

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC64794

Project Name	Senegal Support to Extractive Industries Transparency Initiative Compliance Process
Region	AFRICA
Country	Senegal
Sector(s)	Oil and gas (50%), Other Mining and Extractive Industries (50%)
Theme(s)	Other accountability/anti-corruption (50%), Participation and civic engagement (30%), Other environment and natural resources management (20%)
Lending Instrument	IPF
Project ID	P160022
Borrower Name	Ministry of Economy and Finance
Implementing Agency	Senegal EITI Secretariat
Environment Category	C - Not Required
Date PID Prepared	09-May-2016
Estimated Date of Approval	01-Jun-2016
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

1. Senegal, with an estimated population of 14.7 million and an annual growth rate of 3.1 percent, is one of the most politically stable countries in Africa and has considerably strengthened its democratic structures in recent years. Since the 1980s, the democratic institutions and democratization process in Senegal have fared better than in most sub-Saharan African (SSA) countries. In the March 2009 municipal elections, the opposition who united under the "Benno Siggil Senegal" coalition won and reinforced the country's democratic model. The coalition was formed after the contested 2007 presidential election results and subsequent boycott of parliamentary elections. On March 20, 2016 a constitutional referendum was held where people voted to reduce the Presidential term from seven to five years from 2019. The "Yes" vote was 62.7% (1,357,412) against 37.3% (807,255) for "No". However, the national turnout was low at only 38.3%, and in Touba, the second largest city of Senegal and capital of the powerful Muridiya Islamic Brotherhood, the "No" vote won. Presidential elections will be organized in 2019, while the next legislative elections are expected in 2017.

2. In terms of human development, however, Senegal is still lagging behind. In 2015, Senegal was ranked 170 out of 188 countries (in the low human development category) on the UNDP Human Development Index (HDI). Senegal's HDI for 2014 was below the average for SSA. Between 1980 and 2014, Senegal's life expectancy at birth increased by 17.6 years, mean years of schooling increased by 0.3 years and expected years of schooling increased by 4.3 years. Senegal's

GNI per capita increased by about 15.0 percent between 1980 and 2014. Under-5 and infant mortality ratios were respectively estimated at 47 and 42 (per 1000 live births) in 2015. Maternal mortality, was a ratio of 315 for 100,000 living births in 2015. In 2014, the primary school completion rate stood at 61 percent. The primary completion rate has come a long way, but at 72 percent, Senegal is still below the global average for other lower middle-income countries (97%). At middle and secondary school levels, important progress has been made over the last five years in terms of increases in enrollment. However, this has not been accompanied by adequate investment resources, and curricula are not designed to prepare students for scientific or technical studies.

3. Progress towards poverty reduction in Senegal has been mixed in the first decade of the 21st century. Between 2001 and 2005 the national poverty rates fell by 6.9 percentage points (from 55.2 to 48.3%), but stalled between 2005 and 2011. Extreme poverty followed the same trend, as the percentage of people unable to cover their basic food needs decreased only slightly from 17.2 percent in 2001 to 14.8% in 2011. Further, the absolute number of poor increased by 600,000 people over the entire period due to a relatively high level of population growth of 2.5% per year. Increasing human capital is key to increase households' income and further reduce poverty, as it has the potential to help spur economic growth and generate broader economic opportunities for the population. Education is highly correlated with both the quantity and quality of jobs, and appears to be the single most effective asset associated with households' emergence out of poverty and reduced likelihood of falling into poverty. However, the educational levels of the workforce, particularly youth, is low despite recent improvements. In 2011, 62 % of the employed workers and 45 % of those aged 15 to 29 years had no education. Unless the lack of human capital is effectively addressed, the low educational endowments of the next generations will be a severe constraint to eliminating poverty.

4. After experiencing lackluster growth of 3.3% since 2006, growth began to improve in 2014, and according to the government's recent estimates was 6.5% in 2015 and estimated to be 6.4% in 2016. The 2015 outcome reflected a bumper agricultural season. Senegal benefited from lower international commodity prices, and good rainfall, which combined with government efforts, boosted agricultural value added by around a third. The higher growth also reflects good performances in industry and services, as the economy benefited from various developments including the implementation of the Plan Senegal Emergent (PSE), strengthened trade with Mali, and falling oil prices. There is a clear consensus among key players that to achieve the PSE growth targets, Senegal needs to accelerate reforms to encourage small and medium enterprises (SMEs) and foreign investment, continue to downsize the government, and implement some difficult structural reforms in energy, transportation, and agriculture.

5. Relatively strong macro fundamentals underpin the reform and expenditure program. The government budget is increasing by 5.4% in 2016, which is roughly equivalent to 35% of GDP. There is a modest fiscal deficit of 4.2% of GDP predicted for 2016, down by 0.6 percentage points compared to 2015. Revenue collection is projected to improve in 2016 to reach 22.3% of GDP, up from 21.6% in 2015. Securing the revenue base is an important objective for the authorities to preclude future increases in borrowing or budget deficits. The immediate priority is to increase tax mobilization through continued capacity building and modernization of tax administration, as well as the rationalizing of spending related to wages and salaries. In addition, a decrease in the current expenditure to total expenditure ratio from 80% in 2015 to 75% in 2016 will contribute to the reduction of the deficit while allowing for an increase in the investment ratio and for the development of the social safety net.

Sectoral and Institutional Context

6. The Government of Senegal has sought to improve its investment climate and recently the institutional setting of the extractives sector is under review. The Ministry of Energy and Renewable Energy Development is the entity responsible for the implementation and monitoring of government policy for the hydrocarbons sector. Two agencies are in charge of monitoring the exploration and exploitation of hydrocarbons in Senegal: Hydrocarbons Directorate (DH) of the Ministry of Energy and the Renewable Energy Development, and the Oil Company of Senegal (PETROSEN), a limited liability company with majority public ownership (99% owned by the Government), created in May 1981. The January 8, 1998 Petroleum Code and its implementing decree (No. 98-810 of 6 October 1998) govern the prospecting, exploration, exploitation and transportation of hydrocarbons and the fiscal regime of these activities. An exercise to review the code is now underway. With regards to the mining sector, the Ministry of Industry and Mines is responsible for the implementation and monitoring of government policies. In 2013, the Directorate of Mines and Geology (DMG), was in charge of monitoring exploration operations and exploitation of minerals in Senegal. DMG has several divisions including the Centre for Documentation and Mining Cadastre (CDCM) which is an information center covering all the geological and mining data about Senegal. The November 24, 2003 Mining Code and its implementing decree (No. 2004-647 of 17 May 2004) govern the sector's activities. A code revision exercise was initiated in 2013.

7. The Government of Senegal (GoSN) declared its interest in becoming an Extractive Industries Transparency Initiative (EITI) Candidate country in July 2012 and submitted an EITI Candidature application in July 2013. The EITI- National Committee (EITI-NC) was confirmed by Presidential Decree in June 2013. The decision to join the Extractive Industries Transparency Initiative (EITI) in this context symbolizes the ambition of Senegal to make good governance a reality in the management of public affairs and its intention to make the extractive sector an engine of economic growth. Senegal has also expanded the scope of the EITI reporting to include the reconciliation of payments from quarrying companies. The first EITI report was due in October 2015 with expected validation by October 17, 2016. In accordance with these commitments, the first EITI report of Senegal was published in October 2015 (covering the year 2013). As is common with early EITI reports, Senegal's first report does not contain all the information required to become compliant with the EITI standard. However, it provides a particularly important assessment of the actions that should be undertaken to enable the country to improve the level of transparency in its extractive industries in order to meet the EITI standard by October 2016.

8. According to 2013 EITI report, Senegal's extractives sector contributed about USD 82 million to the government in 2013 mainly from the mining sector with a small contribution from the oil and gas sector. The report cites Senegal as a world leader in the production of phosphates but also highlights a missed opportunity in revenues from minerals that remain underground. The commencement of new mining operations such as the mineral sands project in Diogo and the discovery of an oil field off the coast of Senegal in 2014 signal the need to boost reforms for good governance and transparency, and strengthen the Government's capacity to manage the extractives sector. The hydrocarbons sector could transform the country's future in light of large reserves that have been discovered offshore. If strong potential gas indices are found, several scenarios for Senegal's economic development will become feasible. The mining sector on the other hand is touted to be instrumental for achieving Senegal's goal of economic growth at seven percent for the

next decade.

9. The report also indicates that the sector's revenue reconciliation exercise showed a difference of USD 21 million between declarations of tax payments and collected tax revenues. In addition, the reconciliation exercise was done without a list of clearly established significant revenue streams and does not track the sub-streams, nor provides information on revenues that are potentially associated with the transportation of petroleum products, gas and mining, and ignores social spending. Finally, the reliability of the data included in the first report remains a concern. The recommendations of the Independent Administrator (IA) stressed the need to educate reporting entities on the EITI process, to increase the reliability of data, simplify the data collection exercise and to add a few revenue flows into the EITI perimeter. Other recommendations of the report included: (i) the need for a petroleum sector database, (ii) the need for verification/audit of government data, and (iii) the urgent need for awareness and training of reporting agencies. In addition, it will be necessary for the declaring public authorities to develop the human resources and logistical capacity to track and manage the sector in a comprehensive manner. The quality of the next report will be crucial, as the previous report is not adequate to enable the country to be declared compliant with the EITI Standard and that such compliance requires at least one report meeting all the requirements of EITI be published by October 17, 2016. Continued support through the proposed grant is, therefore, an important contribution to ensuring viability and sustainability of the EITI process in Senegal.

10. Mining Sector. Senegal is a world leader in the production of phosphates with an annual production of 1.4 million tons and deposits of heavy metals have the potential to bring the country to the status of world leading producer of ilmenite and zircon, especially on the Grande Cote site which is 50 kilometers north of Dakar. There is an evident contradiction, between the significant production figures of the mining sector and its weight in the economy. The 2013 EITI Report notes that Senegal's current mining code exempts companies in the exploration phase from taxes and from paying customs on equipment, supplies, and imported petroleum products used in exploration. The EITI Report also notes that proposed revisions to the 2003 mining code include moderate increases in royalties, the introduction of a tiered tax system based on the price of minerals and the level of local processing, the introduction of a "take it or lose it" clause requiring mining license-holders to extract minerals in an effort to curb speculation, and provisions aimed at promoting the use of local goods, services and staff.

11. In 2013 a presidential decree established the "Commission de revision des contrats minier et du code minier" (Commission for the revision of mining contracts and the mining code) which is composed of public institution representatives (government, Parliament, etc.) to revise the 2003 mining code. One of the key objectives of the new mining code is to increase revenues to the government from the mining sector. A new mining code will, however, not substitute for a comprehensive strategy for the sector's development which would advance the national development plan (PSE). The growth of the mining sector in Senegal has reinforced the importance of a policy towards the management of artisanal mining, management of social and environmental impacts, increase in geological knowledge of available resources throughout the territory, and mainly the need for better mobilization of revenues from the sector.

12. Oil and Gas Sector. In the last two years, Senegal has made promising crude oil and gas discoveries. In late 2014, Cairn Energy PLC (40 percent), ConocoPhillips (35 percent), FAR (15 percent), and Societe Petroles du Senegal (Petrosen) (10 percent) made two significant discoveries

of deep-sea oil in southern Senegal: FAN-1, an oil finding, and SNE-1, an oil and gas finding. These exploration wells were the first to be drilled along the Senegalese coast in more than 20 years and were the first deep-sea exploration wells. The appraisal program for resources at the SNE location includes a 3D seismic review which was completed in 2015 and four appraisal wells. The first appraisal well, SNE-2, was successfully drilled in January 2016, the second appraisal well, SNE-3, was successfully drilled in March 2016, and the third appraisal well, BEL-1, was successfully drilled in April 2016, thereby confirming that the oil and gas discovery should be commercially viable with a crude oil API of about 32o and daily flows projected to be about 10,000 barrels. Drilling of a fourth appraisal well (SNE-4) will help finalize the resource appraisal of the reservoir which is expected to enclose more than 400 million barrels.

13. In a Council of Minister press release of January 27, 2016, President Macky Sall indicated that a significant ultra-deep discovery of gas had been made in the Guembeul-1 well. The Guembeul-1 discovery is one of the most important in the gas industry in West Africa in several years. In addition, it is especially important for the future development of oil and gas potential in Senegal, where a great many offshore wells have been drilled since the 1950s, with very limited success thus far. The Guembeul-1 well encountered the reservoir target at a water depth of close to 2,700 meters and 5,000 meters of sediment. The presence of gas-water contact has not yet been established. The drilling led to the discovery of a gas column with a depth of over 100 meters. According to Kosmos, there is reservoir continuity as well as static pressure communication between Guembeul-1 and Tortue-1, suggesting a single, large gas accumulation, currently estimated at 17 20 Tcf after a first appraisal well was drilled on the Mauritanian side of the reservoir. While ultra-deep off-shore drilling are costly and challenging, the discovery is far more than three about four times the minimum size required to develop a liquefied natural gas (LNG) export project. It is, therefore, expected that the appraisal program will be able to be financed and completed in a relatively short term.

14. If the oil and gas potential is confirmed during the upcoming testing and follow-up resource certification, developments in Senegal's oil and gas sector have the potential to radically transform the country. Both discoveries could potentially create revenue flows that GoSN can use to finance its economic growth strategy and create direct and indirect employment and other local content, as well as to fuel shared and equitable growth. However, Senegal is also in a position of experiencing a potential "resource curse" that could negatively affect the country's economic performance and the associated risks of violent conflict and increased rent seeking behavior. Unless effectively managed, the sector's contribution to the economy could lead to a "paradox of plenty" rather than growth, shared prosperity, and poverty reduction. Therefore, political decision-making rooted in good governance principles of transparency and accountability with EITI as a tangible tool is critical more than ever before among GoSN's other policy and institutional considerations in the short term future.

Relationship to CAS/CPS/CPF

15. The implementation of EITI would support GoSN's efforts for improving governance and enhancing transparency in the mining and oil and gas sectors. Through the implementation of EITI, the government can demonstrate its adherence to an internationally recognized standard and practices of good, open and responsible governance. Greater transparency in production data, licenses, and payments and revenues can boost prospective investors' confidence and enhance competition. This could support Senegal in consolidating its credibility with international public and

private partners.

16. The proposed project is in line with and supports the World Bank Group's Country Partnership Strategy (CPS) for Senegal (FY13-17) (Report No. 73478-SN). The CPS supports Senegal's efforts to pursue a higher growth and shared prosperity path over the medium-term. The CPS is built upon one foundation and two pillars, as follows:

- Foundation: strengthening the governance framework and building resilience;
- Pillar 1: accelerating inclusive growth and creating employment; and
- Pillar 2: improving service delivery.

17. The grant and implementation of EITI contributes to the governance of the extractives sector and enhancing the overall transparency in the extractives sectors. The project, therefore, directly contributes to the foundational pillar of the CPS "improving governance and strengthening resilience" through increased accountability in the public sector. Further, the EITI framework facilitates dialogue between civil society and the government through the EITI Multi-Stakeholder Group (MSG), known in Senegal as the EITI- National Committee (EITI-NC) in Senegal. By helping Senegal implement its EITI agenda, the proposed activity would be a small but important element in support of the Bank's partnership with Senegal.

II. Project Development Objective(s)

Proposed Development Objective(s)

18. The project development objective (PDO) is to assist Senegal in implementing its EITI agenda.

Key Results

19. Progress in achieving the PDO will be measured by the following key results indicators:

- a) Progress of EITI implementation in Senegal as measured by EITI validation completed.
- b) Enhanced capacity of state agencies and operators to comply with EITI disclosure requirements as measured by increased value of revenues reconciled in the EITI reports.
- c) Increased stakeholder engagement in governance and accountability of the extractive industries as measured by follow up action plans to address EITI report's recommendations are developed and agreed by the EITI-NC annually.

III. Preliminary Description

Concept Description

20. The GoSN has taken a strong ownership of the EITI process and other stakeholders (civil society, industry, parliamentarians) are showing interest in advancing governance and accountability in the extractives sector. EITI-NC in Senegal has started to play a regional leadership role and facilitator for the adoption of extractive transparency measures both at the national and the regional levels. For instance, the EITI-NC hosted a meeting of African EITI National Coordinators to discuss the evolution of the Standard and the needs of their respective countries. Further, civil society and private sector stakeholders have successfully established independent constituency groups led by the "Coalition for transparency in extractive industries", a coalition of some 40 CSOs, and the Senegalese Chamber of Mines. These constituency groupings are facilitators of the EITI dialogue but do not represent exclusive organizations monopolizing the EITI mandate, as the members of EITI-NC are drawn from a nationwide pool of stakeholders.

21. Senegal's membership to EITI has allowed a dialogue on the sector's role in the economy. For example, the government has undertaken a review of its mining code which awaits approval by the National Assembly and has expressed its intention to revise the hydrocarbon legislation as well. Recognizing the efforts that remain to be undertaken, EITI-NC has developed an exercise in self-assessment of progress and works closely with an inter-ministerial committee on the achievement of progress expected by October 17, 2016. The efforts made so far are important and recognized as such. H.E. Professor Ismaila Fall, EITI-NC Chair, was elected alternating member of the International Board of EITI, which clearly demonstrates the appreciation of the efforts of EITI-NC to make Senegal meet the international standard of transparency and accountability.

22. The World Bank has supported GoSN since its EITI candidature approval in October 2013 through an initial grant of \$500,000 over two years and an additional funding of \$ 145,000 in July 2015. The quality of the implementation of the previous EITI grant that closed on December 31, 2015 was satisfactory: (i) EITI-NC is fully operationalized; it has developed its internal regulations and established several working subcommittees; (ii) the structure has ensured its sustainability through the development of an interactive website; and (iii) EITI-NC was able to involve several stakeholders, such as the "Parliamentary Network for the Government of Mineral Resources in Senegal", a media network and several networks of civil society. The support increased contributions to the parliamentary debate on the extractives sector policies such as the review of the mining code through a better understanding of industry issues and collaboration with other members of EITI-NC.

23. The Bank has been the main donor for EITI implementation in Senegal. The next largest direct supporter has been the UK Embassy that funded a visit of EITI-NC to the gold mining region of Kedougou. The Government of Canada, Department for Foreign Aid, Trade and Development (DFATD) has indirectly supported EITI by making the production of the first report a condition for budget support; DFATD has also funded some complementary activities such as: (1) a local development project (through SME support) in a major mining region, (2) a West African Economic and Monitoring Union region policy dialogue on the mining sector, (3) a study on mining production data, (4) a study on mining companies' Corporate Social Responsibility programs, and (5) a strategic planning exercise to finalize the multiyear work plan. An ongoing USAID support to civil society engagement in EITI will end in 2016 and there is no plan for a new project.

24. The proposed grant would be a follow-on grant to an EITI Multi-Donor Trust Fund (MDTF) grant (Senegal EITI Implementation Support Project, P131626) which financed the establishment of Senegal's EITI Permanent Secretariat and the first EITI report's preparation and dissemination. The proposed grant is meant to push EITI implementation in Senegal forward and support critical efforts needed to help the country reach EITI compliance. A follow-up grant is needed to ensure the sustainability and mainstreaming of EITI in Senegal.

Project Components

25. The proposed grant comprises four components as follows:

26. Component A: EITI Implementation Support. This component will support the activities essential to EITI implementation and meeting Senegal's obligations as an EITI candidate country to reach compliance. These activities include:

- Annual EITI report for Senegal. Recruitment of an Independent Administrator (IA) in charge of the preparation of one EITI report covering all extractive industries for the calendar year 2014. Building on lessons learnt from the preparation of the first report, it will be important to help operators and state agencies better understand the EITI requirements. The project will thus support advisory services for state agencies and companies operating in the extractives industries to comply with EITI reporting requirements.

- Assessment of the legal and institutional framework as it relates to the licensing and awarding of contracts in the oil, gas and mining sector in collaboration with DH. Recruitment of a consultant to: (i) review the legal and institutional framework in Senegal as it relates to license allocations (EITI requirement 2.2), registration of licenses (EITI requirement 2.3), and disclosure of contracts (EITI requirement 2.4), (ii) assess how the legal and regulatory environment compare to international best practice, and (iii) make recommendations on policy reforms the government can adopt in order to address the gaps and strengthen the sector in this aspect. While this assessment cannot influence reforms in the short-term, the recommendations should be shared with the IA for the 2014 report prior to publication so the findings can be incorporated.

27. Component B: Communication and Outreach. This component will support the communications and outreach plan of the EITI Permanent Secretariat for the first year of project implementation and will include the following activities:

- Dissemination of the first EITI Report Support for the EITI Permanent Secretariat to: (i) publish and disseminate crucial information on EITI implementation through the production of a short video and brochures in order to inform the public on the overall extractives industry, EITI implementation and related events, and (ii) print and disseminate the first EITI report including in the mining regions and through a dissemination workshop in the capital. The workshop will include dissemination of information on the new EITI Standard (2016) and the EITI validation .process.

- Internet and social media activities. Support for the management of a Senegal EITI website and social media accounts that contains information specifically related to the EITI implementation in Senegal as well as wider information on activities related to transparency of extractive industries in Senegal, as well as global news and trends on EITI implementation experiences from other countries.

28. Component C: Project Management. This component will support the costs of three EITI Permanent Secretariat staff (Permanent Secretary, Administrative and Financial Officer, and Database Specialist) and provide support for travel the operating costs related to the work and training of the Permanent Secretariat staff and EITI-NC members of day to day activities carried out by the EITI Permanent Secretariat as well as an audit. GoSN covers the costs of office space and associated utility costs, operation costs associated including office supply, travel costs related to the work of the Secretariat and of EITI-NC members, office maintenance, internet, phone, banking charges, and vehicles and fuel, and will contribute to travel costs related to the work of the Secretariat and of EITI-NC members as needed.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	0.3	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Extractives Global Programmatic Support			0.3

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