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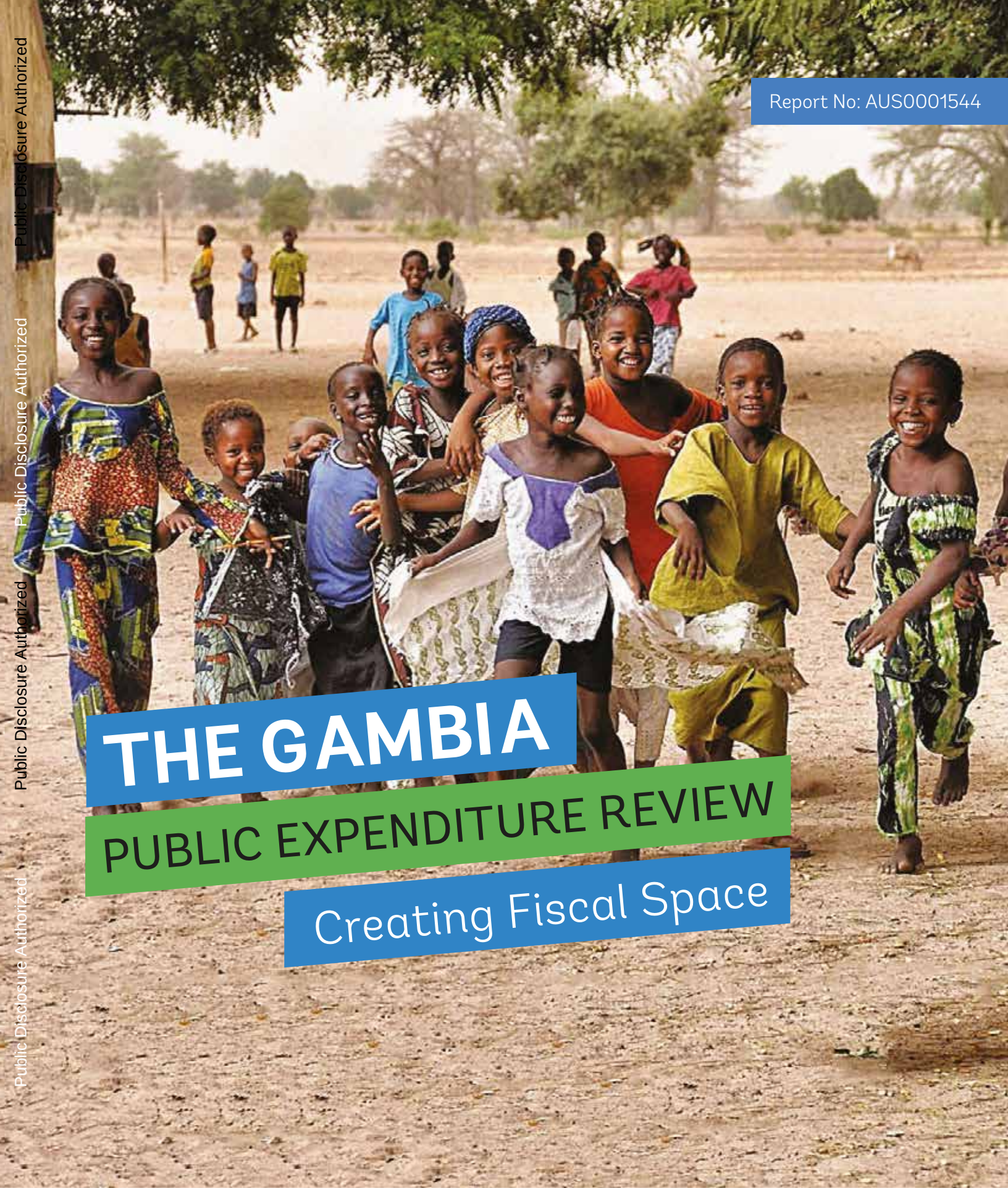

THE GAMBIA

PUBLIC EXPENDITURE REVIEW

Creating Fiscal Space

WORLD BANK GROUP

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Macroeconomics, Trade and Investment Global Practice
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Abbreviations and Acronyms

AGD	Accountant General's Department
AMP	Aid Management Platform
ANC	Antenatal care
ASYCUDA	Automated Systems for Customs Data
BCS	Basic Cycle School
CEQ	Commitment to Equity
CET	Common External Tariff
CIT	Corporate income tax
CoA	Chart of accounts
CPI	Consumer price index
DAC	Directorate of Aid Coordination
DEA	Data envelopment analysis
DLEAG	Drug Law Enforcement Agency
DSA	Debt Sustainability Analysis
DTD	Domestic Taxation Department
EAC	East African Community
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
ETLS	ECOWAS Trade Liberalization Scheme
EU	European Union
GAF	Gambian Armed Forces
GAMCEL	Gambia Telecommunications Cellular Company Ltd
GAMTEL	Gambia Telecommunications Company Ltd
GAMWORKS	Gambia Agency for the Management of Public Works
GDP	Gross domestic product
GGC	Gambia Groundnut Corporation
GIEPA	Gambia Investment and Export Promotion Agency
GLF	Gambia Local Fund
GMD	Gambian dalasi
GNA	Gambian National Army
GNHSP	National Health Strategic Plan
GPF	Gambia Police Force
GPPA	Gambia Public Procurement Agency
GRA	Gambia Revenue Authority
GSRB	Gambia Strategy Review Board
GRSD	Global Revenue Statistics Database
HCI	Human Capital Index
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
ICT	Information and communications technology

IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IHR	International Health Regulations
IHS	Integrated Household Survey
IMF	International Monetary Fund
IT	Information technology
ITFC	Islamic Trade Finance Corporation
IVAT	Income and Value Added Tax Act (2012)
LBS	Lower Basic School
LDC	Least developed country
LGA	Local Government Area
LIC	Low-income country
LTU	Large Taxpayers Unit
MDA	Ministries, departments and agencies
MICS	Multiple Indicator Cluster Survey
MMR	Maternal mortality rate
MOFEA	Ministry of Finance and Economic Affairs
MoH	Ministry of Health
MTDS	Medium-term debt strategy
MTEFF	Medium-Term Economic and Fiscal Framework
NAO	National Audit Office
NAWEC	National Water and Electricity Co. Ltd
NDP	National Development Plan
NFSPMC	National Food Security, Processing and Marketing Corporation
NGO	Non-governmental organization
NHIS	National Health Insurance Scheme
NPL	Non-performing loan
OOP	Out-of-pocket
PAYE	Pay As You Earn
PCU	Project Coordination Unit
PEFA	Public Expenditure and Financial Accountability
PFM	Public financial management
PIM	Public investment management
PIMA	Public Investment Management Assessment
PIT	Personal income tax
PIU	Project Implementation Unit
pp	Percentage point
PPP	Public-private partnership
R&D	Research and development
RBF	Results-based financing

RHD	Regional Health Directorate
SCD	Systematic Country Diagnosis
SDG	Sustainable Development Goal
SDR	Special Drawing Rights
SGO	Statement of Government Operations
SMP	Staff-Monitored Program
SMT	Small and medium-sized taxpayer
SSA	Sub-Saharan Africa
SSA-LIC	Sub-Saharan African low-income country
SSS	Senior Secondary School
SOE	State-owned enterprise
STR	Student-teacher ratio
TADAT	Tax Administration Diagnostic Assessment Tool
TPU	Tax Policy Unit
TSA	Treasury single account
UBS	Upper Basic School
U5M	Under-five mortality
UAP-V	Unitary average price of vehicles
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
VAT	Value-added tax
WDI	World Development Indicators
WHO	World Health Organization

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Executive Summary

The Gambia is at high risk of debt distress and has major infrastructure and human capital investment needs. Maintaining debt sustainability will require continued fiscal consolidation while improving the composition of its spending to meet the country's priority needs. This Public Expenditure Review identifies a combination of measures that will increase revenue, reduce expenditure in non-priority sectors, and reallocate those savings to priority social sectors. On the revenue side, tax revenues are about 4–6 percent lower than the country's potential. To reach its tax potential, The Gambia will need to rationalize its tax expenditures, mainstream tax rates along country practices in the region and expand tax administration efforts.

On the expenditure side, spending efficiency needs to be improved across all sectors, particularly those that account for the largest share of public spending, such as education, security, and health. Education spending could be redeployed to bringing back out-of-school children and improving non-salary inputs at the school level through increasing the student-teacher ratio, overhauling teacher recruitment and using unit costs as a budgeting tool. The security sector could achieve efficiency by reallocating and/or reducing its workforce – police and soldiers – and vehicles, and reorganizing police and army institutions. Shifting health spending towards primary care, combined with more efficient provision of health services, would permit a larger share of the population to receive a minimum level of health services.

Public financial management reforms in the areas of public investment management, procurement practices, and the treasury single account would both save money and increase transparency and accountability. By combining improved spending efficiency with greater revenue mobilization, the proposed recommendations could potentially generate fiscal savings of about 4.87 percent of GDP. The efficiency gains could be reinvested on priority sectors with the aim of improving The Gambia's service delivery while increased tax revenues could contribute to the consolidation process.

Executive Summary

Introduction

The Gambia is a small country burdened with a legacy of a structural fiscal deficit and high public debt. Its fiscal balances deteriorated sharply from a surplus of 0.3 percent of GDP in 2007 to a deficit of 6.6 percent in 2016. The overall deficit remained above 5 percent after 2016 before declining to 2.6 percent in 2019. The historically high fiscal deficit is due to low tax revenues, increasingly high expenditure on goods and services, and unbudgeted transfers to state-owned enterprises (SOEs). Public debt has risen from 39 percent of GDP in 2007 to 82.5 percent in 2019, placing it in external debt distress, despite having benefited from the Heavily Indebted Poor Countries (HIPC) Initiative in 2007. It secured debt service relief from its plurilateral and bilateral creditors in early 2020, improving the debt outlook. It still needs to implement policy measures to ameliorate its public finances and preserve hard-won fiscal and debt sustainability.

The objective of The Gambia Public Expenditure Review (PER) is to inform the fiscal consolidation effort of the authorities. World Bank PERs generally evaluate multiple dimensions of public spending including the effectiveness, equity, and efficiency of public spending as well as fiscal sustainability. This PER, however, places a strong emphasis on improving the technical, and to some extent, allocative efficiency of public spending within the sectors analyzed as well as on identifying options to increase revenues, particularly taxes, from existing and new sources. This focus is due to the limited fiscal space available to the Government and the importance of ensuring value for money in key sectors.

This report reviews public spending in three sectors: education, security and health. The ministries and departments in those sectors account for one-third of central government or the Gambia Local Fund (GLF) spending in 2018 (5.6 percent of GDP). The specific ministries covered in the PER are: for the education sector, the Ministry of Basic and Secondary Education, and the Ministry of Tertiary and Higher Education; for the security sector, the Ministry of Defense, the Ministry of Interior, and the Ministry of Justice, Judiciary and Ombudsman; and for the health sector, the Ministry of Health.

These sectors were selected based on their relative budget size, their relevance for service delivery, and the availability of recent analytical work. Public spending in these sectors is large, about 2.4 percent of GDP for education, 2.1 percent for the security sector, and 1.1 percent for health in 2018. For a country at peace like The Gambia, public spending on security is very large, and therefore merits closer scrutiny. The government aims to reach universal access to education and health services by 2030. Achieving that goal will require a combination of improved efficiency in spending and larger budgetary allocations. Both

the education and security sectors were recently analyzed in separate PERs. However, given their shares of expenditure and for completeness, this PER includes updated findings from efficiency analyses for those sectors.

Tackling the myriad fiscal pressures that The Gambia faces also requires addressing weaknesses in public financial management (PFM). Therefore, this PER covers the key PFM reforms which offer clear scope for efficiency gains. These include improving the efficiency and quality of public investment, implementation of the procurement legislation and its enabling regulation, and implementation of the treasury single account (TSA). Of these, public investment spending accounted for another 10.6 percent of GDP in 2018, adjusted for the capital expenditure in the sectors of analysis. This brings the coverage of the PER to two-thirds of the total central government expenditure, or 16.2 percent of GDP (see Annex III, Tables A3.3 and A3.7). In addition, public procurements that cut across all sectors comprise 5.3 percent of GDP in 2018.

The main data source for the PER is a user-friendly expenditure database developed using the BOOST approach. The Gambia BOOST public expenditure database presents disaggregated budget data of the central government from 2014 to 2018, but only for GLF expenditure. The BOOST data include administrative, economic, and functional classification of public spending as well as sources of funds and budget programs, wherever available. The BOOST data is complemented with other data sources, such as (i) Statements of Government Operations (SGOs) for economic classification, and (ii) donor disbursement data for externally financed capital expenditure. Nevertheless, weaknesses in public finance management and the lack of centralized government accounts presented some challenges and limited the type of analysis undertaken (see Annex II for details).

The report compares The Gambia's public spending dynamics and performance with other relevant countries in an international benchmarking exercise. A database created for this PER contains indicators on public spending and outcomes across a wide range of sectors using data from the World Bank, the Organization for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF), and the Government of The Gambia. The Gambia's performance is compared with structural (Eritrea, Guinea-Bissau, and Mauritania) and aspirational (Senegal, Rwanda and Uganda) peer countries and, where needed, with other countries in Sub-Saharan Africa (SSA) and with low-income countries (LICs) (see Annex I for details).

Macro-Fiscal Context

The Gambia is one of the poorest countries in the world, with a per capita GDP of US$716, and has recently transitioned to democracy. It is highly dependent on agriculture, tourism, and remittances and is extremely vulnerable to external shocks. The recent transition to democracy imposed huge economic challenges for the newly elected government. Although it has improved its macroeconomic stability in recent years, with good GDP growth and low inflation, its current account is chronically in deficit, financed by grants and other capital inflows. It secured 5-year debt service relief from most of its plurilateral and bilateral creditors in early 2020. The main medium-term challenge it faces is reversing its structural fiscal deficit and its large public debt: The Gambia last achieved an overall fiscal surplus in 2007 while its public debt stands at 82.5 percent of GDP in 2019.

Since 2017, Government has made attempts to improve its macro-fiscal management. By shifting some of the burden of debt from domestic to external concessional loans and aided by low interest rates, the Government has managed to reduce its interest payments from a high of 45.3 percent of domestic revenue in 2017 to 22.5 percent in 2019. However, both its interest payments and domestic debt remain higher than its peers. The transition to democracy has fueled an expansion in the size of the Government, with public spending rising to 22.3 percent of GDP in 2019. This is,

however, lower than its peers and is largely driven by externally financed capital expenditure. This capital expenditure is strongly correlated with economic growth and exhibits pro-cyclical features. Domestic revenue is only 14.2 percent of GDP and public expenditure is highly rigid, with 65 percent taken up by wages, interest payments, and externally financed capital expenditure, unlike its peers. This leaves the Government little room for fiscal maneuver and enhancing service delivery without improving its revenue mobilization and efficiency of its spending.

The Gambia faces several fiscal risks over the next five years. Its domestic debt exposes it to interest-rate and rollover risks, while its external debt is subject to exchange-rate risks. Its poorly performing SOEs, despite registering some early improvements, remain the main source of contingent liabilities. Considering possible scenarios for the next few years clarifies policy options. If there is no change in strategies for new borrowing, and macro-fiscal policies revert to pre-2019 times, fiscal risks will remain high. Interest rates will absorb a larger share of domestic revenues, and lead to liquidity pressures in the domestic debt market. Fiscal shocks arising from SOEs could lead to borrowing needs skyrocketing to over 32 percent of GDP by 2024. In contrast, policy changes to mobilize more domestic revenue, implement the medium-term debt strategy, improve SOE governance, and implement PFM reforms, could start to reduce the overall deficit, relaxing the country's borrowing requirements.

To maintain fiscal and debt sustainability, The Gambia will need fiscal consolidation. The Government could implement a combination of revenue enhancement and expenditure adjustment policies to achieve a fiscal consolidation of 3.7 percent of GDP over the period 2020–2024. Its borrowing strategy would need to focus on maximizing grants or highly concessional external financing to reduce borrowing costs, while continuing to issue 3- and 5-year domestic bonds to deepen the domestic debt market and reduce its refinancing risks.

Revenue Mobilization

The need for The Gambia to increase its revenue mobilization to sustainable levels cannot be overstated. Total government revenue stood at 19.7 percent of GDP in 2019, with tax revenues at 11.2 percent of GDP. The Gambia's tax revenue increased by only 1.9 percent of GDP between 2008 and 2019, in marked contrast to most of its regional peers, which have increased their ratio by 3–5 percent in the last decade. The country has a limited tax base: agriculture is largely subsistence-based, while, despite its importance to the economy, the tourism tax base is non-existent. However, the country's tax potential is estimated at 17.3 percent of GDP, giving it a tax gap of 4–6 percent of GDP.

The Gambia collects relatively little in direct taxes, which averaged 20.8 percent of revenue and 2.9 percent of GDP over 2008–2019. Compared to its structural and aspirational peers, it collects relatively little corporate income tax (CIT) although receipts have increased in recent years despite falling tax rates. Its CIT productivity—the revenue collected as a share of GDP for every one percent of the CIT tax rate—has averaged 4 percent, lower than for all peers except Uganda. The Government grants businesses generous incentives, significantly narrowing its corporate tax base. Personal income tax (PIT) also contributes relatively little, and its share has fallen over time due to falling tax rates and rising tax thresholds. Small self-employed individuals are taxed under a presumptive scheme. Withholding taxes are used for formal sector wages through the Pay As You Earn (PAYE) scheme and for fees for services, but businesses in priority sectors are exempt, leading to significant revenue loss.

The Gambia is increasingly dependent on indirect taxes, particularly international trade taxes. In 2013, the Government abolished sales tax and replaced it with value-added tax (VAT) levied at 15 percent. Although both compliance rates and efficiency have improved with the

introduction of domestic VAT, they remain relatively low. The Gambia raises less domestic VAT revenue than its aspirational peers due to the raft of exemptions and zero-rated items, which are estimated to cost around 4.3 percent of domestic VAT revenues. International trade taxes raised 4.7 percent of GDP over the decade and have fallen consistently in terms of GDP since 2015 (except 2019), with tax incentives on customs, VAT, and excises contributing to revenue losses at the border. In 2019, total exemptions were 2.8 percent of GDP, with SOEs, the Government and other public agencies benefiting the most. Excises also underperform, reflecting a narrow base for domestic products.

The Government has several policy options to close its tax gap. Mainstreaming the VAT rate to country practices in SSA while simultaneously raising the registration threshold would enhance revenue collection and improve compliance and efficiency. The Government should review tax expenditures, improving the efficiency of exemptions for domestic VAT and import taxes and rationalizing corporate tax incentives. It should revert the PIT rate structure to earlier practice in the Gambia, expand the excise tax base and adjust rates while improving the taxation systems for self-employed professionals and the informal sector.

In parallel, the Government needs to undertake institutional reforms. It will need to strengthen capacity through the creation of a Tax Policy Unit and then develop a medium-term revenue strategy once the capacity is in place to do so. Simultaneously, enhancing tax administration capacity by modernizing business processes and IT systems. will be essential. These reforms, together with the proposed policy options, could increase tax collection in the short- to medium-term by 3.0-3.3 percent of GDP, partially closing the estimated tax gap. Enhancing the tax-to-GDP ratio will, however, be profoundly constrained by extremely low capacity to develop policy and administer taxation, including lack of data to support sound policy elaboration.

Education

The Gambia spends less on public education than peer countries, but its outcomes have improved over time. Public education expenditure was 2.4 percent of GDP in 2018, low compared to the SSA average of 4.5 percent. The share of spending on primary education stands at 55.8 percent, in line with the recommended benchmark of 50 percent and much higher than its aspirational peers. The gross enrolment ratio increased from 88.3 percent in 2010 to 117.9 percent in 2019. Gender parity indices indicate that there are more female than male students at all school levels. The Government has also made progress in areas such as enhancing teachers' qualifications and deployment, integrating the school curriculum into madrassas, and piloting technology-informed teaching approaches. Despite these efforts, the sector faces several challenges and requires a significant fiscal injection over the medium to long-term to achieve the goal of universal primary access.

There is little scope for efficiency gains in schools. Efficiency scores in school education have improved from 82 percent in 2015 to 94 percent in 2019. A comparison of the efficiency by level of education significantly varies within the regions. At the primary level, the more efficient schools are in Greater Banjul and West Coast Regions while secondary schools are fully efficient in North, Lower and Central River Regions. However, the fact that many children remain out of school, the poor quality of education, and the lack of basic labor-market skills, means additional funding for the sector is essential. An improvement in efficiency on available envelope could generate resources to cover some of those needs.

Public spending on education is dominated by staff costs which could be optimized given the relatively low student-teacher ratio. At primary level, the student-teacher ratio (STR) could increase from 36.8 to 38.4, in line with the SSA average, resulting in efficiency savings of 0.02 percent of GDP and higher school enrollment. This

should, however, be done without compromising learning outcomes and keeping in mind the varying context across regions. For this purpose, the savings generated could be used to provide enough school inputs and learning materials for better learning outcomes.

Rationalizing spending per student at the primary level could yield additional gains. The Gambia spends the equivalent of 18.5 percent of GDP per capita on each student at the primary level which is higher than the SSA average of 11 percent. Converging to SSA average could yield gains amounting to 0.71 percent of GDP. These savings could then be allocated to bringing back the large number of out-of-school children. Thus, unit cost could be an effective tool for allocating resources efficiently across regions and school types.

Security

Security spending is high and rising in The Gambia but crime numbers are not falling and its citizens increasingly fear violence. Public spending on security, at 2.1 percent of GDP in 2018, is on a par with conflict-affected Mali and considerably higher than Senegal (1.7 percent), a country with a territory that is 17 times larger. In 2018, public spending in the security sector increased by 33 percent. However, the number of crimes registered by the Gambia Police Force (GPF) has increased by 21 percent since 2016. Moreover, almost half of citizens have feared or experienced violence among their neighborhood, during a public protest, or at political events in the past two years.

The "unaffordability" of the security sector is common in other countries but is acute in The Gambia given its vast development needs. One scenario, prepared by the MOFEA and World Bank, envisaging a reduction of 1,100 personnel every year over 2020–2024 would result in cumulative savings of around 0.75 percent of GDP. Another similar scenario but with an increased focus on capital spending in the sector would lead to somewhat lower savings but would improve the sector spending composition. However, it will cost in order to ultimately save. The potential restructuring and compensation costs are roughly estimated at 1 percent of GDP. Given the constrained fiscal environment, efforts to improve the efficiency and effectiveness of spending in the security sector will need to be taken in tandem with broader security sector reforms.

The efficiency of policing and conflict control, the focus of this PER, could be improved with potential savings amounting to 0.7 percent of GDP. Due to data availability, the efficiency analysis focused on the GPF and the Gambian National Army (GNA). Using an efficiency frontier analysis, the mean efficiency score was 39 percent in the case of GPF and 48 percent in the case of the GNA. This indicates that to be fully efficient, the GPF and GNA would need to reallocate or reduce its inputs (i.e., police officers, soldiers and vehicles) to more efficient stations/regions, while considering the level of crime and conflict, and the forces' organizational structures. That would lead to estimated efficiency gains of 0.57 percent of GDP for the GPF and 0.12 percent for the GNA.

Health

The Gambia spends less on public health than similar low-income countries, and its outcomes are comparable to those of its structural peers. Public health expenditure is low, at 6.4 percent of public expenditure in 2018, compared to 5.0 percent in Mauritania. It spends far less than Rwanda (8.9 percent) - its aspirational peer. Similarly, The Gambia's public expenditure on health is 1.1 percent of GDP, compared with Mauritania (1.7 percent) and Uganda (0.9 percent). The Gambia has reduced under-five mortality to an estimated 58 deaths per 1,000 live births but it has one of the highest maternal mortality ratios in SSA. The COVID-19 pandemic has highlighted its lack of preparedness to deal with disease outbreaks, but the Government was quick to prepare a response plan to deal with the current emergency.

Underinvestment in primary health care contributes to inefficiency in health service delivery. Despite the high priority given to basic health care services in its national strategies, budgetary allocations are skewed towards tertiary provision and the central ministry. In 2018, 48 percent of the budget went to strategy, policy and management, and just 9 percent to primary health care services. In contrast, its structural and aspirational peers, Mauritania, Senegal, and Uganda, dedicated 55 percent, 66 percent and 59 percent of current health expenditure respectively to primary health care in 2016. Underfunding in primary health services leads to shortages of resources (staff, equipment, and supplies) and drives patients to bypass those facilities and use more costly hospital services for preventable diseases and easily detectable, treatable illnesses. Hospitals get overcrowded while other facilities are underused, resulting in the waste of healthcare resources.

Health care facilities seem to be largely inefficient. The average efficiency score across the 11 facilities surveyed is 72 percent, which means there is scope to increase efficiency by 28 percent. However, two facilities were fully efficient while two other facilities scored below 50 percent. Other studies in Africa found that 65 percent of 89 public health centers in Ghana and 50 percent of 16 public health centers in three districts in Ethiopia were inefficient. The Gambia's relatively high mean efficiency score could be attributable to the fact that the two efficient facilities as well as six others in the sample are participating in an ongoing World Bank financed Results-Based Financing (RBF) project. The RBF facilities have built-in incentive and accountability mechanisms for health managers and workers and could be a good model to improve efficiency across health facilities. However, this alone would not be sufficient to improve health outcomes.

Addressing the limitations of efficiency and equity in The Gambia's health system should be a key priority. The Government should implement a disaggregated health expenditure information system to monitor spending on inputs in health facilities to generate efficiency gains. Those savings should then be directed towards spending more on primary health care in line with the Government's strategic priorities. It should strengthen the decentralized service delivery structures, giving them autonomy to manage their budgets, and expand the RBF arrangement to all seven health regions. The Government should move to implement its new health insurance scheme, focusing on minimizing out-of-pocket expenditure and protecting the poor from catastrophic expenditures in the first phase. Lastly, it should strive to improve the use of health care services with a focus on improving the health of people who receive these services.

Public Financial Management

The Gambia has been implementing reforms to strengthen its public financial management (PFM) systems and improve its fiscal landscape since 2010. However, not all PFM reforms maximize value for money. Improvements in public investment management (PIM) and procurement and the implementation of the treasury single account (TSA), can yield large cost savings and other economic benefits even in the short run. For example, improvements in the selection and appraisal of public investment projects maximize the economic rate of return and minimize cost overruns due to improvements in planning and implementation. Improving the procurement framework generates cost savings through price reductions due to greater competition and economies of scales in the procurement of standardized goods. The TSA, combined with proper cash and debt management strategies, can reduce the costs associated with bank reconciliation and banking fees, minimize short-term borrowing, and maximize market rents.

Improvements in the management of public investment could generate significant benefits by increasing the economic "bang" The Gambia gets for each public investment "buck". Public investment systems need robust procedures to ensure the right investments are selected, but aid-

dependent countries are limited by weak appraisal capacity and reliance on donors to select and design projects. Political priorities and the willingness of donors to provide funding drive the selection of projects, rather than fiscal constraints or projected rates of return. The budget system does not allow capital projects to be identified nor does the Integrated Financial Management Information System (IFMIS) provide information on those being implemented. There is also no central database of all planned and active projects, making it hard to prioritize projects, identify overlaps, or maximize synergies. Addressing the investment efficiency gap of 37 percent could double the impact of investment on growth, adding 0.3 percentage points to annual GDP growth.

Public procurement is another key PFM function that, if well managed, could promote effective and efficient use of funds while ensuring transparency and accountability. Although open tenders are the preferred procurement method, these only account for 9 percent of all tenders over GMD1 million, compared to 28 percent using restricted tenders and 43 percent single-source tenders in 2019. The Gambia performs well compared to its peers in bid submission and the content and management of the procurement contract but lags in the areas of performance guarantees and payment of suppliers. It could do better at providing online access to procurement documents, potentially increasing competition. An analysis of vehicle tenders suggested that some cost savings might be generated by more transparent and competitive procurement. For instance, shifting from single source to restrictive tendering for five vehicle tenders could yield gains of 0.001 percent of GDP.

The implementation of the TSA is progressing, but the pace is slow. All ministries, departments, and agencies' (MDAs) accounts have been consolidated into the Treasury Main Account, government revenue is swept twice a week, and work has started on bringing in the subvented agencies and extra-budgetary accounts. Data constraints make it hard to estimate the cost savings, but immediate savings can be expected from reductions in banking fees, while TSAs have also been found to improve accountability and transparency, reducing potential corruption. A study of 25 International Development Association countries found that a fully functional TSA could lead to interest saving and opportunity cost reduction due to idle balances. This could be worth 0.14 percent of GDP in The Gambia. Nigeria offers an encouraging example as it has been able to save over 0.03 percent of GDP monthly in interest on ways and means since the implementation of its TSA.

Conclusions and Knowledge Gaps

Efficiency in public spending could potentially lead to fiscal savings of 1.57 percent of GDP while enhancing revenue could add a further 3.3 percent of GDP. Table 0.1 summarizes the results. This means the potential gains identified in this PER amount to almost one-third of the expenditure under review (16.2 percent of GDP). These will be realized primarily through increasing STRs, reducing spending per primary student, rationalizing police officers/soldiers and security force vehicles, a fully functional TSA, more competitive procurement, and the optimization of tax sources. The report also proposes measures to improve efficiency in other programs (such as health sector and PIM), although it was not possible to quantify the expected efficiency savings. Table 0.2 lays out those policy recommendations over the short- to medium-term.

If the recommended measures are implemented, the resulting fiscal savings would be more than enough to cover the medium-term fiscal consolidation needs. The Government should target a reduction in the structural fiscal deficit by 3.7 percent of GDP during 2020–2024 to keep its debt on a sustainable trajectory, or about 0.74 percent of GDP per year over this period. By implementing the proposed measures in this report, the Government could exceed the required fiscal consolidation by almost 1.2 percent of GDP.

The additional savings could therefore be used to improve service delivery. For instance, efficiency gains in spending could be wholly reinvested in the education and health sectors in a bid to improve sector outcomes and make progress on the human capital front. Improved revenue mobilization efforts, on the other hand, could support the consolidation process. This is just an illustration; there could be many different combinations.

The Gambia will fall back into the debt trap if it remains fiscally passive. The cost of policy inaction on expenditure rationalization, SOE reforms, and revenue mobilization will be too large to absorb. The fiscal deficit would widen to over 6 percent, returning to pre-2019 levels, and public debt would reach 75 percent of GDP by 2024. In addition, the ongoing COVID-19 pandemic has clearly highlighted the need to build fiscal buffers during good times. Thus, enhancing fiscal prudence will be of utmost importance, notwithstanding the need to create fiscal space for priority social investments.

Data gaps have constrained the estimation of fiscal savings for most of the policy actions in this PER. Most importantly and as mentioned earlier, IFMIS does not account for budgeting and spending beyond the MDA level. Its narrow focus on central government operations hinders analysis at the service delivery level, particularly for social sectors, and it does not record externally financed capital projects. Tax administration data are also patchy. Owing to these challenges, fiscal savings in some sectors could not be estimated. Those costed were done using multiple approaches such as back-of-the-envelope calculations, distance to frontier estimations, etc. and employing assumptions in case of unavailable spending variables. The IFMIS upgrade to Epicor 10 provides an opportunity to correct these weaknesses but will require strong commitment from the authorities.

Table 0.1

Summary of Policy Actions, Potential Fiscal Gains and Uses

Policy actions	Potential gains	Potential uses
	(percent of GDP)	
1. Revenue mobilization	**3.3**	
R1. Improve the efficiency of tax expenditures at the border.	0.5	
R2. Enhance the efficiency of domestic VAT by phasing out exemptions.	0.05	
R3. Rationalize corporate tax incentives.	0.25	
R4. Revert the PIT rate structure to earlier practice in the Gambia, aligned more closely to country practices in SSA.	0.4	
R5. Adjust key excise rates.	0.3	
R6. Expand the domestic excise base.	0.3	
R7. Enhance tax administration capacity by modernizing business processes and IT systems.	1.5	
2. Spending	**1.57**	**-1.57**
2.1. Sector	**1.43**	**-1.57**
(i) Education	**0.73**	**-0.73**
R1. Increase student-teacher ratio at Lower Basic Schools from 36.8:1 to the SSA average of 38.4:1 without compromising learning outcomes and considering the varying context across regions.	0.02	-0.02
R2. Increase non-salary school spending on inputs and learning materials.	0.71	
R3. Use unit cost as an instrument in preparing the primary school education budget.		-0.71
R4. Bring out-of-school children back into school.		
(ii) Security	**0.7**	
R5. Reduce or reallocate police officers and soldiers in the GPF and GNA based on criteria such as crime or conflict levels or the working environment.	0.68	
R6. Reduce or reallocate vehicles to efficient stations/regions.	0.1	
(iii) Health		**-0.84**
R7. Implement a disaggregated health expenditure information system to monitor spending on inputs in health facilities to generate efficiency gains.	N/A	
R8. Rationalize the allocation of the health budget in favor of primary care and prioritize primary care in the essential health care package.		-0.84
2.2. Public financial management	**0.14**	
(i) Procurement	**0.001**	
R9. Promote more competitive procurement of standardized goods such as vehicles (efficiency gains generated on a small sample of 5 processes).	0.001	
(ii) Treasury single account	**0.14**	
R10. Improve TSA coverage from 30% to 100% that would result in interest savings and a reduction in the opportunity cost due to idle balances.	0.14	
Grand total	**4.87%**	**3.3%**
- as share of required fiscal consolidation over 2020–2024 (3.7% of GDP)	**132%**	**89%**
- as a share of public expenditure analyzed in this PER (16.2% of GDP)	**30%**	**20%**

Table 0.2

Summary of Policy Recommendations

Policy actions	Time horizon	
	ST	MT
1. Revenue mobilization		
Value-added tax		
R1. Consider mainstreaming the statutory VAT rate to the range of 16–18%, along country practices in SSA.		
R2. Increase the threshold to focus on larger taxpayers, in combination with improved taxation of SMEs in the informal sector tax scheme.		
Excises		
R3. Adjust key excise rates.		
R4. Expand the domestic excise base.		
R5. Build tax capacity to administer and control excises.		
Tax expenditures		
R6. Improve the efficiency of tax expenditures at the border.		
R7. Enhance the efficiency of domestic VAT by phasing out exemptions.		
R8. Rationalize corporate tax incentives.		
R9. Strengthen the fiscal oversight of tax expenditures.		
Corporate income tax		
R10. Limit further reductions in the statutory tax rate without a parallel broadening of the CIT tax base.		
Personal income tax		
R11. Revert the PIT rate structure to earlier practice in the Gambia, aligned more closely to country practices in SSA.		
R12. Improve taxation of self-employed professionals such as lawyers, doctors and accountants.		
Institutional and capacity development		
R13. Create a Tax Policy Unit (TPU) in MOFEA with a mandate to forecast revenue and prepare tax policy initiatives.		
R14. Enhance tax administration capacity by modernizing business processes and IT systems.		
2. Spending		
2.1. Sector		
(i) Education		
R1. Increase student-teacher ratio (STR) at lower basic schools without compromising learning outcomes and considering the varying context across regions.		
R2. Base teacher staffing on a predetermined set of criteria including the STR, classrooms, school size, subjects taught, and facilities available at the school level.		
R3. Increase non-salary school spending on inputs and learning materials.		
R4. Use unit cost as an instrument to prepare the primary school education budget, considering the numbers of out-of-school children.		

continues in the next page

Table 0.2

Policy actions	Time horizon	
	ST	MT
(ii) Security (Police and Army)		
R5. Reduce or reallocate police officers and soldiers in the GPF and GNA based on criteria such as crime or conflict levels, or the working environment.		
R6. Reduce or reallocate vehicles to efficient stations/regions.		
R7. Reorganize the GPF and GNA to maximize the efficient use of resources.		
(iii) Health		
Efficiency of health facilities		
R8. Implement a disaggregated health expenditure information system to monitor spending on inputs in health facilities, such as human resource, technology, drugs, supplies and equipment, to generate efficiency gains.		
Primary care		
R9. Rationalize the allocation of the health budget in favor of primary care, with a long-term aim toward providing universal health coverage.		
R10. Prioritize primary care in the essential health care package.		
Quality of services		
R11. Improve the use of services with a focus on improving the health of people who receive these services.		
Financial protection for the poor		
R12. Implement the national health insurance scheme with a pro-poor focus to minimize OOP expenditures and protect them from catastrophic expenditures.		
Budget decentralization		
R13. Expand the RBF mechanism from 5 regions to all, prepare quarterly health plans, and utilize cash incentives on prioritized activities.		
R14. Allocate and ensure regular transfers of funds to RHDs to allow them to effectively supervise and support the health care facilities.		
R15. Authorize the decentralized service delivery structures to manage their funds and budgets within strict oversight and controls.		
2.2. Public financial management		
(i) Public investment management		
R16. Expand the responsibilities of the GSRB to appraise all projects, including PPPs, no matter the source of funding.		
R17. Survey all the projects under implementation and centralize the information in a database.		
R18. Rationalize the allocation of funding, including counterpart funding, to minimize cost overruns and maximize development impact of projects under implementation.		
R19. Use the project brief developed by MOFEA to create a dashboard to follow up on identified key challenges.		
R20. Make the use of the IFMIS mandatory to process expenses associated with projects.		

Table 0.2

Policy actions	Time horizon	
	ST	MT
(ii) Procurement		
R21. Consolidate the procurement of standardized goods and promote competitive procurement to take advantage of economies of scales.		
R22. Strengthen the capacity of all stakeholders involved in public procurement to ensure effective and efficient processes that maximize value for money.		
(iii) Treasury single account		
R23. Implement daily sweeping of government revenue and use banking fees to compensate commercial banks.		
R24. Identify the bank balances in the accounts of subvented institutions.		

Legend: ST: Short-term (6-12 months), MT: Medium-term (12-24 months)

1 Introduction

The Gambia is a small country with a legacy of institutional fragility and high levels of poverty. Its geography is unusual: it is surrounded by Senegal and the Atlantic Ocean and divided by the Gambian river. Its fragility indicators have steadily worsened in recent years, complicating efforts to solve its development challenges. Its Country Policy and Institutional Assessment (CPIA) score[1] has deteriorated since 2011 and it experienced a large increase between 2009 and 2019 in the Fragile States Index.[2] The country ranks 168th out of 187 countries according to the Human Development Index (HDI)[3] and 131st out of 157 economies according to the Human Capital Index (HCI).[4] Its per capita gross domestic product (GDP) was US$716 in 2018,[5] making it the fifteenth poorest country in the world. Its poverty rate has remained stagnant at about 48 percent from 2010 to 2015. Food security strongly depends on imports (the main staple, rice, is exposed to market price and exchange-rate risks). The country has among the highest emigration rates and remittance flows as a share of GDP in Sub-Saharan Africa (SSA) and the world.

Years of expansionary fiscal policies had led to a sharp deterioration in fiscal balances by the end of 2016. The overall balance fell from a surplus of 0.3 percent of GDP in 2007 to a deficit of 6.6 percent in 2016. Lower-than-expected revenues, increasingly high expenditure on goods and services, and unbudgeted transfers to state-owned enterprises (SOEs) contributed to the deficit. Accordingly, public debt rose from 38.2 percent of GDP in 2007 to 80.9 percent in 2016. During this period, domestic debt increased from 11.7 percent of GDP to 40.6 percent, reflecting the Government's reliance on short-term domestic financing. Public external debt almost doubled. Moreover, interest payments absorbed 42.7 percent of domestic revenues in 2016, among the highest in the world, constraining its fiscal space for poverty-reducing expenditure.

Having followed a trajectory of low and volatile growth, the country is enjoying a period of economic recovery. GDP per capita growth averaged 0.2 percent between 2000 and 2016, significantly below peer and regional averages. According to the forthcoming World

1 CPIA Africa, The World Bank, http://datatopics.worldbank.org/CPIA/home.
2 The Fragile States Index, The Fund for Peace, https://fragilestatesindex.org/.
3 Human Development Index, United Nations Development Programme, http://hdr.undp.org/en/content/human-development-index-hdi.
4 The Human Capital Index measures the amount of human capital that a child born today can expect to attain by the age of 18, given the risks of poor health and poor education that prevail in the country where he or she lives (Human Capital Index, The World Bank. https://datacatalog.worldbank.org/dataset/human-capital-index).
5 World Development Indicators, The World Bank.

Bank Systematic Country Diagnostic (SCD) for The Gambia, recurrent weather shocks affecting the agricultural sector, inadequate economic management, and political instability are the main contributors to the country's low and volatile growth trajectory during this period.[6] GDP growth exceeded 6 percent over the last two years compared to an average of 3.6 percent over 2015–2017. This recovery was underpinned by robust growth in tourism and remittances, and increases in trade given better relations with neighboring Senegal and renewed foreign direct investment.

The Gambia's macroeconomic position has improved. GDP growth has accelerated, and inflation is lower. Although the external current account is chronically in deficit, it is financed by grants and other capital inflows. The nominal exchange rate has been stable, but it may be exposed to depreciation pressures that could affect the sustainability of the country's external debt.

Nevertheless, The Gambia needs to tackle its chronic fiscal imbalances. It last achieved a fiscal surplus in 2007 and, despite the new regime's commitment to fiscal consolidation, the overall deficit grew slightly as a share of GDP in the two years after 2016. However, fiscal outturns improved in 2019. Revenues net of grants remain low, at 14.2 percent of GDP in 2019, suggesting the country is not mobilizing enough domestic resources. Gains from the 2007 Heavily Indebted Poor Countries (HIPC) Initiative have since been virtually wiped out and public debt reached 82.5 percent of GDP in 2019. Although the Government has reduced the burden of interest payments, down to 22.5 percent of domestic revenue net of grants in 2019, they still limit the Government's space for public investment and improved service delivery.

Reversing the large structural fiscal deficit and high public debt will be a challenge for the medium term. The Government has committed to fiscal consolidation; the National Development Plan (NDP), the forthcoming SCD, and the Country Engagement Note (CEN)[7] all acknowledge that achieving macroeconomic stability and addressing the debt situation will be a priority if the country is to enjoy higher and inclusive growth. The current administration has used fiscal consolidation efforts, tighter expenditure controls, and budget support from donors to improve the country's fiscal position. It has developed a medium-term debt strategy (MTDS) to support its debt sustainability and secured credible assurances of external debt service relief in early 2020 by most plurilateral and bilateral creditors.[8] It has also embarked on audits of its SOES with a view to minimizing the fiscal risks.

The objective of this Public Expenditure Review (PER) is to inform the fiscal consolidation effort of the authorities. World Bank PERs generally evaluate multiple dimensions of public spending including its effectiveness, equity, and efficiency, as well as its fiscal sustainability. This PER, however, has a strong emphasis on improving the technical, and to some extent, allocative efficiency of public spending within the sectors analyzed as well as on identifying options to increase revenues, particularly taxes, from existing and new sources. This focus is due to the limited fiscal space available to the Government and the importance of ensuring value-for-money in key sectors.

The choice of sectors included in this PER is related to a combination of budget size and recent analysis undertaken by the World Bank Group. It reviews public spending in the education, security and health sectors, which together accounted for one-third of central government spending in 2018. Both the education and security sectors were recently analyzed in separate PERs so, for completeness, this report includes key findings and an updated efficiency analysis for those sectors. Tackling the myriad fiscal pressures that The Gambia faces also requires addressing weaknesses in public financial management (PFM).

6 World Bank (forthcoming 2020).
7 World Bank (2018).
8 IMF (2020).

Therefore, the PER covers select PFM reforms that offer clear scope for efficiency gains: public investment, procurement, and implementation of the treasury single account (TSA). Of these, public investment accounted for another 10.6 percent of GDP in 2018, adjusted for the capital expenditure in the sectors analyzed. This brings the coverage of the PER to two-thirds of total central government expenditure or 16.2 percent of GDP (see Annex III, Tables A3.3 and A3.7). In addition, public procurements that cut across all sectors comprise 5.3 percent of GDP in 2018.

To maintain a sustainable debt path, The Gambia will need both fiscal consolidation and implementation of the debt strategy. To reinforce macro-fiscal stability and build further on the gains achieved so far, including external debt restructuring, it will need to implement the 2019 medium-term debt strategy. This strategy prioritizes concessional external loans and medium-term domestic bonds with a view to reducing interest-rate and rollover risks on its new debt. It will also need to increase its revenue collection and reduce expenditure simultaneously to achieve a fiscal consolidation in the order of 3.7 percent of GDP by 2024.

The Gambia lags its peers on domestic revenue mobilization, and its tax productivity and efficiency levels are low. Its tax base is narrow, and the Government has granted generous exemptions to businesses, further narrowing the corporate tax base. The country could potentially increase its tax revenues to 17.3 percent of GDP, 4–6 percentage points above its current levels through a combination of tax policy and administration measures. Systematic reforms to improve domestic revenue mobilization in the short- to medium-term could include reviewing and rationalizing corporate and international trade tax exemptions, mainstreaming statutory rates on personal income and value-added tax rates to country practices in the region, and expanding the domestic excise tax base. The Government also needs to improve its capacity to develop and administer tax policy, starting with a medium-term revenue strategy.

The Government could generate efficiency gains from some of its spending without compromising the quality of service delivery. Despite recent expansion, total spending on education remains low, at 2.4 percent of GDP, below the Global Partnership for Education benchmark of 4–6 percent of GDP. Access to education has improved, with increasing gross enrolment rates and better gender parity at all school levels. However, unit costs have risen, with the number of teachers rising faster than the number of students, although the pace has slowed in recent years. The Gambia could increase the efficiency of its education spending by increasing the student-teacher ratio at primary level to the regional average, overhauling teacher recruitment, and deploying unit costs as a budgeting tool. The savings achieved could be reallocated to improving non-salary inputs and increasing enrollment rates in schools. There is also scope for improved efficiency and fiscal savings in the security sector, where spending is high for a country at peace. Reallocating resources to where they are most needed would help improve the efficiency of the police service and the army.

Improving the quality and quantity of health expenditure is a key priority for The Gambia. It spends less on public health than similar low-income countries, although its outcomes are similar to some of its peers. Its health expenditure is not spent in the most efficient or equitable ways. Despite the high priority given to basic health care services in the NDP and sector strategies, budgetary allocations are skewed towards tertiary care and the central ministry. Inequities remain in access to high-quality health services, out-of-pocket expenditures are high, and some health facilities are inefficient. Prioritizing primary health care and making facilities efficient would general fiscal savings. These could be used to increase the health budget particularly on primary care, and move towards implementing a national health insurance scheme, which would reduce inequity in provision. Health service delivery could also be strengthened through decentralization and giving Regional Health Directorates autonomy over their own budgets while widening the use of results-based financing.

The Gambia has been pursuing comprehensive reforms to its PFM systems to ensure value-for-money and improve the allocation of resources. The Government faces challenges to improving its public investment management; as an aid-dependent country, it is limited by weak appraisal capacity and reliance on donors to select and design projects. Strengthening its own capacity to identify, appraise, and record all projects, regardless of their source of funding, would maximize their impact and reduce fragmentation. Although The Gambia out-performs its peers in some aspects of public procurement, it continues to rely too heavily on single-source contracting. It could potentially save costs and increase transparency by strengthening its capacity and oversight of procurement and consolidating the purchases of standardized goods to take advantage of economies of scale. The new Procurement Bill 2020 is expected to facilitate those practices. Since 2017, it has been leading the implementation of a treasury single account (TSA), although progress has been slower than expected and not all agencies and accounts have been brought in.

This report is organized as follows. Chapter 2 examines the macro-fiscal context and explores the fiscal risks the country faces, and the economic policies needed to address them. Chapter 3 analyzes The Gambia's tax performance, benchmarked against peer countries, and considers its tax potential. It also discusses the profile and trends of key direct and indirect taxes and outlines options to improve revenue mobilization. Chapter 4 analyzes trends in public expenditure, rigidity and expenditure efficiency in the education and security sectors. Chapter 5 covers the health care system, outlining the key policy frameworks, health provision, and trends in key outcomes. It considers the breakdown of public expenditure and funding and the efficiency and equity of health care in The Gambia. Chapter 6 outlines the Government's recent PFM reforms, concentrating on attempts to strengthen its public investment management, its procurement practices, and the implementation of a treasury single account identifying areas of weakness and where potential savings could be made.

All five chapters compare The Gambia's performance with other relevant countries in an international benchmarking exercise. The Gambia's performance is compared with structural (Eritrea, Guinea-Bissau, and Mauritania) and aspirational peer countries (Senegal, Rwanda, and Uganda). Where needed, it is also compared with other countries in SSA and with low-income countries (see Annex I for details).

This PER employs a combination of data sources, but data shortcomings did not allow for a sophisticated expenditure analysis. The authorities use multiple data sources to construct central government fiscal accounts because its financial management system is not being used to its full capacity. A user-friendly expenditure database was assembled for this PER, presenting disaggregated budget data from 2014 to 2018 but only for central government. Other data sources included Statements of Government Operations (SGOs) for economic classification, and donor disbursement data for foreign financed capital expenditure (see Annex II for more information).

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World Bank (2020) *The Gambia: Overcoming a No-Growth Legacy. Systematic Country Diagnostic.* Washington, DC: World Bank.

IMF (2020) *The Gambia First Review of The Staff-Monitored Program and Request for a 39-month Arrangement under The Extended Credit Facility,* April 2020.

Macro-Fiscal Context

Despite recent attempts to improve its macro-fiscal management, The Gambia remains over-indebted, with interest payments absorbing more of its domestic revenue than its peers. Its chronic fiscal imbalance is driven by low mobilization of domestic revenues, highly rigid public spending, burgeoning fiscal risks from state-owned enterprises (SOEs), and an unsustainable burden of public debt. Fiscal sustainability analysis suggests that to ensure macro-fiscal stability, The Gambia should simultaneously enhance revenue mobilization, reduce inefficiencies in public spending, improve its public investment management, and reduce interest-rate and rollover risks on domestic debt.

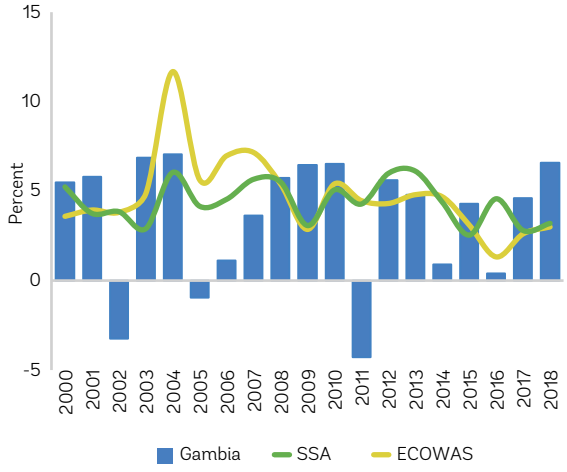
This chapter is organized as follows: The first section outlines the current context and challenges faced by The Gambia after its transition to democracy, including macro-fiscal developments, issues with its state-owned enterprises (SOEs), and its debt position. The chapter then explores a number of scenarios to identify the fiscal risks the country faces, and the economic policies needed to address them.

2 Macro-Fiscal Context

Macro-Fiscal Developments

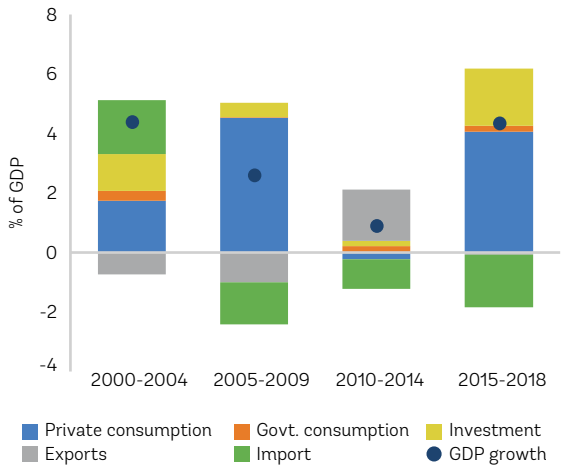
The Gambian economy is poorly diversified and dependent on shock-prone rain-fed agriculture and seasonal tourism. Due to a narrow resource base and a small domestic market, its production and exports show little diversification. The country relies heavily on external trade and foreign investment to circumvent its scale and resource limitations, increasing its vulnerability to external shocks. Agriculture is adversely impacted by frequent droughts (almost every other year) and is dominated by crop varieties that are not drought resistant. The Gambia has a small export base dominated by groundnuts (31 percent of exports), fish and crustaceans (17.3 percent), cashews (11.8 percent), and timber (11.1 percent). Exports of services are dominated by travel (tourism), which suffers from intra-annual seasonality and is vulnerable to external shocks in tourists' countries of origin. Travel and tourism make a much larger contribution to national income and employment in The Gambia than in other Sub-Saharan African (SSA) countries.

Figure 2.1: Benchmarking Real GDP Growth, 2000–2018



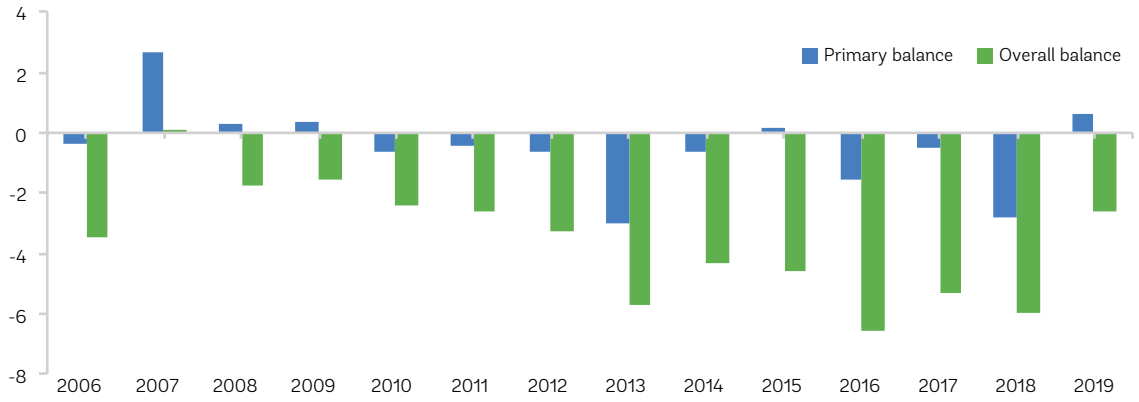
Source: Ministry of Finance and Economic Affairs (MOFEA) and the World Bank.
Note: ECOWAS = Economic Community of West African States.

Figure 2.2: Demand-Side Growth Decomposition in The Gambia, 2000–2018



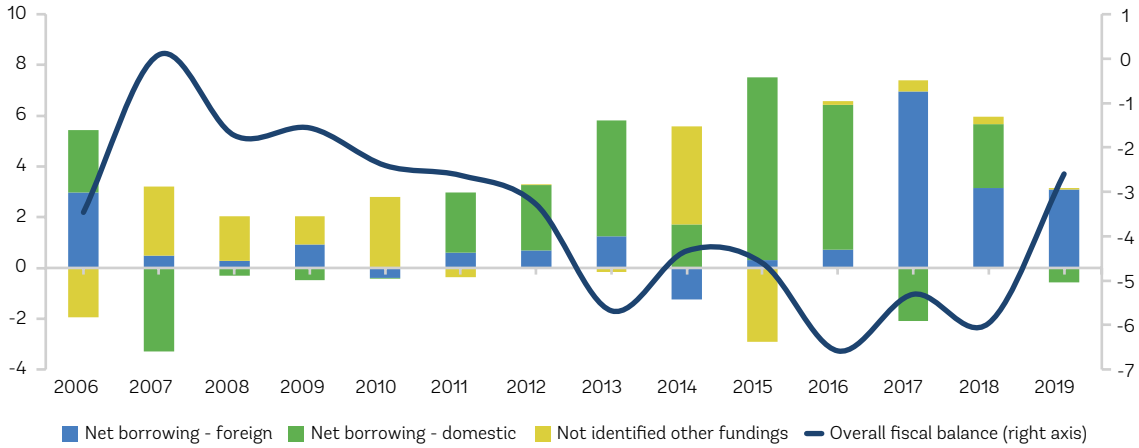
Source: Ministry of Finance and Economic Affairs (MOFEA) and the World Bank.
Note: ECOWAS = Economic Community of West African States.

Figure 2.3: Fiscal and Primary Balance in The Gambia, 2006–2019



Source: World Bank based on Statements of Government Operations (SGOs), MOFEA.
**Statistical discrepancy or financing gaps not identified in SGO, MOFEA.

Figure 2.4: Financing of Fiscal Balances in The Gambia, 2006–2019



Source: World Bank based on Statements of Government Operations (SGOs), MOFEA.
**Statistical discrepancy or financing gaps not identified in SGO, MOFEA.

Growth has been low and volatile in the last two decades, rebounding in the last couple of years (Figure 2.1). Real gross domestic product (GDP) grew by 2.7 percent per year on average during 2000–2016, below the SSA average of 5.1 percent, with growth frequently interrupted by droughts. Growth recovered in 2017–2019, reaching an average of 5.8 percent, mainly supported by externally financed public investment. The Gambia's per capita income has barely increased over the last three decades from US$515 in 1990 to US$535 in 2018. On the demand side, investment increased from 0.2 percent during 2010–2014 to 1.9 percent during 2015–2018, driven by accelerated implementation of externally financed projects. This helped economic growth recover to 4.3 percent over this period, from 0.9 percent during 2010–2014. Net exports reduced growth by 1.8 percent during 2015-18, dragged down by weak export growth (Figure 2.2).

Years of expansionary fiscal policies led to a sharp deterioration in fiscal balances by end-2016. The overall balance fell from a surplus of 0.1 percent of GDP in 2007 to a deficit of 6.6 percent in 2016 (Figure 2.3). Lower-than-expected revenues,

Table 2.1

Macro-Fiscal Indicators for The Gambia (% of GDP)

	2012	2013	2014	2015	2016	2017	2018	2019
Revenues	**15,6**	**12,4**	**14,7**	**14,2**	**13,0**	**18,6**	**18,4**	**19,7**
Tax revenues	9,7	9,6	11,0	12,1	11,2	10,4	10,3	11,2
Taxes on income, profits and capital gains	3,2	2,6	3,0	2,8	2,7	2,6	2,5	3,0
Taxes on goods and services	4,4	4,2	4,9	5,4	5,1	4,8	5,1	5,5
Taxes on international trade and transactions	1,9	2,6	3,0	3,6	3,3	2,8	2,7	2,8
Others	0,1	0,1	0,2	0,2	0,1	0,1	0,1	0,0
Grants	5,1	1,8	2,5	1,4	1,1	8,0	5,9	5,5
Non-tax revenues	0,8	0,9	1,2	0,8	0,6	0,3	2,2	3,0
Expenditures	18,8	18,1	19,1	18,8	19,6	24,0	24,4	22,3
Compensation of employees	4,0	4,2	3,7	3,5	3,4	3,2	3,8	4,5
Goods and services	3,4	4,1	4,1	3,5	4,3	2,1	3,8	3,8
Interest	2,7	2,7	3,7	4,8	5,1	4,8	3,2	3,2
Subsidies and grants	1,1	1,8	2,4	2,4	2,5	2,3	2,5	2,4
Social benefits/pensions	0,1	0,2	0,2	0,2	0,2	0,3	0,2	0,6
Other	0,0	0,0	0,0	0,0	0,0	1,0	0,0	0,0
Capital expenditure	7,6	5,1	4,9	4,5	4,0	10,3	10,8	7,8
Fiscal balance	**-3,3**	**-5,7**	**-4,3**	**-4,6**	**-6,6**	**-5,3**	**-6,0**	**-2,6**
Primary balance	**-0,6**	**-3,0**	**-0,6**	**0,2**	**-1,5**	**-0,5**	**-2,8**	**0,6**
Gross debt (% of GDP)	49,5	58,2	71,1	69,4	80,9	87,0	86,6	82,5
GDP (%, real growth)	5,2	2,9	-1,4	4,1	1,9	4,8	6,5	6,0
Inflation (%, annual average)	4,6	5,2	6,3	6,8	7,2	8,0	6,5	7,1
Policy interest rate (%)	12,5	16,5	21,2	22,8	23,0	17,6	14,1	12,6
Exchange rate (GMD/USD, annual average)	32,1	36,0	41,7	43,2	43,8	46,8	48,4	50,3
Current account balance (% of GDP)	-6,6	-7,1	-6,9	-7,3	-6,5	-7,4	-9,7	-5,4
Gross international reserves (USD millions)	183,8	161,1	111,9	76,1	59,8	144,0	157,0	225,0

Source: SGOs, MOFEA; Gambia Bureau of Statistics; World Economic Outlook (WEO) Database; IMF (2020).

increasingly high expenditure on goods and services, and unbudgeted transfers to SOEs contributed to the deficit. Moreover, interest payments absorbed 43 percent of domestic revenues in 2016, far more than in Eritrea (23 percent) and other benchmark countries, constraining fiscal space for growth-enhancing and poverty-reducing expenditures. The gap between the overall and primary deficit reflects the burden of interest payments on fiscal outcomes.

This deterioration was interrupted in 2017 due to significant donor grants in the aftermath of elections. The overall fiscal deficit fell to 5.3 percent of GDP in 2017 from 6.6 percent one year earlier. This reflected the impact of an uptick in grants to

8.0 percent of GDP (up from 1.1 percent in 2016).[9] Thus, net domestic financing fell from 7.5 percent of GDP to -0.7 percent and net foreign financing grew from 0.7 percent of GDP to 5.7 percent.

However, the fiscal deficit widened in 2018 due to a shortfall in budget support and unexpected fiscal pressures from SOEs. The fiscal deficit increased to 6.0 percent in 2018 (from 5.3 percent in 2017), mainly due to lower grant revenues (by 2.1 percent of GDP), spending overruns on goods and services, and unbudgeted transfers to SOEs. Notably, tax revenues remained stagnant at 10.3 percent of GDP (Table 2.1). Although declining relative to recent years, interest payments commanded 25 percent of domestic revenues in 2018, leaving limited fiscal space for public investment and improved service delivery. Public debt remained high at 86.6 percent of GDP.

The fiscal deficit declined from 6 percent of GDP in 2018 to 2.6 percent in 2019, driven by an increase in domestic revenues. The contribution of externally financed capital expenditure to this adjustment amounted to 3.2 percent of GDP, tax collection amounted to 0.9 of GDP and non-tax revenues 0.8 percent of GDP. Although most recurrent expenditure categories stayed stable, compensation to employees increased by 0.7 percent of GDP (equivalent to 20 percent in real terms) as salaries of civil servants were raised by 50 percent. Interest payments declined further to 22.5 percent of domestic revenues and public debt declined to 82.5 percent of GDP.

A large fiscal deficit driven by low revenue and rigid expenditure has become a structural problem. On the revenue side, domestic revenue is low and below regional comparators. The Gambia's tax-to-GDP ratio is around 11 percent, well below the average for SSA (17 percent). Moreover, the country has no significant non-tax revenue sources in contrast to other countries with low tax-to-GDP ratios, such as Benin, Mali, Botswana, or Mozambique. The tax base is very narrow and tax collection systems are inadequate. On the expenditure side, about 65 percent of public spending is predetermined, which generates rigidities. SOEs have historically been a source of fiscal risks that have contributed to public debt accumulation and high level of transfers (see Section B for more details). Moreover, high interest payments add to expenditure rigidity. These issues are discussed further in Chapter 4.

Using domestic borrowing to finance the fiscal deficit has crowded out private investment. Private investment in the Gambia averaged 13 percent of GDP in 2000–2018, lower than the levels in Mauritania (30 percent), Uganda (19 percent), Senegal (16 percent) and the SSA average (16 percent). This is reflected in the country's level of private sector credit, which is among the lowest in SSA. Domestic credit to the private sector averaged 11 percent of GDP in 2000–2018, compared to 20 percent for Senegal, and 14–15 percent for Mauritania and Rwanda. The previous government's excessive reliance on domestic borrowing to finance fiscal deficits has crowded out credit to the private sector (Figure 2.4).

State-Owned Enterprises: A Source of Fiscal Risks

SOEs have, historically, remained the main source of contingent liabilities. Thirteen SOEs operate in key sectors of the economy.[10] Since their creation in the 1970s, their financial and operational performance has been poor. The government provides support in the form of subsidies, capital injections, on-lending, and loan

9 Interestingly, the primary deficit (excluding budget support grants) increased from 1.4 percent of GDP in 2016 to 3.9 percent of GDP in 2017.

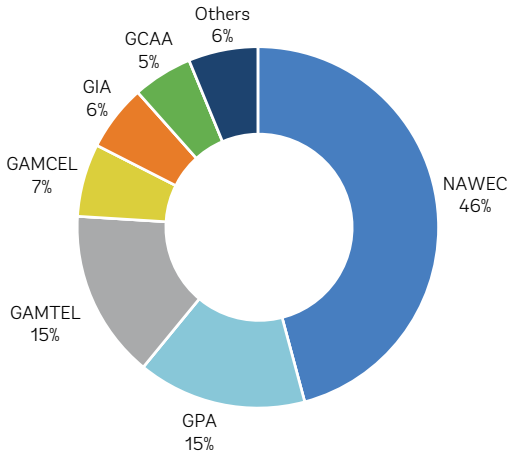
10 These are, as per sectors, *energy and water*: [National Water and Electricity Company (NAWEC) and Gambia National Petroleum Company (GNPC)], *telecommunications and media*: [Gambia Telecommunications Company (GAMTEL), Gambia Telecommunication Cellular Company (GAMCEL), Gambia Postal Services (GAMPOSTS), Gambia Public Printing Corporation (GPPC), and Gambia Radio and Television Services (GRTS)], *services* [Social Security and Housing Finance Corporation (SSHFC) and Asset Management Recovery Corporation (AMRC)], *air and sea transport*: [Gambia Ports Authority (GPA), Gambia Civil Aviation Authority (GCAA), Gambia International Airline (GIA)], and *agriculture*: [National Food Security Processing and Marketing Corporation (NFSPMC, formerly GGC)].

guarantees. In 2014, the inability of the three largest SOEs[11] to service their debts forced the Government to meet their external obligations, equivalent to 5 percent of GDP. As of 2017, the total unconsolidated liabilities of the SOE sector were estimated at about 43 percent of GDP—of which SOE guaranteed debt amounted to 13.9 percent of GDP, up from 7.2 percent in 2016. Other explicit liabilities may result from legal claims and capital injections; the International Monetary Fund (IMF) estimates the former at about 2.5 percent of GDP and the latter at 20 percent of GDP for the period 2018–2025.[12,13]

Fragmented oversight of SOEs has weakened their fiscal risk management and corporate governance structures. The involvement of multiple stakeholders with overlapping, uncoordinated roles has created chaos and unclear channels of communication. Boards are merely formal institutions and their members are not selected based on clearly defined, coherent criteria (such as their qualifications or relevant sector or technical knowledge). Therefore, they do not play a strategic oversight role. More generally, SOEs' commercial and non-commercial objectives are not separated, a situation that affects their legal and institutional mandates and compounds the legacy of financial indiscipline and mismanagement.

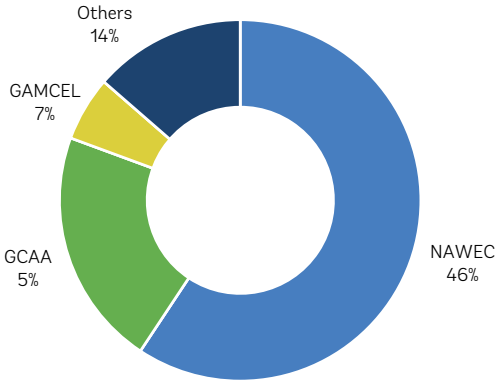
Some SOEs have experienced financial challenges that have had serious macroeconomic and fiscal implications. After incurring post-tax losses during 2010-2013, the sector's net profitability improved steadily from a loss of GMD1.7 billion (3.4 percent of GDP) in 2013 to a surplus of GMD0.4 billion (0.6 percent of GDP) in 2016. However, these aggregates mask serious financial difficulties of major SOEs. For instance, at the end of 2016, NAWEC, GAMCEL and NFSPMC liabilities exceeded the value of their assets. The accumulated net worth of these three entities was a negative GMD2.2 billion (3.4 percent of GDP) (Figure 2.5 and Figure 2.6). This obligated the Government to step in. Restructuring of NAWEC's debt was initiated and three-fourth of it is being effected (10.5 percent of GDP). In addition, the Government has been clearing NFSPMC's arrears on or paying on its behalf to the Islamic Trade Financing Corporation (ITFC) credit facility[14] since 2014.[15]

Figure 2.5: Relative Size of SOEs in terms of Income, 2016



Source: SOE Financial Statements, MOFEA and staff calculations.

Figure 2.6: Relative Size of SOEs in terms of Indebtedness, 2016



Source: SOE Financial Statements, MOFEA and staff calculations.

11 NAWEC, GAMTEL and NFSPMC
12 Authorities rebased the GDP series in 2018 but the figures in this paragraph use the old GDP series.
13 Harris *et al.* (2017).
14 The ITFC trade credit facility is used by the GNPC, NAWEC, and NFSPMC. While the debt is contracted by the government, it is to be serviced by the beneficiaries directly.
15 In 2019, the Government provided GMD350 million (0.4 percent of GDP) to clear arrears of the NFSPMC to ITFC.

Box 2.1

Turnaround of NAWEC – A Success Story in the Making?

Energy sector in The Gambia has registered solid improvements in supply and efficiency since 2017. Power supply has been stabilized through an emergency plan implemented under the new government. Available generation in the Greater Banjul Area increased from 27 MW in October 2017 to 80 MW in October 2019, sufficient to meet peak demand of 70 MW. In parallel, NAWEC implemented several short-term measures to improve grid stability. These measures helped to increase power supply from 2-3 hours per day in October 2017 to almost 24/7 power in October 2019. In addition, NAWEC has been aggressively tackling Transmission and Distribution losses, through prepayment meters, which helped to reduce those from 28 percent in 2015 to 19 percent in 2019.

Important steps have been taken to support the turnaround of NAWEC into an efficient, credit-worthy, financially viable utility. NAWEC remains financially unviable, accruing around GMD500 million (0.6 percent of GDP) in yearly losses, and is a major source of fiscal risk. The cost of electricity in The Gambia is estimated at US$0.27 per kWh on a cash-needs basis[a] against average tariff of US$0.23 per kWh in 2019, one of the highest in SSA. Several reforms to address the financial viability of NAWEC are undergoing. These include: (i) debt restructuring, which will remove 75 percent of the debt from NAWEC's balance sheet; (ii) addressing the stock and flow issue of arrears from public sector customers; and (iii) implementation of a new tariff mechanism to introduce important changes including an automatic fuel pass-through mechanism.

The 2017 emergency roadmap aimed to diversify the energy mix and promote a shift towards more affordable electricity imports and renewable energy. The Gambia relies on heavy fuel oil for its electricity generation, meaning that the cost of service is subject to oil price shocks. The Government seeks to add 40 percent of renewable energy by 2025 and complement that with electricity imports from the emerging regional power market. Finally, The Gambia is on track to achieve universal access by 2025, five years ahead of the target set in the Sustainable Development Goals. The 2020 roadmap, under preparation, will provide an opportunity to review demand forecasts and set goals on energy security and renewable energy.

To underpin NAWEC's turnaround, a performance contract was signed between the MOFEA and the NAWEC Board of Directors. This performance contract defined targets for key performance indicators such as plant availability, technical losses, bill collection rates, and fuel efficiency of generation, with appropriate incentives to meet those targets. The Government is pursuing a competitive recruitment of NAWEC's management team, critical to ensure that the improvements in the sector are sustained and the reform process can continue.

Sustainability of these reforms, however, remains uncertain due to serious technical, organizational, and financial challenges faced by NAWEC. While energy supply has improved, it has been bolstered partly by short-term power rental in the form of a 36 MW power barge, due to expire in September 2020. In the short run, it is critical for NAWEC to deliver new plants under construction timely and complete the repair of old engines. In parallel, given the long lead times on generation projects, which typically take 2-4 years to realize, NAWEC must continue preparations for modernization and expansion of its generation fleet. In this regard, the update to the least cost power development plan is ongoing which is a key pillar of the 2020 energy sector roadmap.

a. Cash needed to cover immediate operating costs and debt servicing of the utility.

Source: Adapted from the (draft) Project Paper of Gambia Electricity Restoration and Modernization Project AF, May 2020.

The SOEs' poor economic performance has also led to an accumulation of arrears with the Government and among themselves. In 2014, SOE arrears reached unsustainable levels, with tax arrears at 2.6 percent of GDP. As of end-June 2019, SOEs owed the Government a total of GMD3.3 billion on net basis or 3.7 percent of GDP (including tax arrears). NAWEC remains the largest debtor, owing the Government 2.4 percent of GDP. The other main debtors are the GCAA (1.5 percent of GDP) and GAMCEL (0.4 percent of GDP).

A combination of on- and off-budget support to NAWEC represented a substantial fiscal drain on public resources, however the company is working towards a turnaround. In 2015 and 2016, government fuel purchases on behalf of NAWEC costed US$20 million (or 1.5 percent of GDP) per year. In 2017, NAWEC's fuel imports were liberalized that reduced costs by 15 percent. Other sector and corporate reforms, that have already been taken or are under process, aim to make NAWEC fiscally sustainable over the medium-term (See Box 2.1 for details).

NAWEC's financial model projects a positive debt service coverage ratio from 2021 onwards. However, the purchase of fuel remains a critical issue until the energy mix can be substantially modified. The move to monthly budgeting and variance analysis by cost center should improve cost control. In the meantime, reorganization of Finance Department, recruitment of missing skills, the catch up of financial accounts[16] should all help in improving cash flow management. The review of tariffs in 2020 as per the new tariff methodology should also help analyze where savings can be made and may help to improve revenue, depending on the outcome of that review.

GAMTEL and GAMCEL pose two different forms of significant fiscal risks. First, the two companies are right behind NAWEC in terms of financial losses incurred since 2010. GAMCEL was insolvent as of December 2017 and would require an estimated US$15–20 million to upgrade its mobile network to catch up with other mobile operators. Its main source of revenue which used to accrue from the international voice gateway has shrunk drastically over the years for various reasons including the increasing use of over-the-top services such as Skype and Viber. Furthermore, their combined tax arrears make up over 48 percent of total SOE tax arrears. Second, as of the end of 2018, the Government must service telecom-related loans amounting to 3.6 percent of GDP which will continue over the next two decades.[17] GAMCEL's financial statements for the end of 2018 also show commercial debt totaling 1.3 percent of GDP.

The 2017 fiscal stress tests[18] showed negative operating profits for GAMCEL under both the baseline and shock projections. GAMTEL shows more promise under the baseline scenario. However, under the stress scenario the government would have to provide a capital injection of GMD3.5 billion (5 percent of GDP) for GAMCEL and about GMD1 billion (1.4 percent of GDP) for GAMTEL over 2018–2025 in order to continue service provision.

A large element in GAMTEL and GAMCEL's cost structure is payroll and the planned retrenchment could improve operating margins. With around 1,384 employees, GAMTEL and GAMCEL employ about 56 percent of all employees in the telecom sector. The extent of overstaffing was documented in a human resource audit finalized in 2016, but no corrective action was taken. Almost 50 percent of their revenues go towards payroll. In 2018, revenue per employee for GAMTEL and GAMCEL was GMD470,794 and GMD809,208 respectively while the figures for AFRICEL, QCELL and COMUIM were GMD5.6 million, GMD1.5 million and GMD1.2 million respectively. The Government would need to rationalize staffing and undertake restructuring of these telecom SOEs to improve

16 NAWEC's 2017 financial accounts were recently published, and the 2018 accounts are under preparation and expected to be published by June 2020. NAWEC plans to prepare the financial accounts for 2019 in 2020 and have them audited thereafter.
17 The debt servicing schedules will require on average 0.3 percent of GDP each year during 2018–2038.
18 Harris, *et al.* (2017).

their financial and operational performance and thereby, mitigate fiscal risks.

Aware of the growing fiscal risks, the Government approved a comprehensive SOE reform program in April 2016. It transferred responsibility for monitoring SOEs to the Ministry of Finance and Economic Affairs (MOFEA). The Cabinet approved a Code of Good Corporate Governance for the SOEs. It completed the special purpose audits of seven SOEs in 2019 and signed agreements with those SOEs to implement the audits' recommendations. It has initiated audits of the remaining SOEs. Further, a new SOE law defines the governance framework in line with international standards, although its promulgation is pending the adoption of new Constitution. The Government has elaborated a time-bound strategy for clearing verified arrears. Its arrears with NAWEC have been wiped and it has established a system to prioritize its electricity bill payments to avoid those arrears re-accumulating. Payment plans are also being signed and implemented with other SOEs.

The Government aims to strengthen the control over the use of trade credit facilities contracted with the ITFC on behalf of SOEs. The large repayments to this short-term ITFC facility have the potential to undermine debt service relief and pose a significant risk to debt sustainability. Thus, to progressively reduce the reliance on this facility, especially by NFSPMC and NAWEC, the Government plans to avoid arrears to ITFC by closely monitoring the financial situation of the SOEs and timely provisions of subsidies. The government obligations related to the use of the facility seem to have diminished in 2020 relative to previous years. These obligations are projected to reach zero by end-2022, contingent upon (i) progress on SOE reform, (ii) a move to explicit budgeting of SOE subsidies, and (iii) changes to the modalities of contracting and servicing of trade credits by SOEs.

Debt Dynamics

The Gambia has a history of persistently high public debt levels. In the early 2000s, public debt averaged 80 percent of GDP, and this led The Gambia to benefit from the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiatives. After reaching its completion point under the HIPC Initiative in 2007, The Gambia had received 80 percent debt relief from both multilateral and bilateral creditors to address unsustainable growth in external debt.[19] The stock of public debt fell from 86 percent of GDP in 2006 to 38 percent in 2007, which helped reduce interest payments. Despite having received extensive debt relief, The Gambia remained at high risk of debt distress every year during 2006–2012, an indication that it had not addressed the underlying causes of debt accumulation.

The main drivers of public debt accumulation have been a lack of fiscal discipline, weak budgetary controls, and the government's absorption of SOE-contingent liabilities. Public debt has doubled from 41 percent of GDP in 2010 to 82.5 percent in 2019, implying that the gains in debt relief arising from the HIPC in 2007 have been virtually lost. The Gambia's public debt is the sixth largest among SSA countries, behind Eritrea, Cabo Verde, Mozambique, Angola, and the Republic of Congo. Moreover, it is significantly higher than the average of its aspirational peers (52 percent of GDP) and other countries in the region (50.2 percent of GDP) (Figure 2.9). The excessive debt burden explains the high share of interest payments in public spending.

The composition of public debt changed with increasing reliance on domestic debt instruments (Figure 2.7). Domestic debt in The Gambia reached 36.6 percent of GDP in 2019 (44.4 percent of total debt), while in its aspirational peers domestic debt only represents 14 percent of

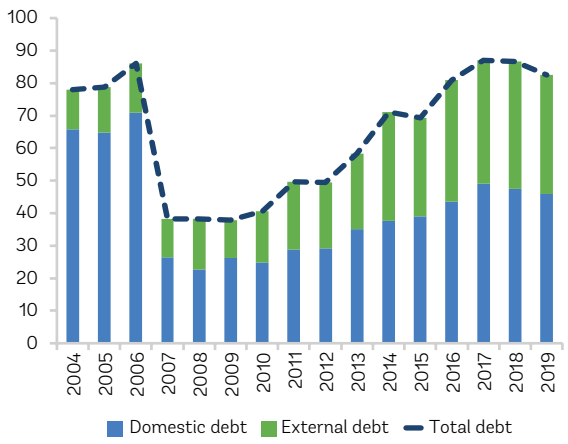
19 Multilateral creditors included the IMF, the International Development Association, the African Development Bank group, the European Union, the Islamic Development Bank, ECOWAS, the International Fund for Agricultural Development, and the Fund for International Development of the Organization of the Petroleum Exporting Countries. Bilateral creditors included Paris Club creditors and non-Paris Club creditors (Saudi Fund for Development, Kuwait Fund for Development, Taiwan Export Import Bank, Libya, and China).

GDP (27 percent of total debt). This over-reliance on domestic debt exposes it to interest-rate and refinancing risks. The share of domestic non-marketable instruments has diminished from 25.5 percent of GDP in 2016 to 13 percent in 2019. The remaining domestic debt takes the form of treasury bills (20.3 percent of GDP) and bonds (3.3 percent), largely held by domestic financial institutions.

External debt composition has also changed. The share of debt from multilateral and plurilateral creditors fell from 37.3 percent to 30 percent of GDP over the period 2016–2019, and the share of bilateral official creditors from 15.2 percent to 12.5 percent of GDP (Figure 2.8). A large share of the external debt is denominated in US dollars (45 percent), followed by Kuwaiti dinars (22 percent) and Special Drawing Rights (SDRs) (14 percent).

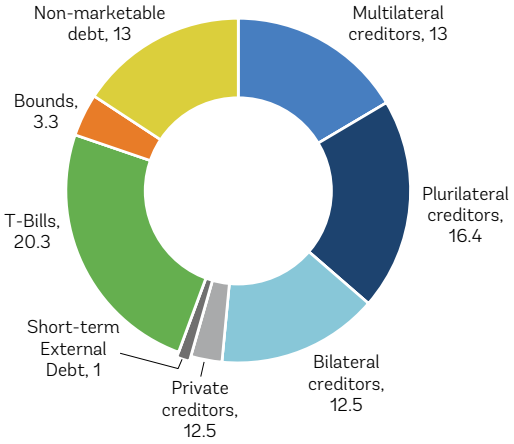
In early 2020, the authorities secured debt relief from major plurilateral and bilateral creditors that helped reduce liquidity risks. The authorities are taking several steps, such as avoiding contracting new non-concessional

Figure 2.7: External and Domestic Debt, 2004–2019 (% of GDP)



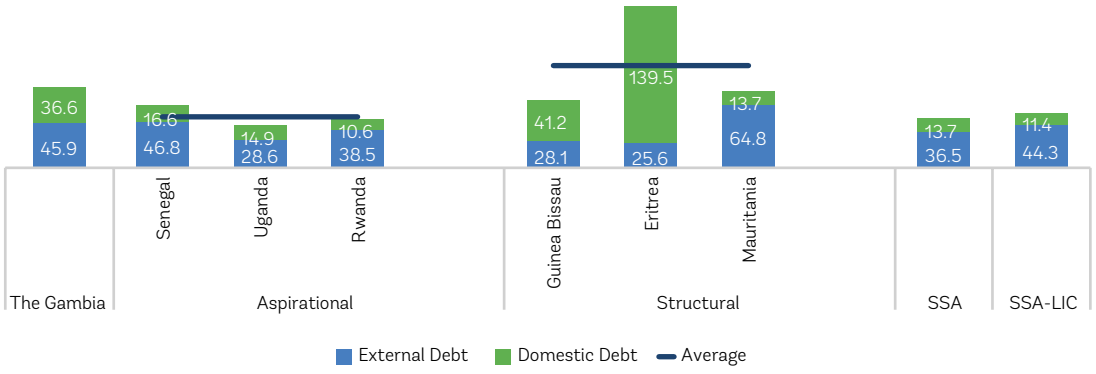
Source: World Bank based on WEO and Debt Sustainability Analysis Report, IMF (2020).

Figure 2.8: External and Domestic Debt Composition, 2019 (% of Total Debt)



Source: World Bank based on WEO and Debt Sustainability Analysis Report, IMF (2020).

Figure 2.9: Benchmarking General Government Gross Debt, 2019 (% of GDP)



Source: WEO database, IMF.

external debt,[20] curbing net domestic borrowing,[21] extending maturities, and gradually reducing the domestic debt-to-GDP ratio. On the external front, the Government has secured credible assurances of debt relief with official creditors[22] and envisages any additional public investment will be financed through external grants and concessional loans. Implementing the approved medium-term debt strategy is critical for The Gambia as short-term domestic liabilities are still high (20 percent of GDP).

Fiscal Sustainability Analysis

The Gambia has not succeeded in strengthening its public finances in recent years despite being in debt distress. This leaves the country without any defenses to withstand macroeconomic or macro-financial shocks. In early 2018, the IMF carried out a fiscal stress test to provide Gambian policy makers with tools to understand the fiscal strength and capacity to absorb fiscal shocks.[23] At that time the country had no fiscal space and very high public debt (around 120 percent of GDP)[24] due to fiscal slippages and embezzlement and corruption by the previous administration. The policy recommendations from the stress test included reducing the contingent liability impact of SOEs, undertaking fiscal savings measures, lengthening the maturity of domestic debt, rescheduling external debt, obtaining grants for budget support, expanding the tax base, and ameliorating macro-financial risks. Although the fiscal deficit declined in 2019, this may not be structural as it was driven by a huge decline in externally financed capital expenditure that affected economic growth and development.

This section uses fiscal sustainability analysis to present fiscal and debt projections for the period 2020–2024. The fiscal sustainability analysis complements the latest IMF-WB LIC Debt Sustainability Analysis (DSA) and the new debt, investment, and growth model developed by Buffie et al. (2019). Box 2.2 summarizes the methodology, baseline assumptions, and outcomes for each analysis.

The analysis uses a baseline and three policy scenarios. The **baseline** reflects the assumptions of the Government's Medium-Term Economic and Fiscal Framework (MTEFF) for 2020–2024 with some modifications. This baseline is then adjusted through three scenarios: (i) adopting a new financing strategy in line with the Medium-Term Debt Strategy (MTDS) for 2019–2022 **(debt strategy)**; (ii) the materialization of contingent liabilities of SOEs **(SOE risks)**; and (iii) reversing the consolidation measures of 2019 embedded in the baseline scenario **(policy reversal)**. All scenarios include the debt relief approved in early 2020 by plurilateral and bilateral external creditors. These scenarios were selected based upon the menu of policy options available to the Gambian authorities and are consistent with the main drivers of the fiscal deficit presented in the previous section. Table 2.3 summarizes the scenarios.

The Baseline

The fiscal dynamics are projected to improve under the baseline but not enough to alleviate domestic debt vulnerabilities (Figure 2.10). Total revenues are expected to reach 21.2 percent of GDP by 2024. The primary fiscal balance would improve to a deficit of 0.1 percent of GDP and the overall fiscal deficit would decline from 2.6 of GDP in 2019 to 2.3 percent in 2024. As a result, interest payments would progressively absorb a smaller portion of domestic revenues (from 22.5 percent in 2019 to 14.6 percent in 2024). Gross borrowing requirements would be partially relaxed

20 Two new non-concessional external loans were signed in 2019, exhibiting poor debt policy decisions. Nonetheless, authorities have taken corrective measures during the contracting phase.
21 The Government has committed to a net domestic borrowing limit of 2 percent of GDP for 2019 and a zero limit for 2020 onwards under the IMF Staff-Monitored Program (SMP) and Extended Credit Facility (ECF) respectively.
22 The debt service deferred between 2020 and 2024 amounts to US$158 million (equivalent to 9 percent of 2019 GDP), which renders The Gambia's public debt sustainable on a forward-looking basis.
23 Harris, *et al.* (2017).
24 At that time, the rebased GDP numbers were not finalized, and the debt ratio was calculated using the old series.

Box 2.2

The Gambia - Comparing recent fiscal sustainability exercises

	IMF-WB DEBT SUSTAINABILITY ANALYSIS, March 2020	BUFFIE'S GROWTH STUDY, June 2019	FISCAL SUSTAINABILITY ANALYSIS, April 2020
Methodology			
	M1. A composite indicator to assess country's debt-carrying capacity drawing on a set of country-specific and global factors. M2. The Debt Sustainability Framework classifies countries into one of three debt-carrying capacity categories (strong, medium, and weak). Corresponding to these categories, the framework establishes three indicative thresholds and a benchmark for each of five debt burden indicators. M3. Based on these thresholds and benchmark, DSAs include an assessment of the risk of external and overall debt distress based on four categories: low; moderate; high risk; and in debt distress.	M1. Model is centered on the public investment–growth nexus. M2. It has three productive sectors, several types of public debt, and a wide array of tax and spending variables. It includes skilled labor and public investment in human capital, maintenance investment and new investment in infrastructure; and sector-specific taxes on wages, profits, and consumption. M3. A borrowing and investment program is judged sustainable if the ratio of public debt to GDP eventually converges to a stationary level.	M1. Deterministic fiscal sector model with macroeconomic principles that generates projections. M2. Unitary elasticities for variables projected. M3. Main endogenous variable is the change in net public debt.
Assumptions (Baseline)			
	A1. Real GDP growth is expected to moderate to 4.8 percent. A2. Inflation gradually declines to just below the Central bank's 5 percent target. A3. The primary surplus is projected to increase from 0.6 percent of GDP in 2019 to 1.8 percent of GDP by 2026, due to stepped-up domestic revenue mobilization and an increase in grants. A4. The overall fiscal deficit would stabilize at 1.5 percent of GDP in the long term. A5. Project grants are projected to gradually taper off to around 2 percent of GDP. A6. Substantial budget support grants will help reduce recourse to domestic borrowing. A7. Project loan disbursements over 2019–2024 are expected to be 19 percent of GDP. A8. The (non-concessional) ITFC facility is assumed to diminish by US$10 million per year from 2020 onwards, to reach zero by 2022 (due to progress on SOE reform).	A1. Average return on infrastructure investment of 20%. A2. Public investment permanently increases by 4 percent of initial GDP.	A1. Scenario constructed using the assumptions in the Government's MTEFF with some modifications. A2. Tax and non-tax revenues increase by 1.6 percent of GDP between 2019 and 2024. A3. Primary expenditure declines by 0.4 percent of GDP, based on a decrease in project grants and subsidies (SOE efficiency gains) and in wages and use of goods and services (civil and security sectors efficiency gains). Due to these gains and lower interest burden, total expenditure decline by about 0.8 percent of GDP between 2018 and 2024. A4. External loan disbursements (project and budget support) over 2020–2024 are expected to be 15 percent of GDP. A5. Domestic borrowing covers the rest of the financial gap: 92.5 percent through treasury bills and 7.5 percent through medium-term bonds.

Box 2.2

	IMF-WB DEBT SUSTAINABILITY ANALYSIS, March 2020	BUFFIE'S GROWTH STUDY, June 2019	FISCAL SUSTAINABILITY ANALYSIS, April 2020
Outcomes			
	O1. The Gambia is in high risk of debt distress (after debt restructuring, the external debt service indicators improved markedly). O2. Total public debt-to-GDP ratio declines to 58.4 percent by 2024. O3. The public debt-to-revenue ratio averages close to 227 percent over the next ten years. O4. Gross financing needs are projected to average 18 percent of GDP over 2020–2025.	O1. GDP, employment, and real wages increase by 16.1, 19.5, and 16.3 percent, respectively, at the 20-year horizon. O2. External financing and revenue gains from higher growth reduce public debt to 67 percent of GDP at year 15 with marginal increases in VAT.	O1. Primary fiscal balance improves to a deficit of 0.1 percent of GDP and the overall fiscal deficit declines to 2.3 percent in 2024. O2. Total public debt-to-GDP ratio falls to 58.8 percent by 2024. O3. Interest payments absorb a smaller portion of domestic revenues (14.6 percent in 2024). O4. Gross financing needs are slightly relaxed to 19.2 percent of GDP by 2024.

due to external debt service deferral for almost 9 percent of GDP between 2020 and 2024 and the reduction in the fiscal deficit, amounting to 19.2 percent of GDP by 2024. The ratio of public debt to GDP would fall to 58.8 percent by 2024 (about 23.7 percentage points). However, more efficiency gains will be needed both to cover the cost and rollover risk of domestic debt and mitigate macro and fiscal policy risks.

The Scenarios

Scenario 1 (debt strategy) assesses the impact of implementing the approved debt strategy, which would improve liquidity dynamics. The overall fiscal deficit will improve by about 0.3 percentage points above the baseline by 2024 (Figure 2.12). Implementation of the debt strategy will reduce interest payments to 12.8 percent of domestic revenues by 2024, or about 1.8 percentage points below the baseline. Gross borrowing requirements would be largely relaxed, representing 15.5 percent of GDP. Public debt would fall to 58.2 percent of GDP by 2024, about 0.6 percent of GDP below the baseline.[25]

Under Scenario 2 (SOE risks), SOEs require higher budgetary transfers to sustain their operations deteriorating fiscal and debt positions. Higher spending on SOEs increases public spending by 1 percent of GDP every year from 2020 onwards to finance the operational deficits of SOEs. All fiscal numbers deteriorate significantly compared to the baseline. The primary deficit increases by 1 percent of GDP every year relative to baseline, ending at 1.1 percent of GDP in 2024. The overall deficit reaches 3.7 percent in the same year. Public debt approaches 63.9 percent of GDP (Figure 2.11). Gross borrowing needs skyrocket to 23.9 percent of GDP in 2024, with short-term domestic borrowing needs reaching 18.2 percent of GDP. The burden of interest payments on domestic revenues is much higher than under the baseline, reaching 17.2 percent in 2024 (2.6 percent above the baseline).

25 The debt-stabilizing primary deficit should be 3.0 percent of GDP from 2024 onwards to maintain a public debt-to-GDP ratio of between 55 and 60 percent. This is based on a real GDP growth rate of 4.8 percent and an average real interest rate of -1.8 percent (a nominal interest rate of 3.2 percent minus an inflation rate of 5 percent).

Table 2.2

Macro Fiscal Projections

		Baseline		Scenario 1		Scenario 2		Scenario 3	
	2019	2020	2024	2020	2024	2020	2024	2020	2024
	Act.	% of GDP							
Primary balance	0,6	-0,9	-0,1	-0,9	-0,1	-1,9	-1,1	-3,3	-3,2
Fiscal balance	-2,6	-3,5	-2,3	-3,5	-2,0	-4,5	-3,7	-6,0	-6,4
Debt stock	82,5	76,6	58,8	76,6	58,2	77,6	63,9	79,0	72,7
External	45,9	42,7	35,2	43,2	37,3	42,7	35,2	42,7	35,2
Domestic	36,6	33,9	23,7	33,4	20,9	34,9	28,7	36,3	37,5
Gross borrowing requirements as % of GDP	24,0	27,1	19,2	27,1	15,5	28,1	23,9	29,5	32,1
Interest as % of domestic revenues (net of grants)	22,6	19,4	14,6	19,4	12,8	19,4	17,2	21,5	25,8
Domestic revenues as % GDP	14,2	13,7	14,9	13,7	14,9	13,7	14,9	12,4	12,4

Source: MOFEA and Gambia Bureau of Statistics (2019); World Bank projections (2020–2024).

Scenario 3 (policy reversal) presents the fiscal trajectory if the fiscal adjustment of 2019 is reversed. Macro-fiscal indicators do not deviate from previous years, with revenues and spending following nominal GDP and consumption growth. The fiscal consolidation measures outlined in the MTEFF are not implemented. Treasury bills will form 92.5 percent of gross domestic borrowing, with 7.5 percent borrowed through 5-year bonds. External borrowing is projected at 3 percent of GDP per year.[26] The primary fiscal deficit remains at 3.2 percent of GDP and the overall fiscal deficit is 6.4 percent of GDP. The public debt-to-GDP ratio will stand at 72.7 percent (Figure 2.13). Interest payments absorb a larger share of domestic revenues (25.8 percent of domestic revenues in 2024 compared to 14.6 percent in the baseline). Gross borrowing requirements will average 32.1 percent of GDP per year, covered by excessive short-term domestic borrowing, leading to liquidity pressures in the domestic debt market.

Comparing these scenarios with the baseline suggests that partial measures will not allow fiscal consolidation in the medium term (Table 2.2). The Gambia will need to simultaneously mobilize greater domestic revenues, improve the governance of its SOEs, and implement its debt strategy to preserve fiscal sustainability and eliminate short-term liquidity pressures (Scenario 1). In a nutshell, the Government would need to achieve a fiscal consolidation of 3.7 percent of GDP over 2020–2024. At the same time, it needs to maximize grant financing and seek external concessional loans only if grants are not available. It needs to also design a domestic debt issuance strategy anchoring on 3-and 5-year domestic bonds in order to reduce both the borrowing costs and refinancing risks.

26 The average maturity of this debt is assumed to be 25 years, together with a grace period of 5 years and an interest rate of 1.5 percent.

Table 2.3

Description of Scenarios for Macro-Fiscal Projections

Scenario		Key drivers for the projections
Baseline	**Fiscal Consolidation (MTEFF 2020–2024) + Debt Relief**	**Revenue**: improved domestic revenue mobilization policies following MTEF 2020–2024 targets for tax and non-tax collection (+1.6 percent of GDP between 2019 and 2024). **Primary expenditure**: decline by 0.4 percent of GDP based on efficiency gains in SOEs, civil and security sectors. NDP related expenditure will increase. **Total expenditure**: decline by 0.8 percent of GDP due to lower interest burden. Expenditure cuts are equal to the financial gap reported in the MTEFF 2020–2024 minus debt relief. **Debt relief (DSA, March 2020)**: The total debt service deferred between 2020 and 2024 amounts to US$158 million (equivalent to 9 percent of 2019 GDP). Binding debt restructuring offers have been made by most participating creditors, while in two cases these offers are still being finalized. OPEC Fund for International Development is currently undergoing a final review and ECOWAS Bank for International Development is finalizing its proposal for debt deferral. Reaching agreements will likely require more time in four cases, including three official creditors (Libya, Taiwan, and Venezuela) and one private creditor (M. A. Kharafi and Sons). However, these only represent 5.9 percent of total debt service reduction.
Scenario 1	**Debt Strategy (MTDS 2019–2022)**	**Revenue and primary expenditure** follow Baseline assumptions. **Financing**: Strategy 4 of the MTDS and DSA (March 2020) (S4: maximizing external concessional financing and restructuring the external debt -principal and interest based on the favorable scenario of debt relief included in the MTDS) 1) Maximizing external concessional financing in order to reduce borrowing cost (3.5 percent of GDP per year); 2) Continuing the issuance of the 3-and 5-year bonds to develop and deepen the domestic debt market (15 percent of domestic financing vs 85 percent T-Bills); 3) Extending the maturity of domestic debt by substituting a greater proportion of the short-term debt with longer-term debt, thereby minimize refinancing risks of the portfolio.
Scenario 2	**Policy option (SOE shock)**	**Revenue**: following Baseline assumptions. **Expenditure**: +1 percent of GDP of transfers to SOEs per year from 2020 onwards (based on the MTEFF 2020–2024 risk scenario)
Scenario 3	**Policy Reversal**	Policy reversal of the revenue and expenditure adjustments in 2019. No major policy action keeps revenue and expenditure stable relative to 2019 nominal GDP except for interest payments. Includes debt relief for 2020-24.

Figure 2.10: Baseline (Fiscal Consolidation) Projections, Percent of GDP

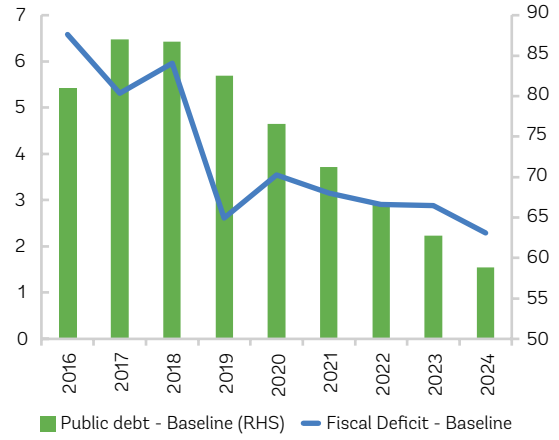


Figure 2.11: Scenario 2 (SOE Risks) Projections, Percent of GDP

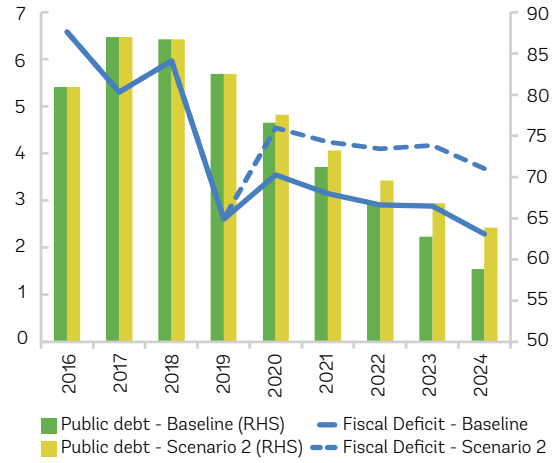


Figure 2.12: Scenario 1 (Debt Strategy) Projections, Percent of GDP

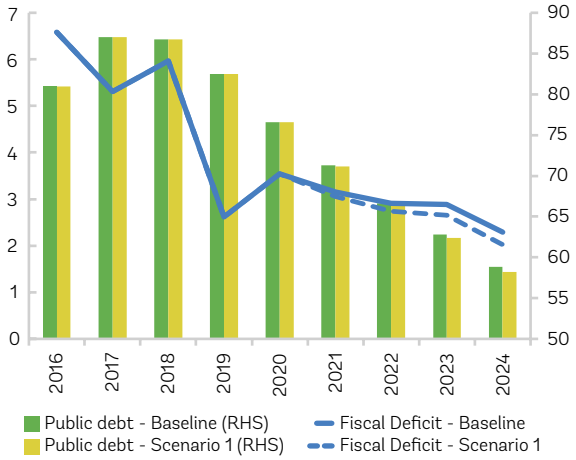
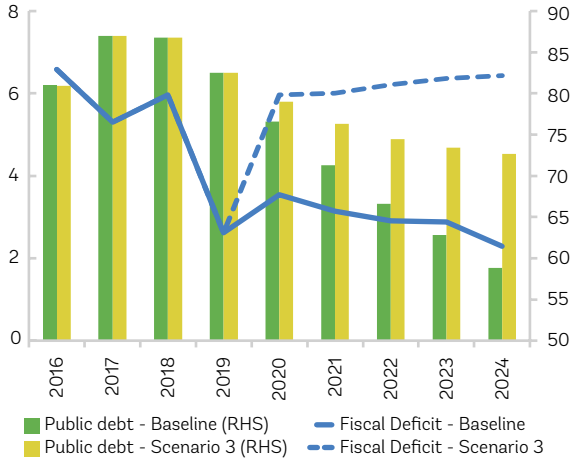


Figure 2.13: Scenario 3 (Policy Reversal) Projections, Percent of GDP



Source: Author's calculations and projections.

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Revenue Mobilization

The Gambia lags its peers in revenue mobilization, with tax revenue averaging 10 percent of GDP over 2008–2019, despite various initiatives implemented through successive budget acts. The structural tax gap is assessed at 4–6 percent of GDP, and tax sources across the board are under-utilized compared to peer countries. Its ability to enhance its tax-to-GDP ratio is, however, profoundly constrained by extremely limited tax policy and administrative capacity, including a lack of the data needed to support sound policy elaborations.

This chapter identifies several reform areas, aiming at partially closing the tax gap over the medium term. These include rolling back some of recent softening of income taxation, particularly in personal income tax, as well as rationalization of tax expenditures, at the border and in domestic taxation; and expanding the domestic excise tax base. Improving institutional capacity by creating a tax policy unit in the Ministry of Finance and Economic Affairs, enhancing capacity in tax administration through digitization, and elaborating a medium-term revenue strategy should be short-term priorities. These reforms could increase tax collection to the tune of 3.0-3.3 percent of GDP.

This chapter is organized as follows. The first section analyzes The Gambia's tax performance, benchmarked against peer countries, and considers its tax potential. The next section discusses the profile and trends of key direct and indirect taxes. The last section outlines reform options to improve revenue mobilization.

3 Revenue Mobilization

Taxation in the Gambia and Peer Perspective

The Gambia needs to improve revenue mobilization to finance its significant investment needs and address its public debt vulnerabilities. Investment as a share of GDP is low compared to structural and regional peers. The extent and quality in service delivery in critical areas, such as education, health, and electricity, needs improvements. Moreover, servicing the public debt consumes a large share of domestic revenues. Creating fiscal space through higher levels of domestic revenue mobilization, among other measures, will be critical to help it address its massive development needs and debt vulnerabilities. Total government revenue, including grants, stood at 19.7 percent of GDP in 2019 (Figure 3.2 and Annex III, Table A3.1).

Grants have been very volatile. Foreign assistance from major multilateral and bilateral donors was minimal in the twilight years of the previous regime. Although grants averaged 3.3 percent of GDP and 20.7 percent of total revenue over the period 2008–2019, the figure was driven upwards by large amounts of grants in 2012 and during 2017-19. There was a significant spike in grants in 2017, to 8 percent of GDP, reflecting a "bandwagon effect" as the democratic transition opened opportunities for fiscal reform and international donors were quick to provide budget support grants.

Non-tax revenue remains marginal, driven by government services and charges as well as telecommunications license fees. In 2019, non-tax revenue amounted to 3.0 percent of GDP and 15.4 percent of total revenues, demonstrating their relatively limited contribution. Revenues come from government services and charges from the Gambia Revenue Authority (GRA) and from customs, telecommunications licenses, and rent revenue from the Domestic Taxation Department (DTD). The increase in non-tax revenue—from 0.9 percent of GDP in 2017 to 2.2 percent in 2018—is due to the sale of government land and planes, as well as the recapture of government funds from the former political regime amounting to 1 percent of GDP.[27] In 2019, the receipts of nearly 0.9 percent of GDP in signature bonuses from the prospecting petroleum companies (BP and FAR Gambia Limited) helped boost non-tax revenue.[28]

At 11.2 percent of GDP in 2019, tax revenue remains insufficient to meet service delivery needs. Tax revenue averaged 10.1 percent of GDP during 2008–2019, accounting for 70.7 percent of total revenue (Figure 3.2 and Annex III, Table A3.2).[29] The Gambia's tax revenue ratio is below the level needed to perform its most basic state functions and finance development programs. This ratio is

27 IMF (2018a, 2019).
28 IMF (2020).
29 In 2017 and 2018, tax revenue contributed only 55 percent of total revenue as grants increased substantially.

also well below the SSA average of 17 percent of GDP (Table 3.2).[30] Low revenues are generally a result of weak tax administration capacity, such as difficulties in enforcing tax collection and ensuring compliance, and weak tax policy design, including too many exemptions in the tax bases.

Benchmarking

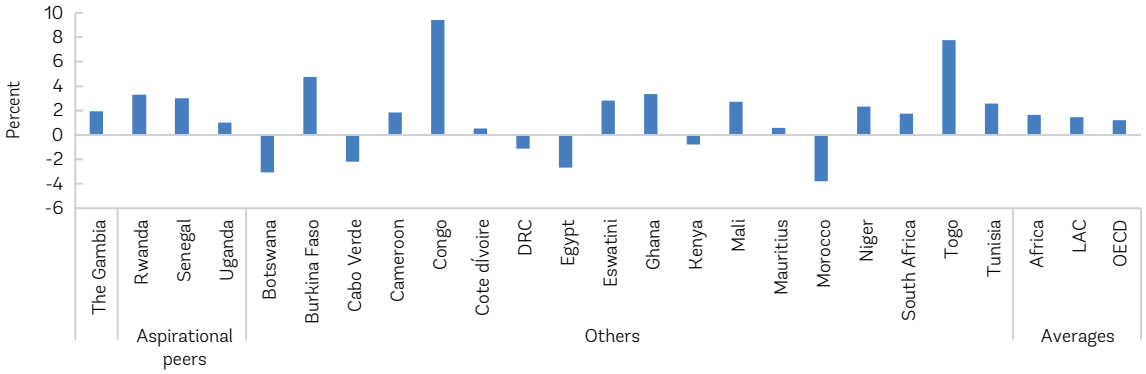
Grants play a significant role in the revenue envelope of peer countries (Figure 3.5). Grants to The Gambia amount to 3.3 percent of GDP, higher than in Mauritania (1.1 percent), Eritrea (1.9 percent), Senegal (2.1 percent) and Uganda (1.7 percent). Rwanda and Guinea-Bissau receive significantly more grants, averaging 8.3 percent and 7.5 percent of GDP respectively.

Non-tax revenues in The Gambia are lower than in all its aspirational peers except Uganda. The average non-tax revenue over the period under review was 1.3 percent of GDP in The Gambia, while for the period 2008–2016,[31] non-tax revenue amounted to 1.6 percent of GDP in Rwanda, 1.4 percent in Senegal, and 0.2 percent in Uganda. These countries employ a variety of non-tax revenue instruments, including royalties, dividends on government investments in state-owned enterprise (SOEs), pollution fees, telecommunications fees, and levies on natural resource extraction.[32]

The Gambia's tax revenue increased by 1.9 percent of GDP between 2008 and 2019. This was less than most of its aspirational peers, which increased their ratio of tax to GDP by 3–5 percent in the last decade with the exception of Uganda (Figure 3.1). Countries like the Republic of Congo and Togo saw tax-to-GDP increases of 8–9 percent. Only Mauritius and Cote d'Ivoire experienced zero-growth situations while for some countries it has fallen.

All peer countries, except Eritrea, display a greater dependency on indirect tax sources (Figure 3.4). Only in The Gambia do taxes on goods and services fetch less than international trade taxes, averaging 2.5 percent of GDP against 4.7 percent of GDP. Goods and services taxes are higher in all its aspirational peers, averaging 8.1 percent of GDP in Senegal, 7.1 percent in Rwanda, and 6.5 percent in Uganda. The shares are lower among its structural peers: 1.6 percent of GDP in Eritrea and 3.5 percent in Guinea-Bissau. Conversely, trade taxes are considerably lower in all peer countries, particularly Eritrea (1.2 percent), Rwanda (1.2

Figure 3.1: Change in Tax-to-GDP ratio in African Countries (2006–2016) and The Gambia (2008–2019)



Source: OECD Global Revenue Statistics Database (GRSD) 2018; Statements of Government Operations (SGOs) for The Gambia.

30 IMF (2018b).
31 Data on non-tax revenue in aspirational peers is obtained from the OECD Global Revenue Statistics database.
32 Economic Commission for Africa (2019).

Table 3.1

Benchmarking Tax Revenues, 2019 or Latest Available

	Tax- to- GDP (%)
The Gambia	11.2
Guinea-Bissau	9.3
Eritrea	10.9
Mauritania	18.5
Senegal	16.0
Rwanda	15.8
Uganda	13.6
SSA average	17.0

Source: World Development Indicators (WDI), SGO for The Gambia.

percent), and Uganda (1.1 percent). Higher revenues from goods and services taxes are mainly due to value-added tax (VAT) reforms which improved the design and compliance ratio (in Mauritania, Rwanda, Senegal, and Uganda) and reforms of excise taxes (in Mauritania and Uganda).

The Gambia collects relatively little in direct taxes. The contribution of direct taxes has fallen by 8 percentage points from 34.3 percent of total tax collection in 2008 (3.2 percent of GDP) to 26.3 percent in 2019 (3 percent of GDP). Personal income tax (PIT) amounted to 1.2 percent of GDP on average and corporate income tax (CIT) averaged 1.4 percent of GDP. Capital gains (on individuals and corporations) and payroll taxes underperformed, both averaging 0.1 percent of GDP over the period 2008–2019. The Gambia raised less in direct taxes than all its structural peers except Guinea-Bissau, and less than all its aspirational peers (Figure 3.4).

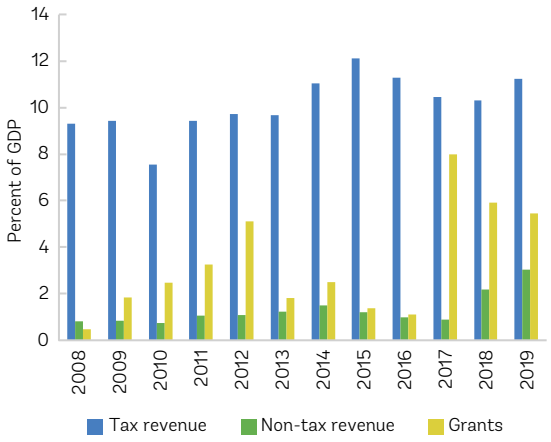
Tax Capacity

The Gambian economy has a limited tax base and the active tax base is structurally narrow. Agriculture in The Gambia is largely subsistence based and farmers are below the level for tax liability, eroding the agricultural tax base.[33] The international trade tax base has also fluctuated due to developments in imports and import duties over the years, as well as the lack of diversification of exports. The Hirschman-Herfindahl indices of export products and market concentration demonstrate exports are less diversified than in its aspirational peers (demonstrating few exports), and merchandise exports are concentrated in a small number of markets. The tourism tax base is non-existent, with no active tourism tax strategy developed along the tourism value chain, despite being a tourism-dependent economy. Fully exploiting the tax potential of tourism will depend on levels of political stability and ensuing (in)security in the country, health pandemics, and economic trends in tourists' countries of origin.[34]

A structural tax gap of 4–6 percent of GDP has emerged which indicates that tax revenues could reach 15–17 percent of GDP. In addition to administrative constraints, there are structural, institutional, and political features of the economy that influence its tax capacity and potential. These include economic factors (per capita GDP, sector shares of value added in GDP, private

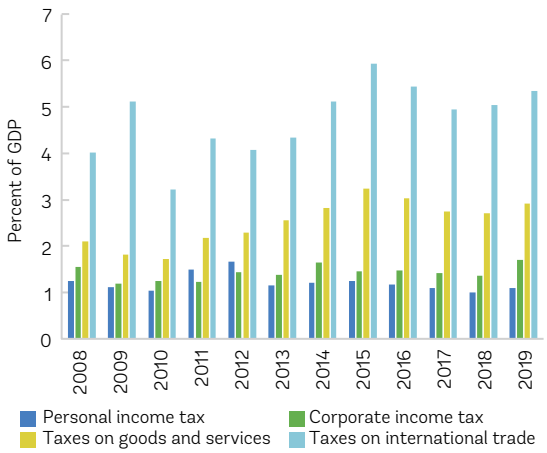
33 World Bank (2020 forthcoming).
34 World Bank (2020 forthcoming).

Figure 3.2: Revenue Performance in The Gambia, 2008–2019



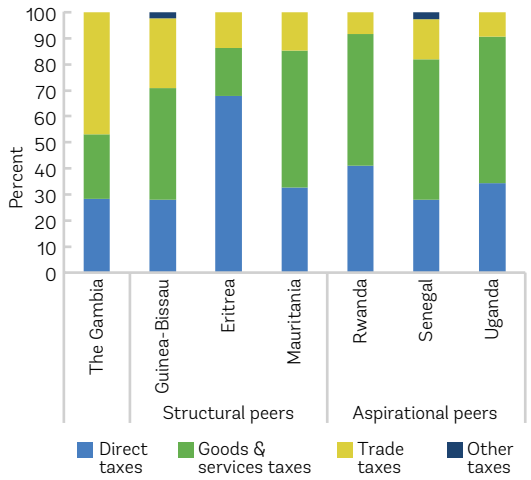
Source: SGOs, Ministry of Finance and Economic Affairs (MOFEA).

Figure 3.3: Tax Composition in The Gambia, 2008–2019



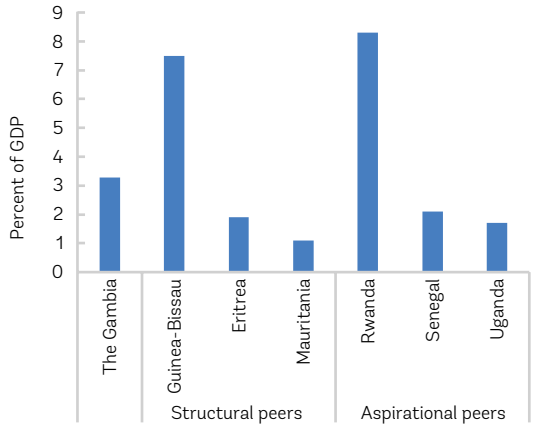
Source: SGOs, Ministry of Finance and Economic Affairs (MOFEA).

Figure 3.4: Benchmarking Tax Composition, Average for 2008–2019 or Latest Available



Source: WDI for peer countries; SGOs for The Gambia.

Figure 3.5: Benchmarking Grants, Average for 2008–2019 or Latest Available



Source: WDI for peer countries; SGOs for The Gambia.

sector development, trade openness), institutional factors (corruption, government effectiveness, bureaucratic quality) and political factors (preferences of the bureaucracy and the political elite). Based on a panel regression of structural variables of 91 countries over 2000–2017, The Gambia's tax potential is estimated at 17.3 percent (see Annex IV for details on the methodology). Achieving this ratio would raise the country over the threshold for sustainable tax revenue. This is safely over the "tipping point" of 12.9 percent of GDP, below which a state will experience difficulties in carrying out its most basic functions and financing development programs.[35]

35 Gaspar, Jamarillo and Wingender (2016).

Profile and Drivers of Tax Revenue Performance and Tax Policy[36]

Direct Taxes

Corporate Income Tax

The 2012 Income and Value Added Tax (IVAT) Act imposed a statutory corporate income tax rate—charged on the taxable profits of companies—of 35 percent. It also introduced an alternative minimum tax—charged on gross revenue or turnover—of 1.5 percent for audited firms and 2.5 percent for unaudited firms. Other corporate taxes include a capital gains tax levied on the disposal of assets by companies and a withholding tax which applies to companies' dividends. Successive budget acts have reduced the CIT rate over years to attract investment (usually in specific sectors and regions), ease the tax burden on the formal sector, and improve compliance. In addition, the Gambia Investment and Export Promotion Agency (GIEPA) Act of 2015 governs the fiscal incentives available to investors and exporters.

Corporate income taxes are the main sources of direct taxation, averaging 1.4 percent of GDP in the period under review (Figure 3.6). The ratio of CIT revenue to GDP has been reasonably stable over this period—increasing by just 0.1 percentage points from 1.6 percent in 2008 to 1.7 percent in 2019—albeit with fluctuations. The ratio steadily declined from 2016 onwards (although it peaked in 2019), reflecting a slowdown in economic activity due to political turmoil, as well as the likely impact on CIT revenues of reductions in the CIT statutory rates.[37] Further explanations for changes in CIT revenue are difficult to provide, due to the lack of revenue data such as developments by sector.

The importance of corporate income taxes—both as a share of GDP and total tax revenue—varies considerably across peer countries (Figure 3.7). On average, CIT revenues in Africa amount to 2.8 percent of GDP, similar to the OECD average. The Gambia's average of 1.4 percent of GDP is lower than all its peers barring Uganda (0.8 percent). On average, countries in Africa, and Latin America and the Caribbean, collect higher CIT receipts as a share of total tax revenue—16.3 and 17.2 percent, respectively—than OECD countries (8.4 percent). The ratio is lower in The Gambia than in its peer countries, except for Uganda (7.1 percent) and Senegal (8.1 percent).

CIT productivity[38] is low, reflecting exemptions in the tax base, as well as tax compliance issues. CIT productivity measures the revenue collected as a share of GDP for every one percent of the corporate income tax rate. CIT productivity in The Gambia has oscillated between 3.3 percent (in 2009) and 6.4 percent (in 2019), averaging 4.6 percent over the period. Thus, for every one percent of the CIT rate the Government collects only 0.05 percent of GDP on average, which is effectively a very low buoyancy. The Gambia's CIT productivity is lower than for all peer countries except Uganda at 3 percent (Figure 3.7).

36 The absence of granular information and data on tax sources constrains the depth of the review and discussions in the section, as well as the authorities in their efforts to improve revenue mobilization. Income tax data are not available at the taxpayer level, and information on the specific products and services in the consumption taxes is also missing. Due to data insufficiencies, any interpretation of CIT productivity ratios, in a single country or across countries, needs to be undertaken cautiously. Country data in cross-country CIT data bases vary in terms of validity (issues related to the correct interpretation of country data in the context of the specific corporate income tax code), as well as reliability issues, such as differences in the capture of tax expenditures in the tax declaration.

37 The IMF review of income taxation in the Gambia (IMF, 2013) highlighted similar views, noting that rate reductions in the corporate as well as the personal income tax eventually should be accompanied by safeguarding the tax base, including rationalization of the tax incentives schemes.

38 Estimation of CIT productivity by percent of tax rate could yield inconsistent results when used for a single fiscal year. Some non-linear features of CIT systems, such as investment depreciation and loss carry over, entailing the need to use several fiscal year periods as baseline for productivity estimations. The choice of multi-year periods for analytic purposes, both for individual and peer country estimations, entails many complexities to reach a stable basis for international comparison. On the other hand, lack of CIT data severely limits the undertaking of drill-down analytics.

Tax incentives are offered on a range of areas and sectors. The government grants generous incentives through GIEPA. These tax incentives offer different fiscal regimes for different sectors, significantly narrowing the tax base. GRA data on large corporate taxpayers in 2019 can be used to assess the impact of these tax incentives.[39] Approximately 43 percent of the 244 large corporate taxpayers[40] are eligible for incentives, indicating that their use is pervasive.

GIEPA data show that 84 percent of the investment incentives in 2016 were in priority sectors (Figure 3.8).[41] Depending on how big these firms were, and whether they were domestic or foreign, they would have been eligible for tax incentives although the size of these incentives cannot be determined without more granular data. Furthermore, four companies were approved for the award of Special Investment Certificates and three companies were approved for an Export Processing Zone License in 2016.[42] The businesses were all Gambian owned, showing that domestic as well as foreign firms and investments can access the array of incentives. While no data are available on the allocation of incentives, the broad criteria for accessing them leave the impression that the schemes may be too generous and would eventually lead to excessive revenue loss. The low CIT productivity ratio points in the same direction.

Due to capacity constraints, cost-benefit analyses of specific requests for incentives are not being prepared.[43] However, companies are required to identify the benefits of the investment in the business plan being scrutinized by GIEPA before any incentive package can be awarded. Furthermore, the profitability of the investment is encouraged at the margin, by exempting to a relatively large extent the costs of the investment. Tax incentives are awarded by MOFEA, following the recommendations of GIEPA which in turn follow the recommendations of the Investment Incentive Awards committee. Giving MOFEA a more proactive role would be preferable, including setting upfront fiscal targets of revenue loss per year, by priority sectors.

Personal Income Tax

The personal income tax regime has eased in recent years, with rate reductions and threshold increases. The IVAT Act also allows for income tax to be imposed on a person who has chargeable annual income—business, employment and property. PIT in The Gambia is progressive and payable on gross employment income using the Pay As You Earn (PAYE) scheme. There are six income brackets; the bottom marginal rate is 5 percent and the top marginal rate 25 percent (Table 3.2). Income from immovable property is taxed using the same rate structure while residential and commercial properties are subject to a final tax rate of 10 percent. Capital gains tax is also levied on the disposal of assets by individuals; payable at 15 percent of the gain, or 5 percent of the consideration, whichever is greater.

Recent alleviations in the PIT rate and threshold include:

- The top maximum marginal tax rate was reduced from 35 to 30 percent in 2013 alongside the intermediate marginal rates. The six income brackets, as well as the income range of GMD10,000 were maintained. The threshold was also increased from GMD7,500 to GMD18,000 per year, reflecting an increase

39 Unfortunately, data are not available to estimate the effective tax rate on corporations, with a view to assessing the relative impact on revenue (revenue loss) due to tax exemptions. Nor are CIT tax payments by economic sector available, preventing any discussion of the relative tax burden across economic sectors.
40 Of the total, 104 have investments in priority sectors: 4 in agriculture, 1 in fisheries, 27 in tourism, 5 in manufacturing, 14 in energy, 13 in mining exploration and exploitation, 8 in financial services, and 32 in other services.
41 They were in agriculture (7), tourism (7), energy (9), manufacturing (6), fisheries (3), mining exploitation (2), and other services (8).
42 Three of these investments were in agriculture, two in manufacturing, and one each in tourism and financial services.
43 An IMF Technical Assistance report (IMF, 2015b) raised similar concerns. The technical assistance mission abstained from assessing revenue loss due to tax expenditures in the Gambia, since only a very partial view could be obtained based on the data at customs. For that reason, the they could not further assess the cost-benefit of current portfolio.

Table 3.2

Personal Income Tax Rates in The Gambia, 2012 and 2018

IVAT Act, 2012		Budget Act, 2018	
Taxable Income (GMD)	**Rate**	**Taxable Income (GMD)**	**Rate**
0 – 7,500	0%	0 – 24,000	0%
7,501 – 17,500	10%	24,001 – 34,000	5%
17,501 – 27,500	15%	34,001 – 44,000	10%
27,501 – 37,500	20%	44,001 – 54,000	15%
37,501 – 47,500	25%	54,001 – 64,000	20%
Above 47,500	35%	Above 64,000	25%

Source: Relevant legislation.

in the prices of essential goods and services. In 2018 the top maximum marginal rate was further reduced from 30 percent to 25 percent, while maintaining the intermediate rates. The threshold was increased from GMD18,000 to GMD24,000. These changes were a bid to lower the tax burden by increasing the disposable income available to personal income taxpayers.

- The residential and commercial property tax rate was also reduced from 10 percent to 8 percent in 2018.

The Informal Sector Regulation Act, passed in 2007, governs taxation in the informal economy, i.e. the taxation of small self-employed individuals. All small self-employed individuals with no permanent place of business or proper business records are categorized as informal sector operators. Additionally, all taxpayers with a turnover below GMD100,000 are considered small self-employed individuals for whom tax payments are mandatory. The rates and charges applied differ by sector or trade, and are applied as absolute values, ranging from GMD1,000 to GMD30,000. The GRA also introduced a presumptive tax regime in 2013: taxpayers with an annual turnover over GMD100,000 but below GMD500,000 pay a 3 percent flat rate.[44]

Informal sector taxpayers are not required to file annual income tax returns—unlike VAT, CIT, and PIT taxpayers. Informal sector operators pay a final lump-sum tax with no deductions allowed for business expenses. However, the GIEPA Act 2015 provides small self-employed businesspeople with enterprise support (capacity building) including support for research and development (R&D), income tax deposit waivers, matching grants, and market survey support, as well as incentives to formalize. No information about the costs, including revenue loss, is available.

Personal income tax contributes relatively little to tax revenues in The Gambia, averaging 1.2 percent of GDP and 8.6 percent of total revenue (Figure 3.9). PIT as a share of GDP has fluctuated over the years due to changes in tax policy and extant tax bases, coinciding with the successive reductions in the top marginal tax rate, and increases in the PIT threshold.

The underperformance of payroll (expatriate) taxes contributes to low PIT performance in The Gambia. Payroll taxes are imposed on employers that employ non-Gambian nationals and are charged at GMD40,000 for each employee who is not from an Economic Community of West African States (ECOWAS) country and at GMD10,000

44 The introduction of a flat rate in the presumptive tax scheme was aligned with the recommendations of the IMF (IMF, 2013).

for ECOWAS employees. Payroll taxes averaged 0.08 percent of GDP over the period under review, reflecting the scarcity of expatriates employed in the formal sector.

The reductions in PIT rates and the increases in the PIT threshold in 2013 and 2018 had a negative impact on PIT performance. PIT productivity[45] in The Gambia was at its lowest in 2009 (3 percent) and highest in 2012 (6 percent), averaging 4 percent over the entire period (Figure 3.9). Thus, for every one percent of PIT rate the government collects 0.04 percent of GDP on average. PIT productivity in The Gambia is lower in all peer countries except Togo (3 percent) (Figure 3.10).

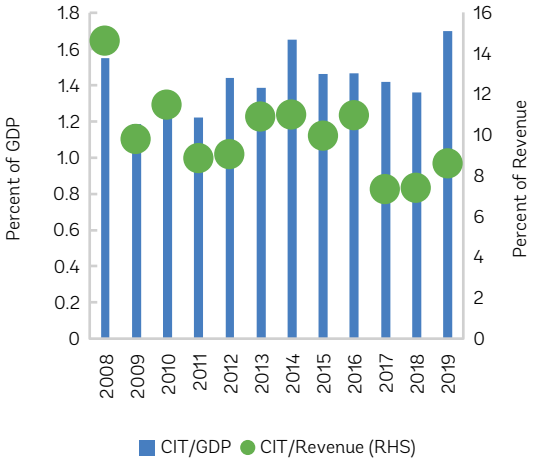
The level and significance of personal income taxes—as a share of both GDP and total tax revenue—varies greatly across countries (Figure 3.10). The OECD average ratio of PIT revenue to GDP is 8.5 percent, more than three times the African average (2.6 percent of GDP). The ratio is highest in South Africa, averaging 8.6 percent of GDP, and is also considerably higher among The Gambia's aspirational peers, at 3.3 percent of GDP in Rwanda, 2.7 percent in Senegal and 3.1 percent in Uganda. Personal income tax makes up a smaller share of total tax revenues than in all peer countries; in Rwanda it is 22.4 percent, Senegal 15.2 percent, and Uganda 23.4 percent.

Indirect Taxes

Value-added Tax

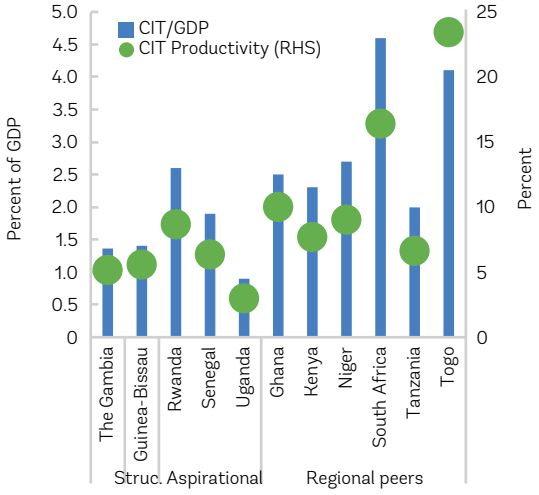
The IVAT Act abolished the sales tax, which was levied at 15 percent, and replaced it with a value-added tax, effective from January 1, 2013. VAT applies to the taxable supply of goods and services, specifically supply within the country, and the importation of goods and services. There are two rates of VAT in The Gambia: the standard rate, charged at 15 percent and the zero rate, charged at 0 percent. The standard rate is at the lower boundary of the ECOWAS protocol which allows for standard rates of 15–20 percent and reduced rates of 5–10 percent on certain goods and services. The latter option has not been applied in The Gambia. The system also allows for a raft of exemptions and zero-rated goods, with registration mandatory for businesses with a turnover of over GMD1 million.

Figure 3.6: CIT Performance in The Gambia, Average for 2008–2019



Source: OECD GRSD for comparator countries; SGOs for the Gambia.

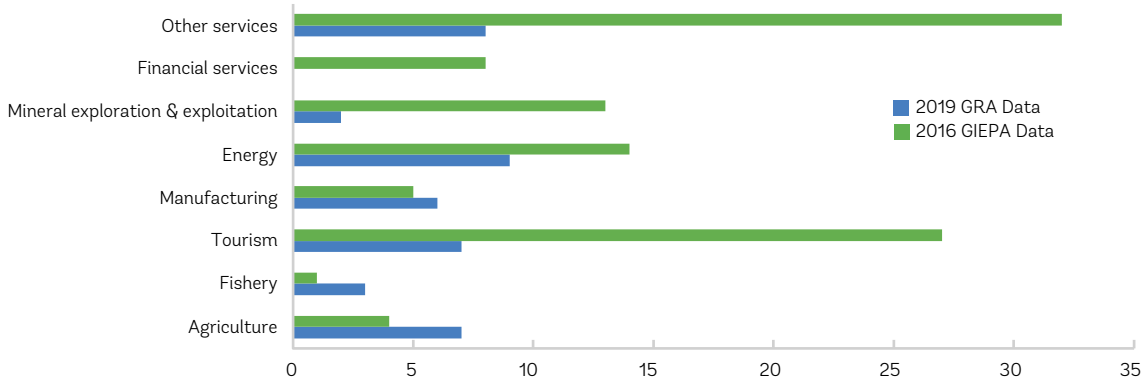
Figure 3.7: Benchmarking CIT Performance, Average for 2008–2019 or Latest Available



Source: OECD GRSD for comparator countries; SGOs for the Gambia.

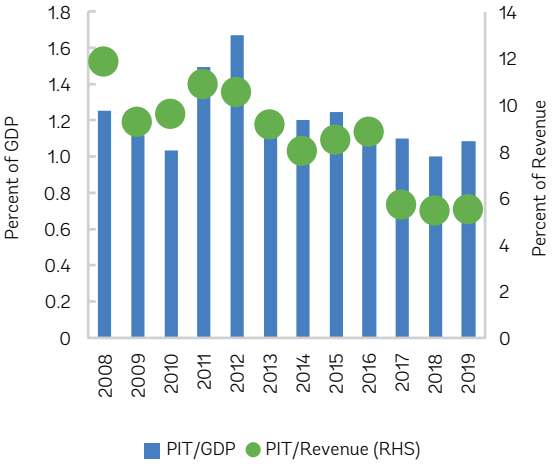
45 PIT productivity measures the revenue collected from personal income tax for every one percent of the personal income tax rate, as a share of GDP.

Figure 3.8: Prevalence of Incentives in The Gambia, 2016 and 2019



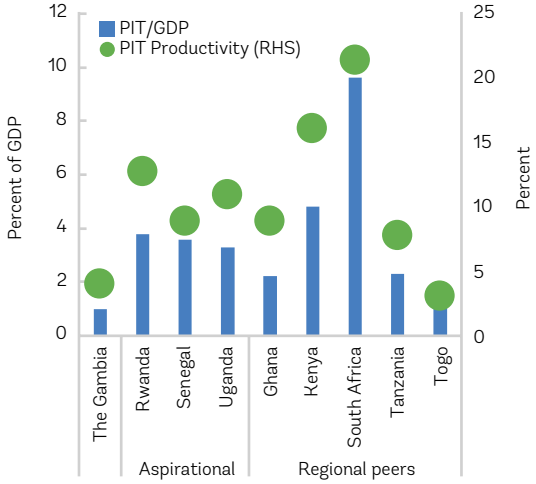
Source: GRA Large Taxpayers Data; GIEPA Annual Report.

Figure 3.9: PIT Performance in The Gambia, Average for 2008–2019



Source: OECD GRSD for comparator countries; SGOs for the Gambia.

Figure 3.10: Benchmarking PIT Performance, 2016 (or Latest Available Year)



Source: OECD GRSD for comparator countries; SGOs for the Gambia.

Various initiatives have been implemented to improve VAT revenue collection. These include:

- The Finance Law of 2017 introduced a withholding tax on VAT, applied at 50 percent of the VAT invoiced by suppliers of goods to public enterprises, SOEs, semi-public enterprises, mining and oil companies, and phone companies. This contributed to increasing revenue from domestic VAT as a share of both GDP and total revenue.
- VAT on telecommunications was introduced in 2013 at the standard rate of 15 percent.
- Tax departments were separated by function, distinguishing the Large Taxpayers Unit (LTU) from other units with different mandates. Establishing an LTU has become standard practice in most revenue administrations. Since most domestic revenue is collected from large taxpayers, it is important to set up an office which can handle the needs of this group easily.
- Improved VAT audits and verification measures.

Value-added tax is divided into domestic VAT and VAT on imports, which in turn is sub-divided into oil and non-oil components. Since

2013, VAT has contributed on average 22.5 percent of revenue, with domestic VAT accounting for 8.8 percent of revenues and import VAT 13.7 percent (Figure 3.12). These low levels of domestic VAT are attributable to the level of final household consumption as a share of GDP, the proportion of exports of goods and services relative to GDP, and tax administrative issues, including taxpayers' compliance.

The VAT to GDP ratio is higher and similar among peer countries (Figure 3.13). Togo and Senegal had the highest VAT/GDP ratios in 2016, at 8.0 and 7.4 percent respectively. Ghana, Kenya, and Rwanda all mobilize similar levels of VAT as a percentage of GDP albeit with different rates and exemptions. VAT as a share of revenue also varies significantly by country, with very high contributions in Togo (43.6 percent), Senegal (36.7 percent), and Uganda (32.7 percent).

The VAT threshold is often a reflection of a country's tax administrative capacity, or lack thereof. A high threshold is prescribed so the revenue administration can focus on large taxpayers over businesses whose revenue potential is far outweighed by the administrative and compliance costs incurred in pursuing them. More advanced and efficient revenue administrations can deliberately choose a lower threshold in order to broaden the tax base. In The Gambia, mandatory VAT registration is based on a business's turnover or projected turnover. The VAT threshold is very low at US$20,149 (GMD1 million) and the turnover must be attained within 12 months. If a trader projects that their turnover for the next 12 months will be over VAT threshold, they must also register for VAT. VAT thresholds in many of The Gambia's peers are considerably higher. Togo has the highest threshold at US$83,806, while in Uganda it is US$40,541, Tanzania US$44,843, Kenya US$50,505, and Ghana US$36,969 (Figure 3.13).

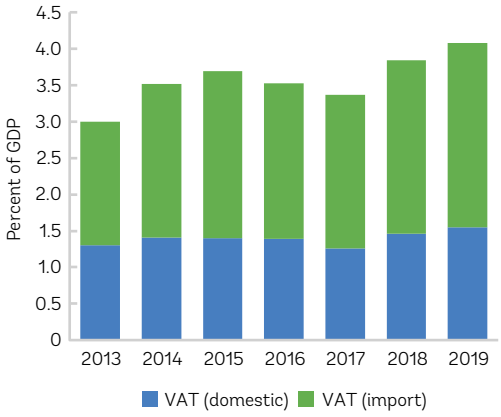
A more accurate measure of the VAT threshold is as a ratio of per capita GDP, allowing for cross-country comparisons. Adjusting for income level, The Gambia's VAT threshold is 39 times per capita GDP, implying a narrow VAT base, limited coverage (low VAT participation), and that it affects a limited number of companies or businesses. Measured in absolute US dollars the differences in VAT thresholds across countries might not be particularly stark. However, the ratio of the threshold to per capita GDP displays marked differences. For example, Ghana and Uganda have similar thresholds in absolute terms, but when their income levels are factored in, the threshold in Ghana is much lower than in Uganda (Figure 3.14).

VAT efficiency[46] in The Gambia improved to an average of 22.8 percent over 2013–2017 with the introduction of domestic VAT in 2013 (Table 3.3). Its C-efficiency has increased steadily and ranges from 10.4 percent to 25.1 percent. Prior to the introduction of domestic VAT, the average C-efficiency of sales tax stood at 14.2 percent, and with an overall increase in total VAT revenues collected, the C-efficiency increased considerably from 16.8 percent in 2012 to 22 percent in 2013. The average between 2013 and 2017 stood at 24 percent. As with VAT efficiency and C-efficiency, the compliance ratio displays major differences before and after the introduction of domestic VAT. Between 2008 and 2012, the average compliance ratio was 15.8 percent while for the period 2013–2017, it was 27 percent.

VAT C-efficiency in The Gambia is lower than its aspirational peers (Figure 3.15). In all the peer countries, each percentage point of the VAT rate collects less than 0.5 percent of GDP, reflecting the design and enforcement issues plaguing VAT implementation in developing countries. The gross compliance ratio in The Gambia is also lower than in all peers.

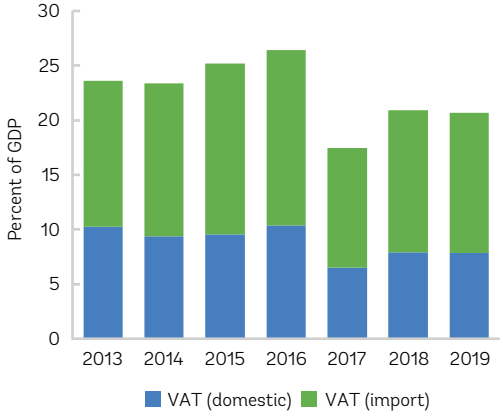
46 The VAT performance measures are defined as follows: VAT efficiency = (VAT revenue as a share of GDP)/(VAT rate). VAT C-efficiency = (VAT revenue)/(total final consumption net of VAT revenue * VAT rate). Gross compliance ratio = (VAT revenue)/(total household consumption net of VAT revenue * VAT rate). In situations where government expenditure is exempt, the gross compliance ratio and VAT C-efficiency will be the same value since the latter will be calculated with final private consumption instead of total consumption.

Figure 3.11: VAT Performance in The Gambia, 2013–2019 (% of GDP)



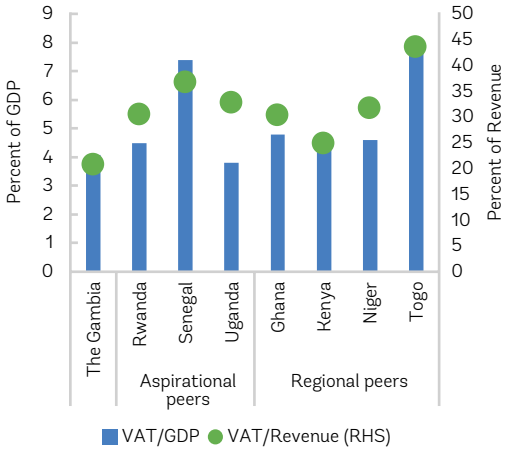
Source: SGOs, MOFEA.

Figure 3.12: VAT Performance in The Gambia, 2013–2019 (% of Revenue)



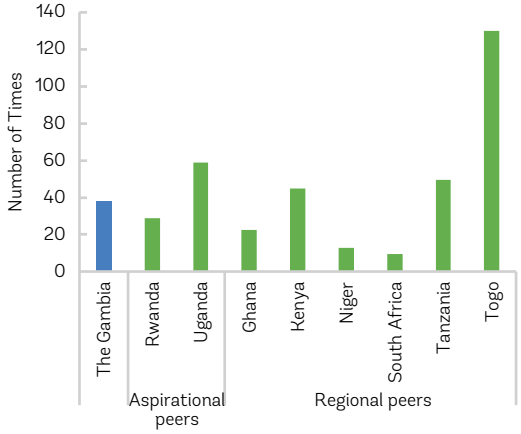
Source: SGOs, MOFEA.

Figure 3.13: Benchmarking VAT Performance, 2016 or Latest Available



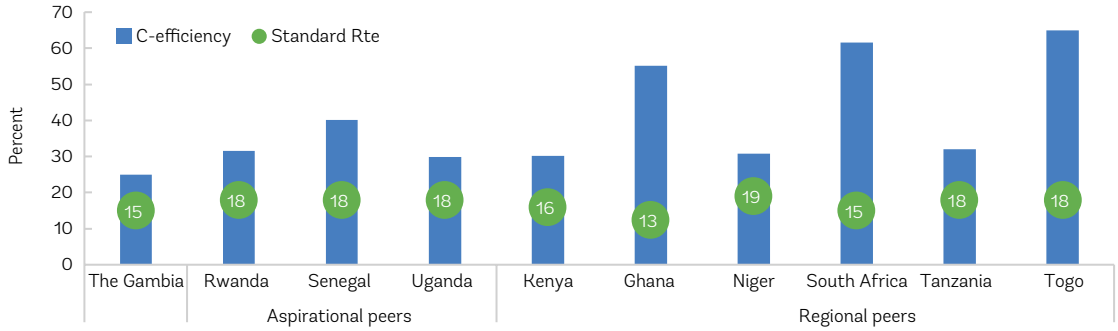
Source: OECD GRSD for comparator countries; SGOs for the Gambia.

Figure 3.14: Benchmarking VAT Threshold Relative to GDP



Source: IMF Regional Economic Outlook, Crowe (2018).

Figure 3.15: Benchmarking VAT C-Efficiency and Standard Rates, 2016



Source: OECD GRSD for comparator countries; SGOs for the Gambia; Crowe (2018) for VAT rates.

Table 3.3

VAT Efficiency Metrics in The Gambia

Year	Efficiency	C-Efficiency	Gross compliance ratio
2008	12.7	12.8	14.2
2009	14.0	14.8	16.4
2010	10.0	10.4	11.6
2011	15.3	16.4	18.2
2012	14.0	16.8	18.6
2013	20.0	22.0	24.5
2014	22.7	23.9	26.9
2015	24.7	25.1	28.6
2016	24.0	25.0	28.4
2017	22.7	23.5	26.6
Average	**18.0**	**19.1**	**21.4**

Source: Authors' calculations.

Table 3.4

Potential VAT Base on Exempted Imported Items, 2015

IHS Code	CET rate	Description	Customs value (GMD)	VAT forgone (GMD)
101 – 106	15%	Rice	9,593,674	9,593,674
110	0%	Cereal and cereal products: Findi	-	27,854
111 – 116	-	Flour	-	152,162
124	35%	Imported chicken	2,817,287	1,207,409
126	35%	Eggs	986,422	422,752
128 – 133	35%	Meat	8,954,254	3,837,538
134 – 151	10%	Fish	3,499,886	5,249,829
152	5%	Milk	171,686	515,057
162, 163, 166,168	20%	Oil (groundnut, palm, vegetable, palm kennels)	7,226,357	5,419,768
173, 182, 193	20%	Fruits and nuts	639,350	479,513
197	35%	Starchy roots and tubers	1,782,017	763,721
202 – 225	20%	Vegetables	9,869,881	7,402,411
837 – 847, 962	25%	Health care	-	373,758
Total			**45,540,814**	**35,445,446**

Source: GRA Data; Integrated Household Survey (IHS) 2015/2016 and authors' calculations.

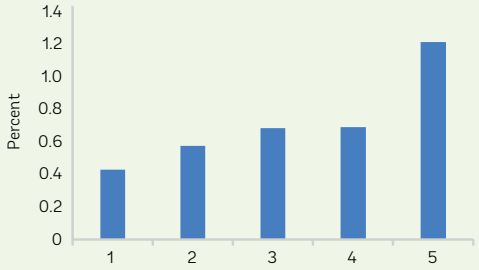
Box 3.1

Progressivity in the PIT and VAT taxation

The impact of taxes on poverty and equity depends on the tax code and other codes, such as the investment code or code on agriculture, as well as individual and household behavior and the level of tax enforcement. This box contains preliminary results from the Gambia Fiscal Incidence Analysis 2015 for personal income tax (PIT) and value-added tax (VAT), with both taxes simulated based on the Integrated Household Survey (IHS) survey data and the Commitment to Equity (CEQ) methodology.[a] In the case of PIT, the analysis concentrates on taxes paid by formal employees with available earnings data and employment characteristics; this represents the major source of PIT collected as a withholding tax from employees in the formal sector. In the case of VAT, taxes are estimated based on the tax code and expenditure data at the product level; local technical insights were used to make assumptions about informality for certain products and sectors.

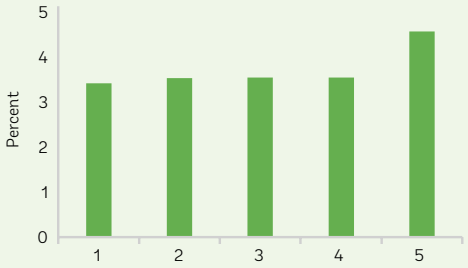
Preliminary results suggest that the PIT is progressive since PIT incidence increases by quintiles based on market incomes and pensions (Figure B3.1).[b] This result is consistent with a tax code with six income brackets and increasing marginal tax rates ranging from 0% (for individual annual income up to GMD18,000) to 35% (for individual annual income above GMD64,000).[c] The preliminary findings from the fiscal incidence analysis also suggest that VAT is progressive in The Gambia, as VAT incidence as a share of household consumption increases by quintile[d] (Figure B3.2). This contrasts with findings from other countries where indirect taxes are often regressive.

Figure B3.1: The Gambia: PIT Incidence



Source: Authors' (preliminary) calculations.

Figure B3.2: The Gambia: VAT Incidence



Source: Authors' (preliminary) calculations.

a. The World Bank is currently preparing a fiscal incidence analysis for The Gambia which describes the distributional impact of taxes and transfers on poverty and equity. Findings are based on the CEQ methodology and draw from a careful analysis of the nationally representative IHS 2015/16. Under this approach, tax payments and transfers are either directly observed or simulated from the survey data. The methodology also ensures a comprehensive assessment of many interventions on the tax and transfer side and thereby describes the combined effect of the fiscal system. Results measure the welfare consequences of fiscal policy for different groups of the population, which could inform policy reforms.
b. Quintiles defined based on "real market income plus pensions per capita", because market income is the relevant indicator for assessing incidence of direct taxes. Market income plus pensions was calculated as: consumption minus direct transfers plus direct taxes. For real per capita, the indicator is divided by household size and spatial-time deflator.
c. The PIT was focused on labor income from formal employees. The exemption considered is the one defined in the 1st income bracket (the zero percent rate). PIT from other income sources (business, investment) was not modelled given that the IHS did not have these income sources at the individual level.
d. Quintiles are defined based on "real household consumption per capita", because consumption is the relevant indicator for assessing incidence of indirect taxes. Household total consumption (total and real per capita) were available in the IHS.

Box 3.1

It is important to highlight that many tax exemptions (granted by tax policy) and high levels of informality increase the progressivity of taxes, but also reduce the amount of revenue collected, which is needed for investments in human and physical capital. The progressivity of VAT could be linked to the large number of tax exemptions for basic food items and services, which constitute a large share of household expenditure, especially among poor households. Furthermore, many households in rural areas consume home-produced goods which are not brought to the market, and so not subject to consumption taxation. Similarly, the progressivity of PIT in The Gambia could be linked to the large share of the labor force who are either self-employed or work informally; in the agricultural sector, contributing family workers support income generation in rural areas but, based on their employment status, they neither pay taxes nor receive any benefits.

While stricter enforcement of PIT and VAT could create fiscal space for pro-poor expenditure, it will be crucial to consider how vulnerable households could be protected against welfare losses. A large part of the redistribution of the fiscal system happens via direct and indirect transfers, after collecting enough revenue through an efficient tax system (which, in the case of VAT, means fewer exemptions). This is an area where The Gambia still has work to do, given that the social protection system to target cash transfers to poor households is not yet fully developed. A microsimulation tool such as the CEQ currently being developed could be used to assess the distributional impact of alternative tax and transfer reforms.

Revenue loss due to tax expenditure on VAT appears to be a core driver behind low VAT efficiency in The Gambia. VAT revenue losses at the border and in the domestic market may be estimated using the list of exemptions on basic items, intended to support consumption among the poorest households (Table 3.4).[47] Domestic VAT for 2015 amounted to GMD819 million while import VAT amounted to GMD1,346 million, totaling GMD2,165 million. The customs value of the selected exempt items, obtained by applying the Common External Tariff (CET) rates on imports, amounted to GMD45.5 million. The revenue forgone for domestic VAT—applying the standard 15 percent rate on all goods—amounted to GMD35 million. This represented 4.3 percent of the domestic VAT collected, 0.5 percent of tax revenue, 0.4 percent of total government revenue and 0.06 percent of GDP in 2015 (see Box 3.1 for a discussion on progressivity of PIT and VAT).

Excise Taxes

The Fifth Schedule of the Customs and Excise Act, 2010 governs how revenue from excise—domestic and imported—is generated. Excise duties apply to certain domestically produced goods and telecommunications services at ad valorem rates. Excise tax rates are imposed on imported goods, with specific rates for some products and ad valorem rates for others.

Since 2013, the GRA has introduced reforms to excise taxes, with resulting revenue

47 These data only allow a broad estimate of revenue impact. A social accounting matrix is not available in the National Accounts statistics which would be required for assessing the revenue impact more precisely for the items reviewed here, but also the VAT base more broadly.

enhancements. These included:

- A specific excise on tobacco products, changing the excise tax base for cigarettes from the weight of the products to the number of packs. The rate was increased over successive years, reaching GMD20 per pack by 2017. The GRA simultaneously introduced a weight-based excise on non-cigarette tobacco products (GMD37.5 per kg), preventing consumers from switching to cheaper tobacco products and following international best practice.[48] This excise tax has also increased over the years, reaching GMD330 per kg in 2017. These measures allowed excise revenues from tobacco products to increase from 0.3 percent of GDP in 2012 to 0.8 percent of GDP in 2014 (Akitoby et al., 2019).[49]
- A telecommunications excise was introduced in 2013 at a rate of 5 percent.
- Fuel subsidies in The Gambia have been relatively high, resulting in forgone revenue (broadly estimated at 0.8 percent of GDP in 2011). The government has taken steps to eliminate fuel subsidies and regulate domestic petroleum prices towards reflecting international prices through the application of a price adjustment formula administered by MOFEA.[50]
- In 2018, the excise tariff on new cars was reduced from 25 percent to 20 percent, reverting to 25 percent in 2019. The standard excise tariff of 15 percent for used cars was also reduced to 10 percent for cars up to five years old.

Excise duties have underperformed significantly, averaging 0.8 percent of GDP over the period under review (Figure 3.16). Excises comprise excise taxes on domestic goods and excise taxes on imported goods, the latter loosely referred to as excise duties. The average ratio of excises to GDP was relatively stable at 0.5 percent of GDP between 2008 and 2012. In 2013, following reforms to the excise tax base, the ratio increased to 0.7 percent of GDP (a 0.2 percentage point increase from its value in 2012). The ratio increased consistently thereafter, averaging 1 percent of GDP over 2013–2019. Excises as a share of total revenue follow a similar pattern: stable at 3.6 percent over the period 2008–2012, then increasing by 2.5 percentage points to 5.9 percent in 2013, and averaging 6.6 percent between 2013 and 2019 (Figure 3.17).

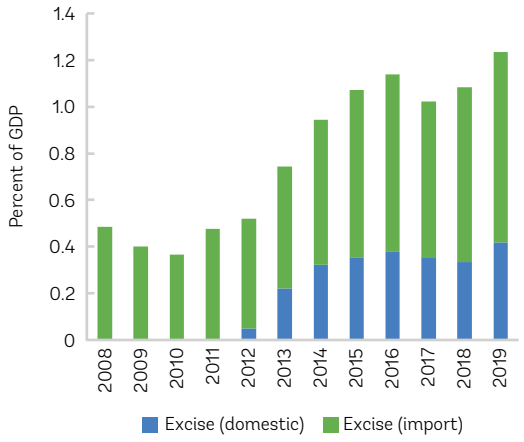
Compared to other countries, The Gambia underperforms significantly on revenues generated from excises (Figure 3.18). Excise revenue averaged 1.7 percent of GDP in SSA, 1.8 percent in Senegal and 2.5 percent in Uganda. Uganda has the highest excise revenues among the aspirational peers, owing to the large number of excise reforms it undertook after 2012. There are no data on tax revenue collected by excise items that can be benchmarked across peers.

Excises on imported goods contributed 0.7 percent of GDP over 2012–2019, more than double the amount from taxes on domestic goods at 0.3 percent of GDP. Domestic excises relative to GDP increased from 2012 to 2019, peaking at 0.4 percent of GDP between 2015 and 2019 except in 2018. International excises also increased as a share of GDP between 2012 and 2016. The dependence on excises on imported goods reflects a narrow excise base for domestic products, itself a reflection of the country's small and undiversified production base.[51]

The excise base in The Gambia is relatively narrow in comparison to its peers. Its peer countries—structural, aspirational and ECOWAS—have more diversified excise tax bases, allowing them to tax more items. For example, the Customs and Excise Act 2010 does not make provisions for excises on petroleum products, weapons and ammunition, perfumery, or cosmetics. ECOWAS directives on coordination in excise taxation prescribe higher excise tax rates for most goods, especially tobacco products than are levied in The

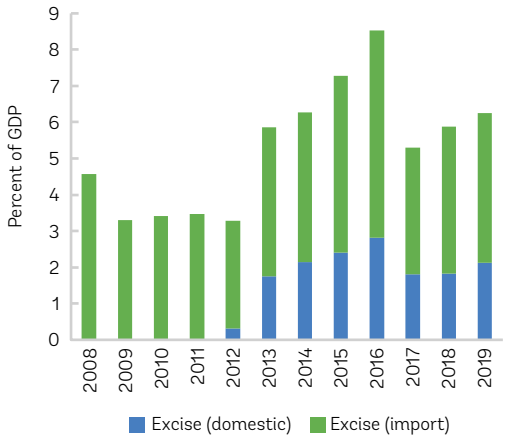
48 Le *et al.* (2016).
49 Akitoby *et al.* (2019).
50 Akitoby *et al.* (2019).
51 World Bank (2020 forthcoming).

Figure 3.16: Excise Performance in The Gambia, 2008–2019 (% of GDP)



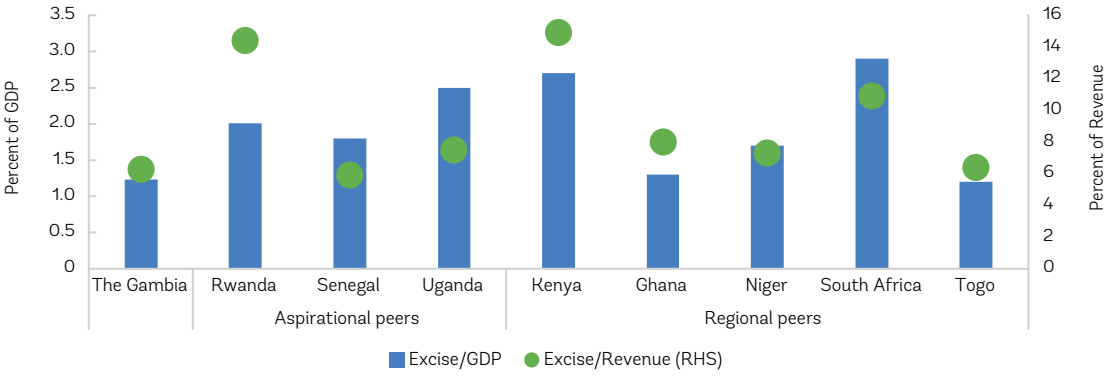
Source: SGOs, MOFEA.

Figure 3.17: Excise Performance in The Gambia, 2008–2019 (% of Revenue)



Source: SGOs, MOFEA.

Figure 3.18: Benchmarking Excise Performance, 2016 or Latest Available



Source: OECD GRSD for comparator countries; SGOs for the Gambia.

Gambia.[52] Excise rates are also low in comparison to its peers, partially explaining the sluggish revenue performance in this area. Major excisable goods, following international best practice include petroleum products, cigarettes, alcoholic and non-alcoholic beverages, motor vehicles, and telecommunications services.[53] The Gambia places taxes and duties on all these products, but at much lower rates than peer countries: it has the lowest rates on beer and cigarettes, and one of the lowest rates on non-alcoholic beverages (Table 3.5).

Customs Duties

Customs taxation in The Gambia is governed by two laws; the Customs and Excise Act, 2010, and the ECOWAS Common External Tariff (CET). The first, third, and fourth schedules of the Act govern the implementation of import duties, import duty exemptions, and export duties respectively. The Gambia has implemented the five-band ECOWAS Common External Tariff since 2017. It applies the CET to all its trading partners without any of the

52 ECOWAS (2017).
53 IMF (2011).

Table 3.5

Benchmarking Excise Tax Rates

Countries	Non-alcoholic beverages	Excise tax rates Beer	Cigarettes
The Gambia	5%, 5%, 5%	10%	20%
Benin	5%, 7%, 10%	20%	40% + 5%
Burkina Faso	10%	25%	30% - 40%
Cote d'Ivoire	12%	15%	35% + 7%
Guinea-Bissau	10%	25%	25%
Niger	10%, 15		
Senegal	3%, 5%	40% + 1500, 5000CFAF	45%
Togo	2%, 5%, 10%	15%	45%
Liberia	2%, 20%, 35%	25%, 45%	80%

Source: GRA Data; OECD GRSD; WEO.

exceptions or supplementary protection measures allowed by ECOWAS. Nonetheless, goods covered by the ECOWAS Trade Liberalization Scheme (ETLS) are not subject to the CET and are thus duty free. Over the years, policy changes to the CET have included increases in import duties on basic products (to protect local consumers), and a temporary increase in the ECOWAS levy from 0.5 percent to 1 percent in 2017.

International trade taxes represent a far more important source of indirect tax revenues than goods and services taxes. The average ratio of trade taxes to GDP is relatively volatile. After 2015, however, the ratio has fallen consistently and only picked up in 2019. Measuring trade taxes as a percentage of total revenue demonstrates their importance for revenue mobilization. On average trade taxes contributed one-third of total revenue over the period, with the lowest shares recorded in 2012 and 2017 (26 percent). These low ratios do not represent a reduction in the importance of trade taxes but occurred in years when development grants increased unexpectedly.[54]

The main international trade taxes include export duties, import duties, and VAT on imports; the latter two can be divided into oil and non-oil components. Other components of international trade taxes, with varying levels of importance over the period under review, include customs processing fees, the ECOWAS Levy (a 0.5 percent tax placed on goods from non-ECOWAS member states), customs penalties and forfeitures, and UNCTAD Automated System for Customs Data (ASYCUDA) and single administrative document forms. Import duties fetch more international trade taxes than VAT on imports, averaging 2.6 percent of GDP compared to 2.1 percent. The trend for import duties has been more erratic than VAT on imports; the former peaked in 2015 at 3.6 percent of GDP, while the latter peaked in 2019 at 2.5 percent of GDP. Import duties contribute more to overall revenue mobilization than VAT on imports, averaging 18.4 percent of total revenue compared to 14.7 percent in the case of VAT.

The prevalence of tax incentives at the border, on customs duties, VAT and excises, is one key explanation for revenue loss from imports. Data on revenue loss due to tax exemptions—in terms of the share of GDP, total exemptions and total revenue—show the scale of the problem (Table 3.6). Total exemptions in 2019 amounted to GMD2,522

54 Moreover, in 2017, lower tax collection and higher grant flows could be explained by the political transition and the Ebola crisis.

Table 3.6

International Trade Tax Exemptions in The Gambia, 2014–2019

Tax Type	2014	2015	2016	2017	2018	2019
Duty waivers (% of GDP)						
Import duty (oil)	0.0	0.0	0.0	0.0	0.0	0.0
Import duty (non-oil)	1.2	1.4	1.2	1.4	0.8	1.1
Import VAT (oil)	0.0	0.0	0.0	0.0	0.0	0.0
Import VAT (non-oil)	1.2	1.2	0.7	1.7	1.4	1.4
Import/export processing fees	0.1	0.1	0.1	0.2	0.1	0.1
Environmental tax on imports	0.0	0.0	0.0	0.0	0.0	0.0
Excise tax on imports	0.1	0.1	0.1	0.3	0.1	0.1
ECOWAS Levy		0.1	0.1	0.2	0.2	0.1
AU Levy				0.0	0.0	0.0
Environmental tax on used cars				0.0	0.0	0.0
Duty waivers (% of total exemptions)						
Import duty (oil)	1.5	0.9	1.6	0.2	0.4	0.2
Import duty (non-oil)	44.8	45.8	53.2	37.0	32.3	40.1
Import VAT (oil)	1.4	0.8	1.5	0.4	0.6	0.6
Import VAT (non-oil)	45.0	40.7	32.4	45.2	53.4	49.5
Import/export processing fees	2.6	3.2	2.8	4.1	2.1	2.5
Environmental tax on imports	0.0	0.0	0.3	0.0	0.0	0.0
Excise tax on imports	4.6	4.5	4.1	8.0	2.3	3.3
ECOWAS Levy		3.9	4.1	4.1	7.4	3.2
AU Levy				0.8	1.5	0.6
Environmental tax on used cars				0.1	0.1	0.0
Duty waivers (% of revenue)						
Import duty (oil)	0.3	0.2	0.3	0.0	0.1	0.0
Import duty (non-oil)	7.8	9.2	9.2	7.3	4.6	5.8
Import VAT (oil)	0.2	0.2	0.3	0.1	0.1	0.1
Import VAT (non-oil)	7.8	8.2	5.6	8.9	7.5	7.1
Import/export processing fees	0.5	0.7	0.5	0.8	0.3	0.4
Environmental tax on imports	0.0	0.0	0.0	0.0	0.0	0.0
Excise tax on imports	0.8	0.9	0.7	1.6	0.3	0.5
ECOWAS Levy		0.8	0.7	0.8	1.0	0.5
AU Levy				0.2	0.2	0.1
Environmental tax on used cars				0.0	0.0	0.0
Cost of tax exemptions (% of GDP)	2.6	3.0	2.3	3.8	2.6	2.8
Cost of tax exemptions (% of revenue)	17.3	20.2	17.3	19.7	14.1	14.4

Source: GRA.

million or 2.8 percent of GDP (and 25.3 percent of tax revenues) and represented a 0.2 percentage point increase from 2.6 percent of GDP (25.2 percent of tax revenue) in 2018. With revenue losses of these magnitudes, for every dalasi of revenue collected, 0.28 dalasi was uncollected in 2019. A review of the beneficiaries indicates that SOEs consistently benefited the most, at 40 percent of total exemptions and 1.1 percent of GDP, followed by the Government and other public agencies (such as GIEPA, MOFEA) – making up three-quarters of the total exemptions granted in 2019. Externally financed projects cut across widely among these beneficiaries, as per the authorities. The data, however, are not disaggregated enough to confirm this claim.

Most of the revenue is lost due to tax incentives on the non-oil components of import VAT and import duties. Duty waivers on non-oil import VAT averaged 1.3 percent of GDP, 7.5 percent of total revenue, and 44.4 percent of total exemptions between 2014 and 2019. The corresponding figures for non-oil import duties were 1.2 percent of GDP, 7.3 percent of total government revenue, and 42.2 percent of total exemptions. In contrast, waivers of both duty and import VAT for oil imports averaged only 1 percent of total exemptions, 0.2 percent of total revenue, and a negligible share of GDP. Duty waivers on the ECOWAS Levy were more substantial, amounting to 0.1 percent of GDP, 0.6 percent of total revenue, and 3.8 percent of total exemptions.

Tax Administration and Tax Policy Capacity

The institutional framework for taxation and the related tax policy and administrative capacity are rather weak. Relatively infrequent tax policy assessments and reviews are conducted by either MOFEA or the GRA. The medium-term tax-to-GDP target is not underpinned by bottom-up assessments of revenue potential, by tax source, including action plans to achieve revenue improvements. The April 2018 Tax Administration Diagnostic Assessment Tool (TADAT) assessment found some key strengths in tax administration, including improvements in taxpayer education, the use of withholding at source for income taxes, and a relatively strong tax dispute resolution system. However, entrenched weaknesses still impede the GRA from achieving its revenue potential. These include deficiencies in improving compliance, the low integrity of the taxpayer registration base, and relatively weak core tax administrative systems, processes and procedures, including insufficient refund systems (see Box 3.2).

Summary of Main Findings and Reform Options

The Gambia has a clear need to increase its revenue mobilization. At 11.2 percent of GDP in 2019, its tax ratio is well below the SSA average of 17 percent. The Gambia has a tax gap of around 4–6 percent of GDP compared to the potential it could raise based on economic, institutional, and political factors. It currently depends on indirect sources for its tax revenue and significantly underutilizes its tax bases, particularly in income tax. The main recommendations, summarized in Table 3.7, aim to partially close the tax gap by enhancing revenue by 3.0-3.3 percent of GDP over the medium term. The formulation and implementation of such reform agenda, however, is profoundly constrained by extremely low tax policy and administrative capacity, including the lack of data needed to support of sound policy elaborations.

Rolling back some of recent softening of income taxation, particularly in personal income tax, as well as rationalization of tax expenditures, at the border and in domestic taxation, may provide an estimated improvement of 1.2 percent of GDP. Additional revenue may be achieved in other tax sources, including excises, to the tune of 0.3-0.6 percent to GDP. Tax administrative capacity building should be prioritized over the short-term, since improved tax systems, procedures and modern audit approaches traditionally result in strong revenue gains. In the case of The Gambia, an impact of 1.5 percent to GDP through digitization is estimated.

Corporate Income Tax

- Corporate income tax performance lags peer countries, influenced by a slowdown in economic activity in the later years of the review period due to political turmoil, and the impact of successive reductions in statutory CIT rates.
- Significant tax-base reductions abound, including exemptions and preferential rates in investment and export incentives, and zero tax rates in the Export Processing Zone.
- A rationalization review of tax expenditures is recommended, with the objective of broadening the tax base and thus safeguarding CIT revenues. Further reductions in the statutory tax rate would not appear prudent without a parallel broadening of the CIT tax base. In numerous business surveys, tax incentives traditionally rank low on the list of the ten most important elements attracting foreign direct investment.
- The framework on international taxation is only vaguely articulated, if at all, and the authorities are encouraged to establish a roadmap for capacity building in this area over the medium term.

Box 3.2

Implementation of Tax Administration Diagnostic Assessment Tool Reform Plan

The IMF assessed the tax administration system of The Gambia during April 10–25, 2018 using the TADAT diagnostic tool. This assessment aimed at providing a baseline of tax administration performance and help determine reform priorities. It identified substantial weaknesses across all nine critical performance outcome areas which undermine the credibility of tax data. These weaknesses include: (i) an inaccurate taxpayer registration database; (ii) weak compliance risk management; (iii) inadequate support to taxpayers to optimize compliance; (iv) uncertain on-time filing and payment rates; (v) lack of documented procedures and internal controls; (vi) an ineffective internal audit function; (vii) inaccurate taxpayer ledgers; (viii) an inadequate integrated tax administration system (GAMTAXNET); and (ix) an ineffective transparency and accountability framework. As a result, all 28 TADAT high-level indicators scored D (lowest score) except two: the use of efficient collection systems, which scored, B and the use of electronic payment methods, which scored C. The taxpayers' information delivery methods, income tax payment methods, the availability of electronic payment facilities, and the legal framework for the dispute resolution mechanism were identified as areas of strength.

To address these weaknesses and elaborate a medium-term reform plan, the IMF under an EU funded program recruited a long-term expert for 2019 to support GRA in addition to the regular IMF support in strengthening tax collection. With this support, GRA approved the TADAT reform plan and developed a 2020–2024 strategic reform plan by end-2019. GRA has started cleansing the tax registry, created new tax collection centers, enhanced the GAMTAXNET, and improved compliance on tax filing and payments. It has also developed tax audit capability especially in the telecom sector that has helped boost sector compliance and tax contributions. Other reforms such as the establishment of a credible tax ledger and an efficient tax arears management system require a good IT system and are expected to start after the launch of the core modules of GAMTAXNET in mid-2020. The recruitment of a new long-term expert, the migration to ASYCUDA World with UNCTAD support, and World Bank support to revamp the GAMTAXNET will significantly contribute to accelerating the implementation of the post-TADAT reforms (Table B3.1).

Box 3.2

Table B3.1: The Post-TADAT Reform Plan Activities

Sr. No.		Recommended Actions	Status
1	POA 1– Integrity of the Registered Taxpayer Base	Review the functionality of GAMTAXNET to ascertain system capability requirements.	Done
		Address system configuration weaknesses and required enhancements.	Ongoing
		Assign registration function to dedicated Unit to ensure maintenance of clean register.	Done
		Cleanse taxpayer registration details starting with all large taxpayers and the top 100 small and medium-sized taxpayers (SMTs).	Large taxpayers completed, SMTs pending
		Develop a robust end-to-end process and procedure for registration of taxpayers.	Done
2	POA 4 – Timely Filing of Tax Declarations	Process all returns on GAMTAXNET.	Ongoing
		Establish filing compliance baselines. Report and monitor filing compliance.	Baselines established but to be refined
		Develop a robust end-to-end process and procedure for filing.	Done
		Establish clear strategy for filing compliance which should include outreach support programs.	Ongoing
		Develop a road map to implement electronic filing.	Ongoing
		Develop a simplified return for small taxpayers.	Done
		Implement a comprehensive performance management framework for the filing function.	Pending
3	POA 5 – Timely Payment of Taxes	Establish a project to reconstruct taxpayer ledgers.	Done
		Reconstruct ledgers starting with the large taxpayers and the top 500 SMTs.	Pending
		Develop end-to-end process and procedure to update taxpayers' accounts with payment transactions within 3 business days.	Done
		Strengthen the current payment processes by timely identification and processing of payments.	Done
		Establish payment compliance baselines using existing data.	Baselines established but to be refined
		Develop a roadmap to expand the use of electronic payment methods.	Ongoing
		Develop end-to-end procedures for payment processing and procedures.	Done
		Develop end-to-end procedures for arrears management.	Done, implementation pending
		Review the legislation to provide wider debt collection tools, including writing off uncollectable debt.	Ongoing
		Improve the consistency and accuracy of penalty application and adopt a more structured approach to the approval of payment plans.	Ongoing

Box 3.2

Sr. No.		Recommended Actions	Status
3	POA 5 – Timely Payment of Taxes	Adopt a risk-based approach to the management of the stock of arrears.	Pending
		Strengthen the HQ function to provide adequate oversight of debt management.	Ongoing
4	POA 9 – Accountability and Transparency	Develop a post-TADAT reform plan, submit to GRA top management and board for approval.	Done
		Develop an operations management framework that includes a monitoring and evaluation framework.	Pending
		Develop comprehensive business and operational plans aligned to the strategic plan.	Strategic plan in place, cascading remains
		Develop key performance indicators and monitoring mechanisms	Ongoing
		Revise the GRA strategic plan with defined outcomes and publish the approved plan.	Done

Source: GRA.

Personal Income Tax

- The reductions in PIT rates and increases in the PIT threshold in 2013 and 2018 had a negative impact on PIT revenue performance in the period under review. The tax base was reduced and the marginal rates in the PIT brackets were lowered.
- The ratio of PIT revenue to GDP is amongst the lowest in SSA and has been further aggravated by the weakening of tax policy design in recent years.
- In addition, the lump-sum tax framework for informal sector agents generates only very modest revenue, despite the high prevalence of informal sector activities and agents. As seen in other countries, low and generous tax liabilities for informal agents tend to keep them from graduating to the higher tax rates in the formal sector.

Value-Added Tax

- VAT performance and productivity are low in comparison to aspirational and regional peers, with 76–80 percent of potential VAT revenues uncollected. This ineffectiveness is driven mainly by the proliferation of VAT exemptions, difficulties in taxing government institutions, and the prevalence of zero-rated goods.
- The revenue loss from tax expenditures on VAT is a core driver of the low VAT productivity. In 2015, the revenue forgone on exempted imported items amounted to GMD35 million, representing 0.06 percent of GDP and 0.5 percent of tax revenue.
- VAT was introduced in 2013 and has been fully operational since 2017. The statutory rate of 15 percent and the threshold of GMD1 million of turnover for VAT registration are both low compared with majority of The Gambia's peers. Mainstreaming the statutory rate to 16–18 percent, while simultaneously increasing the threshold, would enhance revenue collection. Such a move would also improve compliance and efficiency in VAT collection, by including mainly only large and medium-sized enterprises in the VAT system.

Excise Taxes

- Given its relative ease of implementation, wider social benefits, and the absence of political resistance to such taxes, excise tax performance in The Gambia is relatively poor. This performance is attributable to comparatively low rates and a narrow domestic excise tax base.
- Standard rates on key excises such as tobacco, alcohol, non-alcoholic beverages and vehicles (used and unused) have been increased significantly; new items have been introduced; and fuel subsidies have been eliminated. While these reforms will potentially contribute to narrowing the excise tax gap, further tax capacity building related to administration and control of the excises seem needed, in order to establish robust and enhanced revenue collection of this tax source.

Customs Duties

- International trade taxes have been relatively successful in mobilizing tax revenue. This performance is driven mainly by import duties and VAT collected at the border.
- Generous tax expenditures at the border still constitute a major source of revenue leakage, amounting to GMD2,522 million in 2019 (2.8 percent of GDP and 25.3 percent of tax revenue). In addition to private sector firms inside and outside the economic zones, the main beneficiaries are SOEs, the Government and other public sector agencies. A thorough review of the efficiency of the tax expenditures at the border is recommended.

Institutional and Capacity Development

- A Tax Policy Unit (TPU) should be created within MOFEA. The unit should be adequately staffed in the short term to be able to cover revenue forecasting, and the preparation of tax policy initiatives. It will need to collaborate closely with existing capacity at the GRA. The government could also transfer that capacity to the proposed TPU.
- Enhancing tax administration capacity will be essential to support the implementation of the TADAT recommendations. A roadmap needs to be established reflecting the additional efforts that would be needed to replace the technical assistance currently provided by the IMF such as IT systems and the modernization of business processes. A simulation analysis on low-income developing economies suggests that reducing the distance to the digitization frontier in revenue administration by half can raise VAT and tariff revenues by 1.5-2 percent of GDP.[55]
- The elaboration of a medium-term revenue strategy would have an impact on the capacity requirements of MOFEA and the GRA, thus the TPU should be established ahead of the launch of such a strategy.

55 IMF (2018c).

Table 3.7

Recommended Policy Measures

Actions	Timeframe
Value-added tax	
R1. Consider mainstreaming the statutory VAT rate to the range of 16–18%, along country practices in SSA.	Medium-term
R2. Increase the threshold to focus on larger taxpayers, in combination with improved taxation of SMEs in the informal sector tax scheme.	Medium-term
Excises	
R3. Adjust key excise rates.	Short-term
R4. Expand the domestic excise base.	Short-term
R5. Build tax capacity to administer and control excises.	Short-term
Tax expenditures	
R6. Improve the efficiency of tax expenditures at the border.	Short-term
R7. Enhance the efficiency of domestic VAT by phasing out exemptions.	Short-term
R8. Rationalize corporate tax incentives.	Short-term
R9. Strengthen the fiscal oversight of tax expenditures.	Short-term
Corporate income tax	
R10. Limit further reductions in the statutory tax rate without a parallel broadening of the CIT tax base.	Short-term
Personal income tax	
R11. Revert the PIT rate structure to earlier practice in the Gambia, aligned more closely to country practices in SSA.	Short-term
R12. Improve the personal income taxation of self-employed professionals such as lawyers, doctors and accountants.	Short-term
Capacity development	
R13. Create a Tax Policy Unit (TPU) in MOFEA with a mandate to forecast revenue and prepare tax policy initiatives.	Short-term
R14. Enhance tax administration capacity by modernizing business processes and IT systems.	Short-term
R15. Develop a Medium-Term Revenue Strategy, guiding efforts to close the tax gap, as well as outlining strategic directions of work program for proposed TPU.	Short-term

Source: GRA.

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Public Expenditure

Improving the efficiency of public expenditure is tied to the discussion about increasing domestic revenue mobilization. However, concerns about public expenditures are critical because of the perceived lack of progress in service delivery since the change in government. The size of the government has grown primarily due to substantial disbursements of externally financed projects. Interest payments have declined; however, wage bill, goods and services and transfers continue to comprise almost 70 percent of the recurrent spending. This also explains high public expenditure rigidity.

Three sectors comprise one-third of public expenditure and offer room for efficiency gains. In education, increasing the student-teacher ratio in primary education alone could translate into efficiency savings of 0.02 percent of GDP. This should, however, be done without compromising learning outcomes and keeping in mind the varying context across regions. Converging on the Sub-Saharan Africa average on spending per student as a share of GDP per capita at the primary level could yield savings amounting to 0.73 percent of GDP. However, this rationalization needs to account for the large number of out-of-school children. In security, the police force and army could be made more efficient by relocating or reducing police officers, soldiers and vehicles, thereby leading to a fiscal savings of 0.7 percent of GDP.

This chapter is organized as follows. The first section details the Gambia's expenditure performance by economic, functional and administrative classifications. The second section analyzes its public expenditure and benchmarks it against its structural and aspirational peers. The third section analyzes expenditure efficiency in two sectors, education and security, and outlines recommendations for those sectors.

4 Public Expenditure

Expenditure Performance

The transition to democracy fueled an expansion in the size of the government. Public expenditure has increased substantially in recent years, rising from 19.6 percent of GDP in 2016 to 22.3 percent in 2019. This was fueled by an increase in grants (especially from the disbursement of externally financed projects and budget support from donors).

Primary public expenditure in the Gambia has, historically, exhibited pro-cyclical behavior. This is mainly explained by the positive correlation between externally financed capital expenditure and aggregate output. This implies that output growth in the short run could be driven by infrastructure expenditure financed by foreign loans and grants.[56] All other components of public expenditure, except compensation to employees, behave counter-cyclically (Figures 4.1 and 4.2). This negative correlation may suggest that they act, at least partially, as a kind of automatic stabilizer, particularly spending on social benefits and goods and services. The role of subsidies is not established since they include the quasi-fiscal deficits of the state-owned enterprises (SOEs). Interest payments move inversely with the business cycle, since higher output growth raises domestic revenues and thus reduces borrowing needs and the associated costs. Finally, the slightly pro-cyclical behavior of compensation to employees may indicate that those increase when economic activity and revenues grow.

Economic Composition

Over the past five years, the economic composition of public expenditure has changed, driven by the availability of donor funding. The share of capital spending has increased from 23.7 percent of total expenditure in 2015 to 35 percent in 2019 (see Annex III, Table A3.7). This is, however, largely driven by externally financed capital projects that exhibit volatility in tandem with political and socio-economic developments. Half of the recurrent expenditure, on average, has been used for salaries and goods and services. Transfers (notably subsidies to SOEs and subventions) constituted 20 percent while the share of interest payments has recently declined to 22 percent from an average of 34 percent during 2015–2017.

Interest payments absorb a large part of domestic revenues, thereby narrowing the fiscal space to finance key services. Debt servicing costs are mainly explained by the burden of domestic debt, which is relatively more expensive than external debt. In effect, 87 percent of interest payments are paid to local debt holders (Figure 4.4). The Government has managed to heavily

56 Yet, investment in The Gambia appears to have been less effective in generating growth than in peer countries. Casual observation and indirect empirical evidence suggest that all too often high returns on infrastructure capital do not translate into equally high returns on public investment either because of inadequate expenditure on maintenance or because a large fraction of public investment spending does not increase the stock of productive infrastructure (World Bank, forthcoming).

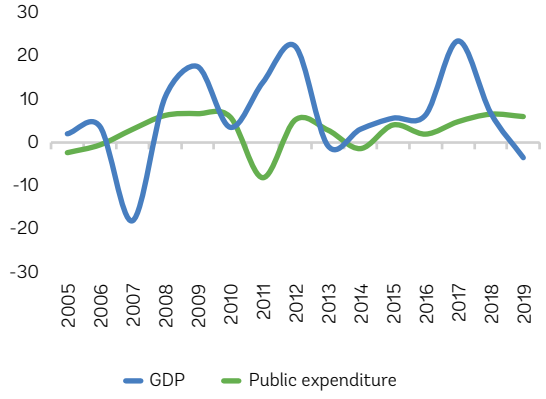
reduce interest spending as a share of revenues net of grants, which fell from a record high of 45.2 percent in 2017 to 22.5 percent in 2019 as the central bank financing of the fiscal deficit was reduced and interest rates fell.

Spending overruns on vehicle and travel expenses and foreign embassy staff persist despite recent measures. In 2018 there was a lack of progress on vehicle policy reform, together with unanticipated increases in foreign embassy staff. Expenses due to additional personnel emoluments resulting from increases in vehicle and transport allowances reached GMD203.7 million and the maintenance of newly opened foreign embassies and allowances to related staff cost GMD65.9 million (IMF, 2019).[57] The Government's vehicle fleet reform could generate savings of 2 percent of GDP over the medium term by strengthening accountability, reducing fuel and maintenance costs, and generating receipts from the sale of excess cars. The sale of domestic vehicles, land and property has raised GMD700 million in 2019 and is expected to raise a further GMD300 million in 2020 (1 percent of GDP in total).

Transfers comprise subsidies, social benefits, and allocations for subvented agencies. This category also includes outlays on transitional justice and contingent support for SOEs. In 2018, subventions made up more than 80 percent of the transfers, approximating to 2.2 percent of GDP. These include explicit subsidies to utility companies (NAWEC and NFSPMC, formerly GGC) as well as one-line transfers to subvented agencies (such as GRA, GPPA, etc.) to cover for their salary and operational expenditures. However, neither are these transfers recorded on agency basis in IFMIS nor is there any reconciliation of spending by those agencies when fiscal accounts are finalized.

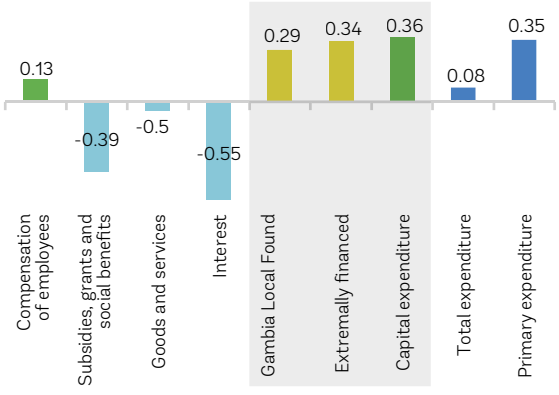
Externally financed capital expenditure drives the growth of total expenditure. Accelerations in real public expenditure growth have been explained by the dynamics of externally financed capital expenditure (Figure 4.3). For instance, in 2009 the entire growth in public spending was explained by externally financed capital expenditure, while in 2017 it represented 32.3 percentage points (pp) of the growth rate of public expenditure (23.5 percent). This is because capital expenditure

Figure 4.1. GDP and Public Expenditure Annual Growth Rates, 2005–2019 (%)



Source: Statement of Government Operations (SGOs), Ministry of Finance and Economic Affairs (MOFEA), and World Economic Outlook (WEO) database, IMF (2019a).

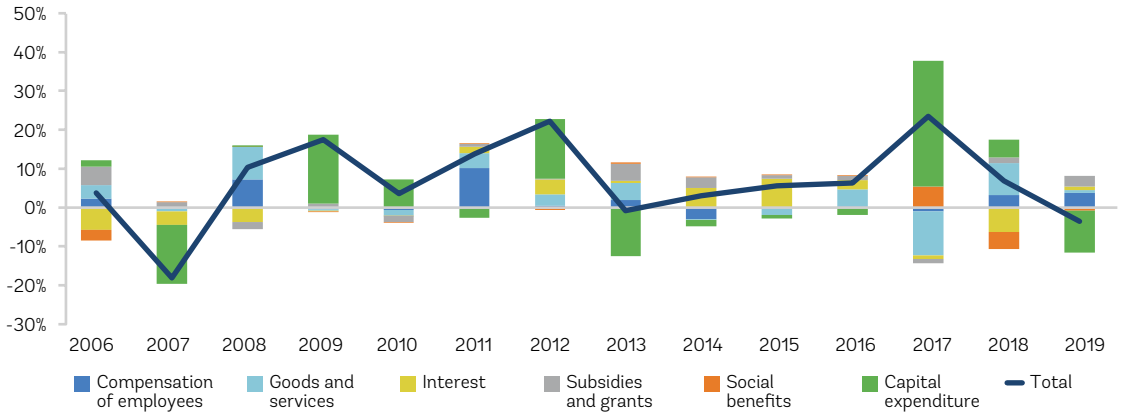
Figure 4.2. Correlation Coefficient Between Cyclical Components of Expenditure and GDP, 2004–2019



Note: A positive correlation indicates pro-cyclical fiscal policy behavior and a negative correlation counter-cyclical behavior.
Source: Own estimates using the Hodrick-Prescott Filter, SGOs, MOFEA and WEO Database, IMF (2019a).

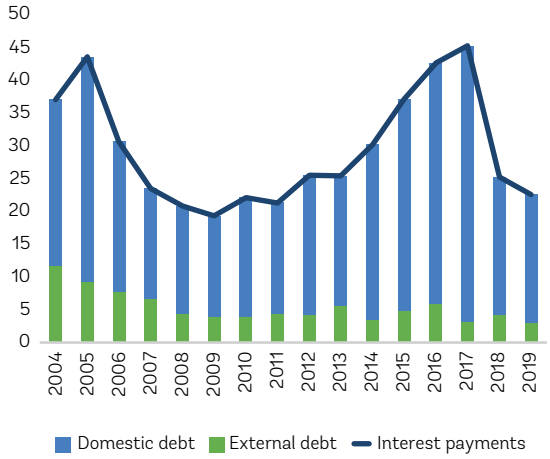
57 The authorities are revoking the appointments of embassy staff posted in 2018 without proper budget authorization. While related savings will not exceed 0.1 percent of GDP in 2019 (revoked staff will remain in their posts until mid-2019), the measure is expected to generate savings of about 0.3 percent of GDP per year. However, staff reductions have been limited (only five separations so far).

Figure 4.3: Contribution to Real Expenditure Growth, 2006–2019



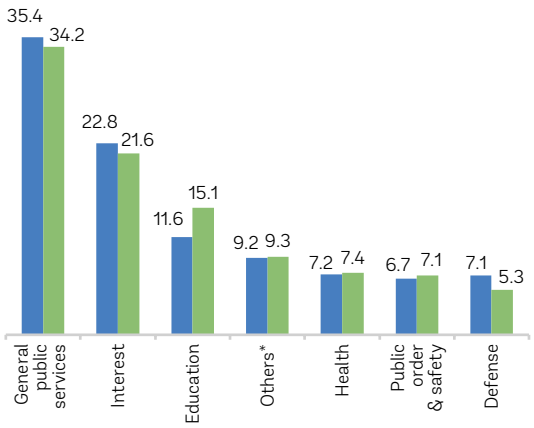
Note: Contribution to real expenditure growth is measured through the product of the weight of each category in total expenditure in the previous year and the real growth in the current year.
Source: SGOs, MOFEA.

Figure 4.4: Interest Payments, 2004–2019 (% of Domestic Revenue)



Note: Domestic revenues are revenues net of grants.
Source: SGOs, MOFEA.

Figure 4.5: Central Government Expenditure by Function, 2014 and 2018 (% of Total Expenditure^)



*Includes economic and other social services.
^Gambia Local Fund (GLF) expenditure is revenues net of grants plus domestic borrowings.
Source: BOOST, World Bank.

made up 35 percent of total expenditure in 2019 and almost 86 percent of capital expenditure is externally financed. With a high dependence on external funds to finance long-term investments, The Gambia is dependent on donors' decisions about the availability of loans and grants. This generates high volatility in capital expenditures (Figure 4.6 and Annex III, Table A3.4).

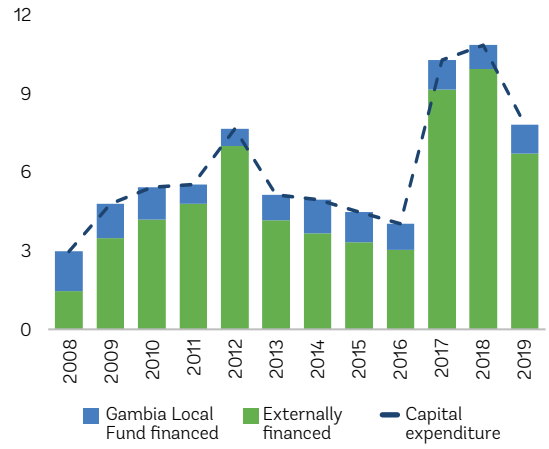
Functional and Administrative Composition[58]

The composition of public expenditure in The Gambia has remained virtually unaltered despite profound political change. Interest payments amount to as much as both education and health spending combined. Between 2014

58 This section is based on GLF expenditure using the BOOST database and does not include externally funded capital expenditure.

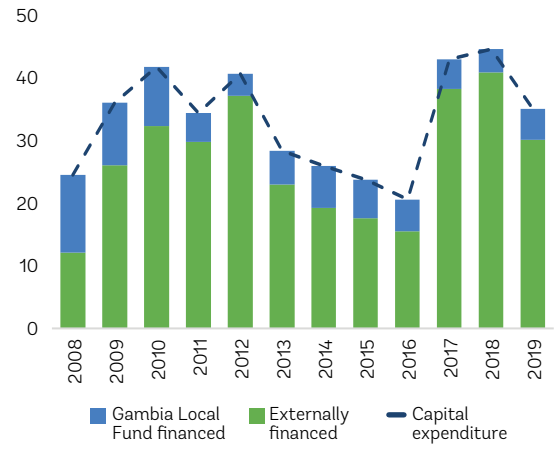
Figure 4.6: Capital Expenditure, 2008–2019

a. Percentage of GDP



Source: SGOs, MOEFA.

b. Percentage of Total Expenditure



Source: SGOs, MOEFA.

and 2018, expenditure on education increased by 3.5 percentage points, while expenditure on defense fell by -1.8 pp. The main category of public expenditure is general public services, which include administration spending (the Executive) and other state spending (the Judiciary and the Parliament) and amounts to 34.2 percent (Figure 4.5).

Breaking down public expenditure by administrative classification reveals some striking facts. For instance, the Office of the President reduced its share of total spending from 11 percent to 5 percent between 2014 and 2018 but is still spending similar amounts to the Ministry of Health. Moreover, the "miscellaneous" block[59] has mushroomed over time—from 0.6 percent of the total in 2014 to 6.4 percent in 2018—to reach the same spending levels as the Ministry of Foreign Affairs and MOFEA (see Annex III, Table A3.7). The abrupt jump in 2018 in this category (a growth of 253 percent from 2017) is almost wholly explained by the increase in settlement of confirmed debts. This settlement pertains to payments on debts and liabilities owed to M.A. Kharafi and Sons and Conapro Company as the disputes were resolved.

National debt service—despite not being a budget entity—is the main component of expenditure. It includes interests on bonds and represented between 32 and 43 percent of total expenditure during 2014–2018. It increased from 6.1 percent of GDP in 2014 to 7.6 percent of GDP in 2017. Its reduction to 5.5 percent of GDP in 2018 is mainly explained by reduced central bank borrowing and a decline in domestic interest rates.

The National Development Plan (NDP) priorities are partially reflected in the reallocation of resources among different ministries by the Government. The following agencies increased their spending over 50 percent in real terms between 2017 and 2018: the Independent Electoral Commission (57 percent); the National Audit Office (62 percent); the Ministry of Justice (96 percent); the Ministry of Tourism and Culture (67 percent); the Ministry of Commerce, Information and ICT (58 percent); the Ministry of Fisheries (95 percent),;and the Ministry of Petroleum and Energy (181 percent). The Ministry of Agriculture increased spending by 25 percent.

59 This is not a budget entity and includes staff loans, rents, and arbitration and settlement charges.

The Government has increased the resources going to basic and secondary education. The Ministry of Basic and Secondary Education received more funding in 2018, which explains the 34 percent growth in its expenditure that year. The Ministry of Tertiary and Higher Education saw spending reductions of 17 percent in 2015 and 14 percent in 2016. However, tertiary and higher education expenditure has grown again since the democratic transition, by 16 percent in real terms in 2017 and 10 percent in 2018. Education expenditure averaged 12 percent of total expenditure during 2014–2018 and reached 14.3 percent in 2018 (see Section D for more details).

The security sector comprises a big chunk of public expenditure. The combined spending by the defense, interior and justice ministries, together with the Judiciary and Ombudsman, remained above 11 percent on average during 2014–2018. Following the change in government in 2017, the share declined slightly but increased again to 12.3 percent in 2018, primarily owing to a 38 percent increase in spending by the Ministry of Interior and a 17 percent increase for the Ministry of Justice (see Section D for more details).

International Comparisons

The Gambia's public expenditure, a measure of the size of the public sector, is lower than its peers. Government spending amounted to 22.3 percent of GDP in 2019, compared with an average of 27.8 percent of GDP among its structural peers. Total government expenditure in its aspirational peers averaged 24.5 percent of GDP, placing the country below both its aspirational and structural peers. Public expenditure is also below the averages for Sub-Saharan Africa and SSA low income countries (SSA-LIC) (Figure 4.7).

The composition of Gambian public expenditure reveals two main differences with peer countries. First, capital expenditure is the main category of public expenditure (35 percent of total spending), below its aspirational peers (43.3 percent) but much higher than its structural peers (23.6 percent). This reflects the increase in foreign grants in recent years. Second, interest payments absorb 14.4 percent of total spending, which is much higher than in both sets of peer countries (7.1 percent). These payments limit the Government's fiscal space for spending in other categories, such as social transfers. Even if transfers to SOEs are included, subsidies, grants, and social benefits make up only 13.5 percent of total expenditure, below the average for both its aspirational (16.8 percent) and structural peers (25.3 percent) (Figure 4.8).

The Gambia hovers between its aspirational and structural peers on the share spent on personnel emoluments and other charges. Public expenditure on both compensation of employees and goods and services (accounting for 37.1 percent of total spending) is higher than in its aspirational peers and lower than in its structural peers. Comparatively low wage bills in The Gambia are due in part to low base salaries even though the number of public servants increased by 70 percent over the past decade.[60]

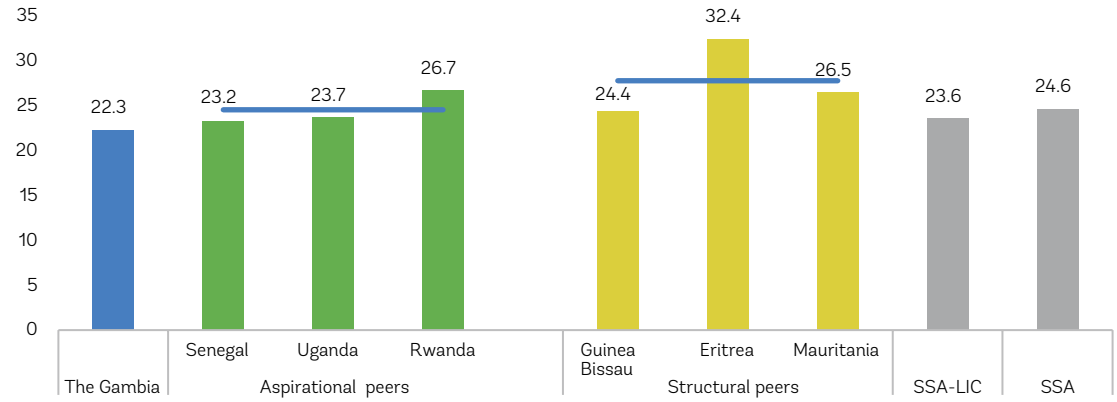
Expenditure Rigidities

A large share of public expenditure in The Gambia can be classified as mandatory spending (65 percent). This includes spending on wages (20 percent), interest payments (14.4 percent), and externally financed capital expenditure (30 percent). Other spending that can be considered partially rigid, such as subsidies and grants and social benefits or pensions, represents 13.5 percent of total expenditure (Table 4.1). This means there is little margin to reallocate resources among categories, so improving efficiency within each component is of paramount importance.

Comparing the degree of budget rigidity across countries is not a straightforward exercise. There is no commonly accepted methodology, and

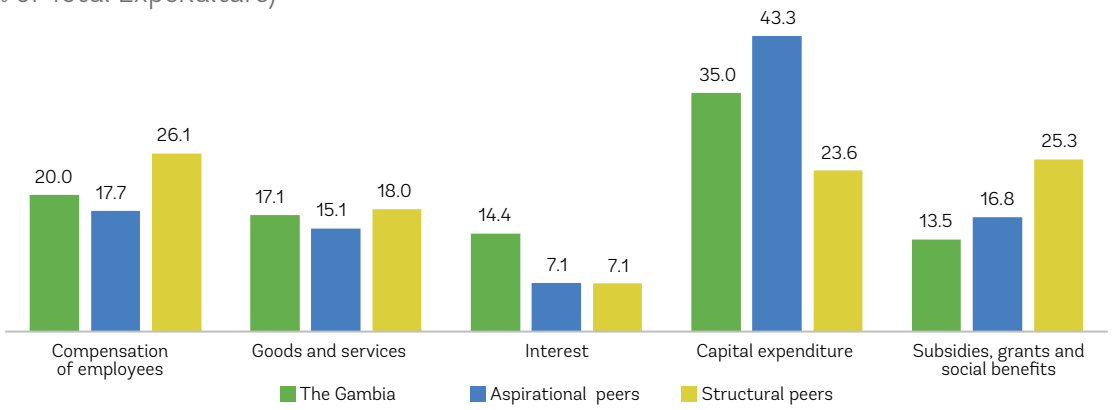
60 The number includes civil servants, security forces and teachers but excludes employees in the subordinated agencies and state-owned enterprises.

Figure 4.7: Benchmarking General Government Total Expenditure, 2019 (% of GDP)



Source: WEO Database IMF, except for The Gambia and Senegal. The Gambia: SGO, MOFEA. Senegal: BOOST (budget), World Bank.

Figure 4.8: Benchmarking Public Spending by Economic Classification, 2019 (% of Total Expenditure)



Note: Subsidies, grants and social transfers also include other expenditures.
Source: WEO Database IMF, except for The Gambia and Senegal. The Gambia: SGO, MOFEA; Senegal: BOOST (budget), World Bank.

the sources of rigidity, or what constitutes rigidity, are ill defined in the literatures. The Gambia cannot be benchmarked on rigidity as no such analysis has been conducted for other countries in the region. However, based on the categorization of expenditure rigidities conducted for The Gambia, a quick analysis for Senegal (aspirational peer) and Guinea-Bissau (structural peer) suggests that budget rigidity is higher in The Gambia, partly explained by a high interest burden and externally financed capital expenditure.[61]

Expenditure Analysis – Selected Sectors

Given the size of the Government in The Gambia, it could generate efficiency gains without compromising the quality of service delivery. Improved expenditure prioritization and efficiency will help the Government free up fiscal space for priority spending in key social sectors such as health and education. These two sectors, together with the security sector, comprised one-

61 Highly rigid expenditure amounted to 48.3 percent of total expenditure in Senegal (2019) and 55.8 percent in Guinea-Bissau (2016) (*Source*: Author's calculation based on PER database).

Table 4.1

Budget Rigidities in The Gambia, 2014–2019 (% of Total Expenditure)

	2014	2015	2016	2017	2018	2019
High rigidity	58,1	61,4	59,0	71,7	69,2	64,5
Wages	19,5	18,5	17,6	13,4	15,6	20,0
Interest	19,4	25,3	25,9	20,1	12,9	14,4
Externally financed capital expenditure	19,2	17,6	15,5	38,1	40,7	30,0
Medium rigidity	13,6	13,8	14,1	10,8	11,3	13,5
Subsidies and grants	12,4	12,6	12,9	9,7	10,4	10,8
Social benefits/pensions	1,2	1,2	1,2	1,1	0,9	2,7
Low rigidity	28,4	24,8	26,9	17,5	19,5	22,0
Goods and services	21,6	18,7	21,8	8,6	15,6	17,1
Other expenses*	6,7	6,1	5,0	8,9	3,9	5,0
Total**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Notes: * Includes net acquisition of non-financial assets financed by local funds and other spending.
** Does not include consumption of fixed capital.
Source: SGOs, MOFEA.

third of public spending in 2018. They therefore merit closer scrutiny for possible fiscal savings and reinvestment of those savings within priority sub-sectors. While health spending is analyzed in Chapter 5, both the education and security sectors were recently analyzed in separate PERs.[62] However, given their shares of expenditure and for completeness, this section includes key findings from efficiency analyses for those sectors.

Education

Public spending on education is low despite strong government commitment. In 2018, spending on education[63],[64] was 2.4 percent of GDP, up from 2 percent in 2017 and an average of 2.2 percent during 2014–2016. However, this is still below the recommended benchmark[65] of 4–6 percent of GDP, and peers such as Senegal (4.8 percent), Rwanda (3.1 percent), and Uganda and Mauritania (2.6 percent).

The education spending is consistently biased toward basic education. The share of public spending on basic education averaged 73 percent over 2014–2018, while 14 percent was spent on senior secondary and 13 percent on post-secondary. This is proportional to enrollment at these levels of education. However, most of the working-age population has no formal education and only a very small share has post-basic education. Therefore, functional allocation of the budget could be improved.

The Gambia spends less on post-secondary education but more on primary and secondary education than its peers. When using UNESCO Institute for Statistics (UIS) breakdown of spending by level of education, The Gambia's spending on primary education stands at 55.8 percent which is in line with the recommended benchmark of 50 percent, even though about one-fifth of primary-school-age children are out of school. This is much

62 World Bank (2017).
63 GLF expenditure.
64 The Gambia has a three-tier education system. Early childhood development (ECD), Lower Basic Education (LBE), and Upper Basic Education (LBE) cover grades 0–9 and constitute basic education. This is followed by three years of senior secondary education (SSE) and four years of tertiary or higher education.
65 Global Partnership for Education (GPE).

higher than its aspirational peers, Senegal and Rwanda, which spent 30 percent at the primary level on average. The allocation to secondary education puts The Gambia among those SSA countries with a high share of public spending allocated to secondary education. In 2015, The Gambia spent 32.8 percent on secondary education, but it comes at the expense of low allocation toward higher education.

Although school fees have been abolished, the non-fee component of education is largely privately financed. The education sector is largely funded by private households which contributed about 58 percent of total spending on education in 2015, whereas public funding accounted for 34 percent. The rest of the funding comes from donor contributions.

The Human Capital Index (HCI) estimates that a child born in The Gambia today will only reach 40 percent of his or her potential, against a benchmark of complete education and full health. This ranks it among the bottom 30 of the 157 countries included in the HCI.[66] Like other LICs, The Gambia's HCI score is pulled down by poor learning outcomes and a high child stunting rate. The distribution of HCIs by region reflects a huge gap ranging from 0.30 in the Kuntaur region (Central River Region) to 0.51 in the Greater Banjul Region (Figure 4.9).

The Gambian economy has become less reliant on human capital over time, although it still accounts for over half of the country's wealth. Human capital's contribution to wealth has decreased from 64 percent in 1995 to 53 percent in 2014.[67] In contrast, the share grew from 36 percent to 50 percent on average for SSA. Global evidence shows that human capital is directly tied to increased growth, with upper middle- and high-income countries yielding an average of 58 and 70 percent of their wealth from human capital, respectively. This suggests that The Gambia must make a long-term commitment to accelerate human capital development. Since education is a key determinant of low HCI, The Gambia needs to invest more, and effectively to improve human capital outcomes for economic growth and global competition.

The Government has made significant efforts to improve access to and the quality of education. The gross enrolment ratio increased from 88.3 percent in 2010 to 117.9 percent in 2019. Gender parity indices indicate that there are more female than male students at the preschool (1.06), primary (1.08), lower secondary (1.10), and upper secondary (1.09) levels.[68] The Government has also made progress in areas such as enhancing teachers' qualifications and deployment, integrating the public school curriculum into madrassas, and piloting technology-informed teaching approaches. Despite these efforts, the education sector faces challenges. The fact that many children remain out of school,[69] the poor quality of education and the lack of basic labor-market skills, means additional funding for the sector is essential. Improving the efficiency of existing spending could generate resources to cover some of these needs.

Increasing access incurs significant fiscal costs. The previous expenditure review[70] constructed three scenarios[71] to estimate the financing needed to achieve different levels of access. These scenarios generated a projected increase in the

66 See https://www.worldbank.org/en/publication/human-capital.
67 World Bank (2018).
68 Source: Education Management Information System (EMIS) 2019.
69 The share of primary school age children who are out of school in The Gambia was 18.2 percent in 2018 – slightly lower than the SSA average of 18.8 percent (*Source*: UNESCO Institute for Statistics).
70 World Bank (2017).
71 The high scenario includes achieving universal access in Lower Basic School by 2025 and in Upper Basic School by 2030, doubling enrollment in early childhood development and Senior Secondary School from about 40 percent in 2015 to 80 percent in 2030, and increasing enrollment in higher education from 742 per 100,000 inhabitants in 2015 to 1,030 by 2030. The medium scenario would mean increasing the access rate by 20–25 percent in general education and increasing enrollment in higher education from 742 per 100,000 inhabitants in 2015 to 800 by 2030. Lastly, the low scenario would mean maintaining the current level of access while coping with the high population growth.

education budget of between 1.7 and 2.2 times the spending in the sector in 2018, and a funding gap[72] of 0.6–1.9 percent of GDP by 2030. Given existing fiscal constraints, it appears unlikely to mobilize funding of this scale in the short term. Therefore it will be critical to enhance spending efficiency and reinvest the savings generated within the sector.

The efficiency estimate shows that, on average, the same services in schools could be provided with 6 percent less resources. The efficiency score in school education has increased from 82 percent in 2015 to 94 percent in 2019 using the data envelopment analysis (DEA) methodology[73] (World Bank, 2017). In each region, there is at least one fully efficient school, suggesting that other schools in the same region could employ similar efforts for improved efficiency (see Annex V for details of the methodology).

Efficiency at different levels of education significantly varies within the regions. The least efficient Lower Basic School (LBS) is found in Region 4 (Lower River Region), which appears to also the least efficient region on average. Moreover, Basic Cycle Schools (BCSs) are generally less efficient while Senior Secondary Schools (SSSs) are relatively more efficient (Figure 4.10). At the primary level, the more efficient schools are in Regions 1 and 2 (Greater Banjul and West Coast Regions) while secondary schools are fully efficient in Regions 3, 4 and 5 (North, Lower and Central River Region).

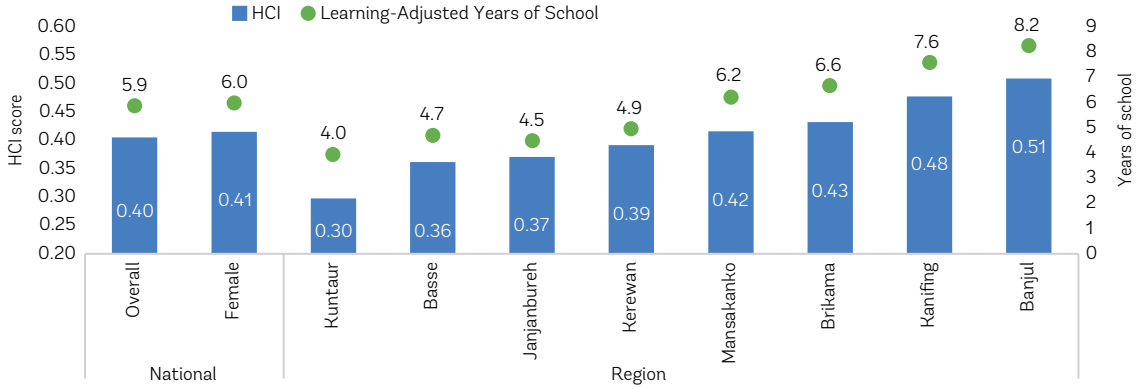
The key driver of education spending is the cost of personnel. These could be optimized given The Gambia's low student-teacher ratio (STR). Over 2014–2018, teachers' salaries made up 77 percent of school education spending, even though education sector staff are paid at a lower rate than other public sector staff. This is because the average number of students per teacher is 36.8 at primary and 26.2 at secondary.[74] The average STR could increase to 38.4 for primary—in line with the SSA average—without jeopardizing service delivery although the ratio at secondary level is already above the regional average. If the Ministry of Basic and Secondary Education used its teachers efficiently in primary education, the efficiency savings could translate into GMD8.5 million on salaries and GMD9.7 million on allowances, or 0.02 percent of GDP combined. This should, however, be done without compromising learning outcomes and keeping in mind the varying context across regions such as remoteness, cultural influences, etc.

The teacher staffing process should be based on a predetermined set of criteria. These should include student-teacher ratios, classrooms, school size, subjects taught, and facilities available at the school level. The growth in the number of teachers has been more than double the growth in enrolment, albeit disproportionately distributed across different regions, though the pace has slowed down during the last five years. Having the right number and qualification mix of teachers in the right locations would ensure better management of staff, including better compensation. The current pre-service teacher training program and hiring practices should be reconsidered so that decisions are based on the number and type of teachers needed. A new policy on teacher postings, together with hardship allowances and scholarship incentives, should reduce regional disparities. This policy would allow teachers to choose the region where they would like to serve, but with regional quotas to avoid teachers being concentrated in particular regions.

Non-salary school expenditure should be enough to provide the school inputs and learning materials needed for better learning outcomes. In 2018, 36 percent of the ministry's recurrent budget was allocated for non-salary spending. However, most of this spending is executed at the central level on expenses that are not related to learning outcomes, such as contributions to

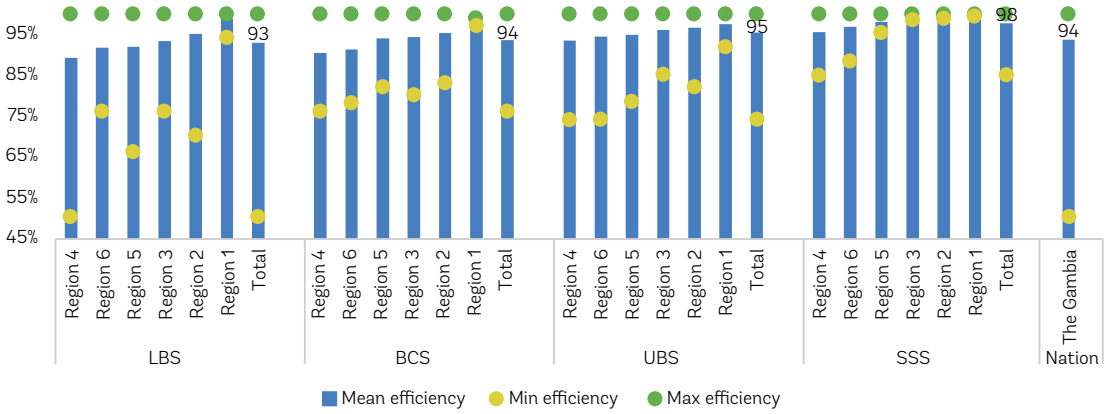
72 Based on the available resources from both GLF and donors.
73 This efficiency analysis is a relative and not an absolute efficiency analysis—it does not consider whether it is theoretically possible for schools to be more efficient or effective than the most efficient and effective schools in The Gambia.
74 excluding teacher trainees.

Figure 4.9: National and Subnational HCI Scores



Source: Authors' estimations based on the subnational HCI formula developed by the World Bank.

Figure 4.10: Distributions of efficiency score by level and region, 2019



Source: Authors' estimations based on EMIS, MOFEA budget data, and payroll.

international organizations, leaving little room for quality improvement at the school level. LBSs are most affected by shortages of school inputs and infrastructure. Given that spending at this level benefits the poor the most, improving the composition of non-salary funding will have a positive effect on the quality of education and the added benefit of making the distribution of resources more equitable. The increased allocation for the school improvement grant in the 2020 budget was thus a step in the right direction and should be pursued further. Savings from increasing the STR at primary level could also be used to improve the supply of school inputs, particularly for LBSs.

Unit cost could be an important tool for ensuring sustainability. The unit cost (per student allocation) by level of education has been increasing over time both in nominal terms and as a share of GDP per capita. The Gambia spent 18.5 percent of GDP per capita on each student at the primary level in 2018 which is higher than the SSA average of 11 percent while spending 7.2 percent at the secondary level, below the SSA average of 19 percent. This suggests that using unit cost as a tool for allocating resources could help improve the efficiency across regions and school types. For instance, converging to the SSA average at the primary level could yield gains amounting to 0.71 percent of GDP. Some of these savings could be

used to bring the large number of out-of-school children back into school, while part could be used to improve per-student spending at the secondary level.

Security

Public spending on security is high for a country at peace like The Gambia. At 2.1 percent of GDP in 2018, security spending is on a par with conflict-affected Mali and considerably higher than neighboring countries with lower external threat exposure and more expansive territory like Senegal (1.7 percent). Furthermore, the composition of security expenditures is skewed towards spending on personnel (63 percent) and goods and services (another 27 percent), with negligible spending on capital investments. Uncontrolled authority of the security apparatus under the former regime has led to the creation of internal systems that have enabled the inefficient use of finite public resources. These need to be addressed to tackle corruption and improve spending efficiency in the sector.

Spending by the principal security sector ministries increased by one-third in 2018, but these increases have not been reflected in reductions in crime or violence. Between 2017 and 2018, spending in the Ministry of Defense increased by 17 percent, by 38 percent in the Ministry of Interior, 104 percent in the Ministry of Justice, and 25 percent in the Judiciary. The increase for the Ombudsman was negligible. The total number of crimes registered by the Gambia Police Force (GPF) have increased by 21 percent since 2016 according to their statistics. Violent crimes like murder and robbery have increased every year since 2016. Almost half of Gambians have feared or experienced violence in their neighborhood, during a public protest, or at political events in the past two years.[75] About four were victims of theft from their house or felt unsafe walking in their neighborhood. Fewer than half of those who requested police assistance in the past year found it easy to get the help they needed promptly. One in five had to pay a bribe or do a favor to get help.

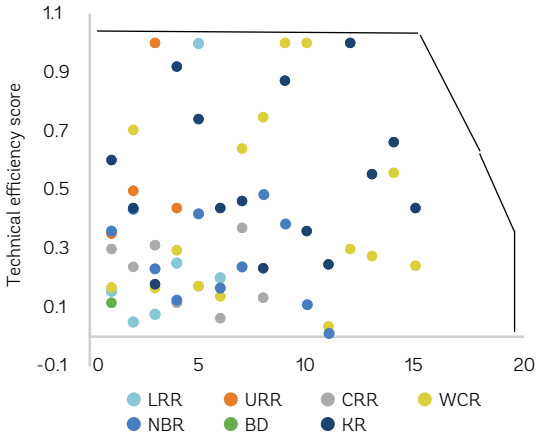
The "unaffordability" of the security sector is a common issue in other countries but is acute in The Gambia given its vast development needs. One scenario, prepared by the MOFEA and World Bank, envisaging a reduction of 1,100 personnel every year during 2020–2024 resulted in cumulative savings of around GMD592 million, representing about 0.75 percent of GDP in 2019. Another similar scenario, but with an increased focus on capital spending in the sector would lead to somewhat lower savings but would improve the sector's spending composition. However, it will cost in order to ultimately save. The potential restructuring and compensation costs are estimated at roughly GMD775.5 million or 1 percent of GDP. Given the constrained fiscal environment, efforts to improve the efficiency and effectiveness of security sector spending would need to be taken in tandem with broader security sector reforms. This section presents the findings of an efficiency analysis and potential fiscal savings for the GPF and the Gambian National Army (GNA).

The GPF—under the ambit of the Ministry of Interior—is charged with police functions across the territory. Its essential mission is focused on (i) the preservation of law and order; (ii) the protection of property; (iii) the prevention and detection of crimes; (iv) the apprehension of offenders; and (v) the due enforcement of all laws and regulations. The GPF consists of four main directorates under the command of the Inspector General of Police. The GPF is geographically concentrated in the West Coast and the Greater Banjul Regions.

The GNA is one of the three forces of the Gambian Armed Forces (GAF) overseen by the Ministry of Defense. The mission of the GAF is to (i) preserve and defend the sovereignty and territorial integrity of The Gambia; (ii) aid the civil authority at their request, in emergencies and in case of natural disasters; and (iii) engage, at the request of civil authorities, in productive activities for the development of The Gambia. The Chief of Defense staff provides the operational command for the GAF and has hierarchical authority over

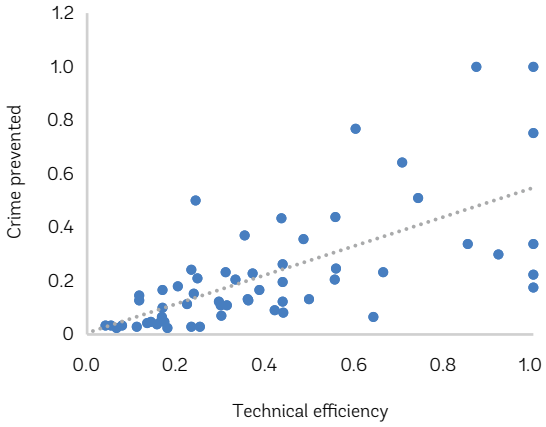
75 Afrobarometer Dispatch, August 2019.

Figure 4.11: Gambia Police Force - Efficiency Frontier by Region (Output-Oriented Model)



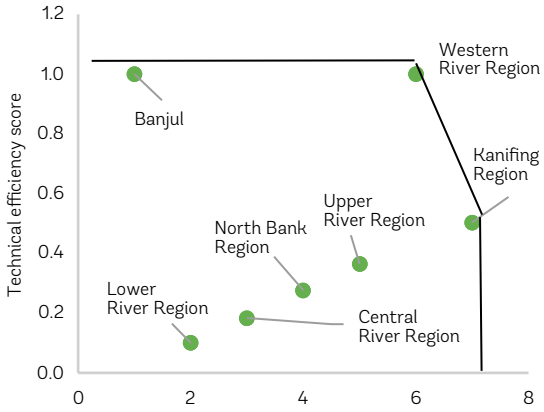
Source: Authors' calculations based on data from the GPF.

Figure 4.12: Bivariate Scatterplot between Efficiency and Crime Prevention



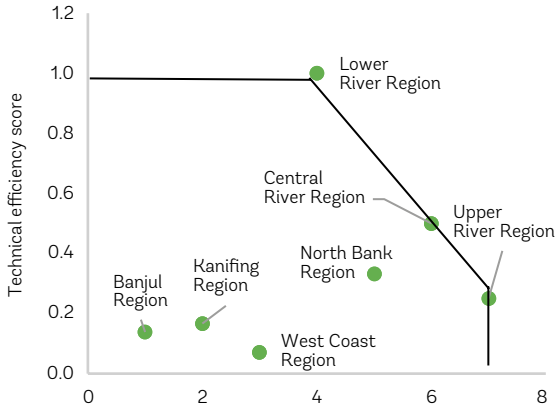
Source: Authors' calculations based on data from the GPF.

Figure 4.13: Gambia National Army (GNA) - Efficiency Frontier by Region (Input-Oriented Model)



Source: Authors' calculations based on data from the GNA.

Figure 4.14: GNA - Efficiency Frontier by Region (Output-Oriented Model)



Source: Authors' calculations based on data from the GNA.

the commanders of the Army, Navy and National Guard. The Army consists of four infantry battalions. The deployment of combat units is heavily focused across the West Coast region.

Efficiency estimates suggest significant room for improvement in the GPF. The mean efficiency score for police units was 39 percent. In other words, on average, inefficient units would have to increase their output (crime prevention[76]) by 61 percent using the same number of police officers and vehicles to be efficient. Only five out of the 60 units in the sample were efficient (θ=100). These five police districts/stations generate the efficiency frontier against which the rest of the units in the sample are compared (Figure 4.11). The

76 This variable was generated by adapting previous measures of crimes prevented by the police found in the literature (see Färe and Grosskopf, 2012 and Alda *et al.*, 2019). The value for the unit with the maximum number of crimes recorded was divided by the total number of crimes recorded corresponding to the observed unit under analysis: $V\,crimes/Total\,crimes_{j:60}\quad j$

difference between 1 and the efficiency scores of the inefficient units captures their inefficiency and thus indicates the potential efficiency gains (see Annex VI for details on the methodology). Furthermore, as Figure 4.12 shows, there is a positive correlation between efficiency and crime prevention.

The efficiency of the GNA is also poor. The mean efficiency scores for the GNA are, on average, 48 percent and 35 percent using input- and output-oriented models respectively (Figure 4.13 and Figure 4.14). This implies that the GNA would have to reduce or reallocate 52 percent of its inputs (officers, vehicles) to maintain the same level of conflict control.[77] Conversely, the GNA could maximize the prevention of conflict events[78] using the same number of inputs.[79]

The efficiency analysis indicates that both the GPF and the GNA would need to reallocate their inputs to become efficient. The cost-efficiency estimates for the GPF range from 0.1 (or 10 percent) in Kerr-Jaine (North Bank Region) to 1 (or 100 percent). Such low levels of efficiency imply substantial scope to reduce or reallocate inputs to those units that are efficient because staff in those units may be overworked and may require more inputs to stay efficient. Reallocating inputs to inefficient units would not improve their use of resources. The GPF would need to reduce or reallocate as many as 90 percent of its police officers to achieve efficiency. Similarly, 40 percent of vehicles (motorcycles and cars) could be reduced or reallocated. The GNA would need to reduce or reallocate as many as 96 percent of soldiers and 64 percent of armored vehicles to achieve efficiency. The current organizational structures also do not support an efficient use of resources and would need to be considered when making reallocation decisions.

Efficiency savings could be substantial, equivalent to 0.7 percent of GDP. If the GPF used its resources efficiently, this could translate into efficiency savings of GMD440.4 million on officer and GMD9.3 million on vehicles, 0.57 percent of GDP combined. For the GNA, the efficiency savings could amount to GMD96 million on soldiers and GMD2 million on armored cars, or 0.12 percent of GDP in total.

77 It is recommended to use an input-oriented model as military forces are generally reactive. This model estimates the number of inputs that could be reduced while maintaining the same level of output.
78 This is calculated by taking reciprocal of the conflict events recoded by ACLED (https://www.acleddata.com/curated-data-files/).
79 Due to the reactive nature of military activities, preventing conflict would require an organizational structure and capacity that could anticipate or prevent conflicts. The types of conflict that the GNA intervenes in are not related to threats to the internal security by external actors but rather to internal social conflicts.

Table 4.2

Recommended Policy Options

Actions	Timeframe
Education	
R1. Increase student-teacher ratio (STR) at Lower Basic Schools without compromising learning outcomes and considering the varying context across regions.	Short-term
R2. Base teacher staffing on a predetermined set of criteria including the STR, classrooms, school size, subjects taught, and facilities available at the school level.	Medium-term
R3. Increase the non-salary school spending on inputs and learning materials.	Short-term
R4. Use unit costs as an instrument to prepare the primary school education budget, considering the numbers of out-of-school children.	Medium-term
Security (police and army)	
R5. Reduce or reallocate police officers and soldiers in the GPF and GNA based on criteria such as crime or conflict levels, or the working environment.	Short-term
R6. Reduce or reallocate vehicles to efficient stations/regions.	Short-term
R7. Reorganize the GPF and GNA to maximize the efficient use of resources.	Medium-term

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Health Spending

Improving public health services is one of The Gambia's top priorities, as indicated in its National Development Plan 2018–2021. This calls for enhancing the efficiency and equity of public health. Primary health care is a cost-effective and efficient way of providing health services, but The Gambia allocated just 9.1 percent of its health expenditure to primary health care in 2018. Mismatches between budgetary allocations and priority programs in the national health strategy; and highly centralized budget management systems are key challenges to achieving improved outcomes. The health system also faces issues of inequitable access to and use of high-quality health services, and little or no financial protection for the poor. Health facilities were found to be inefficient, although the analysis is marred by data limitations. Policy recommendations to tackle those constraints include making health facilities fully efficient by monitoring spending on inputs; increasing the allocation to primary health care services to achieve better health outcomes in the context of HCI; improving the quality of health services; providing financial protection against catastrophic health expenditures; and decentralizing the budget management system.

This chapter is organized as follows. The first section introduces the policy and strategic framework governing health care in The Gambia. The next section outlines health care provision in the country followed by a section analyzing key trends in health outcomes, benchmarked against international peers. The next section looks at public expenditure and funding, followed by an analysis of the efficiency and equity of health care in The Gambia. The chapter concludes with recommendations for reforms.

5 Health Spending

Introduction

The Gambia has made progress in its provision of health care services over the past several decades. Although The Gambia's HCI compares poorly at a global scale, it is in line with the SSA average. The Gambia performs marginally better than other countries in West Africa, including Mauritania (0.35), Guinea-Conakry (0.37), and Sierra Leone (0.32). The Gambia has observed rapid population growth that has increased pressures on the health care system. Its health outcomes have improved gradually and steadily over the last two decades, yet the country continues to face some important challenges. There has been a decline in the maternal mortality ratio (MMR) and the under-five mortality (U5M) rate, although both rates continue to be higher in The Gambia than in most of its peer countries.

However, concerns over the quantity and quality of health expenditure have emerged as a top priority in The Gambia. Public health expenditure[80] is low—1.1. percent of GDP in 2018—and the sector is under pressure due to high population growth, the deterioration of critical infrastructure, shortfalls in pharmaceutical and medical supplies, and shortages of skilled personnel. The National Development Plan 2018–2021 (NDP)[81] focuses on reducing maternal and newborn mortality, addressing the burden of communicable and non-communicable diseases, and ensuring that the country has appropriately skilled health personnel in place. The NDP calls for the establishment of a social health insurance scheme, as part of a drive towards universal health coverage. Underpinning the NDP are the National Health Policy 2012–2020, the National Health Strategic Plan 2014–2020 (GNHSP), and the 2017–2030 Health Financing Policy. These policies share a vision of providing quality and affordable health services for all with a mission to promote and protect the health of the population through equitable provision of quality health care. More recently, the 2019–2024 Gambia National Health Financing Strategic Plan articulated key interventions on resource mobilization, pooling of resources, and strategic purchasing and governance.

The Health System in The Gambia

The Gambia has a three-tier system for the delivery of public health services (Table 5.1). At the central level, the Ministry of Health (MoH) is responsible for setting health policies, regulations, and research, and mobilizing resources. The regional level comprises seven Regional Health Directorates (RHDs) that are responsible for implementing

80 GLF expenditure.
81 The Gambia National Development Plan (2018-2021) - *Delivering good governance and accountability, social cohesion, and national reconciliation and revitalized and transformed economy for the wellbeing of all Gambians.*

the policies and programs of the MoH and act as regional health management teams. These RHDs oversee the provision of and provide stewardship for primary and secondary levels of care in the peripheral health facilities within their regions.

Primary health care is delivered through community-level and village-level workers, who provide promotive and preventive health care. Secondary care is provided by health centers (minor and major), which deliver up to 70 percent of the basic health care package, including emergency obstetric and neonatal care. Tertiary health care consists of the hospitals, including the teaching hospital, which is the highest level of referral system. Hospitals are semi-autonomous and are not supervised by RHDs but are responsible for providing them with patient usage data, including disease incidence and maternal deaths. Hospitals are responsible for managing their own drugs and medical supplies and receive direct deliveries from the Central Medical Store. Hospitals are subvented institutions and receive funding and requests for approvals from the MoH but make their own budget decisions.

There is a general shortage of public sector health workers of all kinds leading to low numbers of health care staff per head. Minor health centers have severely low staffing levels, leading to difficulties in responding to clinical emergencies. Major health centers likewise face shortages, to the point that most do not have medical officers even though they act as referral facilities for minor health centers and lower-level facilities. The severe shortage of health workers also extends to public regional and district hospitals; in one assessment, a hospital was found to have less than half of its staffing needs met.[82] However, the situation has been improving; between March 2017 and July 2018, the number of health workers increased in absolute terms (from 4,989 to 6,593) as well as relative to the population (from 1.09 skilled workers per 1,000 people to 1.33 per 1,000 people). However, this still does not meet the World Health Organization (WHO) threshold of 2.25 health workers per 1,000 people, indicating a need for further increases.[83]

The majority of public health workers practice in urban areas and in tertiary facilities. 72 percent of staff work in three health regions: 48 percent in Western Region I (WRI, Greater Banjul Area), 13 percent in Western Region II (WRII, suburban area surrounding parts of WRI), and 12 percent in Central River Region (CRR, Bansang Town). Likewise, seven of the eight general and teaching hospitals are found in these three regions. Health workers are also unevenly distributed across tiers of care. Ninety-five percent of medical officers practice in tertiary facilities as well as all specialist doctors, paramedical/allied health professionals, and anesthetists. Six percent of nurses work at the primary level, 50 percent at the secondary level, and 45 percent at the tertiary level, while 6 percent of midwives work at the primary level, 38 percent at the secondary level and 56 percent at the tertiary level. Of the 1,702 workers in primary health care, 1,551 (91 percent) are community health workers, 84 (5 percent) are support staff, and 67 (4 percent) are nurses.[84]

The formal private health sector is concentrated in the Greater Banjul area and is much smaller than the public health sector. The formal private sector includes private for-profit and not-for-profit facilities. There are 37 private and non-governmental organization (NGO) clinics in the country, and the majority tend to have a capacity of fewer than 50 beds each. There are also many traditional healers and other private informal providers throughout the country. Taking the formal and informal private sectors together, approximately 40 percent of reported consultation fees for those who used health services went to the private sector.[85] Household survey data point to a greater use of private clinics by the wealthiest segment of society, who pay a larger proportion

82 WHO, WCO, MoH, and GoTG (2018).
83 WHO, WCO, MoH, and GoTG, (2018).
84 WHO, WCO, MoH, and GoTG (2018).
85 Gambia Bureau of Statistics (2017).

Table 5.1

Health Facilities in The Gambia

Health Service Type	Number (Percent)
Tertiary Level (Public)	
Teaching and Specialty Hospitals	3 (1.7)
General Hospitals	5 (2.8)
District Hospitals	4 (2.3)
Secondary Level (Public)	
Major Health Centers	3 (1.7)
Minor Health Centers	49 (27.8)
Primary Level (Public)	
Reproductive and Child Health Services	5 (2.8)
Community Clinics	59 (33.5)
Private Clinics	37 (21.0)
Service Clinics[a]	11 (6.3)
Total	**176**

Source: District Health Information System 2, MoH
a. Service Clinics serve the military (including army and marine), fire services, police, and prison facilities.

of their total health spending on private facilities compared with the general population in The Gambia. Although the formal private sector is relatively small, Vision 2020 aims for the sector to grow and be able to respond to the development and health needs of the country more fully.

The Gambia is highly vulnerable to disease outbreaks due to weak health emergency preparedness systems, something that has been highlighted by the ongoing COVID-19 pandemic. In March 2020, it had no public health facility adequately equipped to treat COVID-19 cases and no public health laboratory for COVID-19 testing. The confirmed cases are being treated at a private health facility. The International Health Regulations (IHR) 2005 require that national public health systems have the capacity to detect, assess, notify, and respond promptly and effectively to any public health emergency and/or outbreak. A Joint External Evaluation in September 2017 assessed core IHR capabilities[86] and found that, out of the 19 technical areas assessed, only immunization had a favorable rating. In particular, laboratory systems, which are the backbone of effective emergency preparedness and response, were assessed as weak.

The Government proactively developed a US$9 million National COVID-19 Preparedness and Response Plan, before the pandemic hit the country, with support from development partners. The plan focuses on scaling up and strengthening preparedness and response including coordination, surveillance, case management, communication and social mobilization, and logistics and safety. A National Health Emergency Committee, comprising government officials and development partners, has been setup and meets weekly to oversee the coordination and implementation of the plan. The Public Health Emergency Operation Center has been activated,

86 Joint External Evaluation of IHR Core Capacities of the Republic of The Gambia. Geneva: World Health Organization; 2017. License: CC BY-NC-SA 3.0 IGO.

a toll-free call center is functional, and COVID-19 situational reports are produced daily. The World Bank-financed US$10 million COVID-19 Preparedness and Response Project (P173798) is supporting the implementation of the plan.

Health Outcomes: Trends in The Gambia and an International Perspective[87]

The Gambia's health outcomes are comparable to those of its peers. Life expectancy at birth increased from 52 years in 1990 to 61 years in 2015, which is slightly above the Sub-Saharan African (SSA) average (60 years) but lower than most of its structural and aspirational peers except for Guinea-Bissau (57 years). Life expectancy in Eritrea increased from 49.6 to 64.6 years between 1990 to 2015 (0.60 years/year), while in Rwanda it has increased at a rate of 1.3 years/year. The Gambia has seen an increase of only 0.35 years/year. Although The Gambia has made progress in reducing the prevalence of stunting and outperforms its aspirational peers with the exception of Senegal (17 percent), 19 percent of children under the age of five are still considered stunted. Within The Gambia, rural areas and eastern regions have a higher prevalence of stunting.

The Gambia has outperformed or performed in line with its structural and aspirational peers on immunization and AIDS-related deaths. A high share of children are immunized, although this has decreased in recent years: 83.2 percent of children aged 12-23 months were fully immunized with the basic antigens in 2018 compared to 76.0 percent in 2013 but 87.4 percent in 2010. The incidence of HIV has steadily decreased, as it has in many countries across SSA and its structural and aspirational peers. AIDS-related deaths have fallen by 23 percent and new HIV infections by 3 percent, displaying the significant progress made on this front.

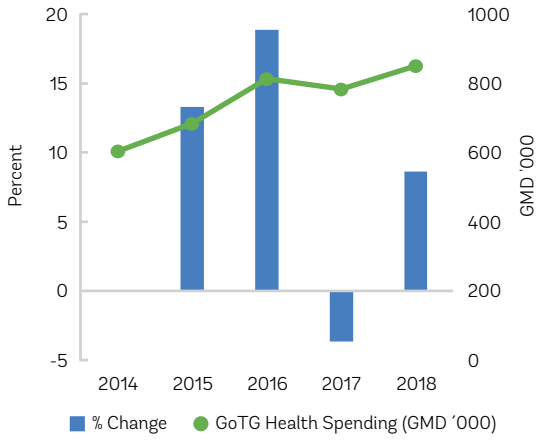
The Gambia faces significant demographic pressures. It is the fourth most densely populated country in Africa, with 225 inhabitants per square kilometer. Its high total fertility rate of 4.4 births per woman in 2018, combined with early childbearing, means a high annual population growth rate of 2.9 percent. The dependency ratio[88] stands at 90 per 100. The growth in the youth population—with a median age of just over 20—poses significant challenges to the health, education, and social service budget. Population growth will crowd health infrastructures and may contribute to the spread of diseases in urban areas. However, these trends could yield a demographic dividend if social and economic policies can ensure human capital accumulation among the young.[89] With an HCI of 0.40 and thousands of young Gambians expected to enter the labor market every year (the labor force has grown at just over 3 percent per year since 2015), short- and medium-term policy action is needed to improve human capital among the rising workforce.

Public Health Care Spending and Benchmarking

Public health expenditure increased by 8.6 percent per year on average during 2014–2018. Public health spending showed a steady increase from 2014 until 2016, when it grew by 18.9 percent. Thereafter, expenditure fell by 3.6 percent in 2017, and then rose by 8.6 percent in 2018 (Figure 5.1). Over 65 percent of total health expenditure is concentrated in non-wage recurrent expenditure (mainly on subventions to non-financial public corporations, specialized and technical materials, and consultancy services).

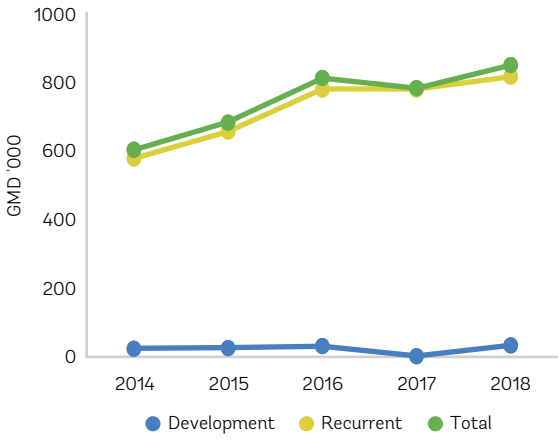
87 Data for this section have been sourced from the World Development Indicators (WDI), the Multiple Indicator Cluster Survey (MICS) 2010 and 2018, the Demographic and Health Survey 2013, and the Joint United Nations Programme on HIV/AIDS (UNAIDS).
88 Defined as the number of dependents (i.e., population below the age of 15 and older than 64) per working age adult.
89 The demographic dividend describes the interplay between changes in a population's age structure due to the demographic transition and rapid economic growth (Canning *et al.*, 2015).

Figure 5.1: Health Expenditure, 2014–2018



Source: Authors' calculations from The Gambia BOOST database.

Figure 5.2: Recurrent and Development Health Expenditure, 2014–2018



Source: Authors' calculations from The Gambia BOOST database.

Public spending on health is lower than comparable low-income countries. The Gambia spends 6.4 percent of general government expenditure on health compared to 5.0 percent in Mauritania. It spends far less than its aspirational peer Rwanda (8.9 percent) (Table 5.2). Similarly, general government expenditure on health is 1.1 percent of GDP, below the SSA average of 1.8 percent, compared with Mauritania (1.7 percent) and Uganda (0.9 percent).[90]

Economic Composition of Health Expenditure

Recurrent expenditure accounts for 97 percent of total public spending on health. Over the last five years, total spending on recurrent and development expenditure combined amounted to GMD3,732 million. Of this amount, GMD3,612.2 million was spent on recurrent expenditure and GMD119.8 million on development expenditure (Figure 5.2). Low development expenditure has led to gross inadequacies in health infrastructure, which have a significant impact on the efficient delivery of quality healthcare services. A 2019 UNICEF service availability and readiness assessment study reported that only 10 percent of health facilities in The Gambia meet the WHO recommended tracer items (power, improved water source, room with privacy, adequate sanitation facilities, communication equipment, access to computer with internet, and emergency transportation).[91]

Of the recurrent expenditure categories, goods and services far outstrip wages and salaries.[92] Although wages and salaries have shown a steady increase over time, expenditure on goods and services was almost one and a half times the wage bill. In 2018, expenditure on drugs, dressings and medical supplies, vaccines, specialized and technical materials, and consultancy services together constituted about 70 percent of the goods and services expenditure. Subventions to non-financial public corporations—the biggest category under recurrent spending—are split into two separate line items. The first is expenditure on subvented institutions such as the Medical and Dental Council, Pharmacy Council, Nurses and Midwifes Council, Public Health and Environmental

90 The World Health Organization (WHO) requires countries to spend at least 5 percent of their GDP on health.
91 Sheriff (2019).
92 The Government's budget nomenclature disaggregates recurrent expenditures into compensation of employees, which is further divided into wages and salaries (basic salary, wages, contingency payroll, and allowances) and goods and services (general expenses and other general expenses).

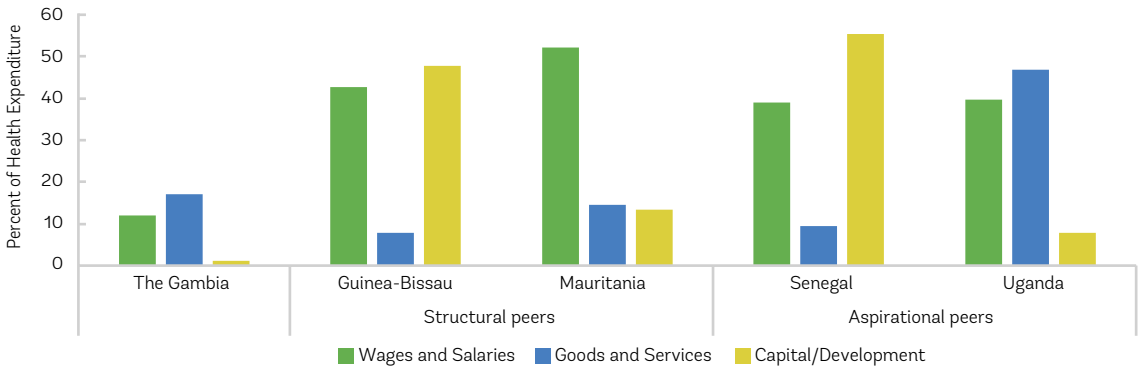
Table 5.2

Benchmarking Key Health Expenditure Indicators

	General govt. health expenditure (% of total)	General govt. health expenditure (% of GDP)	External health expenditure (% of total health expenditure)
The Gambia	6.4	1.1	43.8
Guinea-Bissau	2.9	0.4	20.4
Mauritania	5.0	1.7	8.2
Senegal	2.8	0.7	6.2
Rwanda	8.9	2.3	50.6
Uganda	6.1	0.9	40.4
SSA	2.6	1.8	11.7

Source: WDI; BOOST for The Gambia; PER database for Guinea-Bissau, Senegal and Uganda.

Figure 5.3: Benchmarking Health Expenditure, 5-year average



Source: PER database; BOOST for The Gambia.

Council, and Medicine Control Agency. The second is expenditures on Riders for Health, a private entity that provides transport and ambulance services to the MoH. Over 80 percent of the itemized expenditure covers Riders for Health operations annually.

The Gambia spends relatively more on goods and services than most of its peers. An analysis of five-year averages of the percentage of health expenditure on economic items shows that The Gambia spends less on wages and salaries than its structural and aspirational peers (Figure 5.3). It spends more of its health expenditure on goods and services than Guinea-Bissau, Mauritania and Senegal but less than Uganda, which spends 46.9 percent. Spending on capital/development expenditure is lower than all its peers. To improve efficient delivery of quality health services, the government needs to strike a balance between spending on development and recurrent items by adequately investing in health infrastructure and equipment.

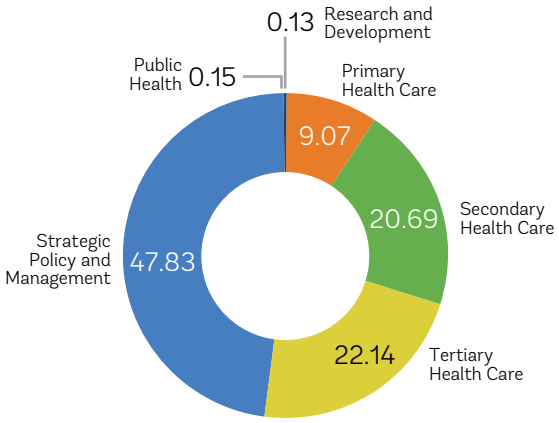
Development expenditure has largely favored infrastructure spending. Construction of buildings (37 percent of total development expenditures), drugs, dressings and medical supplies (18.4 percent), and rehabilitation works (13.4 percent) dominated development expenditure. The

spending on drugs, dressings and supplies under the development budget correspond to the country's counterpart contribution to the Global Fund to Fight AIDS, Tuberculosis and Malaria, and laboratory consumables.

Functional Composition of Health Expenditure

The functional composition of public health spending, which investigates spending across the three-tiered system, shows that funding is skewed towards tertiary and secondary care.[93] Total budgetary allocations to key health care functions amounted to GMD1,377.8 million in 2018. Planning and policy, which received GMD659.0 million (47.8 percent of the total functional budget). The allocation to tertiary and secondary health care services combined amounted to GMD590.0 million (42.8 percent of the total functional budget). This is in sharp contrast to the objectives of the GNHSP (2014–2020) which emphasizes primary health care as a key priority focus. Primary care was allocated only GMD125 million (9.1 percent) of the total functional budget allocation (Figure 5.4).[94]

Figure 5.4: Functional Composition of Health Expenditure, 2018



Source: Authors' calculations from MoH expenditure database.

The focus on hospital services limits the health system's ability to provide high-quality basic primary health care to the population. The greater focus on hospital services is a matter of concern as it crowds out funds that would otherwise have been used to strengthen primary health care. To improve preventative care and address the health care problems of the population in the lowest quintile, the Government needs to reprioritize its resource allocation in favor of primary health care. Moreover, according to the Integrated Financial Management Information System records, the research and development (R&D) budget never gets executed.

Recent budget management reforms are laudable, but general administration is still favored over disease control and basic health service delivery. The Gambia moved from classifying expenditures by administrative units (directorates and departments) to program-based budgets in 2016 (see Annex III for details). However, a full-blown program budget with clearly defined budget programs and sub-programs was only initiated in 2017. The budget programs presented in the MoH's budget documentation are (i) health program; (ii) family health; (iii) social welfare; (iv) disease control; and (v) strategy, policy and management. The budget allocation disproportionately favored the strategy, policy and management program during the period under review (Table 5.3). This program alone accounted for an average of 82.7 percent of the total annual program budget, followed by disease control (13.1 percent), family health (3.0 percent), social welfare (0.7 percent), and the health program (0.5 percent).

Furthermore, not all sub-programs receive adequate funding. A further disaggregation shows that the biggest budget sub-program—general administration—under the strategy, policy and management budget program accounts for an average of 30.8 percent of the total annual program budget compared with national pharmaceutical

93 The analysis in this section is based on budgetary allocations and not on actual expenditure due to data limitations.
94 Services provided by the minor health centers could also be considered primary health care, but no specific figures for minor health centers were available.

Table 5.3

Budgetary Allocations by Budget Program, 2017–2018

	2017		2018		
Program	**Amount (in GMD '000)**	**Percent of total**	**Amount (in GMD '000)**	**Percent of total**	**Average**
Health program	4,016	0.5	4,175	0.4	0.5
Family health	25,222	3.4	29,165	2.6	3.0
Social welfare	4,415	0.6	7,890	0.7	0.7
Disease control program	111,924	15.1	124,315	11.2	13.1
Strategy, policy and management	596,991	80.4	943,983	85.1	82.7
Total	**742,567**	**100.0**	**1,109,529**	**100.0**	

Source: Authors' calculations from MoH, MOFEA expenditure database.

Table 5.4

Budgetary Allocations by Selected Budget Sub-Program, 2017–2018

		2017		2018		
Budget program	**Budget sub-program**	**Amount (in GMD '000)**	**Percent of total**	**Amount (in GMD '000)**	**Percent of total**	**Average**
Health program	Environmental health services	950	0.13	1,300	0.12	0.1
Family health	Immunization services	24,722	3.45	27,350	2.53	3.0
Disease control	National pharmaceutical services	101,366	14.13	110,745	10.25	12.2
Social welfare	Birth and death registration services	720	0.10	1,140	0.11	0.1
Strategy, policy and management	General administration	241,226	33.63	301,283	27.89	30.8
Total		**717,345**	-	**1,080,364**	-	

Source: Authors' calculations from MoH, MOFEA expenditure database.

services (12.2 percent), immunization (3.0 percent), and environmental services (0.1 percent) (Table 5.4).

The MoH's program budget is largely aligned with GNHSP priority sector objectives, but allocations are significantly lower than non-GNHSP priorities. Whereas the costed GNHSP allocated 19.2 percent of its total funding requirement (average for 2017 and 2018) to the basic health care services program, the MoH allocated only 0.04 percent to basic health care services (Table 5.5). Similarly, the GNHSP allocated 15.5 percent to non-communicable diseases, 34 percent to pharmaceuticals, and 22 percent to infrastructure. In contrast, the MoH allocated 0.05 percent to non-communicable diseases, 11.8 percent to pharmaceuticals, and 10 percent to infrastructure and logistics. General administration, not a GNHSP priority program, received the lion's share (30 percent) of the MoH's program budget. To ensure efficient delivery of health services at all levels of the health care delivery system, the MoH must adequately budget for its priority sector programs as stated in the sector strategy.

Table 5.5

Budget Allocated to GNHSP Priority Programs, 2017–2018 (% of Total MoH Program Budget)

Program	Budget program allocation		GNHSP priorities allocation		Budget program average	GNHSP priorities average
	2017	2018	2017	2018		
Basic health care services (primary and secondary)	0.07	0.01	21.0	17.5	0.04	19.2
Non-communicable diseases	0.05	0.05	15.7	15.3	0.05	15.5
Human Resource for health	0.1	7.7	5.8	2.7	3.9	4.2
Health Information Management System	0.2	0.16	4.1	2.9	0.2	3.5
National pharmaceutical services	13.7	10.0	31.4	36.5	11.8	33.9
Infrastructure and logistics	12.5	7.7	20.5	23.4	10.1	22.0
General administration	32.5	27.2	-	-	29.8	-

Source: Authors' calculations from MoH, MOFEA expenditure database.

Budgetary allocations are skewed towards the central MoH whereas RHDs depend entirely on donor sources to implement their programs. In 2018, the allocation of funds expected from all sources to the RHDs, amounted to only GMD57.3 million (4 percent of the total) compared with GMD1.4 billion (96 percent) allocated to the central MoH. There is no allocation to the RHDs from MoH-only sources. This situation undermines their capacity to implement their core mandate of implementing MoH policies and programs at the regional level, including monitoring and supervision, capacity building, staff management, and the oversight of health care delivery services by health facilities.

Results-based financing (RBF) arrangements have proven to be effective in giving autonomy to health facilities. The ongoing Maternal and Child Nutrition and Health Results Project[95] provides cash incentives to health centers in five out of the seven regions in The Gambia for the delivery of a predefined package of maternal and child health and nutrition services at primary and referral health care facilities. This is done through the RBF mechanism that purchases outputs instead of inputs. This arrangement has contributed to increased health service utilization; the quality of health services has improved, and nutrition and health behaviors have also improved. For example, in the project areas, exclusive breastfeeding increased from 47 percent in 2014 to 68 percent in 2018, the number of pregnant women receiving antenatal care in the first trimester increased from 2,342 in 2014 to 8,920 in 2018, and skilled deliveries have increased from 37 percent to 60 percent. The MoH plans to extend the RBF mechanism to the remaining two regions in 2020.

Analysis of Efficiency and Equity Issues

Efficiency

Underinvestment in primary health care contributes to inefficient health service delivery. Governments across a range of low-and middle-income countries are estimated to devote 2–56 percent of health spending to primary health care. As discussed above, The Gambia allocated 9.1 percent of its health expenditure to primary health

95 Financed by the World Bank.

care in 2018. In contrast, Mauritania dedicated 55 percent of current health expenditure to primary health care in 2016, Senegal 66 percent, and Uganda 59 percent.[96] Underfunding in primary health services leads to shortages of resources (staff, equipment, and supplies) and drives patients to bypass those facilities to use more costly hospital services for preventable diseases and easily detectable, treatable illnesses. Hospitals get overcrowded while lower-level facilities are underused, wasting healthcare resources. Shifting some of the burden for basic and routine preventive services to primary healthcare facilities would relieve stress on the overcrowded hospitals and could also help to get the most out of available resources.

Data envelopment analysis (DEA) is used to assess the capacity of health facilities to convert inputs (resources) into outputs (health services). Facilities are evaluated based on their ability to maximize outputs with given inputs compared to the performance of their peers. Put differently, DEA is a relative and not an absolute efficiency analysis. DEA helps to identify better performing health facilities producing better health outputs to serve as models for others. Efficiency scores are estimated at the facility level. Input measures include the number of clinical and non-clinical staff. Output indicators count the number of (i) first antenatal care visits; (ii) skilled deliveries; and (iii) children under 1 year fully immunized (see Annex VII for details of the methodology).[97]

The analysis shows significant variation in efficiency across facilities. The average efficiency score across 11 facilities surveyed is 72.4 percent, which means there is scope to increase efficiency by 27.6 percent. Out of the 11 facilities, 2 were benchmarked as 100 percent efficient[98] and nine had efficiency scores ranging from 24 to 87.9 percent. This means these nine facilities were inefficient relative to their peers (Table 5.6). Only two facilities scored below 50 percent. The facility with the lowest efficiency score of 24 percent was Kaing Karantaba Minor Health Centre. The inefficient health facilities had an average efficiency score of 66.3 percent. This implies that on average they could increase output by about 34 percent with the same workforce.

The DEA technique allows the calculation of the input decreases and output increases needed for inefficient facilities to become efficient. Altogether, the relatively inefficient facilities had scope to increase first ANC visits by 9,651 (134.4 percent), skilled deliveries by 5,857 (54.6 percent) and the number of children fully immunized under the age of one by 6,582 (44.1 percent). Alternatively, 27 non-clinical staff (8.1 percent) and four clinical staff (1.9 percent) could be redeployed to other facilities to improve efficiency. For example, Table 5.5 shows Soma District Hospital could have recorded 1,401 more first ANC visits (412 visits were registered), had 1,680 additional skilled deliveries (1,050 were delivered) and fully immunized 1,907 more children under the age of one (1,192 were immunized) in 2018. In terms of workforce, Salikeni Minor Health Centre could have used 11 fewer non-clinical staff and Soma District Hospital 3 fewer clinical staff to produce their 2018 levels of output.

Since the mix of input and output variables as well as units of analyses are context-specific, data on technical efficiency between countries are not comparable. However, results from several DEA health sector studies in Africa could help to place the findings in context. For example, a study of the efficiency of 89 public health centers in Ghana found 65 percent of them to be inefficient with an average efficiency score of 72.3 percent.[99] Similarly, an assessment of 16 public health centers in three districts in Ethiopia showed an average technical efficiency of 77 percent, but 50 percent of the health centers were inefficient.[100]

96 World Health Organization. Global Health Expenditure Database: https://apps.who.int/nha/database/Home/Index/en
97 The results should be read with two caveats: (i) limited explanatory power of using DEA on such a small number of observations and (ii) limited output measures.
98 This finding is purely model-driven and has not been qualified for the experience of patients visiting these facilities.
99 Akazili *et al.* (2008).
100 Bobo *et al.* (2018).

Table 5.6 Input and Output Projections for 100 Percent Efficiency Score (in quantities)

Health facility	Non-clinical staff	Clinical staff	First antenatal care visits	Skilled deliveries	Children <1 year fully immunized	Efficiency score (%)
Banjulnding Minor Health Centre	-1	0	584	903	1,288	78.2
Basse District Hospital	0	0	0	0	0	100.0
Bureng Minor Health Centre	-4	0	999	598	454	66.3
Diabgu Minor Health Centre	0	0	0	0	0	100.0
Faji Kunda Major Health Centre	-9	0	3,102	1,013	723	82.1
Kaing Karantaba Minor Health Centre	0	-1	598	512	629	24.0
Koina Minor Health Centre	-1	0	189	190	260	78.0
Salikeni Minor Health Centre	-11	0	349	154	229	64.7
Sara Kunda Minor Health Centre	-1	0	446	278	89	87.9
Soma District Hospital	0	-3	1,401	1,680	1,907	38.5
Sukuta Minor Health Centre	0	0	1.983	529	1,003	77.1
Input decrease/output increase	-27	-4	9,651	5,857	6,582	
Average						**72.4**
Standard deviation (SD)						*23.5*

Source: Authors' calculations based on 2018 data collected at facilities. (-) denotes projected input decrease.

Another study of 17 health districts in Cabo Verde showed a mean efficiency score of 55 percent with about 88 percent of facilities being inefficient.[101]

Eight of the 11 facilities surveyed are under a results-based arrangement. The two efficient facilities as well as other six facilities in the sample are participating in the ongoing World Bank-financed RBF project described above. These facilities have built-in incentive and accountability mechanisms for health managers and workers to improve efficiency. This means, policy makers could consider applying lessons from implementing the RBF to improve efficiency in the sector. However, this alone would not be sufficient to improve health outcomes.

Equity[102]

Availability of Health Services

Health care facilities are abundant, but some facilities are unevenly distributed across the country. The Gambia has approximately 176 health care facilities (Table 5.1): 5 general hospitals, 4 district hospitals, 3 teaching hospitals, 3 major health centers, 49 minor health centers, and 59 clinics run by NGOs or community-based organizations. Greater Banjul Area (LGA) has the most healthcare facilities (47) followed by West Coast Region (34), North Bank Region (30), Central River Region (23), Upper River Region (22), and Lower River Region (20).

101 World Bank (2019).
102 The equity analysis was solely based on the demand side of the health services delivery systems. Because of the centralized budget management systems operated by MoH, no allocations are transferred to the RHDs.

More than half of the population (55.4 percent) live within 30 minutes travel time of a public or private hospital. A larger share, 87.9 percent, report living within 30 minutes of a health center. Even in the most remote LGAs of Basse and Kuntaur, more than 3 out of 4 individuals can reach a health center within 30 minutes. Travel times to hospitals are substantially different in rural and urban areas—33.1 percent of rural residents and 73.7 percent of urban residents reported they could reach a hospital within 30 minutes—and this differs across LGAs. This reflects not only the geographical distribution of hospitals but also the availability of infrastructure such as roads and transport in different parts of the country. Variation across the welfare distribution mostly reflects spatial patterns of access to health services. While considerations of efficiency currently do not enable the provision of all services in every town or village, previous findings have shown that high transportation costs deter some individuals from attending health services which undermines their well-being (Figure 5.7 and Figure 5.8).

Utilization of Health Services

Although the majority of those who reported sickness or injury attended a health facility, this varies by place of residence, and household welfare distribution. Based on data from the Integrated Household Survey (IHS), around 6 percent of the population in The Gambia reported sickness or injury over the two weeks preceding the interview.[103] Individuals in rural areas were more likely to report health problems than in urban areas (6.8 percent compared with 5.2 percent) and a comparison across regions points to a higher prevalence of sickness or injury in more remote parts of the country. The majority of those who reported sickness or injuries attended a health service provider to seek treatment (80 percent for rural residents and 85 percent for urban residents). The likelihood of visiting a health service provider was also lower among relatively poorer households, which is possibly linked to availability of private funds to pay for out-of-pocket (OOP) health expenditure or higher opportunity costs. There is no systematic pattern across gender and age.

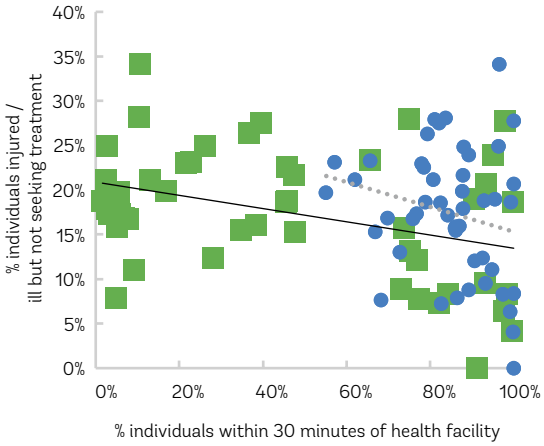
The share of deliveries that take place in health facilities is also relatively high and varies by residence, the age and education level of the mother, and wealth quintile. According to MICS, 81.5 percent of deliveries took place in health facilities in 2018, up from 55.7 percent in 2010. The 2018 data show variation in the share of delivery in health facilities by place of residence (86.3 percent for urban dwellers and 73.6 percent for rural dwellers), LGA (64.4 percent for Kuntaur and 94.8 percent for Banjul), mother's education (75.4 percent for pre-primary or none, and 90.1 percent for secondary or more), and wealth quintile (71–77 percent for the lower three quintiles and 92–95 percent for the upper two). There was also variation in delivery by public or private sector. Only 2.0 percent of mothers under the age of 20 delivered with a private sector provider, compared with 8.1 percent of mothers aged 20–34 years old. Likewise, the share of deliveries in a private sector facility differed by place of residence (10.4 percent for urban residents and 2.1 percent for rural ones) and by wealth quintile (0.7 percent of mothers in the second quintile versus 25.1 percent of those the richest quintile).

Type of Health Services

The type of health service provider used differs substantially across the country and by household income. Twenty-five percent of those who sought health care for an illness or injury went to a public hospital (ranging from 67 percent in Banjul to 6 percent in Basse), 42 percent to a public health center (7 percent in Banjul and 64 percent in Basse), and 13 percent to a public clinic. Differences across income distributions suggest that poorer households are more likely to attend a public health center than a public hospital. This reflects spatial patterns of economic welfare which overlay the availability of different types of health service providers, which is lower in remote areas. Overall, around 10 percent of the population

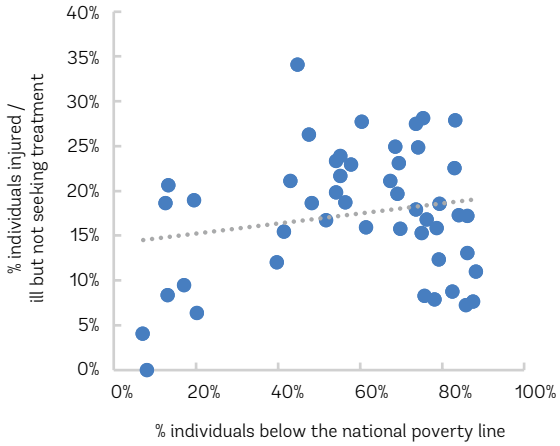
103 The figure for children under age 5 with fever in the last 2 weeks for whom advice or treatment was sought from a health facility or provider was 56.7 percent (MICS 2018).

Figure 5.5: Greater Accessibility, More Likely to Seek Treatment



Source: World Bank staff estimates based on the IHS 2015/16.
Note: Information estimated on the district level.
Green – health center and blue – hospitals.

Figure 5.6: Higher Poverty, Less Likely to Seek Treatment



Source: World Bank staff estimates based on the IHS 2015/16.
Note: Information estimated on the district level.
Green – health center and blue – hospitals.

made use of private health care providers and for the richest decile this was 30 percent.[104] While these differences reflect disparities in availability of different types of health service providers across the country, they also have implications for the treatment received.

Satisfaction with Health Services

Most individuals who visited a health provider (89.4 percent) reported being satisfied with the treatment they received, with dissatisfaction primarily due to lack of medical supplies. There were higher levels of dissatisfaction in Banjul (20.2 percent) which may point towards higher expectations in the capital. Dissatisfaction is also higher among individuals in the richest quintile, which possibly contributes to them opting out of public health services. Overall, individuals who reported being dissatisfied with the provision of health services cited "lack of medical supplies" (70 percent), "waiting time too long" (15 percent), and "too expensive" (6 percent) as the main reasons. These statistics differ across locations, and long waiting times played a much bigger role in rural areas than in urban areas (26 percent versus 7 percent). Moreover, high costs of services seem to be a greater concern for those in the middle of the wealth distribution.

Out-of-Pocket Health Expenditure

Independent of their level of income, households contribute financially to a wide range of health services. Around 66 percent of the population report OOP expenditure to pay for health services received from public and private hospitals, health centers or clinics. Most people report co-payments, including 58 percent among the poor and 72 percent among the non-poor. Descriptive statistics show that independent of the type of health service attended, individuals are requested to pay for consultations, treatment and medication.[105] Around 42 percent of individuals who visited a doctor paid consultation fees (including dental services). A lower share of individuals paid for

104 Differences between relatively poorer and richer individuals do not arise from age or gender; yet the share of individuals visiting health service providers is slightly higher at the top of the welfare distribution.
105 Information from the Integrated Household Survey suggests that only 0.2 percent of the population pays contributions for health insurance (Gambia Bureau of Statistics, 2017). This share is highest among the richest decile (around 0.6 percent). Numbers suggest that there is currently no compensation mechanism for private out-of-pocket health expenditure.

medication (38 percent), procedures (13 percent), and other expenditure on health (7 percent), which also reflects the type of treatment received during a doctor's visit.

The level of co-payments differs substantially by the kind of intervention. While consultation fees average around GMD50 per individual, out-of-pocket expenditure for other services can be much higher. There is also some variation between relatively poorer and richer households which is partly driven by higher payments among the non-poor, in the top two quintiles. The breakdown of the share of payments which go to public and private health providers reflects the much higher use (and higher cost) of private health care providers among more affluent households.

Hospitalization incurs high costs for the public health system and is associated with high OOP health expenditure. During the 12 months preceding the household survey, around 1 percent of individuals were hospitalized or stayed overnight in a medical facility (hospital or traditional healer). Descriptive statistics show a pronounced age pattern which points towards much more frequent hospitalization among individuals over the age of 50. Among individuals who stayed in hospital, 78 percent were required to provide co-payments, with little variation across the welfare distribution. The average OOP health expenditure for hospitalization was GMD1,860. This amount is higher among the non-poor, which is likely to reflect the greater use of private health care facilities among more affluent households.

Financial Protection

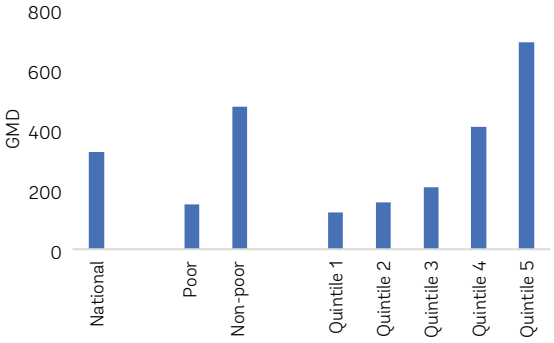
Over a one-year period, the average household in The Gambia paid around GMD320 per capita for health services. This amount relates to regular health expenditure reported in the national household survey 2015/16 and excludes irregular spending such as hospitalization. OOP expenditures are lower among the poor than for the non-poor (GMD149 and GMD476, respectively) which is largely driven by higher spending on health among households in the highest wealth quintile (Figure 5.9). On average, health expenditure accounts for around 1.3 percent of total household spending, with little variation across the welfare distribution (Figure 5.10). Health expenditure for the first quintile, which includes the extremely poor, is above average relative to household spending.

High spending on health undermines the financial position of poor households and could act as a barrier to investing in their health. The Sustainable Development Goal (SDG) indicator on financial affordability of private health expenditure[106] captures the share of households which spend more than 10 percent of their total spending on health. On average, 1.8 percent of the population of The Gambia live in households which allocate more than 1 in every 10 dalasi to health. While there are only minor differences between poor and non-poor households, this indicator is particularly high for households in the first and fourth quintile (Figure 5.11).

Because of the limited financial protection against OOP health expenditure, households in poorer districts in the country are less able to invest in their health. A regional comparison illustrates that average OOP health expenditure is lower for districts with higher regional poverty rates (Figure 5.12). While the provision of public health services and lower co-payments among relatively poorer households are likely to mitigate this effect, lack of data makes it impossible to understand if public health expenditure is compensating for the lack of financial means among households. There are no health insurance schemes in The Gambia. The Government approved the National Health Insurance Scheme (NHIS) on November 5, 2019 and has submitted the NHIS Bill to the National Assembly for approval in March 2020.

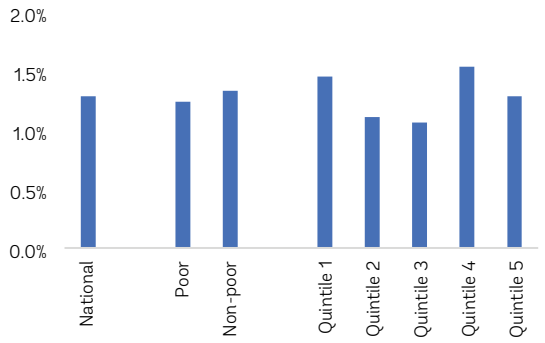
106 SDG Target 3.8: Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.
SDG Indicator 3.8: 3.8.2 Proportion of population with large household expenditures on health as a share of total household expenditure or income.

Figure 5.7: Annual Estimated Per Capita OOP Health Expenditure



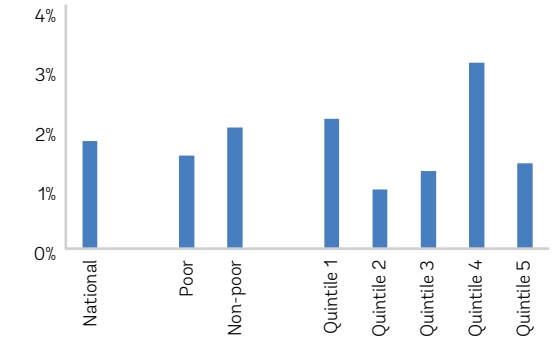
Source: Estimates based on World Bank SSA Poverty (POV) database.
Note: Spending on health is defined according to SSA POV standards and excludes irregular health expenditure. Amounts in 2015 GMD.

Figure 5.8: OOP Health Expenditure as a Share of Household Spending



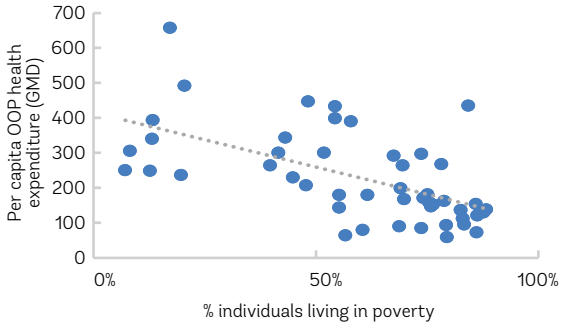
Source: Estimates based on World Bank SSA Poverty (POV) database.
Note: Spending on health is defined according to SSA POV standards and excludes irregular health expenditure. Amounts in 2015 GMD.

Figure 5.9: Share of Population with OOP Health Expenditure over 10 percent of Household Spending



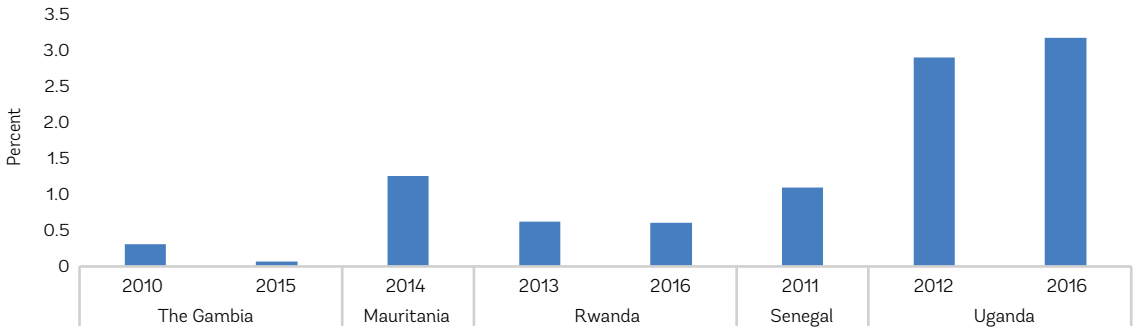
Source: World Bank staff estimates based on the IHS 2015/16.
Note: Poverty rates are calculated based on the national poverty line. Each data point refers to one district in The Gambia.

Figure 5.10: High Poverty, Low OOP Spending on Health



Source: World Bank staff estimates based on the IHS 2015/16.
Note: Poverty rates are calculated based on the national poverty line. Each data point refers to one district in The Gambia.

Figure 5.11: Share of Population impoverished through Health Expenditure



Source: World Bank staff calculations based on HEFPI project.
Note: Simulations are based on international poverty line of 1.9 USD/day PPP.

Table 5.7 Expenditure on Overseas Treatment, 2014–2018 (GMD million)

Country	2014	2015	2016	2017	2018	Total	Average
India	0.8	8.0	7.7	3.3	11.7	31.5	6.3
Spain	0.2	1.5	0.6	-	-	2.4	0.5
Belgium	-	-	-	-	1.8	1.8	0.4
Total	**1.0**	**9.5**	**8.3**	**3.3**	**13.5**	**35.7**	**7.1**

Source: MoH.

Private health expenditure can push households into extreme poverty. In 2015, 10.1 percent of the population in The Gambia lived below the international poverty line.[107] Analysis based on the 2015 national household survey shows whether private health expenditures were sufficiently large to push households into extreme poverty.[108] Findings from the Health Equity and Financial Protection Indicators (HEFPI) database illustrate that around 0.1 percent of the population fell into poverty due to 'impoverishing' health expenditures (expenditures without which the household would have been above the poverty line).[109] This share is very low compared to structural and aspirational peers (Figure 5.13) which might reflect the supply and demand dynamics of health services in the country.[110]

While the poor have limited financial protection, the Government spent an average GMD7.1 million on overseas medical treatment for government officials over the period 2014–2018. The MoH's expenditure data shows that a total of GMD35.7 million was spent on overseas treatments from 2014 to 2018 (Table 5.7). [111] Of the GMD35.7 million, GMD31.5 million (88.3 percent) was spent in India followed by Spain (GMD2.3 million or 6.6 percent), and Belgium (GMD1.8 million or 5.1 percent). There is a need for the Government to improve its health systems to enable it to deliver quality health service, minimizing overseas medical expenses.

Recommendations and Options for Reform

The findings from this review show limitations to the efficiency and equity of public health expenditures. Key policy recommendations and reform options to address the issues follow and are included in Table 5.8.

Efficiency and More Investment

- Public spending on health in The Gambia (1.1 percent of GDP and 6.4 percent of total expenditure in 2018) is low by international standards as well as compared to peer countries. The WHO recommends 5 percent of GDP and the Abuja commitment is 15 percent of total budget. However, given existing fiscal constraints, mobilizing resources on this scale appears unlikely in the short term, and so measures to enhance efficiency will be critical.
- 83 percent of the health facilities surveyed under the PER are inefficient, resulting in

107 This paragraph compares the impoverishing effect of private health expenditure across countries in SSA, and therefore makes use of the international poverty line of 1.9 USD PPP 2011. For The Gambia, the international poverty line amounts to GMD26.2 (2-15) per day per capita.
108 Wagstaff and Doorslaer (2003).
109 Wagstaff *et al.* (2018).
110 Results are also driven by differences in survey design across countries.
111 Because of expenditure data limitations, the PER team could not obtain the full picture of trends in overseas medical expenditures.

average efficiency score of 72.4 percent. This means there is scope to increase efficiency by 27.6 percent.

- With a poor HCI, low life expectancy and a very low level of spending on health, the Government needs to spend more on better health outcomes so that it can benefit from a healthy, relatively young population to grow its economy over time. Fiscal savings generated from efficiency gains could therefore be reinvested on priority areas, namely primary care.

Primary Care

- There is a significant imbalance between allocations to hospitals (secondary and tertiary care services) and primary health care (43 percent compared to 9 percent of total health budget in 2018). Spending on primary care will be of utmost importance if The Gambia is to improve productivity of its human capital for which survival is the first pre-condition.
- The MoH should rationalize the allocation of the budget in favor of primary health care with the aim of moving towards universal health coverage. It should also prioritize primary health care in the essential health care package to address the increasing incidence of non-communicable diseases and high fertility rates, including among adolescents.

Quality of Services

- The Government needs to focus on improving the quality of health care services; quality is a condition for services to be effective (improve the health of people who receive these services), and also for services to be trusted by the population and therefore used. This is critical for the Government to get more value out of its investments in the sector.

Table 5.8 Recommended Policy Measures

Actions	Timeframe
Efficiency of health facilities	
R1. Implement a disaggregated health expenditure information system to monitor spending on inputs in health facilities, such as human resource, technology, drugs, supplies and equipment, to generate efficiency gains.	Medium-term
Primary care	
R2. Rationalize the allocation of health budget in favor of primary care, with a long-term aim toward providing universal health coverage.	Short-term
R3. Prioritize primary care in the essential health care package.	Medium-term
Quality of services	
R4. Improve the use of services with a focus on improving the health of people who receive these services.	Medium-term
Financial protection for the poor	
R5. Implement the national health insurance scheme with a pro-poor focus to minimize OOP expenditures and protect them from catastrophic expenditures.	Short-term
Budget decentralization	
R6. Expand the RBF mechanism from 5 regions to all, prepare quarterly health plans, and utilize cash incentives on prioritized activities.	Short-term
R7. Allocate and ensure regular transfers of funds to RHDs to allow them to effectively supervise and support the health care facilities.	Medium-term
R8. Authorize the decentralized service delivery structures to manage their funds and budgets within strict oversight and controls.	Medium-term

Financial Protection for the Poor

- There is little or no financial protection for the poor, but substantial spending on overseas treatment. Once the NHIS Bill is approved, the Government would need to move towards implementing the insurance scheme, concentrating first on the poor to minimize out-of-pocket expenditures and protect them from catastrophic expenditure.

Budget Decentralization

- The budget management systems are highly centralized with little or no involvement of the decentralized health institutions (RHDs). The MoH would need to strengthen the decentralized service delivery structures such as the heath facilities and RHDs, by giving them the autonomy to manage their funds and budgets while providing strict oversight and controls.
- This could additionally be done by (i) expanding the RBF mechanism from five health regions to all regions, preparing quarterly health plans, and utilizing the cash incentives on prioritized activities; and (ii) allocating and ensuring regular transfers of funds to the RHDs to allow them to effectively supervise and support the health facilities.

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World Bank. 2019. *Cabo Verde Public Expenditure Review: Revisiting the Efficiency of Public Spending to Reduce Debt and Improve Education and Health Outcomes.* Washington, DC: World Bank Group.

Public Financial Management

The Gambia has been implementing significant reforms to improve its public financial management (PFM) practices for many years, although progress has been quite slow. As an aid-dependent country, The Gambia faces challenges to prioritizing and improving its public investment management and should concentrate on strengthening its ability to identify, appraise, and record all projects, regardless of their sources of funding. If the Gambia addresses its investment efficiency gap of 37 percent, it could double the impact of investment on growth, adding 0.3 percentage points to annual GDP growth. Although the country out-performs its peers in some areas of the procurement process, it could still potentially generate cost savings and improve transparency by further strengthening procurement capacity and oversight, consolidating the procurement of standardized goods, and promoting competitive procurement. Since 2017, The Gambia has been working towards the implementation of a treasury single account (TSA) although progress has been slower than expected. A study of similar countries suggests that a fully functional TSA could lead to savings in interest payments and reductions in opportunity costs due to idle balances worth 0.14 percent of GDP.

This chapter is organized as follows. The introductory section outlines recent reforms to PFM in The Gambia. The next three sections consider three areas of reform in more detail (public investment management, procurement and the treasury single account), considering the context, including comparison with peer countries, identifying scope for potential savings and making recommendations for reform. It concludes with a summary of the recommendations.

6 Public Financial Management

Introduction

Public financial management (PFM) reforms allow governments to maximize value for money by managing, allocating, and spending resources efficiently, effectively, and transparently. However, not all reforms offer the same value for money. Improvements in public investment management (PIM), procurement practices and the implementation of the treasury single account (TSA), can yield large potential cost savings and other economic benefits even in the short run. For example, improving the selection and appraisal of investment projects can maximize their returns and minimize cost overruns due to improved planning and implementation. Improving procurement generates cost savings through price reductions due to greater competition and economies of scale. TSAs, combined with proper cash and debt management strategies, reduce bank reconciliation costs and banking fees, minimize short-term borrowing, and maximize market rents. These reforms can also generate synergies: TSAs can improve cashflow predictions, improving the performance of public investment spending.

The most recent Public Expenditure and Financial Accountability (PEFA) assessment highlights the PFM shortcomings in the Gambia.[112] One key aspect affecting fiscal discipline is the large variation between actual expenditure and planned expenditure approved in the original budget. This variation is the result of a weak legal framework that allows in-year reallocations through virements[113]. The strategic allocation of resources is also weakened by shortfalls in revenue collection with regard to government projections and the accumulation of unreported and unmonitored arrears, particularly from state-owned enterprises (SOEs). Table 6.1 summarizes selected PFM performance indicators from the PEFA that depict the situation in the Gambia.

Efforts to strengthen the Gambia's PFM systems have aimed to facilitate the management of fiscal policy and improve fiscal outcomes. A recent report on the PFM Reform Strategy for 2016–2020, indicates that progress has been achieved in the areas of financial management systems, internal and audit functions, and the medium-term fiscal framework (Box 6.1).[114] However, political and institutional constraints have hampered reform in certain areas, including efficiency improvements in state-owned enterprises. Ongoing reforms to address the challenges ahead encompass improving cash-management practices through improving the vetting and implementation of public investment

112 PEFA (2015).
113 As per the Public Finance Act 2014, virement means a transfer of appropriations within the expenditure items of a budget agency, or among expenditure items of the budget entities under the same supervising department or from one budget agency to another.
114 MOFEA (2017).

Table 6.1 Overall summary of PFM Performance Scores for The Gambia, 2014 Assessment

PFM Performance indicator	Rating
A. Credibility of the budget	
PI-2. Composition of expenditure out-turn compared to original approved budget	D+
B. Comprehensiveness and Transparency	
PI-9. Oversight of aggregate fiscal risk from other public sector entities	D+
C(ii). Predictability and Control in Budget Execution	
PI-15. Effectiveness in collection of tax payments	D+
PI-16. Predictability in the availability of funds for commitment of expenditures	D+
PI-19. Transparency, competition and complaints mechanisms in procurement	D+
PI-21. Effectiveness of internal audit	D+
C(iv). External Scrutiny and Audit	
PI-26. Scope, nature and follow-up of external audit	D+
PI-27. Legislative scrutiny of the annual budget law	D+
PI-28. Legislative scrutiny of external audit reports	D+

Source: PEFA (2015).

projects to enhance their development impact and minimize inefficiencies in the allocation of public investment, strengthening public procurement to foster competition and ensure value for money, and the implementation of the treasury single account .

Public Investment Management

Strengthening public investment management contributes to countries' long-term goals by improving fiscal sustainability, promoting growth, and ensuring efficient service delivery. PIM is defined as "an approach to managing government expenditures for public infrastructure strategically and efficiently".[115] This definition implies that improvements in the management of public investment can generate significant benefits for a country independently of the amount that is invested. In fact, the IMF[116] estimated that the "one-off 1 percent of GDP increase in public investment increases output by just 0.3 percent for countries in the bottom efficiency quartile, but 0.6 percent for countries in the top efficiency quartile. Were a country in the lowest efficiency quartile able to increase its efficiency to the level of the highest quartile, it would double the economic 'bang' it gets for its public investment 'buck'."

Countries can follow different PIM frameworks based on their institutional setting and the complexity of their public investment system, but all of them should include certain features to ensure efficiency. The "must-have"[117] features are: (i) pre-screening of investment projects to ensure alignment with national priorities; (ii) appraisal of investment projects to ensure their feasibility; (iii) independent reviews of appraised projects to control for "optimism bias" that can lead to suboptimal investment; (iv) a strong link between the selection of projects and the budget process to ensure consistency with the fiscal framework and recurrent funding for operating and maintaining existing assets; (v) reviews of appraised project to ensure, among other

115 JICA (2018).
116 IMF (2015).
117 Rajaram *et al.* (2014).

Box 6.1

Recent PFM Reforms in The Gambia

Reforming PFM systems is a continuous process, but The Gambia's first comprehensive PFM Reform Strategy was developed for the period 2010–2014. Currently the Government is working on the implementation of the second PFM strategy (2016–2020) which builds on the progress of the first and on the weaknesses identified by the Public Expenditure Financial Accountability (PEFA) Assessment report of 2014. The second PFM strategy aims at "attaining stable macroeconomic growth and eradicating poverty as well as improving revenue mobilization and the efficient allocation of resources, ensuring fiscal discipline, improving information on stock of arrears and public debt and improving the integrity of the budget process".

The reform efforts are coordinated and monitored by the Directorate of Public Finance Management of the Ministry of Finance and Economic Affairs (MOFEA). The Directorate produces an annual progress report as well as a tool to monitor the implementation of these reforms. Beyond the reforms mentioned in the introductory paragraph, reform efforts have focused on:

Improving the scope of Integrated Financial Management Information System (IFMIS): IFMIS has been deployed to all Ministries, departments and agencies (MDAs) and, according to the Government, it is being used for budget execution by all these entities. Currently, the authorities are updating the system from Epicor 9 to Epicor 10 to improve reporting and real-time debt recording. IFMIS is interconnected to the Central Bank banking module (T-24) to access the Government's cash position which increases fund predictability. However, reporting on public spending is not reliable as many commitments take place outside the IFMIS ecosystem even though Epicor 9 allows for commitment accounting. Moreover, subvented agencies and Project Coordination Units (PCUs) do not use IFMIS to make payments or prepare budget execution reports.

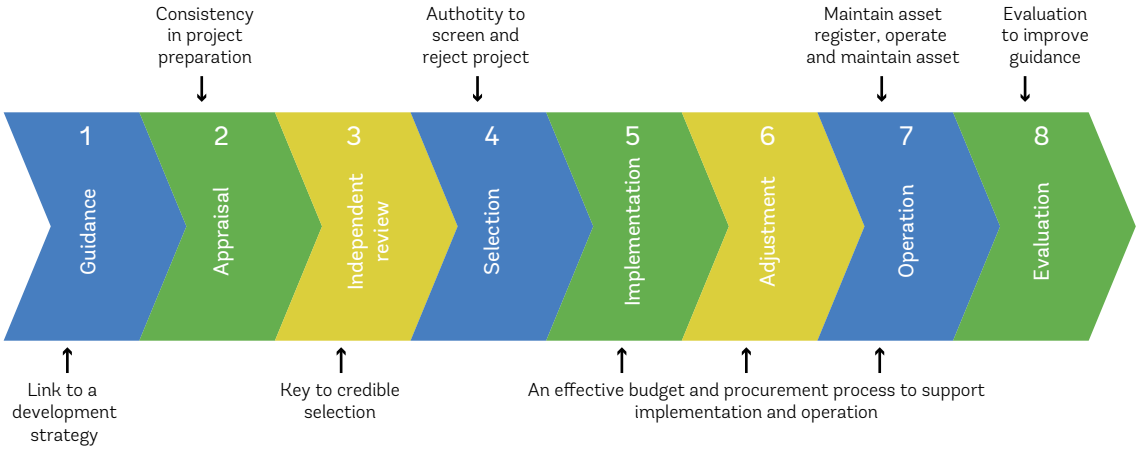
Strengthening internal audits: The Internal Audit Unit was established in 2011 and subsequently transformed into a Directorate with plans to roll out its functions to all MDAs. Part of its mandate is to undertake audits of accounts, assets and procurement. Even though there has been progress in this area, challenges persist associated with a suboptimal number of auditors and capacity gaps in MDAs.

Strengthening external audit and oversight: The Government enacted the National Audit Bill to strengthen the mandate of the National Audit Office (NAO) and expand its scope of work. However, challenges persist, associated with the lack of independence of the Auditor General, who is appointed by the executive, and weak technical capacity to conduct audits that is generating a significant backlog in annual financial audits.

Introducing the use of the Medium-Term Economic and Fiscal Framework (MTEFF): The MTEFF was introduced in 2012 to strengthen the link between planning and budgeting practices and support the development of program-based budgeting. The MOFEA recently published the MTEFF (2020–2024) to "improve inter and intra-sectoral resource allocations adding to greater budget predictability for MDAs".

Source: Prepared by the author based on the following reports: MOFEA (2019); MOFEA (2017); MOFEA (2016); and MOFEA (2015).

Figure 6.1: The Key Features of a Public Investment Management System



The Power of Public Investment Management - http://dx.doi.org

Source: Rajaram et al. (2014).

things, clear organization arrangements, realistic timetables for implementation, and monitoring arrangements; (vi) adjustment of projects based on changes in funding profile or other circumstances; (vii) facilitating the handover of management responsibility to ensure adequate funding for the operation of the asset and the provision of services; and (viii) evaluation of finished projects (Figure 6.1).

Aid-dependent countries like The Gambia face certain challenges in implementing these must-have features of a PIM system, but independent government reviews of aid-funded projects can help to mitigate these challenges.[118] The main challenge for such countries is their weak appraisal capacity and reliance on donors to select and design good projects. However, an independent government review of appraised projects can help to improve their development impact by: (i) ensuring domestic and capacity constraints are considered in the project design; (ii) securing the necessary funds for the effective operation of the asset once the project is handed over to local authorities; (iii) maximizing synergies between projects in the same sector; and (iv) contributing to the empirical evidence needed to counter "optimism bias"—the overestimation of benefits and underestimation of costs—among those preparing projects. Table 6.2 summarizes some of the challenges associated with the must-have features of PIM system in aid-dependent countries.

Context

The 2019 Public Investment Management Assessment (PIMA) carried out by the IMF[119] **identified two main weaknesses of the PIM system in The Gambia.** First, the budget system does not allow capital projects[120] to be identified within its development budget, making it almost impossible to articulate a framework for the appraisal, selection, and evaluation of public projects. Second, the public investment system relies heavily on donors (see Figure 4.6 in Chapter 4),[121] who tend to impose their own rules for appraisal, implementation, and evaluation, generating more fragmentation in the management of public investment. See Box 6.2 for a summary of key findings from the assessment.

118 Rajaram *et al.* (2014).
119 IMF (2019).
120 The Gambia uses the economic classification to report on capital development spending, which is not the same as capital projects.
121 Between 2008 and 2018, 83 percent of public investment was funded by donors.

Table 6.2

Challenges to Implementing Key Features of PIM Systems in Aid-Dependent Countries and The Gambia

PIM "must-have"	Challenges	Applicable to The Gambia
Investment guidance & project development	Government strategy documents are too general and their link to sectoral strategies too weak, limiting the extent to which they can provides basis for preliminary screening of projects.	Yes
Formal project appraisal	Governments have a serious lack of appraisal capacity combined with a lack of guidance on defining the project preparation process and on appraising domestically financed projects and public-private partnerships.	Yes
Independent review of appraisal	Lack of capacity for independent review.	Yes
Project selection and budgeting	Weak integration between the recurrent and development budget and substantial off-budget aid. Aid coordination departments manage the relationship with partners but do not have a priority-setting function for investment.	Yes
	Central financial agencies do not function as effective gatekeepers of either externally funded or domestically funded projects.	Yes
Project implementation	Weak project management capacity induces donors to set up multiple project implementation units.	Yes
	Procurement follows varying donor standards rather than national procurement standard.	No
Project adjustment	Reliance on donors to supervise the project implementation process and trigger reviews of off-tracked projects.	Yes
	Lack of a monitoring process for domestically financed projects.	Yes
Facility operation	Inadequate asset registration system once handover takes place.	Yes
	Inadequate funding for operation and maintenance, in part because of weak integration of recurrent costs of donor projects into fiscal policy and budgets.	Yes
Basic completion review and evaluation	Reliance on donors to review and evaluate their projects.	Yes

The Gambia is moving in the right direction, but several challenges persist associated with weak linkages between plans and budgets, and a frail institutional framework. The existing strategic framework for planning is the National Development Plan (NDP) 2018–2021. The NDP broadly estimates the cost of implementing the strategy and includes monitoring and evaluation mechanisms. However, the development potential of the planning process is undermined by the lack of a mechanism to prioritize projects based on their economic rates of return and fiscal constraints. In the absence of a formal process, selection is mainly driven by factors that do not necessarily maximize value for money. According to the PIMA, the main factors driving the selection of projects are political priorities and the willingness of donors to provide funding. Moreover, the Public Finance Act (2014), the main legislation governing the use of public funds, including the "preparation, presentation, approval, execution and reporting of Government budget", lacks rules on public investment and fiscal responsibility.

Box 6.2

The Gambia Public Investment Management Assessment: Key Findings

Public investment in The Gambia has averaged only 6 percent of GDP over the last ten years, 2 percentage points lower than the Sub-Saharan Africa (SSA) average. Around 85-90 percent of infrastructure investment is externally financed. SOEs account for 60 percent of the public capital stock, but investment by local governments and public-private partnerships (PPPs) has been relatively small. New laws on SOEs and PPPs are being prepared which should support future investment decisions.

- Perceptions of infrastructure quality are somewhat better in The Gambia than in comparator countries. Some health indicators and access to electricity are better than the SSA average, but The Gambia's overall efficiency gap, estimated using the IMF's methodology, is 37 percent, indicating substantial scope for improvement.

- In general, The Gambia's performance across the range of PIMA indicators, measured by the country's domestic laws and procedures, is poorer than other SSA countries, but improve when the usually superior donor practices are accounted for (Figures B6.2a and B6.2b).

- PIMA scores for national planning and the comprehensiveness/unity of the budget are quite good, but there are many infrastructure gaps and non-transparent disclosure procedures. IT systems are numerous and often do not connect with each other. Weak monitoring and evaluation systems are compounded by significant capacity gaps. Where good legal frameworks, rules and procedures exist, they are often not followed.

- SOEs currently have limited capacity to undertake new investment. They face many challenges of corporate governance, internal controls, procurement procedures, and IT systems that mirror similar weaknesses in government agencies.

- Several ongoing reforms (e.g., on medium-term fiscal and budget frameworks, program-based budgeting, cash management, and public procurement) being supported by the IMF and other development partners should improve PIMA scores over time.

Figure B6.2a. The Gambia's PIM Institutional Design

Figure B6.2b. The Gambia's PIM Effectiveness

Source: IMF staff estimates.

Prepared by the author based on IMF (2019).

Several public entities play a role in PIM depending on a project's geographical location, scope, or source of funding. Small local investments are managed thorough the Gambia Agency for the Management of Public Works (GAMWORKS), a non-governmental public works institution, that provides project management services. Between 1994 and 2014, this organization managed a portfolio totaling US$180 million[122] (11 percent of GDP in 2018). To appraise and endorse projects financed by donors, the Government created the Gambia Strategy Review Board (GSRB), which has met thrice since April 2019. In theory, the GSRB will receive project profiles containing relevant information such as the expected outputs, outcomes, and impact as well as the strategy for monitoring and evaluation. If managed properly, this could be a stepping stone to the creation of a sound PIM system in The Gambia.

Addressing fragmentation in public investment is key to ensuring value for money. One of the main challenges for PIM in The Gambia is the absence of a centralized database containing all planned and active projects. This makes it difficult to prioritize projects, minimize overlaps, and maximize synergies. Externally financed projects are recorded in the Aid Management Platform (AMP), a parallel system managed by the Directorate of Aid Coordination (DAC) of MOFEA. The AMP only includes basic information[123] making it difficult to compare projects based on their expected impact. Projects financed with local funds are scrutinized to ensure they are aligned with the NDP, but there is no information system in place to identify them.

The DAC produces a report which contains the achievements and key challenges of externally financed projects (see the example in Box 6.3), but it is not clear how this information is used to improve the implementation of projects. For example, there is no mechanism to systematically monitor how these challenges are being addressed. In addition, the information provided by the different ministries does not seem to follow the same structure or format, and in some cases, key information on projects such as their objectives, components, geographical location, cost overruns, and implementation delays is missing.

Data on infrastructure projects are insufficient in The Gambia. IFMIS does not provide information on capital projects that are being executed, and budget documents do not include the list of the projects under implementation, even as an annex. Many project implementation units do not use IFMIS to program or manage their payments, making the monitoring of spending associated with projects very difficult.

Even when using the BOOST database (see Annex II), poor quality information makes any assessment of the project portfolio challenging. For example, BOOST shows development spending in 2018 of GMD10.3 billion, but when using the "project code" variable, 92 percent (GMD9.5 billion) of expenditure appeared as not being programmed (i.e., were not recorded in the 2018 revised budget). Out of the total development spending in 2018, 55 percent (GMD5.7 billion) does not specify the funding source. Assessing development spending by program or by ministry in 2018 leads to similar findings: 93 percent (GMD9.6 billion) of development spending is not part of the revised budget when classified by program; and 72 percent (GMD6.5 billion), when classified by ministry. Moreover, the large deviations between planned spending on development projects and outcomes (Table 6.3), indicates a poor connection between the planning and budget processes.

Results

Given the information available and the quality of reporting, it is very difficult to estimate any potential fiscal saving from improvements in PIM in The Gambia. However, empirical evidence shows that improvements in PIM can increase the output elasticity of public investment. According to the IMF PIM Methodology,[124] if the Government

122 The Point (2015).
123 Donor, name of the project, aid type, sector, and disbursements.
124 IMF (2015).

Box 6.3

Sample Project Information from DAC Reports

Project Building Resilience Against Food and Nutrition Insecurity in the Sahel (P2RS) Project 1 – The Gambia.

Project Basic Data		
Description	**Date**	
Project start	2014	
Project start date	October 2015 (First Disbursement 26th October)	
Project end date	December 2020	
Total project cost (UA)	UA 13.53 million	
Gambia government contribution (UA)	UA 1.77 million	
Beneficiary contribution (UA)	UA 0.26 million	
Level of Disbursement at end 2017		
Project Cost	**AfDB (USD)**	**GOTG (USD)**
Loan amount	17,710,000	2,725,800
Project start date	5,235,490	33,317
Project end date	12,474,510	2,692,483
Total project cost (UA)	29.56	1.22
Gambia government contribution (UA)	4,699,335	31,211
Beneficiary contribution (UA)	89.76	93.68

Achievements:

- 6.02KM tidal access development in progress at Sey Kunda Soma (LRR)
- 3 health centers rehabilitated
- 5 hand pumps and sanitation infrastructure (toilets) completed
- 5 boreholes and 10 drinking troughs for livestock in progress
- Abuko Abattoir (market) rehabilitated
- Entrepreneurship training for 30 MDTFs conducted
- Up to 31 youth undergoing business incubation program for the promotion of youth employment
- Training for forest and farm management techniques and utilization of non-forest timber products conducted
- TOT on food formulation techniques for food processors, extension workers and farmers conducted.

Key challenges:

- The Appraisal Report is silent on some of the activity descriptions which challenges clarity on how to implement the activities.
- Delayed responses on PCU requests for Non-Objection have serious implications on performance. We have instances where Non-Objection requests are not responded to beyond the two weeks period.
- Some of the procurement modes recommended at Appraisal are not feasible and needed change (e.g. for purchase of ruminants)
- Low budget allocations for some of the activities (e.g. hand pumps with sanitation facilities). These will need addressing at MTR.
- Long procurement procedures especially with the re-introduction of the Major Bank Procurement Rules.
- Resilience profile analysis (study conducted).
- Development and implementation of sensitization plan on STI's and HIV/Aids in progress.

Source: Ministry of Finance and Economic Affairs. Project Implementation Brief for 2018, Directorate of Aid Coordination (DAC).

Table 6.3 Development Budget Deviation, 2014–2018 (GMD billion)

	2014	2015	2016	2017	2018
Approved budget	3.9	4.0	7.3	3.4	11.1
Revised budget	3.9	3.6	7.1	3.0	10.4
Final expenditure	5.5	8.8	3.7	11.0	10.3
Final expenditures as % of approved	142%	221%	51%	323%	93%
Final expenditures as % of revised	142%	246%	52%	368%	99%

Source: BOOST.
Note: Data on final expenditure is based on project disbursement data received from DAC.

addresses its investment efficiency gap, it could double the impact of investment on growth, adding 0.3 percentage points to the annual GDP growth.

Developing successful PIM practices requires the recognition of two principles: reform needs to be incremental (low-hanging fruit) and should be built on local practices. *The Power of Public Investment Management*[125] report goes even further, underlining that any reform should: (i) recognize the political incentives facing elected officials to avoid promoting politically unrealistic approaches; (ii) be based on a sound understanding of individual countries' trajectories; (iii) be technically feasible, focusing on "good-enough" practice; and (iv) be carefully designed and sequenced based on the technical capacity to build support for the reform.

To succeed, any PIM reform will need functioning PFM systems. PIM reform itself is not enough to reap the benefits of improving the selection, appraisal, implementation, and evaluation of public investment projects. It also requires PFM systems that allow the preparation of a comprehensive budget that, combined with sound cash planning and management practices, ensures the smooth implementation of projects and avoids delays due to cash shortages. A comprehensive and effective medium-term framework for fiscal and budget planning is also important. Finally, an effective TSA and improvements in the internal control environments are also key, not only because they add predictability to the flow of funds, but because they improve transparency and accountability in the use of funds.

Recommendations

- **The responsibilities of the GSRB should be expanded to appraise all projects, including PPPs, no matter the source of funding.** This recommendation is the most important one as it allows the Government to be an effective gate keeper to avoid the selection of inefficient projects. The Government needs to be able to appraise all projects, no matter the funding source, so it can build in-house capacity and harmonize methodologies to compare the feasibility of projects beyond the source of funding. To this end, the Terms of Reference of the GSRB have been revised to expand its mandate, project selection criteria have been proposed,[126] and a Cabinet Paper has been drafted and is pending Cabinet's approval. Capacity building will be key for the GSRB to play its existing and expanded role.

- **Centralize the information on all current development projects in a database.** This would include (i) project title; (ii) organization responsible for implementation; (iii) source of funding; (iv) estimated total cost of project; (v) initiation date; (vi) closing date; (vii) total disbursements; (viii) functional classification; (ix) revised closing date; (x) potential cost

125 Rajaram *et al.* (2014).
126 As per the suggested matrix in the PIMA report.

overruns; (xi) geographical location (if available); and (xii) project selection criteria, allowing projects to be prioritized with regards to strategic planning documents such as the NDP. The database does not need to be sophisticated but should be comprehensive. The most time-consuming part of this process will be identifying the profile of all projects under implementation. However, as more than 80 percent of investment is externally financed, DAC should already have this information. The database will not necessarily generate efficiency gains itself but will be the basis for rationalizing and monitoring the projects under implementation, which should result in efficiency gains.

- **Rationalize the allocation of funding (including counterpart funding) to minimize cost overruns and maximize the development impact of projects under implementation**. Using the database, projects should be classified based on their potential cost overruns, their development impact, and their completion date. This would allow the authorities to focus on finishing problem projects that are generating fiscal pressures. The prioritization should be endorsed by high-ranking government officials to make the reallocation of funding politically viable. An alternative to this recommendation is to conduct a portfolio review of these projects, in coordination with key donors, to identify the high-risk projects to be modified or terminated based on circumstances.

- **Use the project brief developed by DAC to create a dashboard to follow up on identified key challenges**. The brief that DAC produces include key challenges, but it is not clear how the information provided is used to address those challenges. DAC could use this report to set up a dashboard which could include the challenges and the remedial actions, and play a coordinating role when necessary, depending on the nature of the challenge.

- **Make the use of IFMIS mandatory to process expenses associated with projects**. Project units need to process their expenses in IFMIS to make the investment spending more transparent.

Procurement

Public procurement is a key PFM function that enables governments to deliver the goods and services citizens demand. When done properly, it promotes effective and efficient use of public funds while ensuring transparency and accountability. Competition should be one of its main characteristics, as it ensures value for money by allowing qualified suppliers to bid for public contracts. A 2015 survey of 123 countries found that public procurement accounted for between 12.6 and 14.4 percent of GDP depending on the country's level of income. [127]

There are basically three models of public procurement: centralized, decentralized, and hybrid.[128] Under centralized public procurement systems, the relevant decisions (what, how, when) are centralized in a public unit dedicated to buying products to meet the needs of public offices. Under decentralized procurement, the power to decide how, what, and when to procure is delegated to divisions or local administrations. Under hybrid procurement systems, central and local purchasing units share power over purchasing decisions. The hybrid model is the most commonly used because it allows the authorities to base their procurement strategies on the nature of the goods or services procured.

Context

Public procurement in The Gambia is characterized by multiple layers and actors. Procurement is regulated by the Gambia Public Procurement Agency (GPPA), which is responsible for ensuring that public entities in the central and local governments and SOEs follow the procurement

127 Djankov, Islam and Saliola (2016).
128 Dimitri, Piga and Sagnolo (2011).

standards set in the Gambia Public Procurement Authority Act of 2014. The GPPA exercises the control and assurance function through ex-ante and ex-post reviews of procurement proceedings, but it does not conduct procurement processes. Other relevant actors[129] include 203 procuring organizations embedded in the spending agencies that are responsible for conducting public procurement, and the Complaints Review Board, a seven-member autonomous body responsible for promoting fairness in public procurement by managing complaints.

Although the 2014 Act (Article 38) recognizes open tenders as the preferred method for procurement, most public procurement is done using alternative methods. During 2019, only 9 percent of tenders over GMD1 million used an open tender as the procurement method, suggesting a contradiction between the stated policy and its implementation. On the other hand, the number of single sourcing and restricted tenders is quite high (Table 6.4). In 2019, there were 120 single-source tenders (43 percent of total) and 79 restricted tenders (28 percent of total). In terms of value, restricted tenders totaled GMD522 million (10 percent of total; 0.6 percent of GDP), open tenders GMD724 million (13 percent of total; 0.8 percent of GDP) and single-source GMD4,077 million (75 percent of total; 4.6 percent of GDP). This spike was due to the inclusion of US$36 million Banjul Rehabilitation Project (GMD 1.8 billion or 2 percent of GDP) that was contracted on a single-source basis in May 2019.[130]

The disproportionate use of single-source contracting can't be questioned under the existing legal framework. The 2014 Act prefers public procurements to be open tender but does not require it. Although the selection of the procurement method depends on factors such as size of the market and the complexity of the goods and services being procured, the proliferation of single-source tenders indicate that the Government is missing the opportunity to maximize value for money by promoting competition. The 2020 GPPA Bill has rightly eliminated the use of single source, tightened the application of emergency clause and has brought all agencies procuring public funds under the remit of the Authority. Capacity building and additional resources will be key to enable the GPPA to play this role, once the Bill is enacted.

Limited access to information and lack of compliance are key challenges to improving procurement in The Gambia. Public access to procurement information is limited. Although invitations to bid are disseminated via newspapers, information on the different stages of tenders is not available to the public, including the award of tenders. The GPPA only produces aggregate reports and its webpage has only just started publishing some relevant information for monitoring. Procuring organizations' compliance with legal requirements is poor, and breaches are not subject to any sanctions. The GPPA conducts around 80–90 compliance audits each year but it does not impose penalties for lack of compliance. For example, in 2015/2016, only 50–60 percent of procuring organizations submitted annual procurements plans for review and only 30 percent submitted monthly reports.

The Benchmarking Public Procurement 2017[131] report is a useful tool for comparing The Gambia's procurement regulatory framework to those of its peers. The report scores "good" procurement practices and regulations aggregated around eight indicators. Countries with a score close to 100 are considered to have regulatory frameworks that are closely aligned with internationally recognized good practices, while those scoring close to 0 are considered to have significant room for improvement. Out of the eight indicators, the following six are pertinent for The Gambia: (i) needs assessment, calls for tenders, and bid preparation; (ii) bid submission phase; (iii) bid opening, evaluation, and contract award phase;

129 The 2014 Act also included the Major Tender Board who was responsible of reviewing high value procurement processes (> GMD10 million), but in a subsequent amendment of the Act (May 11, 2018), its functions have been transferred to the GPPA.
130 Adjusting for this project, the value of single source contracting drops to 62 percent of total.
131 World Bank (2016).

Table 6.4

Number of Tenders and Total Value by Procurement Method, 2019 (GMD million)

Classification	Number of tenders	As share of total tenders	Total value of tenders	As share of total value of tenders	Share of GDP
Open tender	24	9%	723.6	13%	0.8%
Restricted tender	79	28%	522.3	10%	0.6%
Single source	121	43%	4,076.8	75%	4.6%
Request for quotation	46	16%	109.2	2%	0.1%
Request for proposal	10	4%	24.4	0%	0.0%
TOTAL	**280**	**100%**	**5,456.4**	**100%**	**6.2%**

Source: Author with information from GPPA.

Table 6.5

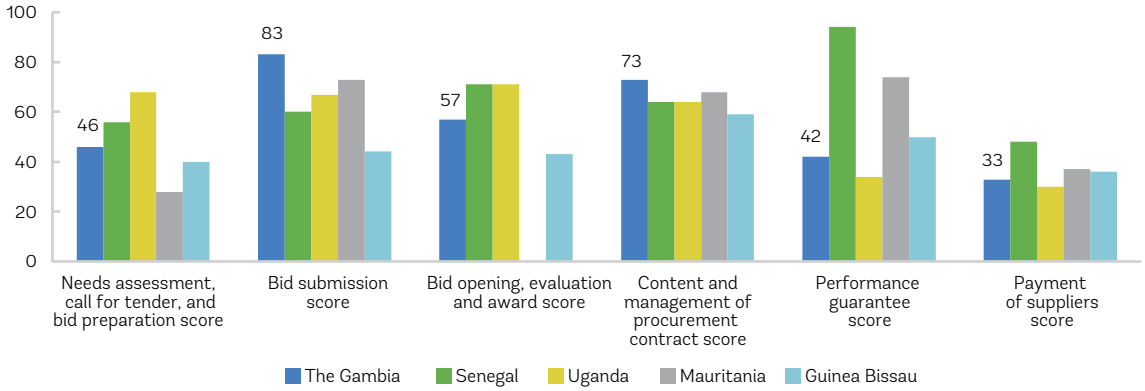
Selected Indicators from the Benchmarking Public Procurement Report, 2017

Indicator	Description
1. Needs assessment, calls for tenders, and bid preparation	The indicators assess the quality, adequacy, and transparency of the information provided by the procuring entity to prospective bidders.
2. Bid submission phase	The indicators examine the requirements that suppliers must meet in order to bid effectively and avoid having their bid rejected.
3. Bid opening, evaluation, and contract award phase	The indicators measure the extent to which the regulatory framework and procedures provide a fair and transparent bid opening and evaluation process, as well as whether, once the best bid has been identified, the contract is awarded transparently, and the losing bidders are informed of the procuring entity's decision.
4. Content and management of the procurement contract	The indicators focus on several aspects during the contract execution phase related to the modification and termination of the procurement contract, and the procedure for accepting the completion of works.
5. Performance guarantees	The indicators examine the existence and requirements of the performance guarantee.
6. Payment of suppliers	The indicators focus on the time and procedure needed for suppliers to receive payment during the contract execution phase.

(iv) content and management of the procurement contract; (v) performance guarantees; and (vi) payment of suppliers (Table 6.5).

The Gambia scores above its peers in the indicators associated with bid submission (83) and the content and management of the procurement contract (73) (Figure 6.2). It outperforms its peers in bid submissions because providers are required to register in a government registry of suppliers before bidding, and because bidders can use more instruments to guarantee their offers (bid security and bid declaration) and to secure their bids (bank guarantee, insurance guarantee). The Gambia leads in the content and management of the contract because providers cannot modify the contract unilaterally during implementation and the terms for termination are part of the legal framework and the procurement contract. Uganda (64) and Senegal (64) include terms for contract termination in the legal framework and the procurement contracts but allow

Figure 6.2: Benchmarking Public Procurement



Source: World Bank staff calculations based on HEFPI project.
Note: Simulations are based on international poverty line of 1.9 USD/day PPP.

unilateral modifications during the implementation phase. Mauritania (68) and Guinea-Bissau (59) do not allow unilateral modifications, but the terms for contract termination are excluded from procurement contracts.

The Gambia lags its peers in the indicators associated with performance guarantees (42) and payment of suppliers (33). In terms of performance guarantee, three aspects place it behind Senegal (94) and Mauritania (74): (i) the Government decides the form of the performance guarantee;[132] (ii) there is no specified timeframe for the Government to return the performance guarantee; and (iii) there is no separate entity to oversee decisions to withhold the performance guarantee. In terms of payment of suppliers, the Gambia is lagging mainly because timely payments are not safeguarded in the local legislation although this does not affect timeliness.[133]

The Gambia has some room for improvement in the areas of needs assessment, calls for tenders, and bid preparation (46) and on the bid opening, evaluation, and contract award phase (57). The Gambia lags Uganda (68 and 71 respectively) and Senegal (56 and 71 respectively) in both indicators. In the case of the first indicator, its performance is mainly affected by two factors: the lack of online access to relevant procurement documents[134] and the lack of a timeframe to address bidders' questions. In the case of the second indicator, its score is undermined by the fact that the Government does not notify tender results to unsuccessful bidders individually.

Methodology

Given the limited information available, the estimation of fiscal savings from improved procurement processes is focused on the procurement of vehicles. The lessons learned could be extrapolated to improve the procurement of standardized goods. A data set of 251 procurement processes (January–September 2019) were reviewed and 29 processes were identified associated with the procurement of SUVs (4X4), pickups (4X4), and sedans. For these 29 processes, it was assumed that all the vehicles procured had homogeneous features and that there was no price difference between them.[135] The latter allowed a unitary price per vehicle per tender to be calculated.

132 Suppliers are not allowed to choose.
133 It is important to note that despite this, The Gambia still pays within a 30-day period.
134 Calls for tenders, tender documents, award notices and procurement plans.
135 The information provided did not include specifications for each procured vehicle. When the process was done in batches, we assumed the same unitary price no matter the brand or type (SUV, pick up or sedan) of vehicle.

Results

In the case of vehicle procurement, restrictive tendering was the preferred method. Out of the 29 tendering processes, 22 (76 percent) used restrictive tendering and 5 (17 percent) single source. Only 2 processes (7 percent) used open tendering, which is consistent with the overall practice in the country—only 10 procurements in 2016 used open tendering. Restrictive tendering and single source accounted for 88 percent of the tenders by value. There was not enough information to determine why restrictive tendering is the common practice, but unless there is a strong rationale, one would expect open tendering to be the most common method.

The unitary average price of vehicles (UAP-V) was lower when restricted tendering was used. Although inconsistent with the theory, the highest UAP-V in our sample is associated with open tendering, followed by single source. The UAP-V of restricted tendering was 76 percent of that associated with open tendering and 98 percent of that associated with single source. One reason for this outcome could be the small number of open tenders (only 2 observations). Nonetheless, the fact that the UAP-V of restricted tendering is lower than that of single source suggests that there could be some efficiency gains just by moving from a less competitive process to a more competitive process when procuring vehicles. In this very small sample, for instance, the gains by moving from single source to restrictive tendering are estimated around GMD0.48 million or 0.001 percent of GDP.

There are at least four suppliers in the vehicle market but government procurement is dominated by two providers. In a limited market, these two suppliers accounted for more than 75 percent of vehicles procured by the Government in terms of value. TK Motors accounted for 55 percent of the procurement value and CFAO Motors 23 percent. TK Motors was the only supplier providing vehicles through single-source procurement and their UAP-V associated with single source was 13 percent lower than their UAP-V associated with restricting tendering, again contradicting the theory.

In theory, there is a potential to generate economies of scale, particularly if institutions can develop a mechanism to coordinate the procurement of vehicles. In the 29 procurement processes assessed, the Government purchased 60 vehicles, an average of 2 vehicles per tender. According to theory, the Government could achieve better prices if they procured vehicles in bigger batches. However, the sample does not support this conclusion.

Recommendations

- **Consolidate the procurement of standardized goods and promote competitive procurement to take advantage of economies of scale.** The Government could generate potential savings by consolidating the procurement of standardized goods in the MOFEA and by shifting to more competitive processes (restrictive or open tender).

- **Strengthen the capacity of all stakeholders involved in public procurement to ensure effective and efficient processes that maximize value for money.** This would imply: (i) training GPPA staff on procurement audits and policy enhancements; (ii) training Procurement Cadre members on procurement planning and the stages of the procurement process; (iii) improving the capacity of the members of the Complaint Review Board to handle complaints effectively; and (iv) training procurement agencies to ensure the preparation of procurement plans align with the national budget.

The Treasury Single Account

Treasury single accounts are a powerful tool to manage government resources efficiently. The IMF defines the TSA as "a unified structure of government bank accounts that gives a

consolidated view of government cash resources".[136] It has three essential features: (i) unification of banking arrangements for the Treasury to oversee cash flowing into and out of these accounts; (ii) restrictions on MDAs operating bank accounts outside this arrangement; and (iii) comprehensive consolidation of all government cash resources. Beyond reducing costs, a TSA also allows complete and timely information on government cash resources, particularly in countries where the IFMIS is interconnected to the banking system.[137] In addition, it allows finance ministries to better control appropriations, commitments and payments during budget execution, thereby improving the transparency and accountability of the budget.

Context

The 1997 Constitution of the Republic of The Gambia provides the legal basis for the implementation of the TSA. Article 150, clause (1) indicates that "There shall be a Consolidated Fund into which shall be paid (a) all revenues or money raised or received for the purpose of, or on behalf of, the Government, and (b) any other money raised or received in trust for, or on behalf of the Government". The 2004 Government Budget Management and Accountability Act and the 2014 Public Finance Act further developed the institutional framework, creating the necessary controls to avoid the proliferation of government accounts, and providing a mechanism for the consolidation of government revenue into the Consolidated Fund and expenditure in the Treasury Main Account.

The Accountant General's Department (AGD) leads the implementation of the TSA in The Gambia. The 2014 Public Finance Act transformed the Treasury Directorate into the AGD, conferring on the Accountant General responsibility for all the Government's cash transactions and accounts, including centralizing government revenues and payments. In the context of the TSA, the AGD is responsible for: (i) overall supervision of the TSA including the functioning of the Secretariat; (ii) ensuring that notional accounts and ledgers are maintained properly; (iii) ensuring that the daily sweeping of funds is done regularly; (iv) ensuring monthly and annual reconciliation of all TSA balances with its accounts; and (v) providing information on the Government's daily cash position.

The Gambia has been working towards the implementation of the TSA since 2017 with technical assistance from the IMF. The Government prepared an implementation plan and established an Implementation Committee to steer the process. The plan covers the following areas: (i) designing the TSA; (ii) building the capacity and facilitating change management; (iii) upgrading the IFMIS; and (iv) extending the coverage of the TSA and IFMIS to subvented entities that are outside the budget.

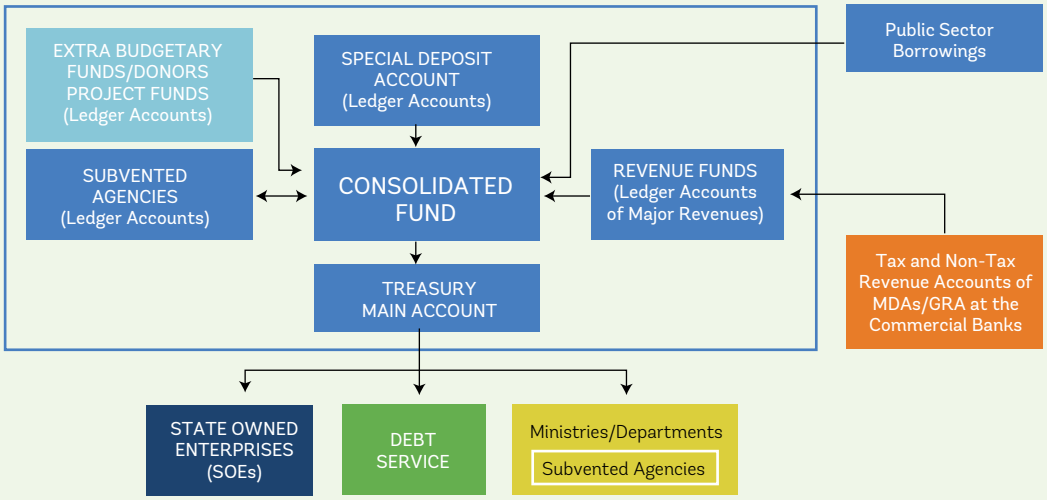
The proposed TSA framework for The Gambia has four types of accounts. These accounts are: (i) the Consolidated Fund; (ii) the Treasury Main Account; (iii) subsidiary treasury accounts; and (vi) ledger accounts. All cash balances will be maintained in the Consolidated Fund and transfers made to the Treasury Main Account so that the MDAs can carry out all expenditure transactions. This will be done through a centralized receipts and payment system. The subsidiary and ledger accounts will serve as accounting records of the expenses carried out by subvented agencies to determine their cash position. The TSA will be maintained in the Central Bank of The Gambia and any cost associated with its administration will be borne by MOFEA. Box 5.4 describes the proposed structure for the TSA developed by the Government.

The implementation of the TSA plan is moving more slowly than expected but progress has been made in certain areas. The Implementation Committee meets regularly to ensure the reform moves forward. The Gambia has produced an inventory of all accounts to define the boundaries

136 Pattanayak and Fainboim (2010).
137 Pattanayak and Fainboim (2010).

Box 6.4

Simplified Framework for the Treasury Single Account in The Gambia



The figure shows the broad framework of the TSA with four main types of accounts in the TSA besides the transit commercial bank accounts outside the TSA framework.

- **Consolidated Fund (CF)**- The Constitutionally mandated repository of all government receipts including tax and non-tax revenues, debt and borrowings, non-debt receipts and borrowings, and grants.
- **Treasury Main Account**- Created under the statutory provisions for carrying out all expenditure transactions in a centralized manner through the AGD. This account is funded from the CF to match the cash allocation to MDAs.
- **Subsidiary TSA accounts**- These comprise four other types of account within the TSA, namely the deposit account, subvented agencies accounts, extra budgetary funds/project funds, and the Main Revenue Account. The subsidiary TSA accounts will not hold cash, but will take the form of ledger accounts of all concerned entities (see below).
- **Ledger accounts**- These are not separate bank accounts, but accounting records of all entities which are part of the concerned subsidiary account, to regulate expenditure in terms of their individual balances.
- **Commercial bank accounts**- These are not part of the TSA but maintained in separate commercial banks. Under the TSA it is envisaged that all these existing accounts—except for the accounts of state-owned enterprises (SOEs)—will be converted into transit/zero balance accounts and will collect government tax and non-tax revenues, with their entire balance swept into the revenue account and the CF on daily basis.

Under the proposed model, government revenue accredited to commercial banks will be remitted daily to the Consolidated Fund with balances being recorded in the ledger accounts of major revenues. The model also includes ledger accounts for subvented institutions and other extra-budgetary accounts, but any associated cash balances will be kept in the Treasury Main Account.

Source: IMF. Fiscal Affairs Department. Strengthening the Framework and Implementation of the TSA Action Plan.

of the TSA. In addition, the Government managed to separate the funds generated by treasury bills for monetary policy from those that finance government operations and has drafted the TSA Manual. According to the Government, all MDAs' spending accounts have been consolidated in the Treasury Main Account and the Treasury is now working on the consolidation of the accounts of subvented institutions. According to the 2014 PEFA assessment, there are 24 MDAs and 64 subvented institutions, which suggest that the TSA is only covering less than 30 percent of public institutions in the Gambia.[138]

Some challenges persist, associated with the closure of some bank accounts and the banking arrangements for the daily sweeping of government revenue. Currently, the sweeping of government revenues is done twice a week and the Government is negotiating with commercial banks to revise its banking arrangements in the TSA context. In February 2020, the Cabinet approved the TSA plan which is expected to expedite the implementation.

Results

Data constraints and weaknesses in reporting, make it difficult to estimate the fiscal savings generated by the implementation of the TSA. This is linked to shortcomings in the information associated with the daily balances of government accounts. Nevertheless, immediate savings may result from a reduction in the cost of banking fees, particularly if the country moves away from using floating balances to compensate commercial banks. Cost savings may be greater if the Government seeks competitive quotations for the banking fees for its daily sweeping, as this allows to better leverage its negotiating position.

With the implementation of the TSA, the Gambia could be saving up to 0.14 percent of GDP. Dener (2015) estimated the benefit of TSAs in 25 International Development Association (IDA) countries to be between 0.1 and 0.7 percent of public expenditure due to savings on interest payments and a reduction in opportunity costs from idle balances. In the Gambia, this would represent up to GMD108 million in 2018 or 0.14 percent of GDP.

The country may learn from recent studies that positively assess the impact of TSA implementation in the region. For instance, Akujuru and colleagues,[139] and Solanke[140] examined the effect of the TSA on corruption in Nigeria and concluded that it could help improve transparency and accountability in the country. In a recent statement,[141] the Office of the Accountant General of Nigeria indicated that the federal government had collected over N10 trillion (US$27.7 billion and 7 percent of 2018 GDP) since the implementation of the TSA from 1,674 MDAs; and that it was able to save over N45 billion (US$124.7 million or 0.03 percent of 2018 GDP) monthly in interest on ways and means that it used to pay before the full implementation of the TSA.

Recommendations

- **Implement daily sweeping of government revenue and use banking fees to compensate commercial banks.** This measure would generate fiscal savings by reducing the costs associated with the implementation of the TSA, particularly if the banking fees are determined through competitive quotations.

- **Identify the balances in the accounts of subvented institutions and develop a strategy to close them.** The government has prepared an inventory of the accounts of subvented institutions but is not aware of the balances in these accounts. Knowing the balances would allow the AGD to determine the overall cash position of the Government more

138 PEFA (2015).
139 Akujuru and Enyioko (2017).
140 Solanke (2018).
141 Premium Times. FG saves N10 trillion from TSA – AGF. July 11, 2019. Available at: https://www.premiumtimesng.com/business/340387-fg-saves-n10-trillion-from-tsa-agf.html.

effectively and help identify which subvented institutions should be migrated to the TSA first.

Conclusions

The Gambia is in the process of implementing significant PFM reforms that could generate important fiscal savings and improve fiscal transparency. For the country to reap the benefits of these reforms, there are some practical actions it could take in the short run. For example, using banking fees instead of floating balances to compensate banks in the context of the TSA, will immediately result in cost reductions.

The Gambia needs to be strategic on moving forward with these reforms. There are some actions that are easy to implement that would go a long way in terms of benefits, such as the consolidation of procurement processes for standardized goods. There are others that are just a step in the right direction but are fundamental to start organizing public finances, such as creating a simple database with all the projects under implementation. The sequencing of these actions needs to be assessed taking into consideration institutional, political and capacity constraints.

Table 6.6 summarizes the key recommendations for The Gambia to maximize the development impact of its PFM reforms in the areas of PIM, procurement and TSA. These reforms could generate potentially significant fiscal savings and other economic and fiscal benefits.

Table 6.6 Recommended Policy Measures

Actions	Timeframe
Public investment management	
R.1 Expand the responsibilities of the GSRB to appraise all projects, including PPPs, no matter the source of funding.	Short-term
R.2 Survey all the projects under implementation and centralize the information in a database.	Short-term
R.3 Rationalize the allocation of funding, including counterpart funding, to minimize cost overruns and maximize development impact of projects under implementation.	Medium-term
R.4 Use the project brief developed by MOFEA to create a dashboard to follow up on identified key challenges.	Short-term
R.5 Make the use of the IFMIS mandatory to process expenses associated with projects.	Short-term
Procurement	
R.6 Consolidate the procurement of standardized goods and promote competitive procurement to take advantage of economies of scales.	Short-term
R.7 Strengthen the capacity of all stakeholders involved in public procurement to ensure effective and efficient processes that maximize value for money.	Short-term
Treasury Single Account	
R.8 Implement daily sweeping of government revenue and use banking fees to compensate commercial banks.	Short-term
R.9 Identify the bank balances in the accounts of subvented institutions.	Short-term

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Annexes

Annex I: Definition of Peer Countries

To benchmark The Gambia's performance, this report uses four comparable groups of peers: Sub-Saharan Africa (SSA) regional average, low-income economies, structural peers, and aspirational peers.

Structural peers are countries that share several features with The Gambia and were selected using the following criteria:

- small geographical size
- young population
- agricultural dependency
- prone to weather-related volatility
- size of government.

The use of these criteria resulted in the following countries: Eritrea, Guinea-Bissau, and Mauritania (Table A1.1).

Its aspirational peers are enclaved Africa countries that have been successful in enhancing regional integration, such as Uganda and Rwanda (Table A1.2). These countries offer good examples of development for The Gambia. Senegal is also used as a comparator country because The Gambia is surrounded by Senegal.

Table A1.1 The Gambia's Structural Peers, Selected Indicators

Country	Region	Population (millions), 2016	Youth population 15-44 (% of total population)	GDP per capita ($), 2016	Agricultural value added (% of GDP), 2016	Government spending (% of GDP), 2016
Eritrea[a]	SSA	4.8	18.9	582	14.5	21.0
Guinea-Bissau	SSA	1.8	20.0	641	49.1	13.4
Mauritania	SSA	4.3	19.4	1,101	27.4	20.7
The Gambia	SSA	2.0	19.8	473	17.9	11.6

Source: WDI data, UN World Population Prospects.
a. Population data for Eritrea are for 2015; GDP per capita data are for 2011; Agriculture value-added data are for 2009.

Table A1.2 The Gambia's Aspirational Peers, Selected Indicators

Country	Region	Population (millions), 2016	Youth population 15-34 (% of total population)	GDP per capita ($), 2016	Agricultural value added (% of GDP), 2016	Government spending (% of GDP), 2016
Senegal	SSA	15.4	19.7	952	17.4	15.8
Rwanda	SSA	11.9	19	702	31.5	15.1
Uganda	SSA	41.4	20.3	580	25.7	7.5
The Gambia	SSA	2.0	19.8	473	17.9	11.6

Annex II: Data Note

In preparing this Public Expenditure Review for The Gambia, the World Bank has worked with the Ministry of Finance and Economic Affairs to collect data and build a BOOST database to support its analysis of revenue and expenditures (see Box A2.1 for background information on BOOST). To build BOOST, the main source of data is from the Integrated Financial Management Information System (IFMIS). Overall, the data lack detail, have numerous gaps, and do not generally align with other government reporting such as the Statement of Government Operations (SGO).

The Gambia has developed a sophisticated chart of accounts and is progressing towards program-based budgeting. The country's chart of accounts (CoA) has 12 segments with a total of 43 digits. It allows all expenditure and revenue to be classified by entity, budget classification, project code (development projects), fund type, source, economic classification, and geographical location. The full list of segments is provided in Table A2.1.

Through to 2016, Segments 2 and 3 (component and sub-component) used the department and unit structure (although unit was not classified) within the Ministry/Agency classification. Starting in 2017, the department and unit structure were no longer used; instead, the government started to use programs and sub-programs for Segments 2 and 3. Figure A2.1 demonstrates the difference. Programs and sub-programs remained a subset of the Ministry/Agency classification.

The chart of accounts does not include the functional classification, but it can be mapped to the administrative classification. The Government has created a bridge table to allow for the classification of functional categories. The functional classification used is not the same as the internationally used Classification of the Function of Government, however.

The classification of revenues and expenditures in IFMIS does not fully utilize the chart of accounts. Despite a sufficiently detailed CoA, many of the segments are either not used or are only partially used within the IFMIS system. When revenue and expenditure transactions are viewed from within IFMIS, many of the 43 digits within the CoA are not populated. The underlying reason appears to be two-fold. First, the coding structure for each of the segments has not been fully developed and approved for use. Second, even

Box A2.1

How Does BOOST Work?

The BOOST program uses governments' own data from public expenditure accounts held in their financial management information systems. Using a consistent methodology, the program transforms highly granular fiscal data into accessible and readily available formats through a 5-phase approach. The program has designed and delivered over 40 national and subnational country-specific BOOST datasets in standardized format. Each dataset typically allows for approved, revised and executed budgets to be cross-referenced across years with categories such as:

- **Government levels** (e.g., central or local)
- **Administrative units** (e.g., ministries, departments, agencies, schools, and hospitals)
- **Subnational authorities** (e.g., districts, municipalities, and other local government units)
- **Functional classification categories** (e.g., sectors or subsectors).

Table A2.1

The Gambia Chart of Accounts: Segments and Description

CoA segment	Sub- segments	Description	Number of characters
1	Budget entity	Ministry / DOS and Agencies	2
2	Component	Either department or program	3
3	Sub-component	Either unit or sub-program	5
4	Budget classification	Development GLF, development grant, development loan	1
5	Fund type	Loans, grants, or government funds	1
6	Funding source	e.g. Central Bank of Gambia, IDA, EU, etc	3
7	Project	Four-digit code to identify the specific project	4
8	Grant/loan code	2013225 (IDA), ADB Loan 1982 UA7.00 million, etc.	7
9	Category	Works, goods, services, etc.	2
10	Activities (analysis)	e.g. 010101 Training for pedagogic leaders	7
11	Geographical location	Region	2
12	Account class	Revenue, expenditure, assets and liabilities	1
12	Item	Item	1
12	Sub-item	Sub-item	1
12	Sub-sub-item	Sub-sub-item	1
12	Sub-sub-sub-item	Sub-sub-sub-item	2
Total			**43**

Figure A2.1: Administrative Structure Before and After 2016

Ministry, Department, & Unit (Used Through 2016)

03 Judiciary

0301 Chief Justice Office
0301000 Chief Justice Office
0302 Supreme Court of The Gambia
0302000 Supreme Court of The Gambia
0303 The Gambia Court of Appeal
0303000 The Gambia Court of Appeal
0304 High Court of The Gambia
0304000 High Court of The Gambia
0305 Subordinate Courts
0305000 Subordinate Courts

Ministry, Programme, & Sub-Programme (Used After2016)

03 Judiciary

06 Court Management
002 Case management
003 Alternative Dispute Resolution
004 Humans Rights Division
07 Access to Judiciary System
005 Decentralization of courts
08 Indigenization of Judiciary
006 Indigenization of Judiciary
08 Not Identified
007 Not Identified
99 Strategy, Policy and Management
001 General Administration

where the coding structure has been developed, it is not always used in the system. For example, even though the coding structure for units and sub-programs exists, it is common to see a general/non-specific code entered into the system. For other segments of the chart of accounts, no descriptive code is often used. This is a frequent problem for multiple segments including grant/loan code, category, activities, and geographical location.

IFMIS does not cover all government expenditure. An additional issue with the use of IFMIS is that it does not capture all expenditure within the country. Many of the funding streams and/or expenditure in selected PER sectors (education, security and health) were not included in the IFMIS data. Externally funded development projects, which account for more than 80 percent of the development budget, are also not included in IFMIS. This incompleteness makes it extremely difficult to do any type of rigorous analysis or use the IFMIS data to make evidence-based decisions.

Official or final government expenditure figures are constructed from multiple data sources. Data from IFMIS on revenue, recurrent, and development expenditures differ, sometimes greatly, from what is officially reported by the government in the SGOs (Table A2.2). Since the Government does not rely solely on the data from IFMIS and uses multiple sources for data reporting, figures provided in official reports can differ depending on where they are obtained from and when they were generated. This raises concerns about data consistency and reliability from year to year.

The main reasons for the under-utilization of IFMIS are: (i) weak organizational and institutional arrangements within MOFEA governing the flow of fiscal information; (ii) limited connectivity across ministries, departments, and agencies (MDAs), including the Gambia Revenue Authority, and with foreign missions; (iii) Project Implementation Units (PIUs) not using the country's systems; (iv) non-usage of the CoA in the budget module of IFMIS by the Budget Directorate; and (v) the absence of decentralized financial management information systems to capture local government revenue and spending data.

Going forward, the ongoing IFMIS upgrade to Epicor 10 and shift to Government Finance Statistics 2014 provides an opportunity to correct some of the data limitations. Although the upgrade will provide additional functionality, it will not fix under-utilization of IFMIS itself. Currently the Government is not using the current system to its full capabilities and, without a strong commitment to make better use of the new system, it may not improve the quality of the data the system captures. Nonetheless, the Accountant General's Department plans to extend the terminals to all MDAs and PIUs over the medium-term. To that end, the Budget module of Epicor 10 with a new CoA and Government Finance Statistics 2014 classification was piloted at the Budget Directorate for preparing 2020 budget. Templates are being finalized and pilots are being run in select MDAs for expenditure reports. However, without the necessary infrastructure in place at the spending unit level, this exercise may not result in a marked improvement over the previous situation.

Table A2.2 Variance between IFMIS and SGO Reports, 2014 and 2018

	2014 IFMIS	2014 SGO	Difference	2018 IFMIS	2018 SGO	Difference
Revenue	6,268	7,566	-21%	9,134	11,850	-30%
Total expenditures	9,550	7,911	17%	13,306	11,317	15%
Current expenditure	6,837	5,340	22%	9,573	7,623	20%
Personnel emoluments	1,914	1,913	0%	3,024	2,987	1%
GLF capital	798	659	18%	710	706	0%

Annex III: Fiscal Tables

Revenues

Table A3.1

Total Revenues, 2008–2019 (% of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1. Grants	**0.5**	**1.8**	**2.5**	**3.3**	**5.1**	**1.8**	**2.5**	**1.4**	**1.1**	**8.0**	**5.9**	**5.5**
2. Non-tax revenues	**0.8**	**0.8**	**0.8**	**1.1**	**1.1**	**1.2**	**1.5**	**1.2**	**1.0**	**0.9**	**2.2**	**3.0**
Government services and charges, GRA	0.3	0.2	0.3	0.4	0.4	0.5	0.7	0.4	0.3	-	0.1	0.5
Government services and charges, Customs	0.3	0.3	0.2	0.3	0.4	0.4	0.5	0.4	0.4	0.4	0.3	0.5
Government services and charges, IFMIS	-	-	-	-	-	-	-	-	-	0.0	0.0	0.8
Rent revenue from DTD	0.0	0.0	0.0	0.0	0.0	-	0.0	-	-	0.1	0.1	-
Fines	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Scanning fees	0.0	0.0	0.1	0.1	-	0.0	0.0	0.0	0.0	0.1	0.4	-
Telecommunications fees	0.2	0.3	0.2	0.2	0.3	0.3	0.2	0.4	0.3	0.3	0.2	-
Other	-	-	-	-	-	-	-	-	-	-	1.0	1.2
3. Tax revenues	**9.3**	**9.4**	**7.6**	**9.4**	**9.7**	**9.7**	**11.0**	**12.1**	**11.3**	**10.4**	**10.3**	**11.2**
Direct taxes	3.2	2.5	2.6	2.9	3.4	2.8	3.1	2.9	2.8	2.8	2.6	3.0
Personal income tax	1.3	1.1	1.0	1.5	1.7	1.2	1.2	1.2	1.2	1.1	1.0	1.1
Corporate income tax	1.6	1.2	1.2	1.2	1.4	1.4	1.7	1.5	1.5	1.4	1.4	1.7
Capital gains	0.3	0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Payroll	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	-	-	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Indirect taxes	6.1	6.9	4.9	6.5	6.4	6.9	7.9	9.2	8.5	7.7	7.7	8.3
Taxes on goods and services	2.1	1.8	1.7	2.2	2.3	2.5	2.8	3.2	3.0	2.7	2.7	2.9
Stamp duties	0.1	0.0	0.1	0.0	0.0	0.0	0.1	0.2	0.1	0.1	0.1	0.1
Excise duties	0.5	0.4	0.4	0.5	0.5	0.7	0.9	1.1	1.1	1.0	1.1	1.2
On domestic goods	-	-	-	-	0.0	0.2	0.3	0.4	0.4	0.4	0.3	0.4
On imported goods	0.5	0.4	0.4	0.5	0.5	0.5	0.6	0.7	0.8	0.7	0.7	0.8
Sales tax	1.2	1.1	1.0	1.2	1.3	0.1	0.0	0.0	-	-	-	-
Value-added tax	-	-	-	-	-	1.3	1.4	1.4	1.4	1.3	1.5	1.5
Taxes on use of goods	0.2	0.3	0.2	0.4	0.4	0.4	0.4	0.6	0.4	0.4	0.1	0.2
Motor vehicle license	-	-	0.1	0.0	0.1	0.0	0.1	0.1	0.0	0.1	-	0.1
Other taxes	0.2	0.3	0.2	0.4	0.3	0.4	0.3	0.6	0.4	0.3	0.1	0.1
Taxes on international trade	4.0	5.1	3.2	4.3	4.1	4.3	5.1	5.9	5.4	4.9	5.0	5.5
Duties	2.1	3.0	1.7	2.1	1.9	2.6	3.0	3.6	3.3	2.8	2.7	2.8
VAT on imports	1.9	2.1	1.5	2.3	2.2	1.7	2.1	2.3	2.1	2.1	2.4	2.5
Export tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-	0.0
TOTAL REVENUES (1+2+3)	**10.6**	**12.1**	**10.8**	**13.8**	**15.9**	**12.7**	**15.0**	**14.7**	**13.4**	**19.3**	**18.4**	**19.7**

Note: The sales tax was replaced with VAT in 2013.

Table A3.2

Total Revenues, 2008–2019 (% of Total)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1. Grants	**4.5**	**15.2**	**22.9**	**23.7**	**32.1**	**14.2**	**16.7**	**9.4**	**8.2**	**41.4**	**32.2**	**27.6**
2. Non-tax revenues	**7.7**	**6.9**	**7.0**	**7.7**	**6.7**	**9.7**	**9.9**	**8.2**	**7.3**	**4.6**	**11.8**	**15.4**
Government services and charges, GRA	2.7	1.9	2.5	2.8	2.4	4.3	4.9	2.6	2.0	-	0.7	2.4
Government services and charges, Customs	2.5	2.2	1.9	2.4	2.5	2.9	3.2	2.7	2.7	2.0	1.5	2.4
Government services and charges, IFMIS	-	-	-	-	-	-	-	-	-	0.0	0.1	4.0
Rent revenue from DTD	0.1	0.0	0.1	0.0	0.0	-	0.0	-	-	0.7	0.8	-
Fines	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	-
Scanning fees	0.0	0.0	0.5	0.7	-	0.1	0.1	0.2	0.0	0.6	2.4	-
Telecommunications fees	2.2	2.6	1.9	1.8	1.7	2.3	1.6	2.8	2.6	1.3	0.8	-
Other	-	-	-	-	-	-	-	-	-	-	5.5	6.0
3. Tax revenues	**87.8**	**77.9**	**70.2**	**68.6**	**61.2**	**76.0**	**73.4**	**82.4**	**84.4**	**54.0**	**56.0**	**57.0**
Direct taxes	30.2	20.5	24.2	21.4	21.1	21.9	20.6	20.0	21.1	14.3	13.9	15.0
Personal income tax	11.8	9.3	9.6	10.9	10.5	9.1	8.0	8.5	8.8	5.7	5.4	5.5
Corporate income tax	14.6	9.8	11.5	8.9	9.1	10.9	11.0	10.0	11.0	7.3	7.4	8.6
Capital gains	3.1	0.6	2.4	0.8	0.6	0.8	0.7	0.7	0.5	0.5	0.5	0.6
Payroll	0.6	0.8	0.7	0.6	0.6	0.8	0.6	0.5	0.5	0.4	0.3	0.3
Other	-	-	0.1	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.0
Indirect taxes	57.7	57.4	45.9	47.2	40.1	54.1	52.8	62.4	63.4	39.8	42.1	42.0
Taxes on goods and services	19.8	15.1	16.0	15.8	14.4	20.0	18.8	22.0	22.6	14.2	14.7	14.8
Stamp duties	1.1	0.4	0.9	0.3	0.3	0.3	0.5	1.1	0.4	0.3	0.4	0.3
Excise duties	4.6	3.3	3.4	3.5	3.3	5.9	6.3	7.3	8.5	5.3	5.9	6.3
On domestic goods	-	-	-	-	0.3	1.7	2.1	2.4	2.8	1.8	1.8	2.1
On imported goods	4.6	3.3	3.4	3.5	3.0	4.1	4.1	4.9	5.7	3.5	4.1	4.1
Sales tax	11.7	8.7	9.6	9.1	8.2	0.4	0.3	0.0	-	-	-	-
Value added tax	-	-	-	-	-	10.3	9.4	9.5	10.4	6.5	7.9	7.8
Taxes on use of goods	2.3	2.7	2.1	3.0	2.6	3.2	2.3	4.1	3.3	2.1	0.5	0.4
Motor vehicle license	-	-	0.6	0.2	0.4	0.4	0.4	0.3	0.3	0.4	-	-
Other taxes	2.3	2.7	1.5	2.8	2.2	2.8	1.9	3.8	3.0	1.7	0.5	0.4
Taxes on international trade	37.9	42.4	29.9	31.4	25.7	34.1	34.1	40.4	40.7	25.6	27.4	27.1
Duties	19.5	24.8	15.5	14.9	12.1	20.7	20.0	24.7	24.7	14.6	14.5	14.3
VAT on imports	18.3	17.5	14.3	16.4	13.6	13.3	14.0	15.6	16.0	10.9	13.0	12.9
Export tax	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-
TOTAL REVENUES (1+2+3)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: SGOs (various years), MOFEA.

Expenditure by Economic Classification

Table A3.3

Total Expenditure by Economic Classification, 2008–2019 (% of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1. Current	**9.1**	**8.5**	**7.6**	**10.6**	**11.2**	**12.9**	**14.1**	**14.4**	**15.5**	**13.7**	**13.5**	**14.5**
Compensation of employees	2.8	2.6	2.4	4.1	4.0	4.2	3.7	3.5	3.4	3.2	3.8	4.5
Use of goods and services	2.9	2.7	2.3	3.1	3.4	4.1	4.1	3.5	4.3	2.1	3.8	3.8
Transfers	1.3	1.3	1.1	1.3	1.2	2.0	2.6	2.6	2.8	3.6	2.7	3.0
Interest payments	2.1	1.9	1.8	2.2	2.7	2.7	3.7	4.8	5.1	4.8	3.2	3.2
On external debt	0.4	0.4	0.3	0.4	0.4	0.6	0.4	0.6	0.7	0.3	0.5	0.4
On domestic debt	1.6	1.5	1.5	1.7	2.2	2.1	3.3	4.1	4.4	4.5	2.6	2.8
2. Capital	**3.0**	**4.8**	**5.4**	**5.5**	**7.6**	**5.1**	**4.9**	**4.5**	**4.0**	**10.3**	**10.8**	**7.8**
Domestically financed	1.5	1.3	1.2	0.7	0.7	1.0	1.3	1.2	1.0	1.1	0.9	1.1
Externally financed	1.5	3.5	4.2	4.8	7.0	4.1	3.7	3.3	3.0	9.1	9.9	6.7
TOTAL EXPENDITURE (1+2)	**12.1**	**13.3**	**13.0**	**16.1**	**18.8**	**18.1**	**19.1**	**18.8**	**19.6**	**24.0**	**24.4**	**22.3**

Table A3.4

Total Expenditure by Economic Classification, 2008–2019 (% of Total)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1. Current	**75.5**	**64.1**	**58.3**	**65.7**	**59.4**	**71.7**	**74.1**	**76.3**	**79.4**	**57.2**	**55.3**	**65.0**
Compensation of employees	23.5	19.6	18.5	25.2	21.0	23.1	19.5	18.5	17.6	13.4	15.6	20.2
Use of goods and services	23.9	20.0	17.9	19.0	18.0	22.5	21.6	18.7	21.8	8.6	15.6	17.0
Transfers	11.0	10.1	8.2	8.0	6.3	11.2	13.6	13.8	14.1	15.0	11.2	13.5
Interest payments	17.0	14.4	13.8	13.5	14.2	14.9	19.4	25.3	25.9	20.1	12.9	14.3
On external debt	3.7	3.0	2.4	2.7	2.4	3.3	2.2	3.3	3.6	1.4	2.2	1.8
On domestic debt	13.4	11.4	11.3	10.8	11.8	11.6	17.2	22.0	22.3	18.7	10.7	12.6
2. Capital	**24.5**	**35.9**	**41.7**	**34.3**	**40.6**	**28.3**	**25.9**	**23.7**	**20.6**	**42.8**	**44.3**	**35.0**
Domestically financed	12.4	9.9	9.5	4.6	3.5	5.4	6.7	6.1	5.0	4.7	3.7	4.9
Externally financed	12.0	26.0	32.3	29.7	37.0	23.0	19.2	17.6	15.5	38.1	40.6	30.0
TOTAL EXPENDITURE (1+2)	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: SGOs (various years), MOFEA.

Expenditure by Functional Classification

Table A3.5

Total Expenditure by Functional Classification, 2014–2018 (% of GDP)

	2014	2015	2016	2017	2018
1. GENERAL	**8.0**	**6.2**	**6.7**	**6.0**	**6.8**
General public services	5.7	4.3	4.8	4.4	5.0
Defense	1.1	0.9	0.9	0.7	0.8
Public order & safety	1.1	1.0	1.0	0.8	1.0
2. SOCIAL	**3.3**	**3.3**	**3.4**	**3.4**	**3.6**
Education	1.9	1.9	2.0	1.8	2.2
Health	1.2	1.2	1.2	1.1	1.1
Social security & welfare	0.0	-	-	-	-
Housing & community amenities	0.1	0.1	0.1	0.2	0.2
Recreational, cultural & religious affairs	0.1	0.1	0.1	0.3	0.1
3. ECONOMIC	**1.2**	**1.2**	**0.4**	**0.9**	**0.9**
Fuel & energy	0.0	0.0	0.0	0.0	-
Agriculture, forestry, fishing & hunting	0.5	0.4	0.0	0.4	0.5
Mining & mineral resources	0.0	0.0	0.0	0.0	0.0
Transportation & communication	0.5	0.6	0.4	0.3	0.2
Other economic affairs	0.2	0.1	0.0	0.1	0.2
4. OTHER	**6.1**	**6.4**	**6.1**	**7.5**	**5.5**
Other expenditures	6.1	6.4	6.1	7.5	5.5
5. NOT MAPPED	**0.1**	**0.4**	**1.4**	**0.2**	**0.1**
Not mapped	0.1	0.4	1.4	0.2	0.1
TOTAL EXPENDITURE (1+2+3+4+5)	**18.6**	**17.6**	**18.1**	**17.9**	**16.9**

Table A3.6

Total Expenditure by Functional Classification, 2014–2018 (% of Total)

	2014	2015	2016	2017	2018
1. GENERAL	**42.8**	**35.4**	**37.0**	**33.3**	**40.2**
General public services	30.8	24.4	26.5	24.6	29.5
Defense	6.2	5.3	5.0	4.2	4.6
Public order & safety	5.8	5.7	5.5	4.6	6.1
2. SOCIAL	**17.6**	**18.8**	**18.6**	**18.9**	**21.3**
Education	10.1	11.1	10.9	10.2	13.0
Health	6.3	6.6	6.9	6.2	6.4
Social security & welfare	0.1	-	-	-	-
Housing & community amenities	0.6	0.5	0.4	1.0	1.1
Recreational, cultural & religious affairs	0.5	0.6	0.4	1.4	0.8
3. ECONOMIC	**6.5**	**6.7**	**2.4**	**4.9**	**5.4**
Fuel & energy	0.1	0.1	0.1	0.1	-
Agriculture, forestry, fishing & hunting	2.5	2.3	0.1	2.3	2.9
Mining & mineral resources	0.1	0.1	0.1	0.1	0.1
Transportation & communication	2.7	3.4	2.0	1.6	1.4
Other economic affairs	1.0	0.8	0.2	0.8	0.9
4. OTHER	**32.9**	**36.6**	**34.0**	**41.9**	**32.4**
Other expenditures	32.9	36.6	34.0	41.9	32.4
5. NOT MAPPED	**0.3**	**2.5**	**7.9**	**1.0**	**0.6**
Not mapped	0.3	2.5	7.9	1.0	0.6
TOTAL EXPENDITURE (1+2+3+4+5)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BOOST, World Bank.

Expenditure by Administrative Classification (Grouped by PER Sectors)

Table A3.7

Total Expenditure by Functional Classification, 2014–2018 (% of Total)

	2014	2015	2016	2017	2018
1. Education	**2.1**	**2.2**	**2.2**	**2.0**	**2.4**
Ministry of Basic and Secondary Education	1.8	1.9	2.0	1.8	2.1
Ministry of Tertiary & Higher Education	0.3	0.2	0.2	0.3	0.3
2. Security	**2.4**	**2.1**	**2.0**	**1.8**	**2.1**
Judiciary	0.1	0.1	0.1	0.1	0.1
Ministry of Defense	1.1	0.9	0.9	0.7	0.8
Ministry of Interior and Religious Affairs	1.0	0.9	0.9	0.8	1.0
Ministry of Justice	0.1	0.1	0.1	0.1	0.2
Ombudsman	0.0	0.0	0.0	0.0	0.0
3. Health	**1.2**	**1.2**	**1.3**	**1.1**	**1.1**
Ministry of Health and Social Welfare	1.2	1.2	1.3	1.1	1.1
4. Other	**12.9**	**12.2**	**12.6**	**13.0**	**11.3**
Office of The President	2.1	1.6	1.8	1.1	0.8
National Assembly	0.2	0.2	0.1	0.2	0.2
Independent Electoral Commission	0.0	0.1	0.1	0.1	0.1
Public Service Commission	0.0	0.0	0.0	0.0	0.0
National Audit Office	0.0	0.0	0.0	0.1	0.1
Ministry of Tourism and Culture	0.0	0.0	0.0	0.0	0.0
Ministry of Foreign Affairs	1.1	0.9	0.8	0.8	1.1
Ministry of Finance and Economic Affairs	1.6	0.9	1.0	1.0	1.1
Pensions and Gratuities	0.2	0.2	0.2	0.3	0.2
Miscellaneous	0.1	0.1	0.8	0.5	1.1
Ministry of Local Government and Lands	0.1	0.1	0.1	0.1	0.1
Ministry of Agriculture	0.4	0.3	0.4	0.3	0.4
Ministry of Works, Construction & Infrastructure	0.6	0.6	0.3	0.4	0.3
Ministry of Trade, Industry & Employment	0.1	0.1	0.1	0.1	0.1
Ministry of Youth & Sports	0.1	0.1	0.1	0.1	0.1
Ministry of Forestry and the Environment	0.0	0.3	0.3	0.3	0.1
Ministry of Comm., Info & Info Tech	0.0	0.0	0.0	0.0	0.0
Ministry of Fisheries	0.0	0.0	0.0	0.0	0.0
Ministry of Petroleum and Energy	0.0	0.0	0.0	0.0	0.0
National Debt Service	6.1	6.5	6.4	7.6	5.5
TOTAL EXPENDITURE (1+2+3+4)	**18.6**	**17.6**	**18.1**	**17.9**	**16.9**

Source: BOOST, World Bank.

Table A3.8

Total Expenditure by Administrative Classification, 2014–2018 (% of Total)

	2014	2015	2016	2017	2018
1. Education	**11.5**	**12.3**	**12.0**	**11.4**	**14.3**
Ministry of Basic and Secondary Education	9.7	10.9	10.9	9.9	12.5
Ministry of Tertiary & Higher Education	1.8	1.3	1.0	1.5	1.8
2. Security	**12.9**	**11.7**	**11.0**	**9.9**	**12.3**
Judiciary	0.6	0.5	0.5	0.5	0.6
Ministry of Defense	6.2	5.3	5.0	4.2	4.6
Ministry of Interior and Religious Affairs	5.5	5.4	5.0	4.6	6.0
Ministry of Justice	0.5	0.4	0.4	0.5	0.9
Ombudsman	0.1	0.1	0.1	0.1	0.1
3. Health	**6.3**	**6.6**	**7.0**	**6.2**	**6.4**
Ministry of Health and Social Welfare	6.3	6.6	7.0	6.2	6.4
4. Other	**69.3**	**69.4**	**70.0**	**72.4**	**67.0**
Office of The President	11.2	9.2	9.9	6.3	5.0
National Assembly	0.8	1.0	0.8	1.0	0.9
Independent Electoral Commission	0.1	0.4	0.4	0.4	0.6
Public Service Commission	0.1	0.0	0.0	0.0	0.1
National Audit Office	0.2	0.1	0.1	0.5	0.4
Ministry of Tourism and Culture	0.2	0.2	0.2	0.2	0.3
Ministry of Foreign Affairs	5.8	4.9	4.5	4.5	6.3
Ministry of Finance and Economic Affairs	8.6	5.4	5.6	5.8	6.6
Pensions and Gratuities	1.2	1.1	1.1	1.5	1.2
Miscellaneous	0.6	0.8	4.4	2.7	6.4
Ministry of Local Government and Lands	0.5	0.5	0.4	0.4	0.6
Ministry of Agriculture	2.0	1.8	2.1	1.8	2.2
Ministry of Works, Construction & Infrastructure	3.0	3.3	1.9	2.0	1.6
Ministry of Trade, Industry & Employment	0.7	0.6	0.6	0.6	0.7
Ministry of Youth & Sports	0.5	0.4	0.4	0.4	0.6
Ministry of Forestry and the Environment	0.2	2.0	1.6	1.5	0.7
Ministry of Comm., Info & Info Tech	0.2	0.1	0.1	0.1	0.2
Ministry of Fisheries	0.3	0.1	0.1	0.1	0.2
Ministry of Petroleum and Energy	0.2	0.2	0.1	0.2	0.2
National Debt Service	32.9	37.1	35.4	42.5	32.4
TOTAL EXPENDITURE (1+2+3+4)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BOOST, World Bank.

Annex IV: Assessing Tax Potential and the Tax Gap: Technical Background

The structural tax gap was estimated using peer analysis techniques—Panel Corrected Standard Errors and stepwise cross-sectional analysis—controlling not only for economic variables, but also institutional, structural and environmental variables likely to affect tax revenue performance. These could include corruption levels, population dynamics, oil rents, inflation, and the expected level of schooling of the population. These estimates are lower-bound estimates of potential. They also position each country with regard to its peers with similar characteristics but, by design, assume that some countries are raising more than their "potential" and that all countries with similar economic and institutional features are (equally) efficient at collecting taxes.

The results of the structural analyses should be interpreted and used with caution. The potentials estimated should not be interpreted as maximum or optimal levels of tax-to-GDP to be strictly and rigorously targeted by the authorities.

- The technical specifications of the tax gap estimates are as follows:

- The analyses provide estimates for the actual tax effort exerted and measure the gap between actual performance/revenue-ratios-to-GDP and the predicted tax revenue ratio using (i) a panel of 70 countries over 2006–2015; and (ii) a cross-section of 2015 data for 68 low- and middle-income countries to cross-check the robustness of the results.

- The cross-sectional analysis used a stepwise approach[142], but with more recent data, and includes corporate revenue from natural resources within income tax instead of non-tax revenue. Limiting the sample to low and middle-income countries helps reduce country heterogeneity and avoid an upward bias in tax capacity.

- The panel analysis followed the same methodology as Khwaja and Iyer (2014)[143], i.e. Panel Corrected Standard Errors with panel-level heteroskedasticity and contemporaneous correlation across panels. However, it adds estimates for the various tax instrument types, which were not produced by Khwaja and Iyer. The results of the analyses are also presented for West African Economic and Monetary Union (WAEMU) countries, whereas Khwaja and Iyer focused on European and Central Asian countries.

- The revenue data used is Government Finance Statistics (GFS) for central government only.

The institutional variables are indicators likely to affect the tax effort,[144] either by choice or design (Table A4.1). The stronger the institutions, the more effective the tax administration is at implementing the tax code. Although some countries choose to exert low tax effort, for most developing countries, institutional improvements go hand in hand with improved revenue collection performance and potential. Voluntary tax compliance is notably higher as the cost of compliance is lower and government is typically perceived as less corrupt.

Selected variables also reflect common revenue trends. For instance, countries with higher net oil and gas exports typically have lower revenues from consumption and international trade taxes. Table A4.2 provides a snapshot of the tax gap estimation for The Gambia.

142 For each country in the dataset, revenues are decomposed into seven sub-categories: (1) *taxes on personal income and profits*, (2) *other taxes*, (3) *payroll taxes*, (4) *taxes on consumption*, (5) *taxes on international trade*, (6) *grants*, and (7) *other non-tax revenues*.

143 Khwaja, Munawer Sultan; Iyer, Indira. 2014. Revenue potential, tax space, and tax gap: a comparative analysis (English). Policy Research Working Paper no. WPS 6868. Washington, DC: World Bank Group.

144 As identified in the relevant literature.

Table A4.1

Variable Definitions and Sources

Variables	Source
Tax revenue in % of GDP	IMF GFS (2018)
Income tax revenue in % of GDP	IMF GFS (2018)
Goods and services tax revenue in % of GDP	IMF GFS (2018)
Trade tax revenue in % of GDP	IMF GFS (2018)
GNI per capita Atlas method (current US$)	World Development Indicators (WDI, 2018)
Population growth	WDI (2018)
Share of urban population (% total population)	WDI (2018)
Age dependency ratio (% of working-age population)	WDI (2018)
Agriculture, value added (% of GDP)	WDI (2018)
Trade (% of GDP)	WDI (2018)
Imports of goods and services (% of GDP)	WDI (2018)
Oil rents[a] (% of GDP)	WDI (2018)
Inflation, consumer prices (annual %)	WDI (2018)
Dummy for landlocked countries	
Dummies for AFR trade and monetary groups (ECOWAS, CEMAC, etc.)	
Regional dummies (AFR, ECA, EAP, SAR, LAC, etc.)	
Expected years of schooling	United Nations Development Programme Human Development Reports (UNDP HDR Statistics, 2018)
Control of corruption: estimate	Worldwide Governance Indicators (WGI, 2016)
Government effectiveness: estimate	WGI (2016)
Political stability and absence of violence/terrorism: estimate	WGI (2016)
Regulatory quality: estimate	WGI (2016)
Rule of law: estimate	WGI (2016)
Voice and accountability: estimate	WGI (2016)

a. Oil rents are the difference between the value of crude oil production at world prices and total costs of production.

Table A4.2

Structural Tax Gap Estimation in The Gambia

	Variables		Tax revenue	
	age_dep	Age dependency ratio, old (% of working-age population)	-0.0097 (-0.0371)	4.47
	trade	Trade openness (exports + imports, % of GDP)	0.0215*** (-0.00401)	62.12
	agri	Agriculture value added (% of GDP)	-0.0594* (-0.0318)	23.043
	gdp	GDP per capita, PPP (constant 2011 international $)	-4.40e-05* (-2.39e-05)	1465.34
		Constant	17.48*** (-0.668)	
		Observations	1,390	
		Number of countries	91	
		R-squared	0.023	
		Estimated tax potential, % of GDP	17.34	

Note:
1 Standard errors in parentheses.
2 *** p<0.01, ** p<0.05, * p<0.1.

Annex V: Estimating Efficiency in Education: Methodology

The data envelopment analysis (DEA) is used to examine the efficiency of resource utilization by linking the inputs to outcomes through a value for money analysis. The main purpose of the DEA model is to analyze how different schools utilize the available resources to generate education outcomes and to identify the input mix needed to improve efficiency and effectiveness of service delivery outcomes. The analysis is helpful in identifying lessons to be learned or good practices to be adopted from more efficient schools in the country. In other words, how can the same amount of funding be used more efficiently to produce greater gains in learning outcomes and access?

Financial and human resources requirements differ at all levels of education. The efficiency analysis is therefore first conducted for each level of education and then at all levels of education, based on the common input and output measures. The output measures are captured by three indicators: (i) the total number of enrolled students in schools receiving public resources; (ii) the repetition rate; (iii) the respective learning test results—National Assessment Test (NAT) grades 3 and 5 for lower basic education, NAT grade 8 and Gambia Basic Education Certificate Examination (GABECE) grade 9 for upper basic education, and West African Senior Secondary School Certificate Examinations (WASSCE) for grade 12. The input resources include (i) the total salary allocation at the school level; (ii) the student-teacher ratio; (iii) teachers' average weekly work period; (iv) teachers' years of experience; (v) the distribution of teachers' qualifications; (vi) textbook availability at the Lower Basic School, Upper Basic School, and Basic Cycle School levels; and (vii) the indexes of different school inputs such as classrooms, seats, desks, laboratories, libraries, electricity, water, toilets.

Annex VI: Estimating Efficiency in Security: Methodology

Efficiency scores for both the Gambia Police Force (GPF) and the Gambian National Army (GNA) were computed using the data envelopment analysis (DEA) model. There are multiple approaches to measure organizational efficiency including non-parametric and parametric methods. However, because the security sector in the Gambia has a broad "bottom line" of functions, measuring efficiency requires methodologies that can accommodate multiple inputs and outputs the security sector produces. Linear programming techniques such as DEA are useful in that (i) they do not require a functional form to be established before conducting the analysis and (ii) they can accommodate multiple inputs and outputs.[145]

Output indicators were selected based on data availability. The analyses employ the following input-output set to measure efficiency (Table A6.1). To estimate the efficiency of the GNA, we used an input and output oriented model because the production function of the GNA is not well defined.[146] In contrast, one of the main roles of the GPF is to maximize the prevention of crime and violence, and thus an output-oriented model is more appropriate.

Table A6.1 Input and Output Measures Used to Calculate Efficiency Scores

Inputs	Outputs
GPF	
Police officers	Total crime prevented
Vehicles (cars, motorcycles)	
GNA	
Soldiers	Number of social conflicts (for input-oriented model)
Armored vehicles[a]	Number of social conflicts prevented (for output-oriented model)

a. Information on armored vehicles is based on https://www.jambonews.co.ke/updated-list-of-countries-with-weak-worst-armed-forces-in-africa-2018/

145 Charnes, A., Cooper, W. W., & Rhodes, E. 1978. "Measuring the Efficiency of Decision-Making Units". European Journal of Operational Research, 2(6), 429-444.

146 In general, the GNA reacts to control and reduce conflicts and, thus, an input-oriented model is more appropriate. The results of an output-oriented model are also presented for illustration purposes.

Annex VII: Estimating Efficiency in Health: Methodology

Efficiency scores for the 11 health facilities were computed using the data envelopment analysis (DEA) model. The 11 health facilities assessed in the technical efficiency analysis are in four regions of The Gambia, namely West Coast Region (3), Upper River Region (3), Lower River Region (3) and North Bank Region (2). The facilities comprised eight minor health centers, two district hospitals and one major health center. Technical efficiency measures the capacity of a health facility to convert inputs (resources) into outputs (health services). DEA is a non-parametric method that draws on linear programming to measure the comparative efficiency of decision-making units; health facilities in this case. As such, managerial decision making regarding the use of inputs to achieve outputs at the health facilities is a key touchstone for efficiency. The method assigns an efficiency score to each facility, classifying a facility as inefficient if another facility with comparable inputs has achieved better outputs.

Input and output data are required for the analysis of technical efficiency. The two inputs used are non-clinical staff and clinical staff. Non-clinical staff was defined as public and environmental health officers, vector control officers, and all categories of support staff. Clinical staff included the general nurses, midwives, medical doctors, ophthalmologists, pharmacists, pharmacy technicians, pharmacy assistants, dentists, trained lab staff, and radiology staff at each facility. Facility-level outputs were measured with quality and performance indicators, including the number of first general outpatient visits, number of first antenatal care (ANC) visits, number of deliveries, number of children under 1 year fully immunized, and number of family planning new acceptor visits (visits by first-time users of modern contraception). These outputs are expected to ultimately lead to improved health outcomes. Table A7.1 summarizes the input and output measures used to assess the efficiency of the health facilities.

In keeping with The Gambia's unitary system of governance, its public health facilities are assumed to operate according to an output-oriented approach. In other words, facilities are expected to produce as much output as possible with a given set of inputs and have little autonomy over deciding those inputs. Thus, an output-oriented approach was deemed more appropriate for this analysis due to the limited control facility managers had over their inputs and the centralized decision-making processes for recruitment and investment. In addition, the analysis assumed a variable return to scale[147] since institutional and performance capacity varies across different types of health facilities. The technical efficiency scores were computed with DEA Program, version 2.1 (DEAP 2.1) developed by Coelli (1994).[148]

Limitations. Key inputs for a health facility's production function[149] are labor (staff), capital (building, infrastructure), and supplies (equipment and drugs). Given that the focus of this review is on spending in the health sector, facility-level disaggregated expenditure data on the factors of production would have been ideal. In the absence of that, the analysis intended to measure inputs using four indicators: number of non-clinical staff, number of clinical staff, number of beds, and expenditure on drugs and supplies. However, data were only available for staff. DEA is essentially a productivity analysis, so conducting it without other factors of production is a significant limitation. Another limitation is that the analysis does not consider the unique contextual factors

147 Returns to scale considers the extent to which a health facility's output changes as a result of a change in the quantity of inputs used in producing the output. Variable returns to scale imply that the change may be greater (increasing return to scale), smaller (decreasing return to scale) or proportional (constant return to scale).
148 Coelli, T. 1994. A Guide to DEAP Version 2. 1: a data envelopment analysis (Computer) Program. 1–49.
149 A production function expresses the relationship between the quantities of inputs (labor and capital) used and the amount of outputs produced.

Table A7.1

Summary of Input and Output Measures Used to Calculate Efficiency Scores (in numbers)

	Mean	Standard deviation (SD)	Range	
			min	max
Inputs				
Non-clinical staff	30.3	18.6	11	63
Clinical staff	19.1	13.9	5	41
Outputs				
First general outpatient visits	21,943.7	16,754.4	4,047	53,395
First antenatal care visits	652.6	594.1	128	2,097
Deliveries	1,128.4	971.6	79	2,608
Children under 1 fully immunized	1,357.3	1,014.4	199	3,311
Family planning new acceptor visits	1,030	1,100.3	121	3,253

Source: Authors' calculations based on 2018 data collected at health facilities.

for the facilities and the populations they serve. The sample of health facilities (11) was too small and data for the analysis were too limited to generalize findings for the whole country. An increase in the number of facilities analyzed and disaggregated data on facility-level expenditure on staffing, pharmaceuticals, and supplies could help refine results to inform reforms. Nonetheless, the analysis could feed into qualitative case studies to tease out the determinants of efficiency, based on further insights from the relatively efficient facilities.

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