

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

April 26, 2017
Report No.: AB7886

Operation Name	Gambia Emergency Development Policy Financing
Region	AFRICA
Country	The Republic of the Gambia
Sector	40% Economic management; 30% Public sector governance; 30% Human development.
Operation ID	P163285
Lending Instrument	Development Policy Financing
Borrower(s)	The Republic of Gambia
Implementing Agency	Ministry of Finance and Economic Affairs
Date PID Prepared	April 26, 2017
Estimated Date of Appraisal	May 9-11, 2017
Estimated Date of Board Approval	June 20, 2017
Concept Review Decision	Concept Review and Decision Meeting are combined as this is an emergency operation (see Other Decision).
Other Decision	It was agreed to process the operation using the flexibility embedded into emergency procedures

I. Key development issues and rationale for Bank involvement

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, and 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, and 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.

The new administration must however 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). The public debt stock exceeded 119 percent of 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 sovereign exposure in the banking sector and crowding-out of credit to the private sector. The new government is also uncovering looting of state-owned enterprises (SOEs) under the previous regime. Meanwhile, net international reserves have fallen to a precariously low level of less than one month of imports.

The Gambia is a fragile country undergoing a period of rapid and fundamental changes, and this crisis may threaten the success of the economic and 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 inability on the part of the State 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 have fueled discontent, and 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 for exchange rate earnings. 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.

The new administration has expressed a strong commitment to restoring macroeconomic stability and implementing critical structural reforms, and has reached out to development partners for 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 and boosting economic recovery will be critical to safeguard political stability. To achieve these objectives, the rapid deployment of technical and financial support from The Gambia's development partners will be vital.

In this context, the proposed operation will provide emergency financial assistance to facilitate the difficult fiscal adjustment and lay the ground for reforms while protecting poor households and vulnerable groups. The operation will directly reduce the government's heavy reliance on costly domestic borrowing and help moderate the exposure of the financial sector to sovereign risk, while supporting 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.

II. Proposed Objective(s)

The program development objective is to support strengthening the Government of The Gambia's fiscal position while restoring the provision of essential public services. The operation is structured around three intertwined pillars in support of the PDO. The first pillar consists of rapid-response fiscal stabilization measures with due protection of social sectors. Under the second pillar, the operation starts addressing fiscal risks stemming from state-owned enterprises (SOEs), by limiting contingent liabilities and promoting enhanced transparency and financial viability of SOEs. The third pillar supports fiscal efficiency in the procurement of essential medicines and seek to avoid shortages thereof at health centers.

III. Preliminary Description

This operation proposes a US\$41 million standalone emergency development policy financing (DPF) credit/grant to the Republic of The Gambia as it faces a looming economic crisis in the

aftermath of the recent political transition. The proposed operation is aligned with the government's immediate priorities, which are to reinforce macroeconomic stability while laying the ground for reforms and mitigating the social impact of the economic crisis. The program leverages ongoing investment-project financing operations, and it will be 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.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The policies supported by the proposed operation are expected to have a significant positive impact on poverty and 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.

Environment Aspects

The proposed operation is not expected to have any significant environmental implications. It supports emergency measures to restore macroeconomic stability and protect vital social services from the ongoing fiscal consolidation. 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, the operation supports the liberalization of fuel purchases for electricity generation by the energy utility NAWEC, and this measure has been assessed for potential negative environment impact. The assessment concluded to the absence of any significant implication.

While the program supports the purchase of fuels, Gambia has committed to increase the proportion of renewable sources of energy in the power generation mix in line with its Nationally Determined Contribution (NDC). With the liberalization of fuel purchases, the DPF recognizes the urgency to support cost-efficient supply of Heavy Fuel Oil in order to meet the power generation need of the country over the next few years. Nevertheless, over the longer run, Gambia has committed to the Paris Agreement on Climate Change of December 2015, and has recently obtained a grant from the Green Climate Fund in order 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 their power generation mix.

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.

V. Tentative financing

Source:	(\$m.)	
Borrower/Recipient	0.0	
IDA credit/grant	41.0	
Others (specify)		
	Total	41.0

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