enforced and such assessment is not carried out in practice. Furthermore, MoFEA is not monitoring government guarantees issued on commercial bank loans obtained by SOEs, the extent of SOE loan arrears to the banking system, or the cost of the government’s role as guarantor in case of default.

67. **The proposed DPF supports therefore a set of complementary measures to limit the accumulation of contingent liabilities and better manage SOE-related government borrowing and guarantees.** To further strengthen accountability, enforce prudent debt management, and reduce fiscal risks, MoFA has issued a circular to all SOEs stating that all applicable provisions and verifications as specified in the 2014 Public Finance Act will be duly enforced. The circular also states that no credit or loan will be contracted on behalf of SOEs unless a report is produced by the Loan and Debt Department, in consultation with relevant stakeholders, confirming that the proposed loan is on concessional terms and fully compatible with external and public debt sustainability. MoFEA – through its Loans and Debt Department and its PPP Department – has also decided to create and regularly update and publish a database of all government guarantees. To achieve this, MoFEA has completed an inventory of guarantees and letters of comfort. *As a result of this action*, it is expected that, by the end of this operation, no new debt on non-concessional terms will be incurred or guaranteed by MoFEA on behalf of SOEs (including through letters of comfort), and details on government guarantees and letters of comfort to the benefit of SOEs will be updated and made available on the MoFEA website on a quarterly basis.

**Prior Action #5:**

**The government, acting through MoFEA, has issued and published a circular dated May 3, 2017 stating that:**

- (i) MoFEA will not approve any more guarantees and letters of comfort to beneficiary agencies, including SOEs, unless the preconditions established under the 2014 Public Finance Act are fully met;**
- (ii) MoFEA will not contract any credit/loan on behalf of SOEs unless a report is produced by its Loans and Debt Department confirming that the loan is on concessional terms and does not jeopardize external and public debt sustainability; and**
- (iii) MoFEA, through its Loans and Debt Department and its PPP Department, will create and regularly update a database of all government guarantees and letters of comfort for the benefit of SOEs, and make details of all guarantees and letters of comfort public on the MoFEA website on a quarterly basis;**

**and that the government, acting through MoFEA, has completed an inventory of ongoing guarantees and letters of comfort issued to SOEs and other agencies.**

*Liberalizing fuel supply to improve the Financial Position of the Electricity Utility (NAWEC)*

68. **NAWEC represents a substantial fiscal drain on the government.** The utility represents a significant source of extra-budgetary spending and weighs directly on the government budget through three primary channels:

- **Fuel:** In 2015 and 2016, the Government of The Gambia made fuel payments equivalent to approximately an estimated US\$20m each year on behalf of NAWEC.
- **Debt:** Of the approximately GMD 9 billion debt taken out by or on behalf of NAWEC, the government is servicing about one third (mainly consisting of externally-financed projects). NAWEC is defaulting on its debt service obligations, including a bond consolidating its liabilities to commercial banks. This weighs on the banking sector.
- **Exemptions:** NAWEC is exempt from import taxes on fuel, lubricants and spare parts.

The ad-hoc support to NAWEC is not properly budgeted.

69. **NAWEC is not commercially viable and improving its financial position will support long-term fiscal sustainability and enhanced provision of electricity services.** The utility is caught in a vicious downward spiral, accruing losses of GMD 50-80 million per month (approximately US\$15-25 million per year). Fully

paying its fuel bills and meeting its debt service obligations would absorb the totality of NAWECs monthly revenues of GMD 200 million, leaving no space for salary payments, maintenance and other operating costs. Part of the financial stress facing the company is driven by large arrears accumulated by the central government and municipalities in the payment of their electricity bills. Accumulated government arrears reached GMD 500 million at the end of 2016 (about US\$12 million). Because of its weak financial position, NAWEC is unable to adequately maintain its assets and implement much-needed investments, resulting in insufficient and unreliable energy supply. Of the utility's 102 Megawatt (MW) installed capacity (100 percent liquid fuels), only 40 MW are currently available.

**70. High fuel prices have strained the company's financial position.** Until recently, fuel purchases were made through the Gambia National Petroleum Company (GNPC). However, the fuel-supply contract between GNPC and NAWEC was poorly structured, and the premiums charged by GNPC on shipping, storage and delivery were high by international standards. As fuel represents about 50 percent of NAWEC's total operating costs, high fuel prices strained the company's financial position.

**71. With the support of this operation, the government has therefore liberalized the importation and sale of Heavy Fuel Oil (HFO), to reduce the cost of fuel supplies and support NAWEC's financial position.** In March 2017, the fuel market was liberalized, and the government mandated in May 2017 an open and competitive procurement process for the importation of HFO for NAWEC's own generating plants. The proposed operation supports this liberalization as a prior action. NAWEC is now in the process of procuring fuel from one of the seven domestic fuel importers, and has already benefited from a decrease in the premium under its first contract, which has reached US\$90 per metric ton (compared to US\$115 at the beginning of the year). *As a result*, this measure is expected to generate a savings of about US\$1.5 million over the course of the year 2017. In the future, other private companies may also tender fuel contracts as necessary.

**72. Over time, NAWEC may directly source fuel on international markets through a competitive external tender process.** External tendering would possibly require capacity-building, which could be achieved through the ongoing World Bank *Gambia Electricity Support Project (GESP)*. NAWEC would also need to have sufficient access to foreign exchange to complete the purchase, and options are being discussed for a specific escrow account. Storage capacity for the inbound fuel is available at the port. When the necessary arrangements are in place, international procurement could offer substantial additional savings.

**73. The liberalization of the fuel market is a component of a broader longer-term program to address issues in the energy sector and reduce the role of fuel in the electricity generation mix.** The government aims to reduce generation costs, implement reforms to bring NAWEC back to a sustainable position. Importantly, a key medium-term objective is to increase the proportion of renewable sources of energy in line with the country's Nationally Determined Contribution (NDC) commitments. The World Bank supports the implementation of the Energy Roadmap and Action Plan through ongoing dialogue and the GESP as described in Section 4.3.

**Prior Action #6: The government, (a) acting through MoFEA, has issued Public Notice MF/C16A PART II (6), dated March 7, 2017, on the Liberalization of HFO Fuel Supply, removing thereby the requirement that NAWEC procure heavy fuel oil (HFO) from a specific supplier; and (b) acting through NAWEC, has issued Resolution Ref. NAWEC/BOARD/EXTERNAL/VOL. 2 (5/2017), dated May 3, 2017, mandating as NAWEC policy international competitive bidding for all procurement of HFO for NAWEC's generation of electricity.**

**74. GAMTEL and its mobile subsidiary, GAMCEL, are under pressure from an increasingly competitive market, and both SOEs urgently require restructuring.** The completion of the African Coast to Europe (ACE) submarine cable in 2012 propelled the Gambian telecommunications sector into the broadband market. This connection to the international network has significantly reduced the country's reliance on costly satellite services and terrestrial connections via Senegal. The use of mobile phones, smartphones, and the internet is therefore rising across the country. However, GAMTEL and GAMCEL are rapidly losing their edge as incumbent operators. Like other state-owned telecom operators around the world, they have struggled to adjust to the new, more dynamic broadband market and compete with the private firms. Under the previous administration, GAMTEL entered into a third-party contract that created a monopoly over the international voice gateway. Despite this monopoly, the GAMTEL and GAMCEL both face a precarious financial position, and both have accumulated significant debts and tax arrears. Together, the two companies account for half of the total tax arrears owed by SOEs to the GRA, and both companies are struggling to service their debts, which weakens the government's fiscal position. Addressing these issues would help improve telecom services and would also support the government medium-term fiscal consolidation agenda.

**75. The weak financial situation of the companies, which weighs on their ability to operate in a liberalized market, is associated with governance weaknesses in recent years.** The new government is uncovering potential massive embezzlement of funds in the telecom sector – which the planned audit will help verify and assess. This has been compounded by an inflated wage bill, linked to overstaffing of the company under the previous leadership.

**76. The government is committed to reforms aimed at re-positioning the companies and restoring their financial viability.** Reforms will require carrying out a thorough financial analysis, and articulating a comprehensive investment strategy and a restructuring plan that focuses on ensuring the efficient execution of the companies' core functions. In preparation, GAMTEL/GAMCEL management has conducted a human-resources audit. In addition, a recently completed business-strategy study provides a strong analytical foundation to develop a sound restructuring program and implementation plan.

**77. The success of these reforms requires an adequate institutional framework with clearly defined oversight authority, and the government has taken action to improve the institutional arrangements governing the companies.** During the previous regime, GAMTEL/GAMCEL were placed under the direct oversight of the President's Office, reflecting weak governance arrangements. International best practice indicates however that the Ministry of Information and Communication Infrastructure (MoICI) is the appropriate institution to oversee GAMTEL/GAMCEL, given its leadership role in the telecommunications sector. As a prior action for the proposed operation, a recent President Office's decision has therefore transferred oversight of GAMTEL/GAMCEL from the President's Office back to the MoICI, which will begin preparing both companies for restructuring.

**78. Over the medium term, shifting oversight authority back to MoICI will position GAMTEL/GAMCEL to benefit from the ongoing liberalization of the telecommunications sector.** To fully benefit from the ACE and promote the development of a modern telecommunications sector capable of supporting economic growth and diversification, the government intends to complete the sectoral liberalization agenda in the short to medium term. The current monopoly over the international voice gateway is an obstacle to growth. The three private mobile operators that invested in the PPP that manages the ACE landing station have not been issued individual international voice licenses. As the liberalization agenda is completed, the government will need to build its capacity to verify traffic volumes and strengthen its revenue-collection mechanism for the telecom sector. Verifying traffic volumes for international voice, international data, and local traffic will be

essential to an efficient taxation regime that ensures an adequate public revenue stream while allowing for the continued growth and expansion of the telecommunications sector.

**Prior Action #7: The government, acting through the Office of the President, has issued Circular OP 262/138/01 (EC), dated March 22, 2017, transferring purview of GAMTEL (and thereby also its mobile subsidiary GAMCEL) to the Ministry of Information and Communication Infrastructure.**

### **PILLAR 3: Mitigating the social impact of the economic crisis in health centers**

*Ensuring efficient and timely provision of drugs in health centers*

**79. The Gambia's public health indicators have deteriorated in recent years due to the administrative fragmentation of the health sector.** The health system was once a model for peer countries, but years of poor management have left it unable to effectively serve its beneficiaries. The Ministry of Health and Social Welfare (MoHSW) operates vertical programs for specific priority areas, such as malaria, tuberculosis, or reproductive health, as well as administrative units for different elements of the health system, such as human resources or monitoring and evaluation. However, the sector lacks an appropriate reporting and accountability framework.

**80. Financial and operational inefficiencies in the public health sector have negative implications for fiscal sustainability and service quality.** The expanding civil service payroll consumes a large share of the MoHSW budget, and personnel spending rose by 11 percent in 2016 alone. Moreover, increased spending has not been accompanied by an improvement in services, as the payroll includes ghost workers, including retirees who are still drawing regular salaries and former civil servants who have moved to the private sector. Fragmented systems for service delivery, parallel monitoring and financing mechanisms, the uneven implementation of policies and guidelines, frequent cost overruns, and the poor overall functioning of the health system reduce the efficiency of health spending and contribute to worsening health outcomes.

**81. In the wake of the crisis, the government's most urgent priorities include ensuring a steady and cost-effective supply of medicines in health facilities.** The MoHSW has committed to shifting its purchasing model for all medical supplies from single-source procurement to international competitive bidding (ICB). At present, all public procurement in the health sector is based on single-sourcing, whereas donor-funded procurement already utilizes ICB. To improve quality and efficiency, the new National Medicines Policy calls for a transition to ICB for all drugs procured by the MoHSW. The MoHSW has therefore mandated the use of ICB in the procurement of drugs using government funds developed, and issued on May 31<sup>st</sup> 2017 a set of technical specifications necessary to implement the ICB framework, including a list of essential medicines and quantities to be procured. To avoid disruptions in the supply of drugs to health facilities, the MoHSW has also issued on May 31<sup>st</sup> 2017 a list of local suppliers accredited by the Gambia Medical Board, from whom health facilities can procure emergency drugs directly in the event of shortages. The proposed operation supports these improvements as a prior action. *As a result*, an increase is expected in the proportion of health facilities reporting no stock-outs of tracer items from 37 percent to 60 percent between 2016 and 2017.

**Prior Action #8: The government, acting through its MoHSW, has issued Circular FIN 515/310/01/Temp (113-MD) dated April 24, 2017 mandating the use of an international competitive bidding framework for all procurement of drugs using government funds, and issued the technical specifications necessary to implement the framework and minimize disruptions in the supply of drugs to health facilities, including (i) the list of essential medicines and quantities to be procured and (ii) a list of accredited local suppliers for emergency procurement by health facilities.**

82. **Analytical work undertaken by the government, the World Bank and other cooperating partners informs the design of the proposed operation.** Table 5 summarizes the analytical underpinnings for each prior action.

**Table 5: Development Policy Operation (DPO) Prior Actions and Analytical Underpinnings**

| Prior actions  | Analytical Underpinnings  |
|--|---|
| <p><b>Prior action #1:</b> The government, acting through its Cabinet, has approved and, acting through its MoFEA, submitted to Parliament, a revised 2017 budget consistent with fiscal stabilization objectives and revised revenue forecasts (as described in the Letter of Development Policy-LDP), while maintaining health and education appropriations at the same levels as in the original 2017 budget or above.</p>  | <p>The joint WB-IMF DSA 2017 (draft) and the 2015 DSA identified a number of measures for fiscal consolidation, including substantial cuts in the budget of the President’s Office.</p> <p>The Government’s <i>Public Sector Restructuring Plan</i> of 2016 provided an analysis of the current public sector structure from which recommendations for rationalization and transformation of the entire public sector may result.</p> |
| <p><b>Prior action #2:</b> The government, acting through the Office of the President, has initiated a nationwide staff/payroll verification and audits by the PMO and the Auditor General for the civil service and Security forces, to reduce ghost workers and improve payroll integrity.</p>   |   |
| <p><b>Prior action #3:</b> The government, acting through MoFEA, has initiated Special Purpose Audits of the following SOEs: National Water and Electricity Company (NAWEC), the Gambia National Petroleum Company (GNPC), the Gambia Telecommunications Company (GAMTEL) and its subsidiary Gambia Telecommunications Cellular Company (GAMCEL), the Social Security and Housing Finance Corporation (SSHFC), and the Gambia Ports Authority (GPA), as evidenced by the short list report on expressions of interest dated May 9, 2017.</p>   | <p>The Country <i>Policy Note on State-owned Enterprises in The Gambia</i> (World Bank, November 2015- updated March 2017) recommended to: Address the issue of cross-debt between SOEs and the central government; Strengthen the oversight of SOEs by the government and the assessment and monitoring of fiscal risks, and Improve transparency and public disclosure of SOE operations and finances.</p>                          |
| <p><b>Prior action #4:</b> The government, acting through MoFEA, has published on its public website the most recent audited financial statements for all thirteen SOEs.</p>   | <p>The joint WB-IMF DSA 2017 (draft) and the 2015 DSA identified SOEs borrowing as a key source of fiscal risks and highlighted the need to limit non-concessional borrowing on behalf of SOEs and better monitor contingent liabilities.</p>   |
| <p><b>Prior action #5:</b> The government, acting through MoFEA, has issued and published a circular dated May 3, 2017 stating that:</p> <ul style="list-style-type: none"> <li>(i) MoFEA will not approve any more guarantees and letters of comfort to beneficiary agencies, including SOEs, unless the preconditions established under the 2014 Public Finance Act are fully met;</li> <li>(ii) MoFEA will not contract any credit/loan on behalf of SOEs unless a report is produced by its Loans and Debt Department confirming that the loan is on concessional terms and does not jeopardize external and public debt sustainability; and</li> <li>(iii) MoFEA, through its Loans and Debt Department and its PPP Department, will create and regularly update a database of all government guarantees and letters of comfort for the benefit of SOEs, and make details of all guarantees and letters of</li> </ul> |   |

|  |   |
|--|---|
| <p>comfort public on the MoFEA website on a quarterly basis;</p> <p>And, that the government, acting through MoFEA, has completed an inventory of ongoing guarantees/letters of comfort issued to SOEs and other agencies.</p>   |   |
| <p><b>Prior action #6:</b> The government, (a) acting through MoFEA, has issued Public Notice MF/C16A PART II (6), dated March 7, 2017, on the Liberalization of HFO Fuel Supply, removing thereby the requirement that NAWEC procure heavy fuel oil (HFO) from a specific supplier; and (b) acting through NAWEC, has issued Resolution Ref. NAWEC/BOARD/EXTERNAL/VOL. 2 (5/2017), dated May 3, 2017, mandating as NAWEC policy international competitive bidding for all procurement of HFO for NAWEC’s generation of electricity.</p>   | <p>The <i>Energy Sector Diagnostic Review</i> for The Gambia commissioned by the World Bank (and prepared by NOVI Energy, LLC in 2010) highlighted issues contributing to NAWEC’s financial management difficulties. It concluded that fuel continues to be the key driver of NAWEC’S cost accounting for 81 percent of total expenditures and 97 percent of generating costs. It recommended to establish a systematic and transparent mechanism for procurement and management of fuel used to run thermal power plants of NAWEC. These points were confirmed in the <i>Electricity Sector Study</i> financed under the</p>   |
| <p><b>Prior action #7:</b> The government, acting though the Office of the President, has issued Circular OP 262/138/01 (EC), dated March 22, 2017, transferring purview of GAMTEL (and thereby also its mobile subsidiary GAMCEL) to the Ministry of Information and Communication Infrastructure.</p>  | <p>The World Bank’s 2010 Report, <i>ACE Submarine Cable: Options for Private Sector Participation and Open Access</i> and 2010 study, <i>Africa Infrastructure Country Diagnostic Report- ECOWAS’ Infrastructure: A Regional Perspective (AICD)</i>, highlights the benefits of improved broadband connectivity and ICT innovation capacity to growth, and the need for competition and private sector participation to spur ICT activity and provide affordable and quality access to ICT services. As a first important step in this process, the oversight of Gamtel/Gamcel will be transferred to the Ministry of Information and Communication Infrastructure.</p> <p>The prior action is in line with the recommendations of the <i>Country Policy Note on State-owned Enterprises in The Gambia</i> (World Bank, November 2015, updated March 2017),</p> |
| <p><b>Prior action #8:</b> The government, acting through its MoHSW, has issued Circular FIN 515/310/01/Temp (113-MD) dated April 24, 2017 mandating the use of an international competitive bidding framework for all procurement of drugs using government funds, and issued the technical specifications necessary to implement the framework and minimize disruptions in the supply of drugs to health facilities, including (i) the list of essential medicines and quantities to be procured and (ii) a list of accredited local suppliers for emergency procurement by health facilities.</p> | <p>The Gambia National Medicines Policy lays out procurement rules for medicines and establishes ICB as the preferred procurement method.</p>   |

#### 4.3 LINKS TO CPF, OTHER WORLD BANK OPERATIONS, AND THE WORLD BANK GROUP STRATEGY

83. **The proposed operation is aligned with the objectives outlined in the FY13-16 World Bank Group/AfDB Second Joint Partnership Strategy (JPS-2) and the 2017-2018 CEN under preparation.** The JPS-2 was prepared to support the 2012-15 PAGE program, and it reflected three main development challenges then facing The Gambia: (a) restoring growth and macroeconomic stability; (b) improving public service delivery; and (c) improving transparency and accountability in public finance management (PFM) and public procurement. The strategy was based on two pillars: (a) enhancing productive capacity and competitiveness; and (b) strengthening the institutional capacity for economic governance and public service delivery. The World Bank Group's Board of Executive Directors discussed the strategy on March 11, 2013. The JPS-2 expired at the end of June 2016, and a Completion and Learning Review is currently underway. Following the election of the new administration, the World Bank Group has begun preparing a CEN<sup>13</sup> to summarize the government's emerging priorities and define the World Bank Group's strategy through end-2018. The proposed operation is anchored in the draft of the Country Engagement Note, which focuses on three main areas: (a) establishing a pathway to macroeconomic stability; (b) protecting the poorest; and (c) restarting sustainable growth, including energy.

84. **The proposed operation is also fully aligned with the World Bank Group's twin goals of ending extreme poverty and promoting shared prosperity.** The DPF supports critical reforms to restore fiscal stability, reestablish sound debt dynamics, and mitigate the social impact of the economic crisis. The operation's design is also consistent with World Bank Group analytical work and strategies for engagement in fragile and conflict-affected states, including the 2011 World Development Report on Conflict Security and Development, the IDA-18 special theme on fragility, conflict and violence, and the Independent Evaluation Group 2015 evaluation of engagement in fragile states.

85. **The proposed operation is designed to leverage ongoing investment-project financing and advisory services, to maximize its short-term impact while providing the necessary technical support to the government.** The DPF-supported program is being prepared on an emergency basis, and builds and complements the following operations to support timely completion and impact:

- *The IFMIS Additional Financing 2 program (P159000)*, which supports civil service reform, was launched on November 2, 2016. It provides TA and includes a frontloaded financial envelope to support the civil service and uniformed personnel staff audits and to ensure the continuity of human-resource management in the short-to-medium term. It also includes a frontloaded envelop to support the Special Purpose Audits of the five main SOEs. Furthermore, building on the TA that the World Bank provided to the MoFEA's Loan Department in 2015, the project aims to support improvements in debt management capacity and tools at MoFEA, and the regular publication of public debt reports on the MoFEA's external website. The project also includes further strengthening of the IFMIS, including the activation of audit trails features to better control payments.
- *Measures supported by the DPF to enhance the financial position of NAWEC complement the objectives of the GESP (P152659)*. The GESP was approved by the Board in May 2016 and declared effective in August 2016. It aims to increase the availability and reliability of electricity supplied to existing NAWEC customers. This project supports the implementation of the Energy Roadmap and Action Plan for The Gambia, which includes three components: (a) the rehabilitation of generating capacity in the greater Banjul area; (b) the reduction of technical and commercial losses in the greater Banjul area; and (c) the strengthening of sector institutions. The project will help to improve the financial status of NAWEC by

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<sup>13</sup> The CEN is planned to be discussed by the Board during the fall of 2017.

reducing its dependence on expensive diesel-based generation and by enhancing revenue collection. It also provides ongoing support for restructuring NAWEC debt, which will be a critical step forward to restore the company's financial position, reduce fiscal risks and alleviate the impact of NAWEC debt default on the domestic commercial banks.

- *The ongoing Maternal and Child Nutrition and Health Results Project (MCNHRP) (P159693)*, approved in 2014, provides technical assistance for incorporating ICB in the procurement of drugs and ensuring that there is no disrupting in the supply of drugs.

**86. The proposed operation lays the groundwork for comprehensive structural reforms in support of macroeconomic stability and inclusive growth, which could be supported by a multi-sector programmatic series of DPFs in the next few years.** Consistently with the government medium-term strategy under development, priorities would support the government in its efforts towards debt resolution, with a strong focus on improved debt management, and would likely include further reforms of public sector management and SOEs (Annex 4), structural measures in support of energy, transport and ICT services, development of value chains in agriculture, particularly in the groundnut sector, and enhanced social protection and services.

#### **4.4 CONSULTATIONS AND COLLABORATION WITH OTHER DEVELOPMENT PARTNERS**

**87. The operation is anchored in the national strategy under preparation PAGE II, which builds on a series of workshops and consultative processes.** The process for developing PAGE II started in 2013 with the Mid-Term Evaluation (MTE) of its predecessor PAGE I, and picked momentum with the validation of the roadmap in May 2015. It has built upon several workshops and consultative processes, including a joint Common Country Assessment (CCA), the setting up of various Thematic Working Groups (TWGs), and a comprehensive Integrated Household Survey that is nearing completion.

**88. The World Bank has been working closely with the AfDB, EU, and IMF in preparing this operation, as part of a new Budget Support Group formed in March 2017.** Coordination between partners is reflected in a joint matrix for PFM reforms under preparation, which will form a common basis for policy dialogue and TA in this area. A coordinated World Bank-IMF-AfDB mission took place in April 2017. The goal was (a) to discuss jointly with government the policy priorities for restoring macro-fiscal sustainability and laying the groundwork for structural reforms; and (b) to coordinate the timing and focus of planned operations for enhanced complementarity and reduced transaction costs for the authorities. The program supported by the DPF was discussed so as to ensure complementary in partners' planned interventions, notably in the areas of debt management, cash management, public arrears clearance, and other PFM-related issues. The World Bank and AfDB are also preparing a joint Risk and Resilience Assessment, the preliminary findings of which have informed the development of the proposed operation.

### **5. OTHER DESIGN AND APPRAISAL ISSUES**

#### **5.1 POVERTY AND SOCIAL IMPACTS**

**89. The policies supported by the proposed operation are expected to have indirectly a significant positive impact on poverty or social indicators in the short and longer run.** The operation lays the groundwork for reforms which are expected to substantially benefit both poor and non-poor households. The DPF's focus on fiscal stabilization, public expenditure efficiency, and reforms of the SOE sector will help to establish an enabling environment for sustainable economic growth and improved service delivery over time. The prior action related to the health sector will have immediate significant positive implications for poor households by ensuring that there is no disruption in the supply of drugs in health facilities and improving efficiency in drug procurement.

**90. A revised 2017 budget that reflects more realistic revenue projections and explicitly protects spending on the social sectors will have a direct positive impact on poor households.** The revised budget will promote the continuous provision of vital health and education services while supporting fiscal stabilization. Greater budgetary credibility will also reduce uncertainty in the event of a revenue shortfall. Government expressed commitment to restoring macroeconomic stability, conducting more predictable policies, bringing debt down to manageable levels, and improving efficiency and good governance in the management of the public sector is expected to send a strong positive signal to the public, including businesses, investors, tourists and partners. If sustained and followed-through, this policy stance will be highly beneficial for growth and job creation. Furthermore, reduced reliance on domestic financing of the deficit is expected to reduce crowding-out of credit to the private sector and enhance financial intermediation for growth.

**91. The human-resource audit of the uniformed services and civil service will establish the analytical foundation for rationalizing the wage bill and streamlining staffing, freeing financial and human resources for pro-poor service delivery.** The public sector is the largest employer in The Gambia, and reducing and better controlling high personnel costs is expected to create fiscal space for social and economic development spending. Rationalizing staffing will also contribute to improved delivery of essential public services. Reducing payroll costs by purging ghost workers as supported by the DPF should have a negligible social effect. In the medium-term (and beyond the scope of this operation), public sector reforms may involve follow-up actions to reduce the size of the public sector workforce. This could have a significant negative impact on some households. Should such reforms be pursued with the support of the World Bank, a detailed poverty and social impact analysis will be carried out and inform the design of future interventions to minimize this effect.

**92. Prior actions fostering SOE reform are designed to reduce fiscal risks, create fiscal space for development and social spending, and improve the financial position of SOEs.** This is expected to have positive indirect effects on poverty over the medium term through improved public service delivery and private-sector led growth. The poor tend to be among the most vulnerable to corruption and low-quality governance, as they rely disproportionately on essential public services. Measures to identify and possibly recover embezzled funds, start addressing the weak financial position of NAWEC and GAMTEL/GAMCEL, enhance transparency and accountability, and reduce the fiscal risks posed by SOEs will enhance overall governance quality and expand the fiscal envelope, and a more efficient public administration will benefit the poor.

**93. Measures improving the procurement of essential medicines will have both direct and indirect positive significant effects on poverty.** In the short term, measures that ensure the continuous availability of essential medicines will have a significant positive direct effect on poor and vulnerable households. Over the medium term, reforms that enhance the quality of health services through enhanced availability of drugs in health facilities will encourage lower-income patients to seek care. Furthermore, pharmaceutical procurement accounts for 74.2 percent of total health spending, and any intervention that lowers procurement costs will significantly reduce the financial burden of obtaining healthcare. Over the long term, reforms that improve health outcomes will have an indirect positive impact on poor and vulnerable households by building their human capital stock.

## **5.2 ENVIRONMENTAL ASPECTS**

**94. The proposed operation is not expected to have any significant environmental implications.** It supports emergency measures to restore macroeconomic stability and protect essential social services. None of the supported prior actions in the area of fiscal management, telecom reforms and health are expected to have any impact on environmental quality. However, Prior Action #6 pertaining to the import of fuel by NAWEC

has been assessed for potential negative environment impact, and the assessment concluded to the absence of any significant implication, as explained below.

**95. While Prior Action #6 supports a reduction in the cost of fuels for NAWEC to avoid disruptions in electricity generation, Gambia has committed to increase the proportion of renewable sources of energy in the power generation mix over time.** Under the DPF-supported program, the government has (a) liberalized the market for fuel supply for electricity generation by issuing *Public Notice MF/C16A PART II (6)*, dated March 7, 2017 and (b) introduced an open and competitive procurement process for the importation of HFO for NAWEC's own generating plants, through a NAWEC Board Policy Resolution, mandating that all procurement of HFO for NAWEC's generation of electricity will be done through an international competitive bidding process. With this action, the DPF recognizes the urgency to avoid disruptions in the import of HFO to meet the power generation needs of the country over the next few years. Nevertheless, over the medium term, Gambia has committed to the Paris Agreement on Climate Change of December 2015, and has recently obtained a grant from the Green Climate Fund to design measures in line with its NDC commitments. This process is expected to lead to the formulation and implementation of a concrete plan for including more renewables in the power generation mix.

**96. The current institutional set up and regulatory framework is deemed appropriate to monitor and mitigate the potential environmental risks related to the storage and transportation of the HFO.** The legal framework for environmental management is anchored in the National Environment Management Act (NEMA), which was passed in 1987 and amended in 1994. Under NEMA, every Gambian has the right, through the Attorney General's Chamber, to take legal action to protect the environment. EMA supersedes all other acts in The Gambia on environmental matters and provides the legal framework for the operations of the National Environment Agency (NEA). NEA is the principal body responsible for the management of the environment and coordinates effectively all environment-related activities of the Government.

### **5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS**

**97. The Gambia has improved the quality of its PFM system in recent years.** Since 2007, improvements have been supported by the establishment of an Integrated Financial Management Information System (IFMIS). The IFMIS provides for enhanced transparency and accountability by supporting core budget preparation, execution and reporting functions at the central government level. Progress has been reflected in the 2015 Public Expenditure Financial Assessment (PEFA).<sup>14</sup> The report highlighted that (a) the system has improved the timeliness of financial reporting by providing monthly within-year budget execution reports – although important weaknesses remain, as the HR module is not yet integrated into the system, and government contracts are managed outside of the IFMIS; (b) The IFMIS has resulted in greater effectiveness in the formulation and implementation of government expenditure programs by identifying cost-drivers in program activities; and (c) an IFMIS interface at the Central Bank has successfully been established, providing access to real-time information on budget shortfalls (as a first step towards a centralized Treasury Single Account operation for improving cash management). Statements of Government Operations are published on line regularly, but with delays.

**98. The credibility of the budget has improved but remains weak.** The government's use of a multi-year perspective in fiscal planning, expenditure policy and budgeting has significantly improved since 2010 and is assessed as satisfactory. In addition, deviations between budget appropriations and outturns have been

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[http://eeas.europa.eu/archives/delegations/gambia/documents/press\\_corner/news/final\\_pefa\\_report\\_2014\\_gambia\\_20150407.en.pdf](http://eeas.europa.eu/archives/delegations/gambia/documents/press_corner/news/final_pefa_report_2014_gambia_20150407.en.pdf)

steadily decreasing, from 31 percent in 2013 to 6 percent in 2016. Nevertheless, significant challenges remain in strengthening budget preparation and execution, and ensuring fiscal transparency. Furthermore, extra-budgetary spending has been a recurrent issue and poses serious fiscal risks to the country, driven by poor governance and financial viability of SOEs, including through increased levels of debt guaranteed by the government and accumulation of arrears particularly NAWEC, impacting negatively the government fiscal sustainability.

**99. Institutional arrangements and modalities of cash management need to be strengthened.** Since 2014, annual cash forecasting is prepared and updated monthly, but accuracy remains weak. Ministries, Departments and Agencies (MDAs) are informed by the Budget Directorate (BD) about their commitment ceilings only one month in advance. Most cash balances are calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the consolidation process. There is an urgent need to establish a complete inventory of central government (and other public sector) bank accounts at both the Central Bank and in the commercial banks, and to consolidate the number of bank accounts. A Cash Management Committee (CMC) would also need to be established, which would oversee the determination of domestic borrowing requirements, approve and monitor implementation of the consolidated government cash plan, and approve and monitor the implementation of MDA cash allocation ceilings.

**100. Financial reporting and auditing functions have improved in recent years, but remain under-developed.** The government has adopted International Public Sector Accounting Standards for cash accounting and financial reporting, and it has made consistent efforts to clear the backlog of central government financial statements. However, important challenges remain in improving the effectiveness of internal audit and oversight agencies. Financial statements of MDAs are submitted to MoFEA with a delay of several months, which weighs on the preparation of the consolidated government accounts and submission to the Office of the Auditor General (OAG) for review.

**101. Building on past progress, there is a need to improve monitoring of fiscal risks and debt management functions.** In 2015, the World Bank (through its Debt Management Facility) provided TA and training to The Gambia for a Debt Management Assessment (DeMPA), a Debt Management Reform Plan, and a Medium-Term Debt Management Strategy (MTDS). Other partners have also supported recording systems and DSA. However control over the debt portfolio still presents several weaknesses: (a) significant contingent liabilities (stemming from SOEs debt guaranteed by the government) are not registered, monitored and reported properly; (b) the debt recording system at MoFEA is not capturing information related to domestic debt; (c) reports on public debt management have not been prepared and published timely; (d) when the government pays a guarantee (on behalf of a SOE or agency), there is no unit at MoFEA dedicated to collecting the amount paid from the original/principal debtor.

**102. Action is being taken with the support of development partners to address some of these weaknesses.** A joint matrix for PFM reforms is being finalized, and implementation is planned to be supported by the new Budget Support Group. The World Bank IFMIS Additional Financing 2 project under implementation also provides TA for improving the use of the IFMIS platform and strengthen controls over key government payments. The project also includes components aimed at assessing and monitoring fiscal risks and supporting further improvement in debt management. The proposed DPF will also support the establishment of a database of all government guarantees, and, in complement with other ongoing and planned activities supported by the World Bank, it will also lay the groundwork for addressing the financial situation of SOEs which represent a significant source of extra-budgetary spending and contingent liabilities. Under the IMF RCF-SMP under preparation, actions are also planned to address the issues of public sector arrears, establish a CMC and strengthen cash management functions, and set up a debt management advisory committee.

103. **The fiduciary risk associated with the proposed operation is rated as substantial.** However, steps are being taken to mitigate this risk with the support of development partners, and as such, The Gambia's national PFM system is deemed acceptable for the purpose of this operation.

104. **Safeguards at the CBG have weakened since the 2012 assessment.** An IMF safeguards assessment monitoring staff visit was conducted in March 2017 and concluded that number of areas are in need of significant strengthening. Recommendations included: (a) amending the CBG Act to align it with leading practices and strengthen the bank's autonomy; (b) appointing all Board members and reconstituting the Audit Committee to full membership to strengthen its oversight role; (c) phasing out any further credit to government at below market rates; and (d) strengthening procedures for opening and closing accounts to ensure that all required information is provided, and that transactions are properly authorized by the Accountant General's Department of the MoFEA. These measures are included as part of the 2017 SMP under consideration.

105. **The proposed operation would consist of a single tranche of SDR 40.6 million (US\$56 million equivalent) to be made available upon effectiveness and disbursed on the basis of a withdrawal application.** The Recipient is the Republic of Gambia, represented by the MoFEA. The proposed operation would follow IDA's disbursement procedures for development policy financing operations and would not be linked to specific purchases. Credit proceeds would be disbursed against satisfactory implementation of the development policy program and maintenance of a satisfactory macroeconomic framework.

106. **The proposed credit will be disbursed following the standard IDA procedures for development policy financing operations.** Once the financing becomes effective, and provided IDA is satisfied with the program being carried out by the Recipient and the appropriateness of the Recipient's macroeconomic policy framework, the proceeds will be deposited by IDA into an account at the CBG which forms part of the country's foreign-exchange reserves. The Recipient shall ensure that upon the deposit of the credit into said account an equivalent amount in local currency is credited in the recipient's budget management system in a manner acceptable to IDA. The Recipient will report to IDA on the amounts deposited in the foreign-currency account and credited to local currency to the budget-management system within 30 days of deposit. The equivalent amount in Dalasi reported in the budget system will be based on the market rate at the date of the transfer. The proceeds of the credit will not be used to finance expenditures excluded under the Financing Agreement. If the proceeds of the credit are used for excluded expenditures as defined in the Financing Agreement, IDA will require the Recipient to refund an amount equal to the amount of said payment to IDA. Amounts refunded to IDA upon such a request shall be cancelled. The deposit accounts may be audited on terms of reference acceptable to IDA should IDA determine that such an audit is necessary.

#### **5.4 MONITORING, EVALUATION AND ACCOUNTABILITY**

107. **The MoFEA will be responsible for managing the proposed operation.** The MoFEA will be charged with day-to-day coordination, program monitoring and evaluation, measuring specific outcome indicators, and verifying the completion of all DPF prior actions. The government will review the status of the overall reform program, and IDA will undertake regular missions to ensure that the macroeconomic policy framework remains adequate. The authorities have agreed that the MoFEA will be responsible for collecting unpublished statistics and providing them to the World Bank for the purposes of monitoring and evaluation. The propose operation also supports the establishment of a database to monitor.

108. **The Gambia Bureau of Statistics (GBoS) faces challenges in the production of official statistics and is benefiting from some TA from the World Bank and other partners.** GBoS – a semi-autonomous statistics agency under MoFEA – is entrusted to provide official statistics and is responsible for the collection,

compilation, analysis and dissemination of official statistical data. The World Bank is currently providing TA to GBoS for the analysis of the 2015/16 Integrated Household Survey to help ensure that the methodology used to construct the welfare and the poverty line follows best international practices. With respect to macroeconomic analysis, recent data are produced and available, but with inconsistencies. For example, the CPI is released every 15<sup>th</sup> day of the month. The provisional GDP estimates for 2016 are available. However, inconsistencies affect data on national accounts, prices, balance of payments, and external debt. Important steps forward recommended by the World Bank would be the revision of the 2004 Statistics Act and the finalization of the second National Strategy for the Development of Statistics.

109. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the World Bank’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of the World Bank’s non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s Grievance Redress Service, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## 6. SUMMARY OF RISKS AND MITIGATION

110. **The overall risk rating for the DPO is high.** The Gambia is vulnerable a wide range of risks, particularly macroeconomic and those related to the design and implementation of sector strategies and policies. The most salient risks are described in detail in Table 6.

**Table 6: Summary of Risk Ratings**

| Risk Categories   | Rating (H, S, M or L) |
|---|-----------------------|
| 1. Political and governance                                     | S                     |
| 2. Macroeconomic  | H                     |
| 3. Sector strategies and policies                               | S                     |
| 4. Technical design of project or program                       | L                     |
| 5. Institutional capacity for implementation and sustainability | S                     |
| 6. Fiduciary  | S                     |
| 7. Environment and social                                       | M                     |
| 8. Stakeholders   | M                     |
| 9. Other  |                       |
| <b>Overall</b>  | <b>H</b>              |

H: High; S: Substantial; M: Moderate; L: Low

**111. Macroeconomic risks are high.** The macroeconomic framework is deemed adequate but remains fragile. Total public debt is sustainable in the medium term, although risks remain very elevated, and the risk of external debt distress is high. This assessment is based on recent assurances of highly concessional support from some of the major official bilateral creditors as well as additional planned commitments from Multilateral Development Banks. In this context, over the coming months, it will be important for the authorities to continue to pursue a coordinated approach to secure assurances from other official creditors in support of the government's debt restructuring plan. These assurances and additional highly concessional resources, along with the government's commitment to debt management and fiscal consolidation will be important to further reduce the country's debt vulnerabilities. On the fiscal front, medium-term reforms will need to be specified in more details to boost domestic revenue, streamline expenditures, reduce domestic financing of the deficit, and lessen fiscal risks. Sustained implementation of public sector reforms will be critical. The actions included in this operation, as well as other measures supported by development partners to clear public sector arrears and enhance PFM and debt management will provide a strong basis for these reforms and help mitigate the risks. This is planned to be complemented by the implementation of the comprehensive strategy to address the debt overhang, as well as improved debt management, with the support of the World Bank, the IMF, and other partners. This will also require the formulation and execution of specific measures to boost long-term, inclusive, private-sector led growth. Ensuring that the macroeconomic framework remains adequate will require enduring political commitment to the reforms agenda. Policy slippages could derail the government's program and disrupt the provision of external financing by the donor community. This could force a painful adjustment, with dire economic and social consequences. Such a crisis could also arise from an unanticipated domestic or external shock, urging for the need to rebuild fiscal and external buffers.

**112. Political and governance risks are substantial.** The country is confronted with a legacy of political tensions and weak governance which may affect program implementation. Drivers of fragility, which have been proved to lead to violent conflict in the past, are still multiple, of different natures and affect all dimensions of society. They include notably widespread poverty, high youth unemployment, weak governance and service delivery in the public sector, and a dysfunctional security sector. Furthermore, internal migration, immigration from the rest of Africa and the emigration of a large number of Gambians is destabilizing the social equilibrium and constitute other potential drivers of fragility. The overall ethnic and social balance has been shifting, and the concern in several quarters is that the country's long-term tradition of communal harmony has been gradually eroded. As such, there is risk that the country may return to political instability. The political transition has also brought high expectations among the population, and the new authorities face the daunting challenge of responding to these aspirations while addressing the dire macroeconomic situation for boosting sustainable growth. These risks are partially mitigated by the authorities' expressed commitment to break from past practices, support democracy, and deliver on an agenda of improved service delivery and inclusive growth for all. The ability to achieve these objectives will however depend on the authorities' sustained commitment to reforms and support from development partners. Peaceful parliamentary elections on April 6, 2017 have led to an absolute majority for the government, providing a strong mandate for reforms.

**113. Risks related to the design and implementation of sector strategies and policies are substantial.** The country is emerging from 22 years of an autocratic regime, and this raises specific challenges and opportunities for the new leadership and administration in terms of designing and implementing programs. The government must address a complex array of urgent policy priorities while maintaining a firm political commitment to the reform agenda. Achieving the objectives supported by this operation will require strong coordination at the Cabinet level, strict fiscal discipline, firm economic governance, and sustained implementation of new strategies in politically sensitive sectors – such as civil service and security forces,

SOE management, electricity and telecommunications, and social services. The uncertainty generated by the political transition and the pressures of upcoming election cycles will also test the government's commitment to the reform agenda. Development partners are expected to play an important role to help mitigate these risks, through their ongoing and planned technical and financial support for the formulation and execution of the PAGE II and sector strategies, including ongoing dialogue and projects and a World Bank workshop on sector strategies in early May.

**114. Risks stemming from weak institutional capacity for implementation and sustainability are substantial.** A legacy of poor governance has eroded the capacity of the public administration, which may slow the implementation of the reform agenda. The proposed operation seeks to mitigate risks associated with limited institutional capacity by: (a) focusing on policy areas and reform measures that are the subject of an ongoing policy dialogue, (b) supporting a set of prior actions that complement and leverage other World Bank operations, and (c) providing TA in critical areas. The government continues to benefit from capacity-building support provided by other development partners, which mitigates implementation and sustainability risks. Finally, the proposed operation is highly selective in its design to avoid overwhelming the government's administrative capacity constraints and limited ability to absorb resources.

**115. Fiduciary risks are substantial, but they do not present a serious obstacle to the proposed operation.** This conclusion is based on the latest Public Expenditure and Financial Accountability assessment and the preliminary conclusions of the IMF Safeguards Assessment of the CBG. While budget preparation and reporting processes are relatively sound, important challenges remain in terms of budget execution and control. The limited effectiveness of oversight mechanisms greatly increases risk exposure. To mitigate these risks, measures are being supported by development partners, and the PFM agenda will be at the core of the interventions of the Budget Support Group in FY2017 and beyond. It is also expected that remaining weaknesses in the control environment of the Central Bank will be addressed promptly with the support of the IMF.

## ANNEX 1: Policy and Results Matrix

| Prior actions  | Expected results <i>(at end-December, 2017)</i>  |
|--|--|
| <b>Program Development Objective: strengthening the government's fiscal position while restoring provision of essential public services</b>  |  |
| <b>Pillar 1: Supporting fiscal stabilization measures</b>  |  |
| <p><b>Prior Action #1</b> - The government, acting through its Cabinet, has approved and, acting through its MoFEA, submitted to Parliament, a revised 2017 budget consistent with fiscal stabilization objectives and revised revenue forecasts (as described in the Letter of Development Policy-LDP), while maintaining health and education appropriations at the same levels as in the original 2017 budget or above.</p>   | <p>Improvement in the overall fiscal balance. Baseline (2016): -9.8% of GDP; Target (2017): -2.5% of GDP;</p> <p>Budget execution based on revised 2017 appropriations in health and education is equal to or above 2016 execution rates, or 100%, whichever is the minimum (Target (2017): Health ≥ 100%, Basic and Secondary Education: ≥100%; Higher Education: ≥56%).<sup>15</sup></p> |
| <p><b>Prior Action #2</b> – The government, acting through the Office of the President, has initiated a nationwide staff/payroll verification and audit by the Personnel Management Office (PMO) and the Auditor General for the entire Civil Service and Security Forces, for the purpose of eliminating “ghost workers” and improving payroll integrity.</p>   | <p>Fiscal savings are achieved through the elimination of ghost workers: Baseline (January 2017): 0; Target (December 2017): 0.3% GDP.</p>   |
| <b>Pillar 2: Addressing critical fiscal risks from State-Owned Enterprises</b>   |  |
| <p><b>Prior Action #3:</b> The government, acting through MoFEA, has initiated Special Purpose Audits of the following SOEs: National Water and Electricity Company (NAWEC), the Gambia National Petroleum Company (GNPC), the Gambia Telecommunications Company (GAMTEL) and its subsidiary Gambia Telecommunications Cellular Company (GAMCEL), the Social Security and Housing Finance Corporation (SSHFC), and the Gambia Ports Authority (GPA), as evidenced by the short list report on expressions of interest dated May 9, 2017.</p> | <p>Financial information of key SOEs is available to the public, including (for special purpose audits) (a) the extent to which funds have been diverted or misused; (b) weaknesses in the financial control systems; and (c) recommendations regarding necessary improvements to the systems and control framework, including proposals for necessary preventive measures.</p>            |
| <p><b>Prior Action #4:</b> The government, acting through MoFEA, has published on its public website the most recent audited financial statements for all thirteen SOEs (<a href="http://mofea.gov.gm/index.php?option=com_content&amp;view=article&amp;id=58&amp;Itemid=46">http://mofea.gov.gm/index.php?option=com_content&amp;view=article&amp;id=58&amp;Itemid=46</a>).</p>   | <p>Baseline (2016): No financial information available to the public.<br/>Target (end-2017): Detailed financial information available to the public.</p>   |

<sup>15</sup> Appropriation in 2017 original budget: Health: GMD 795 million (10 percent of total appropriations); Basic and Secondary Education: GMD 1,393 million (17.5 percent); and Higher Education: GMD 236 million (3 percent). Execution rates at end December 2016: Health: 106 percent; Basic and Secondary education: 102 percent; Higher Education: 56 percent.

|  |   |
|--|---|
| <p><b>Prior Action #5:</b> The government, acting through MoFEA, has issued and published a circular dated May 3rd, 2017 stating that:</p> <ul style="list-style-type: none"> <li>(i) MoFEA will not approve any more guarantees and letters of comfort to beneficiary agencies, including SOEs, unless the preconditions established under the 2014 Public Finance Act are fully met;</li> <li>(ii) MoFEA will not contract any credit/loan on behalf of SOEs unless a report is produced by its Loans and Debt Department confirming that the loan is on concessional terms and does not jeopardize external and public debt sustainability; and</li> <li>(iii) MoFEA, through its Loans and Debt Department and its PPP Department, will create and regularly update a database of all government guarantees and letters of comfort for the benefit of SOEs, and make details of all guarantees and letters of comfort public on the MoFEA website on a quarterly basis;</li> </ul> <p>And, that the government, acting through MoFEA, has completed an inventory of ongoing guarantees/letters of comfort issued to SOEs and other agencies.</p> | <p>No new debt on non-concessional terms is incurred or guaranteed by MoFEA on behalf of SOEs (including letters of comfort).</p> <p>Baseline (April 2017): Contingent liabilities =10.7 percent of 2017 GDP.<br/>Target (end-2017): Contingent liabilities &lt;10.7 percent of GDP.</p> <p>Up-to-date information on SOE-related government guarantees and letters of comfort is made publicly available on a quarterly basis. Baseline (2016): No information available; Target (December 2017): Updated information available.</p> |
| <p><b>Prior Action #6:</b> The government, (a) acting through MoFEA, has issued Public Notice MF/C16A PART II (6), dated March 7, 2017, on the Liberalization of HFO Fuel Supply, removing thereby the requirement that NAWEC procure heavy fuel oil (HFO) from a specific supplier; and (b) acting through NAWEC, has issued Resolution Ref. NAWEC/BOARD/EXTERNAL/VOL. 2 (5/2017), dated May 3, 2017, mandating as NAWEC policy international competitive bidding for all procurement of HFO for NAWEC's generation of electricity.</p> <p><b>Prior Action #7:</b> The government acting through the Office of the President, has issued Circular OP 262/138/01 (EC), dated March 22, 2017, transferring purview of GAMTEL (and thereby also its mobile subsidiary GAMCEL) to the Ministry of Information and Communication Infrastructure.</p>   | <p>The suppliers' premium for shipping, storage and delivery to NAWEC storage facilities is reduced from US\$115 to US\$90 or below per metric ton between end 2016 and end 2017, contributing to a reduction in the cost of fuel supplies for NAWEC.</p> <p>Baseline (2016): Savings = US\$0.<br/>Target: (2017): Savings = US\$1.5 million</p>  |
| <p><b>Pillar 3: Mitigating the social impact of the crisis in health centers</b></p>   |   |
| <p><b>Prior Action # 8:</b> The government, acting through its MoHSW, has issued Circular FIN 515/310/01/Temp (113-MD) dated April 24, 2017 mandating the use of an international competitive bidding framework for all procurement of drugs using government funds, and issued the technical specifications necessary to implement the framework and minimize disruptions in the supply of drugs to health facilities, including (i) the list of essential medicines and quantities to be procured and (ii) a list of accredited local suppliers for emergency procurement by health facilities.</p>  | <p>Increase in the percentage of health facilities reporting no stock-outs of tracing items.</p> <p>Baseline (2016): 37%<br/>Target (2017): 60%.</p>  |

## ANNEX 2: Letter of Development Policy

THE REPUBLIC  OF THE GAMBIA

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MF/C/135 (AS)

2<sup>nd</sup> June, 2017

Mr. Jim Young Kim

President of the World Bank Group

Washington D.C USA

### LETTER OF DEVELOPMENT POLICY

- 1) This Letter of Development Policy describes the economic and fiscal policies that the government of the Gambia is currently pursuing to return to macroeconomic stability and protect essential public services.
- 2) Following a difficult political transition in January, we have inherited a looming economic crisis. The past decade has been characterized by weak fiscal management resulting to high recurring fiscal slippages, high borrowing leading to low growth. This has kept borrowing costs high thus crowding out private investment, and constraining fiscal flexibility. The debt service burden on the budget is very high, consuming more than half of government revenues. As a result, constraining government expenditure in priority areas such as health, education, and agriculture. In dealing with these major economic and financial challenges, the government intends to pursue the following priorities: (i) macroeconomic management; (ii) public sector strengthening; (iii) promotion of sustainable, inclusive growth; and (iv) investment in human capital.
- 3) The government is strongly committed to restoring macroeconomic stability and implementing critical structural reforms to meet these objectives. However, to implement these priorities, the government will require funding from donor partners, to support the implementation of the Gambia Emergency Development Policy Operation (DPO). The emergency program will be executed over 2017 calendar year. The aim of the DPO, aligned with the strategic priorities of government, is to strengthen the Government's fiscal position

while restoring the provision of essential public services. In addition to funding the state budget, the program will support economic recovery.

#### CONTEXT

- 4) The Gambia is at a historical turning point, with transition to a democratically elected government committed to the rule of law, freedom of speech and socio-economic development ending the 22-years of autocratic regime. However, the new government inherited a broken economy, with severe economic mismanagement, mainly from state-owned enterprises (SOEs). In addition to these problems, the economy suffered from poor agricultural season resulting low crop production. Furthermore, the political turmoil following the elections in December 2016 affected tourism season, reducing receipts in the first quarter of 2017 by about one third. This together with large fuel import bill put additional strain on the balance of payments. The economic situation is dire and the country is faced with a very high debt, requiring substantial fiscal financing, needs, an urgent balance of payments support characterized by a precariously low level of net international reserves.
- 5) The government has only been in office since February 2017, and our immediate priority is to prevent the situation escalating into a full-blown crisis. The parliamentary elections on April 6, 2017, resulted in an absolute majority in support of the government and a strong commitment for reform. We will now work expeditiously to restore macroeconomic stability and put policy implementation on a sound and sustainable footing. Our international development partners have been quick to re-engage and have indicated that substantial financial support could be forthcoming, necessary to cope with the acute impact of the shock and the economic mismanagement of the past. Domestically, we are committed to implementing strong fiscal measures and mitigate fiscal shocks, including maintaining fiscal discipline, drastically reducing net domestic borrowing, taking steps to put the public utility and telecom companies on a sound financial footing, protecting health services, and ensuring the sustainability of the public debt.
- 6) To restore and sustain macro fiscal stability, we need emergency support from our development partners (including World Bank, the African Development Bank, the European Union, IMF etc). The prospective World Bank budget support would be in the amount of \$56

million. We will need close engagement with the World Bank staff to further guide policy implementation and articulate medium-term reforms over the coming year. We also recognize the need to establish a track record of strong policy implementation.

#### GOVERNMENT PROGRAM

- 7) A new National Development Plan (PAGE II) covering 2018-2021 is close to finalization. We are currently incorporating the findings of the Integrated Households Living Conditions Survey (IHS) and expect to finalize the Plan by mid-2017. It reflects The Gambia's need for policies aimed at strengthening growth including: i) removing policy uncertainty and bringing back a degree of fiscal control to avoid crowding out private investment; ii) facilitating access to finance; iii) restoring competitiveness in trade and energy.
- 8) To tackle immediate urgent issues, we have also prepared an Accelerated National Response Plan (ANRP) synthesizing key priorities for 2017. The Gambia's political impasse of December 2016 led to significant socio-economic challenges that negatively impacted the country. The Gambia's economy relies primarily on tourism, agriculture, and remittance inflows; making it highly undiversified economy thus rendering the economy vulnerable to external shocks.
- 9) The purpose of the ANRP is to seek donor support financial or technical in order to widen the fiscal space and ease pressure on the budget, thereby resuscitating the economy, and putting the country on a sound socio-economic and political trajectory to be able to sustainably meet its development aspirations. The plan covers the urgent priorities for the next six-month with a view to serve as a springboard for growth and development in The Gambia. Premised on this, the priorities are based on the identification of activities that will have an immediate multiplier effect on the economy.
- 10) The revenue base of the Government of The Gambia is very narrow and based mainly on tax. The political impasse that the country experienced between December 2016 and January 2017, led to a downturn in economic activities and negatively impacted Government tax revenues. Tax receipts in January 2017 were GMD200 million below target. Due to this, Government expects that tax receipts will not pick up to the projected levels in the

immediate term. This, in effect, will challenge Government's ability to meet budgetary obligations. It is for this reason that the government is seeking direct budget support from development partners to enable it meet critical budgetary expenditures in key priority areas. The direct budget support will help achieve the objectives to reduce the debt service burden and maintain health and social service delivery, and the quality of basic and secondary education. It will further help mitigate the negative impact of the economic crisis and the difficult political transition, and lay the foundation for the required structural reforms.

#### RECENT ECONOMIC DEVELOPMENTS AND THE MEDIUM-TERM OUTLOOK

- 11) Macroeconomic developments in 2016 have been impacted considerably by the economic mismanagement of the previous regime and external shocks. Economic growth in 2016 is now estimated to have reached 2.2 percent, markedly lower than the 4.3 percent growth in 2015, due to limited availability of foreign exchange, weak agricultural output and the effect of the political impasse on tourism during high season. With erratic rainfall during the summer, some 90 percent of the groundnut cash crop will be lost according to the pre-harvest report. Headline annual inflation stood at 8.8 percent in February 2017, well above the CBG's target of 5 percent, driven by high food prices and the depreciation of the dalasi against the U.S. dollar. Net international reserves have fallen to a precariously low level of only US\$22.3 million in February 2017, less than one month of imports cover. Even this low level is predicated on foreign exchange swap arrangements with two commercial banks totaling US\$33.2 million.
- 12) High fiscal deficits in recent years, financed by issuing expensive domestic securities, have led to rising debt levels and interest payments. Net domestic borrowing reached 11.4 percent of GDP in 2016. The total public debt stock reached over 118 percent of GDP at the end of 2016, rising from 105.3 percent in 2015. The related high debt service on domestic debt absorbed almost half of government revenue in 2016, together with weak revenue collection due to the economic slowdown and import compression in the latter part of 2016, and unbudgeted bailouts of SOEs, severely exerting fiscal pressures. As we are now uncovering, the previous regime was systematically siphoning off or stealing funds from SOEs, with more than \$100 million (10.6 percent of 2016 GDP) diverted over the regime's last 2½ years alone. This greatly contributed to their financial difficulties and the need for fiscal

bailouts, as well as exchange rate pressures. Our findings so far indicate that this affected mainly the National Water and Electricity Company (NAWEC) and the Gambia Telecom and Cellular Companies (GAMTEL/GAMCEL).

- 13) Monetary policy was largely ineffective in the face of fiscal dominance. While the CBG kept its policy rate unchanged at 23 percent as end December 2016, it was unable to absorb the large excess liquidity in the banking system. With the slowdown of economic activity, T-bill rates have declined from their peak in mid-2016, with the 12-month rate falling from 22 percent to below 14 percent and the 3-month rate from 17.8 percent to just above 10 percent most recently. However, lending rates have remained high and banks' risk aversion increased in light of the political developments, which, together with the massive government borrowing, has continued to crowd out private sector credit.
- 14) Growth for 2017 is expected to pick up marginally to 3 percent, but in the medium term we expect a return to normal growth trajectory around 5-6 percent. The recovery in 2017 is mainly predicated on the assumption of a normal agricultural season, following the poor 2016/17 harvest, and a gradual recovery in trade and re-exports. Tourism is also expected to recover, but unlikely to make up for the losses related to the political turmoil. Beyond 2017 we are optimistic that the economic outlook will be more favorable. With the return to the rule of law and policy predictability, lower interest rates and a resumption of private sector credit growth, we expect investment as well as foreign direct investment to rise strongly, in particular in the tourism sector and in commercial agriculture. Greatly improved relations with Senegal will support re-exports and trade with the sub-region and, more generally increase regional integration. Greater and cheaper energy supply will support all economic activities, including the light-manufacturing sector.

#### FISCAL MEASURES

- 15) We see the return to sound macroeconomic management and stability as a key pre-condition for growth. Returning to fiscal sustainability will require strong fiscal action to bring expenditures in line with resource availability while securing donor assistance to drastically reduce domestic borrowing and interest cost. It is important to take measures now that deliver quick results, including to bolster donor support. In addition, it is equally important

to take measures that may take longer to yield results and lay the basis for sustained and inclusive growth. In this context, we see as critical to resolve the difficulties of SOEs to protect fiscal outcomes, resolve NAWEC's external and domestic debt service arrears, and work toward resolution of cross arrears between government and the SOEs. We also see as critical that any new loan or guarantee to the benefit of SOEs or agencies be only on concessional terms and after a thorough assessment of the impact of new borrowing on debt sustainability.

- 16) Our development partners have given indications that substantial financial support will be forthcoming. Indications of external budget support received so far amounts to about \$75 million for 2017, including (\$56 million) from the World Bank, the EU (\$27 million) and the AfDB (\$7 million). We also intend to use the RCF proceeds of \$15.6 million for budget support, and will update the Memorandum of Understanding between MOFEA and the CBG concerning the on lending and repayment accordingly.
  
- 17) We have revised our 2017 budget to take into account more realistic revenue forecast, and cut expenditures in non-priority areas while protecting budgets in health and education, with the support of the World Bank (*DPF prior action #1*) and in line with our discussions with the IMF. Our objective is to achieve an overall fiscal deficit of 2.5 percent of GDP, well below the level of 2016, at 9.8 percent. To compensate for revenue shortfalls in the wake of the crisis, we have identified several measures to channel revenue sources back to the budget, described below. Expenditures cuts have been made, particularly in the budget of the President's Office, which is rather large, reflecting the previous regime's priorities. Savings are also expected on interest payments, roughly offsetting the decline in revenue. Budget support will help to greatly reduce the remaining deficit, however, a financing gap of 0.3 percent of GDP will remain, which we intend to close through additional measures, particularly the elimination of ghost worker after cases identified through staff audits that we have launched for the civil service and the security forces.
  
- 18) We have made every effort to keep NDB low in recent months through careful prioritization of spending, and we plan to continue to do so. Along with the decline in T-bill rates this is expected to reduce domestic interest payments in 2017 by about 0.8 percent of GDP.

- 19) We will sell the presidential plane and two others that are defunct. This could yield about 0.5 percent of GDP, and sell land, including in prime tourist areas. This could yield about 0.5 percent of GDP and could trigger tourism related investment. We have incorporated these amounts in the revised budget.
- 20) We will also ensure that all fees and revenue sources previously diverted are now channeled to the budget, including from the international voice gateway, heavy metal and sand mining, and fees for the use of the container scanner in the port. We estimate that this could yield up to 1.2 percent of GDP in non-tax revenue in 2017 and have incorporated these amounts in the revised budget.
- 21) To eliminate ghost workers, we have launched staff audits of the civil service and, for the first time, including the security services, which have expanded strongly over recent years (*DPP Prior Action #2*). These could deliver substantial savings (expected above 0.3 percent of GDP) and would provide a sound basis for a more comprehensive civil service reform and security forces in the future that would also include subvented agencies. A decision on the appropriate size and structure of these services will be taken at a later stage and may necessitate programs to facilitate transition into other activities, preferably private employment. In the interim, we will consider stepping up our participation in peacekeeping missions of the UN and other international organizations to reduce cost of security services.
- 22) We are considering additional reform policies to reduce the bloated vehicle fleet, strengthen accountability, reducing fuel and maintenance cost and generating receipts from the sale of excess cars. This would generate estimated savings of 2 percent of GDP over the next three years.
- 23) Over the medium term we will also consider streamlining ministries and subvented agencies, downsizing and rationalizing of embassies, and streamlining of memberships in non-financial international organizations, which could yield up to 1 percent of GDP.
- 24) In the medium term we plan to recover assets stolen by the previous regime that are still held in The Gambia. We plan to vigorously pursue recovery of all stolen assets with support by the UN/World Bank StAR Initiative, but realize that recovering assets held outside of the

Gambia will be a much lengthier process. Recovered assets would preferably be used to retire domestic debt.

- 25) We have also launched the recruitment process for an auditor to carry out special audits of SOEs to uncover all fraud and embezzlement of funds in the past, stop leakages and strengthen SOE oversight going forward. With assistance from the World Bank (*DPF Prior Action 3*), these audits will cover five SOEs that have been most affected by the previous regime's embezzlement (NAWEC, GNPC, GAMTEL/GAMCEL, GPA, SSHFC). Audits of the Central Bank of the Gambia (CBG) and of other SOEs will follow.

#### DEBT MANAGEMENT

- 26) We are cognizant of the elevated risks related to the high public debt, but are already taking measures to contain them. We have consolidated all outstanding CBG lending to the budget through various facilities into a 30-year bond at an interest rate of 5 percent with a view to not add further borrowing. We estimate that this will lead to budgetary savings in interest payments of about 0.7 percent of GDP in 2017. While we are cognizant that this will ultimately lead to the need to recapitalize the CBG at a later stage, this will provide some short-term relief to public finances. We are committed to additional measures to address the debt situation, including debt restructuring, and we have set up a Committee on Government Bond for that purpose and launched the preparation of a Debt Strategy. The first meeting took place on May 18, 2017. The committee will support the government in exploring options for further resolving the debt, including lengthening the maturity structure of domestic debt by issuing securities with longer maturities and retiring commensurate amounts of T-bills, paying down a fraction of domestic debt, and restructuring external debt. Lengthening maturities debt would help reduce rollover risk and could potentially lead to further interest savings. We have sought support technical assistance from the IMF in addressing the debt issue. We are also asking for World Bank technical assistance to help us identify options to resolve the debt with due attention to the stability of the financial sector. We have also decided to allocate at least US\$ 15 million in 2017 to buy down a portion of our domestic debt held by commercial banks. We are strongly committed to this process, which will help alleviate the debt service burden further, and welcome the World Bank financial support which will help achieve this important goal.

27) Prudent debt management is needed to manage the risks associated with the large public debt while accommodating financing needed for development. We are committed to facilitate clearance of the NAWEC's and GAMTEL's remaining external debt service arrears shortly. We will set up a debt management advisory committee to improve coordination and information exchange between the relevant departments of MoFEA and the CBG, and relevant SOEs, on both domestic and external debt to better forecast debt service payments. The Government will continue to seek external grants and concessional loans to finance public investment with a minimum grant element of 35 percent. We will not incur any new external payments arrears and will not contract or guarantee any new non-concessional external debt or any external debt with original maturity of one year or less. Given The Gambia's elevated debt level and the importance of tight controls on new borrowing, the government has also agreed to consult with IMF staff before contracting or guaranteeing new concessional external loans, and guaranteeing any new domestic loans to SOEs.

#### ADDRESSING FISCAL RISKS FROM STATE-OWNED ENTERPRISES

28) We are in the process of ring-fencing contingent liabilities from SOEs, in particular NAWEC. These contingent liabilities represent an estimated 10.7 percent of GDP and are a critical source of fiscal risks. Negotiations with commercial banks on a restructuring of NAWEC's domestic debt, including its 5-year bond (January 2017), are advancing and we are confident that an agreement will be reached soon that will be commensurate with NAWEC's ability to repay its debt over the medium term.

29) To further contain contingent liabilities from SOEs, we have inventoried guarantees and letters of comfort issues to SOEs, and still ongoing. This has been done with the support of the World Bank. We have also issued a circular to the effect that government will not issue any more guarantees for borrowing by SOEs or other agencies unless all conditions under the 2014 Public Finance Act are met, and with due attention to the terms of the loans and the impact on external and public debt sustainability (*DPF Prior Action #5*). We have also decided to establish a database of SOEs-related contingent liabilities, and to publish the list of ongoing guarantees and letters of comfort on a quarterly basis on the website of the Ministry of Finance and Economic Affairs (MoFEA).

30) We are developing a comprehensive strategy to address the operational and financial difficulties of NAWEC and GAMTEL/GAMCEL. NAWEC and, to a lesser degree, GAMTEL/GAMCEL have been incurring financial losses, which has required repeated unbudgeted fiscal bailouts and/or debt restructuring to avoid defaults, thus contributing to the expansion of NDB. There exist substantial cross arrears between SOEs and government.

- a. **NAWEC.** Over many years NAWEC suffered from presidential directives that set electricity tariffs well below cost recovery and imposed economically unviable projects in rural areas, while fuel supply cost was inflated from rent seeking by a monopoly supplier as part of a scheme to siphon off funds. No real investment occurred and generators became obsolete and expensive in operation and maintenance. Our strategy thus aims at gradually reducing operating cost through new sources of energy, particularly renewables, greater efficiency in the supply of fuel through competitive tender, and cost reductions in NAWEC's operations.
- b. In the immediate term, we have liberalized the fuel supply to NAWEC with the help of the World Bank and mandated the use of international competitive bidding from NAWEC fuel purchases (*DPF Prior Action #6*). Fuel importation is now done through competitive tender, which so far has reduced the cost to NAWEC by 15 percent, thus reducing its operational losses and the need for budget resources. This is expected to generate \$1.5 million in savings for NAWEC in 2017.
- c. Furthermore, NAWEC's non-operating cost has been bloated by legacies of the past and arrears by its customers, including government, other SOEs and municipalities. To account for these cost factors, we have taken over arrears on the debt service on the rescheduled NAWEC bond which will provide the company some breathing room until it has regained a sound financial footing and can resume paying this debt service; and, as a next step, we plan to resolve the issue of cross arrears taking into account the results of the special audits.
- d. **GAMTEL/GAMCEL** has been struggling with structural changes to the telecom market and competitors in the wireless segment. In addition, since 2013, a significant

share of its revenue was siphoned off by presidential directive. With the support of the World Bank, we have shifted oversight over GAMTEL/GAMCEL from the President's Office to the Ministry of Information and Communication Infrastructure (MOICI) which is now in charge of the reform agenda for the two companies (DPF Prior Action #7). This will lay the groundwork for the medium-term program and reforms to boost the sector. With further assistance from the World Bank, we plan to conduct an asset valuation of government owned assets in the telecommunications sector and evaluate options for restructuring and possible divestiture, i.e., tendering for a strategic investor or management contract. In evaluating these options, we will take into account the revenue each would bring to the government under both short- and long-term scenarios.

31) Other SOEs are financially more stable albeit may not have contributed to the budget through dividend payments, including possibly due to embezzlement of funds during the previous regime (e.g., the Gambia port authority (GPA)). Having ended all embezzlement in SOEs will improve their situation, and we are confident that implementation of the reform program agreed with the World Bank will put them on a sound footing.

32) We are committed to increase transparency on the financial situation of SOEs through the audits and the publication of most recent financial statements on the website of the MoFEA (DPF Prior Actions #3 and #4). The expected result is more transparency with financial information of key SOEs available to the public, including the extent to which resources have been diverted or misused. We also plan to step up MOFEAs oversight and monitoring of SOEs' operations, financial position and contingent liabilities and fiscal risks emanating from them.

#### **SOCIAL SERVICE DELIVERY**

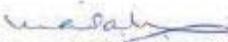
33) Also of urgent importance is the acute shortage of medical supplies, vaccines and related medical equipment for improved health of the population. Public health facilities are already grappling with inadequate drugs and equipment. In 2017, there is a shortfall of GMD20,000,000 on drugs, dressings and medical supplies, which has the potential to affect service delivery. This is a looming crisis that requires immediate intervention.

34) To respond to this and increase the value for money in the health sector while avoiding shortages of drugs, and with the support of the World Bank, we have shifted our purchasing model for all medical supplies from single-source procurement to international competitive bidding (ICB). This is consistent with our new National Medicines Policy. To complement this shift, the MOSHW has also issued a list of essential medicines and quantities to be procured. In addition, to avoid disruptions in the supply of drugs to health facilities, the MoHSW has also issued a list of local suppliers accredited by the Gambia Medical Board, from whom health facilities can procure emergency drugs directly in the event of shortages (DPF Prior Action #8). This is expected to represent a very small amount of resources, but will help in the event of emergencies. We expect that the proportion of health facilities reporting no stock-outs of tracer items from 37% to 60% between 2016 and 2017.

#### INSTITUTIONAL FRAMEWORK FOR IMPLEMENTATION OF THE PROGRAM

35) Successful implementation of our Response Plan hinges on national and international commitments to fund and operationalize the priorities identified. The government recognizes that the Response Plan needs strong political will and donor support to deliver results on its immediate reform agenda. This calls for a central coordination mechanism under the stewardship of the Ministry of Finance and Economic Affairs.

36) A strong institutional arrangement will enhance national ownership and leadership that would assure The Gambia's development partners of our political commitment for effective coordination and more efficient use of resources. The Directorates of Aid Coordination, Budget and Development Planning under the Ministry of Finance and Economic Affairs will play a central role in the implementation and management of this Response Plan.

  
Honorable Mai Amad Fatty  
Minister Overseeing

The Ministry of Finance and Economic Affairs  
Banjul, The Gambia  
The Republic of Gambia



### ANNEX 3: Environment and Poverty/Social Analysis Table

| Prior actions  | Significant positive or negative environment effects (yes/no/to be determined) | Significant poverty, social or distributional effects (positive or negative)  |
|--|--|---|
| <p><b>Prior Action #1</b> - The government, acting through its MoFEA, has approved and, acting through its MoFEA, submitted to Parliament, a revised 2017 budget consistent with fiscal stabilization objectives and revised revenue forecasts (as described in the Letter of Development Policy-LDP), while maintaining health and education appropriations at the same levels as in</p>  | No   | Yes (positive)  |
| <p><b>Prior Action #2</b> – The government, acting through the Office of the President, has initiated a nationwide staff/payroll verification and audit by the Personnel Management Office (PMO) and the Auditor General for the entire Civil Service and Security Forces, for the purpose of eliminating “ghost workers” and improving payroll integrity.</p>   | No   | No. In the medium-term (and beyond the scope of this operation), public sector reforms may involve follow-up actions to reduce the size of the public sector workforce. This could have a significant negative impact on some households. Should such reforms be pursued with the support of the World Bank, a detailed poverty and social impact analysis will be carried out and inform the design of future interventions to minimize this effect. |
| <p><b>Prior Action #3:</b> The government, acting through MoFEA, has initiated Special Purpose Audits of the following SOEs: National Water and Electricity Company (NAWEC), the Gambia National Petroleum Company (GNPC), the Gambia Telecommunications Company (GAMTEL) and its subsidiary Gambia Telecommunications Cellular Company (GAMCEL), the Social Security and Housing Finance Corporation (SSHFC), and the Gambia Ports Authority (GPA), as evidenced by the short list report on expressions of interest dated May 9, 2017.</p> | No   | Yes (positive, indirect)  |
| <p><b>Prior Action #4:</b> The government, acting through MoFEA, has published on its public website the most recent audited financial statements for all thirteen SOEs<br/> <a href="http://mofea.gov.gm/index.php?option=com_content&amp;view=article&amp;id=58&amp;Itemid=46">http://mofea.gov.gm/index.php?option=com_content&amp;view=article&amp;id=58&amp;Itemid=46</a></p>   | No   | Yes (positive, indirect)  |

| Prior actions   | Significant positive or negative environment effects (yes/no/to be determined)   | Significant poverty, social or distributional effects (positive or negative) |
|---|--|--|
| <p><b>Prior Action #5:</b> The government, acting through MoFEA, has issued and published a circular dated May 3, 2017 stating that:</p> <p>(i) MoFEA will not approve any more guarantees and letters of comfort to beneficiary agencies, including SOEs, unless the preconditions established under the 2014 Public Finance Act are fully met;</p> <p>(ii) MoFEA will not contract any credit/loan on behalf of SOEs unless a report is produced by its Loans and Debt Department confirming that the loan is on concessional terms and does not jeopardize external and public debt sustainability; and</p> <p>(iii) MoFEA, through its Loans and Debt Department and its PPP Department, will create and regularly update a database of all government guarantees and letters of comfort for the benefit of SOEs, and make details of all guarantees and letters of comfort public on the MoFEA website on a quarterly basis; and that the government, acting through MoFEA, has completed an inventory of ongoing guarantees/letters of comfort issued to SOEs and</p> | No   | Yes (positive, indirect)   |
| <p><b>Prior Action #6:</b> The government, (a) acting through MoFEA, has issued Public Notice MF/C16A PART II (6), dated March 7, 2017, on the Liberalization of HFO Fuel Supply, removing thereby the requirement that NAWEC procure heavy fuel oil (HFO) from a specific supplier; and (b) acting through NAWEC, has issued Resolution Ref. NAWEC/BOARD/EXTERNAL/VOL. 2 (5/2017), dated May 3, 2017, mandating as NAWEC policy international competitive bidding for all procurement of HFO for NAWEC's generation of electricity.</p>  | No: Prior Action #6 pertaining to the import of fuel by NAWEC has been assessed for potential negative environment impact, and the assessment concluded to the absence of any significant implication. | Yes (positive, indirect)   |
| <p><b>Prior Action #7:</b> The government, acting through the Office of the President has issued Circular OP 262/138/01 (EC), dated March 22, 2017, transferring purview of GAMTEL (and thereby also its mobile subsidiary GAMCEL) to the Ministry of Information and Communication Infrastructure.</p>   | No   | Yes (positive, indirect)   |
| <p><b>Prior Action # 8:</b> The MoHSW has issued Circular FIN 515/310/01/Temp (113-MD) dated April 24, 2017 mandating the use of an international competitive bidding framework for all procurement of drugs using government funds, and issued the technical specifications necessary to implement the framework and minimize disruptions in the supply of drugs to health facilities, including (i) the list of essential medicines and quantities to be procured and (ii) a list of accredited local suppliers for emergency procurement by health facilities.</p>   | No   | Yes (positive)   |

**ANNEX 4: SOE Reform Action Plan Endorsed by Cabinet in April 2016**

| Action   | Responsibility  |
|--|---|
| <b>Immediate, within the first 100 days</b>  |   |
| 1. Continue monitoring liabilities and cash flow in those SOEs most at risk, particularly NAWEC, GAMCEL and GAMTEL, take urgent cost cutting and other crisis response measures as needed, including social plans for any redundant workers, and begin implementation of the restructuring plans | MoFEA, MoFEA/PPP Unit, Line Ministries  |
| 2. Set up a stakeholder task force that will oversee the development and implementation of a comprehensive SOE reform strategy and action plan, initially giving urgent focus to those SOEs most at risk   | Cabinet, MoFEA/PPP Unit   |
| 3. Provide the PPP unit with the resources it needs, in terms of staffing and systems, to expedite the creation and running of a well-functioning SOE oversight process, including comprehensive monitoring and evaluation and fiscal risk assessment  | MoFEA   |
| 4. Respond to the Public Accounts Committee (PAC)/ Public Enterprises Committee (PECs) request to sign a Memorandum of Understanding with PAC/PEC on exchange of financial and operational performance information on the SOE sector   | MoFEA/PPP Unit, PAC/PEC   |
| <b>Within six months</b>   |   |
| 5. Initiate a comprehensive review of the sources of SOE losses  | MoFEA/PPP Unit/SOEs   |
| 6. Initiate a review of the legal and regulatory framework governing the SOEs  | MoFEA/PPP Unit, Ministry of Justice   |
| 7. Confirm the oversight model to be adopted, whether to reinforce the existing dual model and/or to plan and begin conversion to a centralized model  | Stakeholder Task Force, Cabinet, based on analytical inputs from MoFEA/PPP Unit |
| 8. Begin publishing all SOE audited annual reports on the internet   | MoFEA/PPP Unit/SOEs   |
| 9. Continue restructuring measures and performance improvement programs in those SOEs creating the biggest fiscal risks and initiate diagnostic studies in all other SOEs at risk  | MoFEA/PPP Unit, Line Ministries   |
| 10. Prepare an SOE sector annual report  | MoFEA/PPP Unit  |
| 11. Prepare fiscal risk analysis assessments for the largest loss-making and/or negative net worth SOEs: NAWEC, Gamtel/Gamcel, GCAA, GGC   | MoFEA/PPP Unit and relevant SOEs  |
| 12. Explicitly identify SOE financial obligations in the Debt Sustainability Analysis (DSA) to improve monitoring of the SOE exposures   | MoFEA/DLDM Debt Unit  |
| <b>Within one to two years</b>   |   |
| 13. Draft and begin implementing legal changes to the SOE ownership and governance framework, also making institutional changes where appropriate. This should include a review of the legal and institutional framework for PPPs.   | Ministry of Justice, MoFEA/PPP Unit, Line Ministries                            |
| 14. Revise the methods of nomination and selection and the composition of all SOE boards of directors.   | Ministry of Justice, MoFEA/PPP Unit, Line Ministries                            |

|  |  |
|--|--|
| 15. Create a pool of potential board directors and begin training of board directors, including training in neighboring countries  | MoFEA/PPP Unit   |
| 16. Complete enterprise diagnostic reviews for all SOEs, sign performance agreements and initiate performance improvement plans for each one, giving early priority to those SOEs at most risk   | MoFEA/PPP Unit, Line Ministries  |
| 17. Complete a corporate governance Report on the Observance of Standards and Codes (ROSC), which will benchmark existing conditions and set a framework for monitoring reform performance, and develop a code of good corporate governance for SOEs | MoFEA/PPP Unit, Ministry of Justice  |
| 18. Calculate and include the cost of all SOE public service obligations where revenues cannot cover costs, as line items in the national budget   | MoFEA Budget Division and MoFEA/PPP Unit, individual SOEs, Line Ministries |
| 19. Implement IFRS and ISA in all SOEs and set up training programs for SOE accountants  | MoFEA, Association of Accountants  |
| 20. Implement the full range of measures (listed on page 41 and 42) needed to normalize financial relations between the State and the SOEs   | MoFEA, MoFEA/PPP Unit, GRA, Accountant General                             |
| 21. Implement and ensure continuity of a full range of training and capacity building for the PPP Unit and other units in MOFEA concerned with SOE oversight and monitoring  | MoFEA  |
| <b>Longer Term</b>   |  |
| 22. Fully implement a revised legal and regulatory framework for the sector  | Ministry of Justice<br>MoFEA/PPP Unit, Line Ministries                     |
| 23. Begin transition to a fully centralized ownership structure if, following study and consultations, this is decided as the best route   | Stakeholder Working Group,<br>MoFEA/PPP Unit, Line Ministries              |
| 24. Fully implement enterprise level restructuring and performance plans, complete divestiture and or PPP arrangements and separate SOE regulatory and commercial functions where appropriate  | MoFEA/PPP Unit, Line Ministries, Individual SOEs,                          |
| 25. Set up an Institute of Directors   | MoFEA/PPP Unit, private partners   |

*Note:* DLDM = Directorate of Loans and Debt Management

## ANNEX 5: Lessons Learned

**1. Manage expectations by delivering quick results.** A first lesson drawn from previous experience from fragile states is the importance of managing expectations and identifying priorities that are likely to immediately improve the living conditions of the population. The macro economic situation is dire and will limit the government's ability to respond to some of the more pointed requests for immediate economic relief. In this regard, the WDR 2011 emphasized that projects in fragile and conflict affected states must focus on identifying the most urgent priorities, to be immediately designed and implemented. Accordingly, the proposed operation will target critical reform areas where there is the greatest immediate potential of reducing poverty and restoring trust in government institutions.

**2. Ensuring close coordination with donors and alignment with government priorities to support success of reforms.** Budget support in The Gambia has been catalytic for donor harmonization on key policy measures and results. The donors participating in budget support, IDA and AfDB, coordinated disbursements based upon the Government of The Gambia's Policy Matrix and conducted joint reviews of progress, which allowed for consensus-building and lowering the transaction costs for government. Drawing on this lesson, support provided by other partners has been taken into account and reflected into the project design to maximize synergies and coordination.

**3. Setting adequate indicators to measure achievements towards the PDO.** The most recent IEG Retrospective of World Bank DPOs, highlighted that monitoring and evaluation (M&E) has been a challenge with many World Bank DPOs. In particular, creating a set of relevant indicators in many cases is hampered by weaknesses in country data, while arrangements to generate or collect data specifically for the M&E framework of DPOs may not always work. Lessons from previous operations in The Gambia have also noted that results indicators could have been better defined and in some cases, link between reform measures and output/outcome indicators was weak. This also includes recognizing potential limitations in generating or collecting data. To remedy this issue, the proposed operation has worked with the government to strategically select indicators for which data currently exists and ensure harmonization with other programs.