Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 18-Dec-2018 | Report No: PIDISDSC24541

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Gambia, The	P166695		Gambia State Owned Enterprises Restructuring Project (P166695)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	Mar 11, 2019	May 30, 2019	Governance
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance and Economic Affaires	Directorate of Public and Private Partnership and Public Enterprises - DPPP&PC	

Proposed Development Objective(s)

The Project Development Objective is to strengthen government oversight and fiscal risk management of selected SOEs.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	10.00
Total Financing	10.00
of which IBRD/IDA	29.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	29.00
IDA Grant	29.00

Environmental and Social Risk Classification	Concept Review Decision
Moderate	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The democratically elected Government that took office early in 2017 has been taking bold steps to put the economy on a sounder footing**, including improvements in governance and transparency, normalization of relations with neighboring countries, and restoring macroeconomic stability. The National Development Plan for 2018-2021, approved in December 2017, aims to improve good governance and accountability, social cohesion, and national reconciliation and a revitalized and transformed economy for the wellbeing of all Gambians. The plan is anchored on eight strategic priorities: (i) building good governance, (ii) stabilizing the economy, (iii) modernizing agriculture, (iv) investing in education and health services, (v) building infrastructure including restoring energy services, (vi) promoting inclusive tourism, (vii) empowering youth and (viii) promoting private sector development for job creation.

2. **Economic results of the political transition have been encouraging, with real GDP growth reaching an estimated 3 percent in 2017**, encouraged by lower interest rates and a recovery in the services sector. Tourism in particular is showing an encouraging rebound to levels higher than before the West African Ebola outbreak. There has been a reduction in inflation and interest rates, a stabilizing of the exchange rate and a building of reserves. With pro-growth policies from the Government and renewed external support the economic recovery is expected to accelerate although there remain concerns about the country's vulnerability due to high debt service obligations.

Sectoral and Institutional Context

3. **The 13 corporatized State-Owned Enterprises (SOEs) operate in important parts of the Gambian economy, including air and sea transport, telecommunications and media, agriculture, energy, water and services.** Since their creation from the 1980s, the financial and operational performances of the SOEs have not been broadly impressive. By 2015, the SOEs' accumulating losses and indebtedness were reaching crisis proportions. The previous regime had been plundering and diverting the resources and revenues of the SOE sector and constraining some SOEs to deliver public services at below cost. The larger SOEs were particularly badly affected, including NAWEC, GAMTEL, GAMCEL, GPA and

SSHFC. But all SOEs were affected to some extent by the accompanying breakdown in financial discipline and failures in their governance structures. In 2014, the Government stepped in on an emergency basis to service the debts of the larger SOEs. The overall fiscal deficit increased from 8.8 percent to 14 percent of GDP. The inability of the largest SOEs to service their debts had led to Government intervening in 2014 to meet their external obligations, with an amount equivalent to 5 percent of GDP.

4. **The aggregate sector performance indicators are heavily influenced by a few large SOEs.** In 2016, NAWEC, GPA and GAMTEL accounted for 76 percent of total sector income, and NAWEC, GCAA and GAMCEL for 86 percent of total sector liabilities. While a restructuring plan for NAWEC is being implemented through the Gambia Electricity Support Project, restructuring plans for GAMTEL/GAMCEL, SSHFC and GPA should be the next priority, given the fiscal risk and actual burden on public finances that these SOEs present.

5. **In more recent years the performance of SOE sector was seriously affected by the economic mismanagement of the long-lasting autocratic regime, including the plundering and diversion of resources and revenues.** A sharp overvaluation of the Gambian Dalasi and other currency controls imposed, combined with marked fiscal slippages undermined investor confidence, generated capital flight, reduced remittance inflows and exports, and increased borrowing costs. The misuse of SOE funds and assets, including embezzlement of at least 4 percent of GDP[1] from SOEs from mid-2014 to 2017, was a major contributor to the country's economic fragility.

6. **Against the backdrop of severe liquidity crisis, the quality of public services provided by SOEs had deteriorated steadily.** Inadequate energy supply is now a key binding constraint on inclusive growth and competitiveness. Only 47 percent of Gambians have an electricity connection. NAWEC's power generation, transmission and distribution capacity is aging, and breaks down frequently. In late 2017, available distribution capacity had dropped to 27MW in the Greater Banjul Area (GBA) where most Gambians live, compared to the installed generating capacity of 88MW – all against an estimated net demand of at least 70MW demand. Only 28% of the general population reportedly have access to the Internet, and only 13% of mobile phone users do so through Smartphones or other data enabled devices. Delays in reforming GAMTEL and GAMCEL are obstructing Gambia's ambitions for bringing digital opportunities to it citizens, particularly for the youth. The operations of the GPA, which handle 80 percent of the country's international trade through the Port of Banjul, are increasingly becoming a limitation on economic development due to low productivity, high turnaround times, and lack of renewal of investment in infrastructure. And the deteriorating financial performance of the SSHFC, due largely to high administration costs and high levels of receivables, amid increasing obligations, is putting the country's pension system in jeopardy.

7. **The corporate governance framework in the SOE sector has a number of serious shortcomings.** These include: (i) a fragmented oversight function and poor coordination among various actors; (ii) lack of a legal requirement for Government to reimburse SOEs for the costs of any public service obligations which are not financially viable, (iii) lack of a legal requirement for SOEs to enter into performance

[1] The New Gambia: seizing transformational opportunities, April 2018, World Bank, Government of Gambia

agreements with Government, (iv) lack of legal requirements for SOE boards to include adequate expertise and accountability for directors. In practice, many Boards consist predominantly of ex-officio public officials and representatives of interest groups such as employees or customers, (v) inadequate powers of the SOE monitoring and evaluation unit (DPPP&PE) to gain access to SOE operational and financial performance data, (vi) late delivery by SOEs of their audited financial statements to the National Audit Office and the National Assembly, and (vii) uneven application of accounting and auditing standards in line with international practices.

8. Initial responses of the Government were to: (i) create and strengthen the SOE monitoring and evaluation capacity within the DPPP&PE, and (ii) fully embrace the proposed SOE reform and restructuring program and start its implementation. But a dual model of SOE ownership still exists, with the line ministries and MoFEA sharing the ownership function while the appointment of managing directors and Board members falls under the President's Office. In addition, the proposed SOE reform agenda is still at the early stages of implementation.

Relationship to CPF

9. **The recent Country Engagement Note (CEN) identified the SOE reform as a priority to restore macro-economic stability and growth.** The CEN provided analysis on substantial fiscal risks associated with high level of debt stemming from the SOE sector. The CEN therefore sets the priority pillar to restore macroeconomic stability and growth, which respond to more immediate needs, will assist the Government to ensure good economic governance and macroeconomic stability essential to public confidence and a broad-based recovery. In addition, the pillar will focus on improving the environment for private sector-led growth and expanding opportunities for revenue generation to which the SOE reform will contribute. As the project preparation goes along with the preparation of Systematic Country Diagnostics (SCD), the project preparation will inform it and/or take into account the underlying issues in the SOE sector and key risks identified in the SCD.

C. Proposed Development Objective(s)

The Project Development Objective is to strengthen government oversight, fiscal risk management and the performance of selected SOEs for improved service delivery.

Key Results (From PCN)

10. The project will contribute to achieving the following expected results:

- PDO Indicator 1: Reduced public financing to SOEs - including transfer from the budget.

- PDO Indicator 2: GAMTEL and GAMCEL combined outstanding debt balances have been restructured

- PDO Indicator 3: GAMTEL and GAMCEL have been transitioned to financially viable operations.

D. Concept Description

11. The proposed project will be financed through Investment Project Financing (IPF) instrument, with Disbursement Linked Indicators (DLIs) in the amount of USD 10 million. The instrument would allow for the linking of disbursements to key results related to SOE restructuring, and for TA support to be provided in parallel to facilitate implementation of some of the policy measures. Furthermore, it is also proposed to consider the Multi-Phase Programmatic Approach (MPA) for this intervention as this would allow the Government to structure a longer-term engagement as a set of smaller linked operations (or phases), under one Program. Each phase of the program could address reform needs of a selected number of SOEs.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

The social risk will be moderate at this is stage as the final option for the restructuration of the SOEs is not yet approved. As soon as the option will include retrenchment of employees, the risk will be upgraded to substantial.

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document**.**

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