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The World Bank

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Report No. 109335-SN

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR

A PROPOSED CREDIT

IN THE AMOUNT OF EURO 54.9 MILLION
(US$60 MILLION EQUIVALENT)

TO

THE REPUBLIC OF SENEGAL

FOR THE

FIRST MULTI-SECTORAL STRUCTURAL REFORMS DEVELOPMENT POLICY FINANCING

May 23, 2017

Macroeconomics and Fiscal Management Global Practice
Africa Region

SENEGAL GOVERNMENT FISCAL YEAR

JANUARY 1 – DECEMBER 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of 30/04/2017)

Currency Unit	=	CFA Franc
US$1.00	=	CFAF 614
US$1		Euro 0.93624192

ABBREVIATIONS AND ACRONYMS

ADIE	*Agence de l'Informatique de l'État* (State Digital Agency)
ADSL	Asymmetric Digital Subscriber Line
ARTP	Regulatory Authority of Telecommunications and Posts
BCEAO	*Banque Centrale des Etats de l'Afrique de l'Ouest* (Central Bank of Western African States)
BoM	Bureau of Operations and Method
BoP	Balance of Payments
CAD	Current Account Deficit
CAS	Country Assistance Strategy
CASE	*Cadre Harmonisé de Suivi-Evaluation* (Harmonized Monitoring and Evaluation Framework)
CER	*Concessionaire d'Electrification Rurale* (Rural Electricity Concessionaire)
CFA	*Communauté Financière Africaine* (African Financial Community)
CFAA	Country Financial Accountability Assessment
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
CRSE	*Commission de Régulation du Secteur de d'Electricité* (Electricity Sector Regulation Commission)
DPF	Development Policy Financing
DPO	Development Policy Operation
EIA	Environmental Impact Assessment
EU	European Union
FCFA	Franc of the African Financial Community
FDI	Foreign Direct Investment
FDSUT	*Fonds de Développement des Services Universels de Télécommunications* (Telecommunication Universal Service Fund)
FSE	*Fonds Spécial de Soutien au Secteur de l'Energie* (Special Energy Fund)
FY	Fiscal Year
GDP	Gross Domestic Product
GGSC	Governance and Growth Support Credit
GHG	Greenhouse Gas
GNP	Gross National Product
GoS	Government of Senegal
GWh	Giga Watt Hour
GRS	Grievance Redress Service
HFO	Heavy Fuel Oil

HIPC	Heavily Indebted Poor Countries
IAS	International Accounting Standards
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INDC	Intended Nationally Determined Contribution
IPP	Independent Power Producers
ISPs	Internet Service Providers
ITU	International Telecommunication Union
JSAN	Joint Staff Advisory Note
kWh	Kilowatt-hour
LDP	Letter of Development Policy
LEAD	*Laboratoire d'Etudes et d'Analyses pour le Développement* (Studies and Analysis Development Lab)
LESDP	Letter of Energy Sector Development Policy
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MOF	Ministry of Finance
MoU	Memorandum of Understanding
MTDS	Medium Term Debt Strategy
MTEF	Medium-Term Expenditure Framework
MW	Megawatt
OFNAC	*Office National de Lutte contre la Fraude et la Corruption* (Nation Anti-Corruption Bureau)
OHADA	*Organisation pour l'Harmonisation en Afrique du Droit des Affaires* (Organization for the Harmonization of Commercial Law in Africa)
OMVG	*Organisation pour la Mise en Valeur du fleuve Gambie* (Organization for the Development of the Valley of River Gambia)
OMVS	*Organisation pour la Mise en Valeur du fleuve Sénégal* ((Organization for the Development of the Valley of River Senegal)
OPTIC	*Organisation des Professionnels des Technologies de l'Information et des Communications* (Organization of Professionals in the Information Techcnology and Communication Sector)
PAP	Priority Action Plan
PDO	Program Development Objective
PEFA	Public Expenditure Framework Assessment
PER	Public Expenditure Review
PFM	Public Financial Management
PNER	*Programme National d'Electrification Rurale* (National Program of Rural Electrification)
PNUER	*Programme National d'Urgence d'Electrification Rurale* (National Emergency Program of Rural Electrification)
PPAs	Power Purchasing Agreements
PRSC	Poverty Reduction Support Credit
PSE	*Plan Sénégal Emergent* (Plan for an Emerging Senegal)

PSI	Program Support Instrument
REER	Real effective exchange rate
ROSC	Report on the Observance of Standards and Codes
SAT3	South Atlantic - 3
SDR	Special Drawing Rights
SENELEC	*Société Nationale d'Electricité du Sénégal* (National Electricity Company of Senegal)
SSA	Sub-Saharan Africa
TTL	Task Team Leader
UNDP	United Nations Development Program
US$	United States Dollars
VAT	Value Added Tax
WAEMU	West Africa Economic and Monetary Union
WBG	World Bank Group

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REPUBLIC OF SENEGAL
FIRST MULTI-SECTORAL STRUCTURAL REFORMS DEVELOPMENT POLICY FINANCING

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Acknowledgments

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SUMMARY OF PROPOSED CREDIT AND PROGRAM

SENEGAL

FIRST MULTI-SECTORAL STRUCTURAL REFORMS DEVELOPMENT POLICY FINANCING

<table>
<tr><td>Borrower</td><td>Republic of Senegal</td></tr>
<tr><td>Implementation Agency</td><td>Ministry of Economy, Finance and Planning</td></tr>
<tr><td>Financing Data</td><td>IDA Credit in the amount of equivalent US$60 million in single currency on standard IDA terms (a maturity of 38 years including a grace period of six years).</td></tr>
<tr><td>Operation Type</td><td>First of three programmatic Development Policy Operations, single tranche.</td></tr>
<tr><td>Pillars of the Operation and Program Development Objective(s)</td><td>The Program Development Objective is to support Government's efforts in (i) strengthening the governance and management of the energy sector to reduce costs, improve reliability and facilitate equitable access; and (ii) enhancing the legal and regulatory framework of the Information and Communication Technology (ICT) sector to promote competition, investment and equitable access.
Pillar 1 - Energy Sector Pillar has three policy areas (i) improving governance of the energy sector; (ii) removing barriers to investment and competition in the energy sector; and (iii) facilitating equitable access to electricity.
Pillar 2 – ICT sector will support two policy areas on (i) improving governance of the ICT sector and (ii) removing barrier to investment and competition in the internet broadband market.</td></tr>
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<tr><td>SENELEC debt cover ratio (EBIDTA/debt service)</td><td>0.54 (2016)</td><td>0.90</td></tr>
<tr><td>Un-served energy (total) per year</td><td>34.1 GWh (2015)</td><td>20</td></tr>
<tr><td>Overall electricity losses as percent of electricity produced</td><td>21% (2014)</td><td>18%</td></tr>
<tr><td>Mix of non-HFO based generation</td><td>10% (2015)</td><td>43%</td></tr>
<tr><td>Share of rural population with access to electricity</td><td>29% (2015)</td><td>35%</td></tr>
<tr><td>Ranking of Senegal with respect to the A.1.02 sub-index of the Network Readiness Index</td><td>81th (2015)</td><td>72th</td></tr>
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</td></tr>
<tr><td>Overall risk rating</td><td>Substantial</td></tr>
<tr><td>Climate and disaster risks</td><td>No</td></tr>
<tr><td>Operation ID</td><td>P159023</td></tr>
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IDA PROGRAM DOCUMENT FOR A PROPOSED DEVELOPMENT POLICY CREDIT TO SENEGAL

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed first credit in a programmatic series of three Development Policy Financing (DPF) operations aims to support Senegal's efforts to strengthen the governance, performance, and inclusion of the electricity and Information and Communication Technology (ICT) sectors.** The proposed series is aligned with Senegal's 2014 development plan "Plan Sénégal Emergent" (PSE) and with the pillars of the current Country Partnership Strategy (CPS)[1]. This first operation is for an amount of US$60 million[2]. The size of the second and third operations will range between US$30-80 million, as amounts may change in response to an evolving economic and institutional context.

2. **Economic growth has been chronically sluggish and volatile in Senegal in the past, but has picked up recently.** Over the past 25 years, gross domestic product (GDP) growth in Senegal has been below the average of Sub-Saharan Africa (SSA) and emerging and developing countries, with substantial annual variations associated chiefly with the country's significant vulnerability to external shocks. Because of relatively weak growth performance and population growth at about 2.8 percent annually in 1990-2015, real GDP per capita has only increased by 17 percent in Senegal since 1990, against 45 percent on average in SSA and 134 percent in emerging and developing countries. Senegal's growth performance has improved recently, with GDP growth reaching 4.3 and 6.5 percent in 2014 and 2015 respectively, and is projected to stay over 6 percent for 2016.

3. **Due to low economic growth, progress in poverty reduction in Senegal has been mixed in the last 15 years.** The poverty rate declined 7 percentage points decline between 2000 and 2005, particularly in urban areas, followed by stagnation until 2011**.** Poverty in Senegal was high at 47.3 percent in 2011, according to the latest official survey. Most of the poor live in rural areas, where poverty is deeper and more severe, and mainly live of agriculture. In urban areas, the poor are mainly unemployed or working in the informal sector, typically in trade. Poverty in urban areas is less deep, and urban poor are more likely to transit out of poverty. Recent data suggest that poverty may have gone down by at least 2 percentage points since 2011 on the back of better economic growth.

4. **The long-term underperformance of the Senegalese economy reflects enduring structural constraints and persistent infrastructure gaps.** The structural constraints arise from weaknesses in sector policies and the business environment, while there are infrastructure gaps including in energy, transport, and communications[3]. While macroeconomic policy has been adequate, limited fiscal space and strict monetary arrangements provide little room to spur growth. Improving the business climate has been a priority for the Government, and Senegal has scored as a top reformer twice recently, but the country still ranks in the lower part of the international rankings on doing business. Improving the country's competiveness by addressing key real sector and infrastructure constraints is therefore

[1] Report No: 73478 SN: WBG Country Partnership Strategy (FY13-FY17) for the Republic of Senegal, January 18, 2013

[2] In accordance with current Republic of Senegal per capita income and IDA17 lending criteria, the credits will be financed under the Single Currency IDA regular credit terms, with 38-year maturity including a six-year grace period. The single currency amount (EUR 54.9 million) will be converted to the final Special Drawing Rights (SDR) amount for commitment authority and country allocation management purposes on the day of project approval. For information, the estimated value of the credit in SDR is SDR 43.8 million.

[3] See Senegal Economic Update, First Edition, December 2014, World Bank.

essential in enhancing the ability of the economy to create productive livelihoods and employment opportunities.

5. **The recent increase in economic growth and the political calendar represent an opportunity to accelerate structural reforms over the next three years.** While Senegal's growth performance has improved, past growth spurts have often been short-lived. The Government is fully aware that to sustain higher growth rates, it needs to accelerate implementation of the structural reforms envisaged in the PSE, which have not advanced much since the Plan's adoption in 2014. In particular, achieving the Government's objective to sustain ambitious growth rates of 7-8 percent and enhance the inclusiveness of the growth process, particularly through more and better paying jobs, will require incisive reforms for enhancing productivity and the competitiveness of the economy. The approval of constitutional amendments in 2016, together with the confirmation of 2019 as the next presidential election date have created some political space for more decisive policy action, which may gradually erode as the election gets closer.

6. **The macroeconomic policy framework is considered adequate for the proposed operation.** Fiscal policy, and the regional monetary arrangements of the West Africa Economic and Monetary Union (WAEMU) are consistent with fiscal stability and a low risk of public debt distress over the medium term, while external balances are assessed to be consistent with projected balance of payments financing. The December 2016 third review of the ongoing International Monetary Fund (IMF) Policy Support Instrument concluded that the macroeconomic situation is stable, with a positive outlook, and a low risk of debt distress.

7. **The program for the proposed development policy operation (DPO) series supports the Government's structural reforms in two areas that are critical for sustaining high and inclusive growth - the energy and ICT sectors.** The World Bank has identified five sectors as critical binding constraints to inclusive growth, namely Energy, Agriculture, Land, Transport and ICT. This DPO series focuses on two sectors where reforms are more advanced. The high cost of energy, and problems with reliability of supply, are widely seen as the most binding constraints to the competitiveness of the Senegalese economy. In ICT, a sector critical to the competitiveness of all other sectors of the economy, Senegal, once a regional leader, has now been falling behind, especially in terms of broadband internet access. The selection of these two sectors for this DPO series, from within the broader set of constraints noted above, reflects the existence of a meaningful package of reforms in these sectors, that can achieve impact, coupled with the ability to be flexible in accompanying a differentiated pace of reform in each sector[4]. There are also synergies between energy and ICT in terms of their impact on inclusive of economic growth.

8. **Under the Energy and ICT pillars of the operation, the ultimate objective of the reforms is to equitably expand the supply and reduce the price of the services, and the operation follows a similar overarching structure for each sector, built around three policy areas**:

(i*) Improving the governance of the sector,* including the corporate governance of public operators, the effectiveness of sector regulation, and the institutional and financial interface between the Government and the operators;

(ii) *Removing barriers to investment and competition in the sectors* by adopting more open legal

[4] For the links between structural reforms and growth, see for instance Anchoring Growth: The Importance of Productivity-Enhancing Reforms in Emerging Market and Developing Economis, Dabla-Norris et al, IMF (2013); Which Reforms Work and Under What Institutional Environment? Prati et al, RES (2013); Growth and Structural Reforms: A New Assessment, Christiansen et al., JIE (2013).

frameworks and strengthening the planning instruments;
(iii) *Facilitating equitable access* by supporting supply and demand in underserved areas.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

9. **Following years of modest and erratic performance, growth accelerated to 6.5 percent in 2015, and is estimated to have remained robust in 2016, as all components of demand have been strong.** From the demand side, all components performed strongly in 2015. Due to its large weight as a share of GDP (around 75 percent of GDP), private consumption remained the most important contributor to growth. Strong private consumption reflects the positive effects on national income of a good harvest and improving terms of trade for Senegal, but this consumption demand has partly been met by higher imports, limiting the contribution to domestic GDP growth. Senegal has also witnessed a strong contribution of exports to GDP growth in 2015, 3.6 percentage points out of the 6.5 percent growth, as exports increased by almost 16 percent in volume (13 percent in value), confirming a pickup in export performance and diversification these past few years. The contribution of private investment to growth, of 1.5 percentage points in 2015, was up from 1.3 in the previous five-year period. In 2016, GDP growth is estimated by the Government to have again exceeded 6 percent. Exports and total investment support this performance as their growth rates may have exceeded the average.

10. **At a sectoral level, the higher growth in 2015 was mainly due to larger contributions from the agricultural and industrial sectors.** In 2015, services – which represent around half of the country's GDP – accounted for nearly a third of growth in GDP, a share similar to previous years thanks to transport and communications, and financial and real estate services. However, the contribution of the primary sector exceeded expectations, contributing nearly 35 percent of overall growth, thanks in part to good rains. This rebound was also supported by programs to promote the production of rice, peanuts and fruits and vegetables. The industrial sector accounted for about 23 percent of economic growth following the good performance of chemical and mining industries, and construction. In 2016, the primary sector is expected to moderate its growth, while growth in the secondary and tertiary sectors remained robust.

11. **The recent improvement in economic growth also reflects incipient structural changes in the economy, which need to be sustained through productivity-enhancing reforms.** The positive terms of trade shock, due mainly to lower prices of Senegal's imports of energy and food, and internal factors such as good rains, explain only part of the recent growth acceleration. Other more structural factors have also been important. An improving exports performance, with export volumes increasing on average 10 percent annually from 2011 to 2016, reflects a more diversified base in agriculture, fishing and mining production, and is an indication of a strengthening of the country's international competitiveness. Similarly, an uptick in the growth contribution of investment is another indication of potentially incipient structural change, which is important to anchor higher GDP growth rates. To sustain these competiveness gains, the country needs to engage in a second phase of reforms that incisively address some of the critical constraints hampering productivity in the real sectors.

12. **Poverty is estimated to have declined somewhat in the past few years, on the back of higher GDP growth, but it is still high and predominantly rural.** In 2011, according to the last official poverty survey, the national poverty rate was estimated at 46.7 percent, with nearly 70 percent of the poor and 84 percent of the extreme poor living in rural areas. Rural poverty incidence was estimated at 57.1 percent in 2011, while urban Dakar had the lowest poverty rate, at 26.1 percent in 2011. In other urban

areas, poverty was 41.3 percent. Nearly 80 percent of paid workers in the bottom quintile operated in agriculture, while the more prosperous worked in the service sector. Since the distribution of welfare is concentrated around the poverty line, a large number of households often find themselves falling into, or deeper into, poverty when hit by negative shocks. The agriculture sector in Senegal is affected by significant volatility in year-on-year sector performance, associated with major impacts from recurrent droughts on the productivity[5] of vulnerable smallholders and pastoralists. As no new household survey has been conducted since 2011, measuring change since then presents challenges. World Bank projections suggest that the monetary poverty rate may have decreased by 3-4 percentage points since 2011, due to higher per-capita growth and good agriculture performance in 2015.

13. **On the external front, the current account deficit (CAD) improved for the third consecutive year in 2015 and is expected to reduce again in 2016, but it remains high.** The CAD reached a 7.4 percent of GDP in 2015 -- compared to 8.9 percent in 2014, – and is estimated to have fallen below 7 percent of GDP in 2016. As Senegal is a net importer of oil and food, the improvement was driven partly by favorable terms of trade, due particularly to the decline in import prices. Also, exports performed strongly in 2015 and 2016, in both volumes and value, driven by improvements in agriculture, fishing and mining, reflecting a gradual strengthening of Senegal's external competitiveness in the past few years. After years of declining world market share, Senegal exports in world trade have started to edge higher. Finally, remittances -- one of the largest sources of external resources for Senegal -- remained at 11.9 percent of GDP in 2015, and would slightly fall in terms of GDP in 2016. The CAD in 2015 was financed by official capital inflows, and low, but slightly increasing foreign direct investment (at an estimated 2.3 percent of GDP), mainly in the extractives sector. The real effective exchange rate (REER) continued to depreciate slightly, as the Euro, to which the FCFA is pegged, depreciated against the US$ and other major currencies, while inflation was kept under control. Recent estimates by the IMF conclude that there is no major misalignment of the REER in Senegal.[6]

14. **On the fiscal front, the Government continued efforts to promote fiscal consolidation and improved fiscal management to rationalize current spending and increase fiscal space for investment**. The overall fiscal deficit gradually declined since 2011, reaching an estimated 4.8 percent of GDP in 2015 (or 7.5 percent of GDP excluding grants), and is expected to have approached 4.2 percent of GDP in 2016. The Government increased both fiscal and tax revenues in 2015, which reached around 25 percent and 20 percent of GDP, respectively. The Government also contained wages and salaries, which remained stable at 6.5 percent of GDP. Lower subsidies (due to lower international oil prices[7]) and controlled expenditures on goods and services are also contributed to reduce expenditures. Despite a nominal increase, the share of capital expenditures stayed at 11.3 percent of GDP in 2015, but are estimated to have reached almost 13 percent of GDP in 2016. Current expenditures remained stable - at about 18.6 percent of GDP in 2015, but are expected to have fallen to around 18 percent of GDP in 2016, thus creating fiscal space for public investment. Efforts were made to improve the selection and implementation of public investment projects, which suffer from significant weaknesses in Senegal. The fiscal deficit was mostly financed by external resources, including both concessional debt from institutional sources as well as bonds issuance in regional markets**.** On the other hand, financing from internal sources declined, as sources such as commercial banking debt diminished during 2015 and 2016.

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[5] Since 1980, the agricultural sector has been subject to at least 11 major production shocks. Erratic rainfall and drought account for approximately 50 percent of crop yield reductions. Pests and diseases account for a further 25 percent (WBG Report No. 96296-SN, 2015).

[6] IMF (2015) Making Senegal a Hub for West Africa.

[7] Lower subsidies will also be obtained as a result of the implementation of the policy decisions supported by this DPO.

15. **At an estimated 56.9 percent of GDP, the public debt ratio increased at a slower pace in 2015, given efforts at fiscal consolidation, but it is projected to have approached 60 percent of GDP by end 2016.** After Senegal reached the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative in 2006, public debt and publicly guaranteed debt to GDP reached 22 percent of GDP. However, since then, the stock of public debt has increased rapidly. The debt to GDP ratio in Senegal is higher than in other WAEMU countries, reaching 56.9 percent of GDP in 2015, and projected to be slightly exceeding 60 percent of GDP in 2016, despite the ongoing fiscal consolidation and high nominal GDP growth, due to assumption of extra budgetary liabilities. Public debt is mainly external, and mostly owed to multilateral creditors on concessional terms. Nevertheless, external public debt service has increased significantly in the past few years, reaching 11 percent of exports in 2015, reflecting a rapidly increasing use of financial market instruments, with Eurobonds launched in 2009, 2011 and 2014 at reasonable conditions.[8] A new Eurobond issuance is expected in the second quarter of 2017. The amount has not been defined but would attain between US$500 million and US$750 million.

16. **The fixed exchange rate and declining international commodity prices, together with BCEAO's prudent monetary policy, contributed to maintaining strong price stability in Senegal**. As a member of the *Banque Centrale des Etats de l'Afrique de l'Ouest* (BCEAO), Senegal's currency (the Franc CFA) is pegged to the Euro and its convertibility is backed by the French treasury. In this context, the BCEAO follows an inflation targeting monetary policy strongly focused on maintaining low and stable inflation in the region with a long-term objective of 2 percent. BCEAO's main monetary instrument is Open Market Operations oriented to influence bank credit to the private sector. Thanks to prudent monetary policy as well as lower prices for imported energy and food, inflation was close to zero in 2015 and reached 1.5 percent in 2016. The fixed exchange rate and prudent monetary policy implies a strong nominal anchor for the economy in Senegal. However, it also implies that in the presence of an external shock, the bulk of the adjustment effort must be absorbed by fiscal policies, as the exchange rate cannot adjust and the monetary policy loses autonomy.

17. **The financial system remains relatively sound.** The banking system, which represents the bulk of the financial system in Senegal, is still quite shallow and concentrated, and operates predominantly in urban areas, although there are also numerous micro-finance institutions. Only around 17 percent of surveyed adults in Senegal report owning an account at a formal financial institution. Domestic credit to the private sector by banks continued to increase, reaching 34 percent of GDP in 2015– with a similar value expected for 2016. However, credit to the private sector remains concentrated on short-term loans (less than one year). World Bank credit continued to be predominantly oriented towards the service sector, particularly tourism, transport, insurance and real estate, and dominated by short-term loans (less than one year). Overall the financial sector is considered sound, despite a high level of non-performing loans (18.9 percent of total loans in June 2016) which is expected to decline to 11 percent, under the guidance of the National Financial Stability Committee that has been created in 2015 by the Ministry of Finance.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

18. **Economic prospects are promising for Senegal in the medium-term, but with downside risks and highly reliant on the Government's ability to accelerate economic reforms**. GDP growth is projected to stay above 6 percent over 2017-2020, as the primary sector continues its strong growth – due mostly to agriculture– while the secondary sector accelerates as extractives continues its lift,

[8] The interest rate on the 2014 Eurobond emission was 6.25 percent.

followed by chemicals and construction, progressively replacing the primary sector as the main growth driver. Services would maintain robust growth – though below the average –due to commerce, transport and communication, real estate and financial services. From the demand side, exports would continue being a key growth driver following their good performance in the past few years, but total investment would accelerate in line with PSE investments and reform program, surpassing 25 percent of GDP. Inflation is expected to remain contained at 1 to 2 percent, thanks to cautious fiscal policy, fixed exchange rate and prudent monetary policy at the regional level. However, uncertainties on growth prospects remain, notably in light of the country's vulnerability to exogenous shocks, including the high dependency of agriculture output on levels of rainfall which have fluctuated in recent years.

19. **The Government has indicated its commitment to maintain a cautious fiscal policy stance, geared towards containing the increase in debt, while creating more fiscal space for investment**. Under the Government's medium-term fiscal plan, the overall deficit will gradually decline, to fall under 4 percent of GDP in 2017 and converging to 3 percent in the next few years, as per the WAEMU convergence criteria. The challenge going forward will be to balance the need to increase investments in infrastructure and social spending, as planned under the *Plan Sénégal Emergent,* with the Government's objectives of reducing deficits and bringing the debt back to a declining trend. This will require creating additional fiscal space through tighter control and rationalization of current expenditures, while improving the quality and management of public investment projects. Current expenditures are expected to fall from 18.6 percent of GDP in 2015 to 15.7 in 2018 as the wage bill remains tightly under control (passing from 6.5 percent of GDP in 2015 to 6.1 in 2018), expenditures in goods and services drop from 4.8 to 3.7 percent of GDP and transfers to other public institutions also fall from 2.7 to 2.3 percent of GDP.

20. **Senegal is ranked at low risk of debt distress, and, after many years of steady increase, public debt should start declining as a ratio of GDP in 2017, according to the Government's fiscal plans**. If the ongoing fiscal consolidation continues and high economic growth is maintained, the Government expects the ratio of public debt to GDP to start declining gradually from 2017 onwards, However, if off-budget treasury operations cannot be controlled, this reduction may be postponed to 2018. All debt burden indicators remain below thresholds in the baseline scenario. Under stress scenarios, debt service-to-revenue ratios show two spikes under stress scenarios that reflect the bullet repayment of the 2011 and 2014 Eurobonds, which are due, respectively, in 2021 and 2024. However, these breaches are small and temporary, reflecting only liquidity issues. Senegal's access to financial markets is expected to remain adequate in the coming years, but tightening of global financial market conditions may affect interest rates.[9] The risk of debt distress is expected to remain low, provided that the Government continues to adhere to its cautious fiscal stance, the reforms under the PSE are accelerated, and recourse to non-concessional borrowing is limited. Building on ongoing reforms, further improvements in the country's debt management institutional capacity will be important to help manage the public debt portfolio and contain rapidly-increasing debt servicing costs. Ongoing reforms include enhancing the Medium Term Debt Strategy (MTDS), which is regularly prepared since 2012, and improving internal coordination, in particular focusing on the role of the Public Debt National Committee.

21. **The depreciation of the CFA Franc with respect to the US$ remains a factor to be carefully taken into account going forward for debt management purposes**. The Government is engaged on this

[9] Standard & Poor's credit rating for Senegal stands at B+ with stable outlook. Moody's credit rating for Senegal is Ba3 with a stable outlook.

issue and a recent joint WB - IMF MTDS mission in January 2017 discussed measures and mechanisms to manage exchange rate risk, suggesting a strengthening of monitoring mechanisms. Finally, the share of non-resident holding of domestic debt is relatively low and stable at around 5-6 percent of GDP – mostly concentrated in the WAEMU – and, given the difference between the current debt ratios and the thresholds, it does not represent a significant source of risk, even though it is an element to consider and assess on a regular basis, especially in times of uncertainty on global financial markets.

22. **On the external front, the current account deficit is projected to stabilize at around 7 percent of GDP in the following years.** Growing exports would reduce the trade deficit, despite higher imports linked to strong domestic demand. Export growth is expected to be sustained, averaging 6 percent per year in 2016-2020, thanks to structural reforms and a favorable global environment. However, both grants and remittances would slowly fall as a share of GDP (remittances would still represent around 10 percent of GDP in 2018), thus neutralizing the enhancing trade balance. The services and incomes component of the current account would stabilize at around 4 percent of GDP in the following years, with interests on public debt fluctuating around 1.5 percent of GDP. As a result, the current account deficit would fluctuate around 7 percent of GDP in the following years. This gap would be covered by external public finance and grants. Possible access to capital markets and increasing foreign direct investment (FDI) would help capture additional resources.

23. **External vulnerabilities should remain contained at the regional level – despite recent fall of regional reserves – and thanks to the currency convertibility guarantee provided by the WAEMU mechanisms**. Foreign exchange reserves at the regional level fell from at 4.5 months of imports in 2015 to 3.7 months in 2016. The CFAF benefits from a guarantee of convertibility by the French Treasury, which provides an important macroeconomic buffer to the WAEMU member countries in case of significant shocks, and has helped to limit downward pressures on the currency over the years. This guarantee is provided as per the WAEMU agreement with the French Treasury, in exchange for which at least 50 percent of the BCEAO's foreign exchange reserves are deposited with the French Treasury, and 20 percent of the BCEAO's liabilities must be covered by foreign reserves.

24. **The economy's positive prospects depend heavily on the Government's ability to sustain and accelerate structural reforms to address persistent supply-side constraints, while maintaining fiscal discipline.** The competitiveness of the Senegalese economy has been hampered by structural constraints arising from vulnerabilities in the business environment, human capital shortages, and persistent infrastructure gaps, including in the energy, transports, and communication sectors. Building on the recent signs of improved economic dynamism, enhancing competitiveness and growth will require accelerating and deepening ongoing structural reforms to improve the business environment for private enterprises, attract private investment, and raise productivity. Recent oil and gas discoveries could stimulate an inflow of FDI in the future. However, diversifying FDI destinations and proactively attracting efficiency-seeking FDI through improvements in the country's investment climate will also be important to foster integration into global value chains and contribute to productivity gains. The business environment across all sectors in Senegal is also affected by a number of governance deficiencies, particularly the prevalence of strong vested interests and rent-seeking behaviors, which may weigh on public and private investment efficiency and on the pace of structural reforms. On the fiscal side, accelerating public investment may create tensions with the Government's current fiscal discipline in a context of relatively high – though still sustainable – public debt. Lastly, despite efforts to enhance the quality of public investment, the structural impacts from implementing the PSE – for instance, in energy supply or land reform – could be lower than expected, thus affecting longer term growth.

25. **Downside risks also arise from Senegal's vulnerability to climatic and external shocks and growing terrorist threats in the region.** Economic headwinds from Senegal's major partners, particularly China and the European Union (EU), may significantly affect exports, investment, and remittances in the short to medium term. In addition, continued weaknesses in the Euro Zone may weigh on remittances and investment flows to Senegal. Tightening of global financial markets, characterized by a reduction in global liquidity, capital outflows from emerging markets, and rising interest rates, may also adversely impact Senegal. This may negatively impact the economy and lead to unanticipated fiscal pressures which would need to be carefully managed. Furthermore, current regional and international terrorist threats may weigh on fiscal balances, investment and growth in the next few years. Fears of terrorist attacks in West Africa have been growing after the recent events in Mali, Burkina Faso and Cote d'Ivoire. As a participant in anti-terrorist coalitions, Senegal is a direct target of jihadist groups. The Government has taken proactive preventive measures, but the threat remains high. On the domestic front, potential climatic shocks may affect agricultural production and incomes.

26. **While recognizing these potential downside risks, Senegal's macroeconomic policy framework is deemed adequate for the proposed operation.** The macroeconomic framework is considered sustainable over the medium-term, given that fiscal policy and the regional monetary arrangements of WAEMU are consistent with fiscal stability and a low risk of public debt distress, while external balances are assessed to be consistent with projected balance of payments (BoP) financing. The third review of the ongoing IMF Policy Support Instrument, approved in December 2016, underlined the country's macroeconomic stability, high growth, and positive outlook, while confirming the low risk of debt distress.

Table 1 Senegal – Key macroeconomic indicators

Senegal: Key Macroeconomic Indicators, 2013-2021									
	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Est.	Projections				
				(Annual percentage change)					
National income and prices									
GDP at constant prices	3.5	4.3	6.5	6.6	6.8	7.0	7.1	7.1	7.1
Consumer prices									
Annual average	0.7	-1.1	0.1	1.1	1.7	1.8	1.8	1.8	1.8
End of period	-0.1	-0.8	0.4	1.5	1.8	1.8	1.8	1.8	1.8
External sector									
Export, f.o.b (CFA francs)	0.1	3.5	13.4	2.8	10.7	9.6	10.7	11.3	8.7
Import, f.o.b (CFA francs)	0.8	-1.1	3.3	2.4	8.9	9.2	9.8	7.6	7.5
Current account balance incl. grants) (% of GDP)	-10.9	-8.9	-7.4	-6.5	-6.9	-7.0	-7.2	-6.9	-6.8
Terms of trade ("-" = deterioration)	-5.3	1.8	7.9	1.2	4.3	0.9	-0.1	1.3	-0.6
Nominal effective exchange rate	4.1	2.5	…	…	…	…	…	…	…
WAEMU gross official reserves (Billion US$)	13.2	12.4	…	…	…	…	…	…	…
Government financial operations									
Revenue	20.1	24.8	25.1	26.4	25.0	24.7	24.6	24.5	24.6
Grants	2.6	3.3	2.9	2.7	2.6	2.7	2.7	2.6	2.5
Total expenditure	28.2	29.8	29.9	30.7	28.7	27.7	27.6	27.5	27.6
Net lending/borrowing (Overall balance)									
Excluding grants	-8.0	-8.5	-7.7	-7.0	-6.3	-5.7	-5.8	-5.7	-5.5
Including grants	-5.5	-5.0	-4.8	-4.2	-3.7	-3.0	-3.0	-3.0	-3.0
Primary fiscal balance	-3.9	-3.3	-2.8	-2.4	-1.6	-0.8	-0.8	-0.8	-1.0
Total public debt	47.1	54.2	56.9	59.3	57.3	56.0	54.9	53.3	52.5
Domestic public debt 1/	14.4	13.9	15.8	19.3	18.6	18.5	18.4	17.5	17.4
External public debt	32.7	40.3	41.1	39.9	38.7	37.5	36.5	35.8	35.1
External public debt service									
Percent of exports	16.0	7.4	11.0	8.9	8.8	9.4	9.4	9.2	16.1
Percent of government revenue	9.2	10.4	15.7	11.0	11.6	12.4	12.5	12.2	19.9
Memorandum item									
Gross domestic product (CFAF billions)	7,308	7,583	8,078	8,763	9,528	10,392	11,319	12,335	13,451

Sources : Senegal authorities; and IMF staff estimates and projections.

1/ Domestic debt includes government securities issued in local currency and held by WAEMU residents.

Source: IMF, 2017

Table 2. Senegal – Key Fiscal Indicators

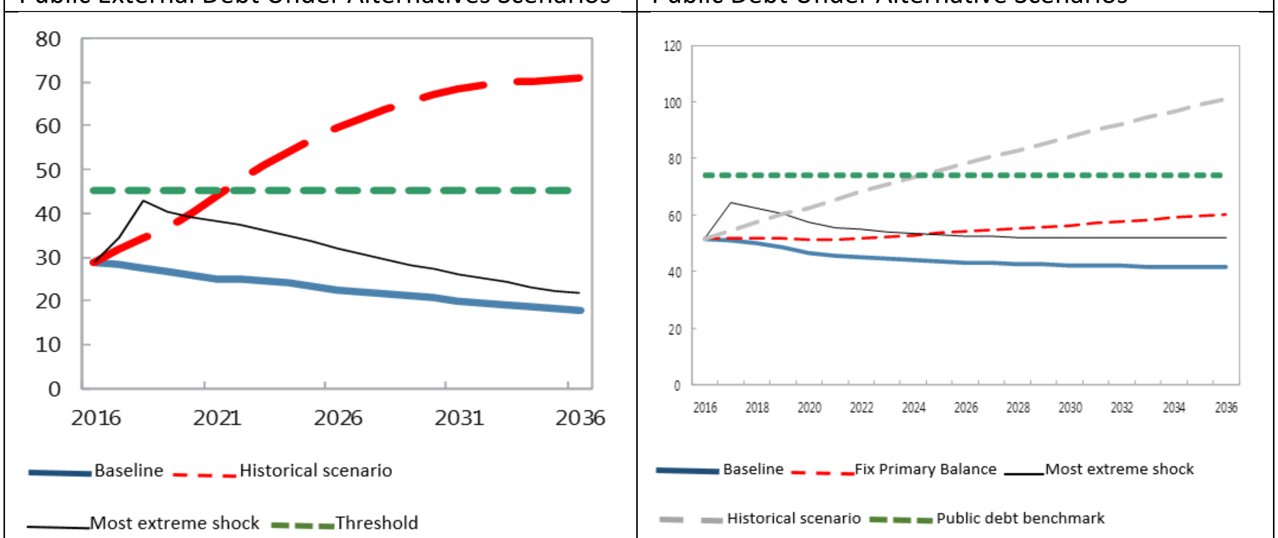
Senegal: Key Fiscal Indicators, 2013-2021	2013*	2014	2015	2016	2017	2018	2019	2020	2021
				Est			Projections		
			(Percent of GDP, unless otherwise indicated)						
Revenue	20.1	24.8	25.1	26.4	25.0	24.7	24.6	24.5	24.6
Taxes	18.4	19.6	19.8	20.3	20.8	20.4	20.4	20.5	20.7
Grants	2.6	3.3	2.9	2.7	2.6	2.7	2.7	2.6	2.5
Other revenue		1.9	2.4	3.4	1.6	1.6	1.5	1.3	1.4
Expenditure	28.2	29.8	29.9	30.7	28.7	27.7	27.6	27.5	27.6
Current expenditure	17.3	18.5	18.6	17.8	16.0	15.7	15.7	15.4	15.4
Compensation of employees	6.4	6.5	6.5	6.5	6.2	6.1	6.1	6.0	6.1
Use of goods and services	4.8	4.8	4.8	3.8	3.7	3.7	3.9	4.0	4.0
Interest	1.5	1.7	2.0	1.9	2.1	2.2	2.2	2.2	2.0
Foreign		0.8	1.6	1.0	1.0	1.0	1.0	1.0	0.9
Domestic		0.9	0.4	0.9	1.1	1.2	1.2	1.2	1.1
Subsidies		0.8	0.6	0.5	0.5	0.4	0.3	0.3	0.4
Grants (current excl. FSE)		2.3	2.7	3.2	2.6	2.3	2.0	2.0	2.1
Social benefits		0.4	0.7	0.0	0.1	0.1	0.1	0.1	0.1
Other expense		2.0	1.3	1.8	0.9	0.9	1.1	0.8	0.8
Capital expenditure		11.3	11.3	12.9	12.7	12.1	11.9	12.1	12.2
Net lending/borrowing (Overall balance)		-5.0	-4.8	-4.2	-3.7	-3.0	-3.0	-3.0	-3.0
Financing		-5.0	-4.8	-4.2	-3.7	-3.0	-3.0	-3.0	-3.0
Net acquisition of financial assets		1.4	-0.5	0.2	0.1	0.1	0.1	0.1	0.1
Domestic		1.5	-1.1	0.2	0.1	0.1	0.1	0.1	0.1
Net incurrence of liabilities		6.4	4.2	4.4	3.8	3.1	3.1	3.1	3.1
Domestic		-1.3	-0.5	0.4	-0.3	0.2	-0.4	0.7	0.4
Foreign		7.8	4.8	4.0	4.1	2.9	3.6	2.4	2.6
Memorandum items:									
Nominal GDP	7,308	7,583	8,078	8,763	9,528	10,392	11,319	12,335	13,451

Sources : Senegal authorities; and IMF staff estimates and projections.
* There are fewer statistics for 2013 given the difference of the definition of the aggregates between 2013 and other years.

Source: IMF, 2017

Figure 1. Debt Sustainability analysis

Public External Debt Under Alternatives Scenarios | Public Debt Under Alternative Scenarios



Sources: Country authorities; IMF staff estimates and projections | Sources: Country authorities; IMF staff estimates and projections

Table 3. Balance of Payments Financing Requirements and Sources, 2015-2019 (in millions of US$)

	2015	2016	2017	2018	2019
BOP financing requirements and Sources					
Financing requirements (US$)	-1645.5	-1760.7	-1927.1	-2079.6	-1908.6
Current account deficit	-1586.6	-1701.2	-1791.4	-1868.0	-1737.0
General government amortization (excl. IMF)	-117.0	-175.5	-256.4	-319.0	-375.7
Private (net)	58.0	116.0	120.7	107.4	204.1
Assets	-231.9	-159.5	-133.0	-124.1	-63.1
Private liabilities	289.9	275.5	253.7	231.5	267.2
Financing Sources (US$)	1645.5	1760.7	1927.1	2079.6	1908.6
FDI and portfolio investments (net)	601.7	657.9	804.8	925.3	800.7
Portfolio investment	275.4	293.3	395.0	463.2	287.8
Direct investment	326.3	364.6	409.8	462.0	512.9
Capital grants	420.5	446.6	477.2	511.3	538.9
General government disbursement (excl. IMF)	722.9	745.8	783.0	780.9	702.5
Change in reserves	-61.9	-49.4	-99.5	-99.2	-107.7
IMF credit (net)	-37.7	-40.2	-38.4	-38.8	-25.8

Source: IMF, 2017

2.3 IMF RELATIONS

27. **The ongoing Policy Support Instrument with the IMF aims to consolidate the fiscal balance while supporting structural reforms to boost growth (Annex 3).** The Third review of the Policy Support Instrument, approved in December 2016, concluded that the Program performance through September 2016 has been satisfactory, as most assessment criteria, indicative targets and structural benchmarks were met[10]. The macroeconomic situation is assessed as stable with growth expected to exceed 6 percent in 2016, while inflation remains low. The fiscal deficit, which has been declining steadily from 5.5 percent of GDP in 2013, is projected to reach 4.2 percent of GDP in 2016. The current account deficit is projected to narrow down to 6.5 percent of GDP in 2016, driven by lower oil prices and improved export performance. The IMF estimates that the ongoing implementation of the PSE helped Senegal move to a higher growth path, but sustaining growth requires steadfast implementation of reforms to attract investment and increase competitiveness. Also, the financial sector should play a stronger role in supporting growth. According to the review, authorities remain committed to preserving macroeconomic stability, increasing fiscal revenue collection and rationalizing consumption, while the country still remains at low risk of debt distress. Continuous fiscal consolidation and sustained growth would maintain this outcome.

[10] The IMF staff completed the Fourth Program Support Instrument (PSI) review in April 2017. The review underlines that the macroeconomic context remains strong as inflation is low and the fiscal and external deficits reduced in 2016. The PSI program remains satisfactory as all targets have been met and structural benchmarks present significant progress. Outlook remains favorable as growth would again exceed 6 percent in 2017. This requires continued fiscal consolidation, strengthened public financial management, and improvement of the business climate. On the other hand, the IMF identified that public debt was higher than expected, given fiscal consolidation and high growth. This is linked with treasury operations affecting creditor deposits of public agencies and advances (lending) to the postal service. These operations may attain around 3-4 percent of GDP in 2016 but efforts would help reducing them to around 1.6 percent of GDP in 2017.

3. THE GOVERNMENT'S PROGRAM

28. **In 2014, the *Plan Sénégal Emergent* (PSE, 2014-2035) was adopted by the Government as its strategic framework for the long-term economic and social development of Senegal.** Over the shorter term, the PSE is articulated into five-year priority action plans (PAPs). The first PAP covers 2014-2018 period, which provide more granularity on implementation. The PAP identifies strategic areas, lines of action, projects and programs, within a budget framework, outlining the investments to be made during the five-year period.

29. **The three strategic areas of the PSE are**:

(i) transforming the structure of the economy to support strong and sustainable growth,
(ii) expanding access to social services and social protection, and preservation of conditions for sustainable development, and,
(iii) enhancing good governance through institutional strengthening and promoting peace, security and African integration.

30. **In energy, the Government's policy has been shaped by the 2012 Letter of Energy Sector Development Policy (LESDP), which has been integrated into the PSE**. The LESDP outlines ambitious objectives to improve the sector's performance in the medium- to long- term. The objective of the policy program is to improve the reliability and affordability of access to electricity services in a sustainable manner by: (a) ensuring energy security and increasing energy access for all; (b) developing an energy mix by combining thermal generation, bioenergy, and renewables, and taking advantage of the opportunities from regional interconnections to access low cost, hydropower; (c) continuing and accelerating the liberalization of the energy sector by encouraging independent production and sector institutional reform; (d) improving the competitiveness of the sector to lower the cost of energy and reduce sector subsidies; and (e) strengthening sector regulation.

31. **The Government is also focused on expanding rural electrification**. The PSE set very ambitious targets of achieving a 60 percent electrification rate by 2017, with a minimal rate of 30 percent per department, and reaching universal access by 2025. To achieve this, in February 2014, the Government approved a National Program for Rural Electrification (*Programme National d'Electrification Rurale* - PNER) that encompasses all existing rural electrification initiatives and programs. In rural areas, six concessions (out of ten) have been granted to private sector operators (CER, or *Concessionaire d'Electrification Rurale*), which are contracted to carry out priority investments with government financial support, so as to increase the number of connections in underserved rural areas. However, *Société Nationale d'Electricité du Sénégal* (SENELEC) still remains the major electricity service provider in rural areas, covering 96 percent of clients compared to CERs' 4 percent. To accelerate implementation of the PNER, a sub set of priority investments were identified for the period 2016 and 2017 and included in an urgent program, the *Programme National d'Urgence d'Electrification Rurale* (PNUER).

32. **ICT is one of the six key foundations of the *Plan Sénégal Emergent* (PSE), which includes four strategic objectives for the sector:**

- Establishing an enabling legal, regulatory and institutional environment for the development of a digital ecosystem.
- Implementing a national broadband plan, building inter alia on an innovative use of frequencies and leveraging on the digital dividend resulting from the digital switch over.
- Promoting the integration of digital technology in the public and private sectors, particularly amongst businesses, and of digital culture within the population through training and spreading knowledge.

- Developing digital business centers in university towns, constituting business parks equipped with adequate telecommunications infrastructure to catalyze growth in jobs from exports and Business Process Outsourcing (BPO) activities.

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

Link to Government Program

33. **The program supported by this programmatic series is anchored in the first pillar of the PSE, which targets strong and inclusive economic growth.** This pillar of the PSE represents the main priority of the Government, as reflected in the allocation of PSE resources.[11] Under this pillar, the Government seeks to achieve reforms and promote investment in key, real sectors of the economy to unlock inclusive economic growth.

34. **The series will focus on reforms in the energy and ICT sectors, which the PSE identifies as foundational blocks of competitiveness and inclusive growth in Senegal.** The PSE identifies six foundational elements, including energy reform and ICT development. Electricity is cited as a major constraint by 50 percent of firms (2016 Senegal ICA), the third most important constraint after informality and access to finance. Electricity is also critical to inclusiveness and poverty reduction, as electricity access in rural areas, where two thirds of the poor live, remains very low. Similarly, Senegal's rapidly growing ICT subsector has enormous potential as an engine of growth and as a mean to boost economy-wide productivity and enhance inclusiveness. Telecommunications alone represents about 6 percent of gross national product (GNP), and its annual growth rate has averaged 11.3 percent since 2006. The sector contributes about 12.6 percent of total tax revenue. Recent advances in ICT, including cellular communications, mobile banking, and wireless broadband internet, have far-reaching implications for competitiveness, growth, job creation and shared prosperity.

Operation Description

35. **This Development Policy Finance Credit is designed as the first operation (DPO1) in a programmatic series, which will include three annual development policy financing operations over the period FY17-FY19.** The series envisages credit amounts in the US$30-80 million range annually, depending on the depth of the Government's reform program and the Government's financing needs. This first operation is for an amount of US$60 million. The proposed programmatic design of the series will allow the World Bank Group (WBG) to accompany the Government's efforts over the next three years in support of well-defined medium-term objectives, while retaining some flexibility in the specific content of each operation in the series.

36. **The proposed timeframe of the series is well aligned with the Government's political horizon, as the next presidential elections are planned to take place in 2019.** Building on the President's victory in a constitutional referendum in 2016, the Government is committed to make use of the next three years leading to the presidential elections to implement important structural reforms included in the PSE. As reforms progress, the WBG will provide the necessary analytical work, technical assistance and

[11] In terms of allocation, this pillar captures two thirds of total PSE resources.

associated policy dialogue to support the Government decision and implementation process over the timeframe of the series. In light of the political calendar, the series will seek to support measures that are expected to bring about significant results over the timeframe under consideration, but also set the stage for reforms that may take place after the presidential elections, particularly in the energy sector.

37. **Under the Energy and ICT pillars, and in line with the Government program, the series has been designed around a common overarching policy structure.** In both sectors, the ultimate objective of the reforms is to expand supply and lower cost for improved and more equitable access to the services. Under each of the two pillars, the policy agenda has been structured around the following common three areas and operational objectives**:**

- *Improving governance of the sector*, including corporate governance of public operators, the sector regulatory environment, and the institutional and financial interface between the Government and the operators;
- *Removing barriers to investment and competition* by adopting more open legal and regulatory frameworks and strengthening sector planning instruments;
- *Facilitating equitable access* by supporting supply and demand in underserved areas.

38. **The Program Development Objective (PDO)** of the series is to support Government's efforts in (i) strengthening the governance and management of the energy sector to reduce costs, improve reliability and facilitate equitable access; and (ii) enhancing the legal and regulatory framework of the ICT sector to promote competition, investment and equitable access.

Lesson learned

39. **The design of the DPF series integrates the lessons from previous DPF operations in Senegal.** The experience from previous DPFs underscores the need to design a program that balances a focused and realistic reform agenda with enough flexibility to adapt to the nature and pace of political decision making in Senegal. In particular, the three-year time frame and the flexible focus on selected reforms in the two sectors under each operation in the DPF series are meant to ensure both realism, impact and adaptability to the realities of policy making in Senegal. The design of the program provides scope to prioritize areas with strong Government ownership and technical maturity, and to continue building up the program as the series evolves.

40. **The World Bank has a long experience with DPFs in Senegal, with mixed evaluations.** The 2008 Energy Sector Recovery DPF (P105279), which supported the (later reversed) privatization of SENELEC, was rated unsatisfactory by Independent Evaluation Group (IEG). The two-year series of Poverty Reduction Support Credit (PRSC) 4 and 5 (P117273, P121178) was approved in 2010-2011 and its Implementation Completion Report (ICR) is currently being reviewed by IEG. Finally, a three-year Governance and Growth Support Credit (GGSC) series (P128284, P126470, P150976) was disbursed over the 2012-2015 period, and covered some of the same areas of the proposed series, so that some lessons can already be learned.

41. **Assessments of the 2008 Energy DPF point to the need to find the right balance between ambition and flexibility as well as to ensure Government's ownership.** The IEG assessment attributes the poor outcome of the 2008 Energy DPO partly to an inconsistent and ambiguous World Bank strategy, which fluctuated between an excessively demanding agenda and an overly accommodating stance when it came to the Government delivering on its key policy commitments, particularly on sector governance and tariffs. Another study of the same operation concluded that the key technical work was

done in two four-month bursts and this may not have been enough time to deal with the complexity. The 2008 Energy DPO was seen as pushing an imposed reform model, started in response to World Bank/IMF conditionality, without being fully embraced by the stakeholders. The model selected for restructuring and the regulatory/tariff regime was imported from the United Kingdom, without sufficient adjustment to the realities on the ground. At the same time, not enough consideration was given to the impact of other factors, which accounted for poor outcomes, such as the sudden surge in oil prices in 2007-2008.

42. **The IEG assessment of the PRSC 4 and 5 noted there is a need to find a realistic balance between the time frame and breadth of the operation and the expected results.** Both programs covered a very broad range of interventions, from business environment, to governance, including education and health, and social and environmental vulnerabilities. Even if the objectives were strongly aligned with the Government and the World Bank's strategies and priorities, and there was a relatively coherent results chain, the number of simultaneous activities was difficult to manage for the client. Also, the time horizon to implement the reforms (two years) was apparently too short to achieve the ambitious objectives. Hence, the actual scope and "depth" of the interventions were probably insufficient to have a significant impact.

43. **The Implementation Competition Review Report (ICRR) of the GGSC series also pointed to the need to combine ownership with the ability of the program to address critical issues.** Lack of ownership means that some of the reforms that were approved under these DPOs were not actually implemented. An example is the adoption of a new e-platform to improve targeting and reduce leakages of agricultural input subsidies, which was included in GGSC III in 2015, but has not yet been implemented. Other reforms were adopted in a form that make them relatively ineffectual, such as the asset declaration system for high-level officials, which is confidential and carries no sanctions for non-compliance.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Energy

Main issues in the electricity sector and Government priorities

44. **Senegal's energy sector is dominated by SENELEC, the state-owned utility that has a monopoly for transmission, distribution and energy purchase in most of the country.** SENELEC owns about half of the country's generation capacity, with the remainder being owned by independent power producers (IPPs) that generate electricity and sell it exclusively to the utility. A rural concession model was introduced to attract private concessionaires (CER – *Concessionaires d'Electricité Rurale*) in areas not covered by SENELEC, and six have already been granted to private operators. These concessionaires have the monopoly for electricity transmission and distribution within their concessions. The sector policy is overseen by the Ministry of Energy and Development of Renewable Energies. An independent Electricity Regulatory Commission (*Commission de Régulation du Secteur de d'Electricité,* CRSE) was established in 1998 with the responsibility, inter alia, for approving revenue requirements for the sector, determining the tariff structure, and monitoring the performance of concession contracts (including SENELEC and the CERs) to ensure compliance with their contractual obligations and protecting consumers' interest.

45. **Senegal has one of the better overall rates for access to electricity in SSA, but electricity**

supply is expensive, often unreliable, and access remains limited in rural areas. The current access rate in Senegal is relatively high by regional standards, at 57 percent of households in 2016 (as against 55 percent in Cote d'Ivoire and in Nigeria, for example, or about 26 percent in Guinea and Mali) but rural access remains low at 29 percent, hindered by inadequate infrastructures and high tariffs. As the country relies mostly on expensive imported fossil fuels for power generation, the average electricity cost in 2016 was estimated at around US$0.19 per kilowatt-hour (kWh), higher than the global average of approximately US$0.10 per kWh, or that of other key markets with indigenous natural resources in the sub-region, such as Nigeria at US$0.09 per kWh (natural gas), Ghana at US$0.11 per kWh (mix of natural gas and hydro), and Côte d'Ivoire at US$0.13 per kWh (mix of natural gas and hydro). High electricity costs in turn raise prices of goods and services, which undermines significantly business competitiveness. Such high electricity costs are also unaffordable for many households, and represent therefore a major barrier to the goal of universal access to electricity. Furthermore, electricity supply remains unreliable. Despite ongoing reforms, customers report poor reliability, with an average of six outages per month averaging 1.8 hours. Overall losses and unserved energy (a proxy for blackouts and brownouts) are still high, about 19 percent and 30.2 GWh per year in December 2016, compared to the electricity public utility, SENELEC's, and government targets of 17 percent and 10 GWh per year.

46. **High electricity tariffs are driven by high generation costs resulting from a high reliance on imported heavy fuel oil (HFO) and diesel, which makes the sector highly vulnerable to an increase in oil prices**. A regular tariff adjustment mechanism, implemented by the sector regulator, allows to pass through changes in fuel prices and other costs, determines the level of authorized revenues for SENELEC. In case the Government decides not to adjust tariffs in line with the regulator recommendations, it is mandated to compensate SENELEC for any revenue shortcomings[12]. This has weighed heavily on the Government budget in recent years and has translated into high dependency of the sector on direct subsidy transfers from the Government.

47. **Lower global oil prices have recently helped reduce production costs, thus alleviating the burden of the electricity sector on the national budget, and helping rebalance the financial situation of the utility in the short term.** Direct transfers from the Government's budget to the sector through the **special energy fund** (FSE) declined from 2.4 percent of GDP in 2012 to 0.4 percent in 2015 and were zero in 2016, as tariffs covered the total average cost of electricity delivery. This was confirmed by the regulator's ex-post analysis of SENELEC revenue for 2016, which concluded that SENELEC went 4 percent above its level of authorized revenues for 2016, which implied an equivalent average tariff reduction for 2017. To capitalize on anticipated reductions in the cost of production and efficiency gains (expected to emerge from the new performance contract), the Government announced, on December 31, 2016, a 10 percent tariff reduction, beyond the CRSE recommended amount of 4 percent. This is likely to require a budgetary compensation to SENELEC until costs reduce further in the coming years, estimated to around US$20 million at current oil price for 2017. As the reduction in costs in 2015-2016 was largely cyclical, it is critical to achieve a more diversified power generation mix, for a sustained decline in generation costs, as well as increased efficiency of the electricity utility company.

48. **As in other countries in the sub-region, electricity demand is also growing at an annualized rate of 8 percent per year, and one of the main challenges is to add sufficient and low cost generation capacity to meet demand, and achieve energy security.** The available installed capacity increased from

[12] Transfers to SENELEC are channeled through a Special Fund for Energy (*Fonds Spécial de Soutien au Secteur de l'Energie* -- FSE) which became operational in July 2011. The Fund is funded from SENELEC contributions, as well as taxes on oil products, energy and telecommunications.

540 Megawatt (MW) in 2010 to 718 MW in 2016[13], an increase of about 30 percent. The situation has improved recently with new power plants coming online in 2016. However, the increase in installed capacity is to be compared to an increase in peak demand from 429 MW in 2010 to an estimated 592 MW in 2016, an increase of about 40 percent. The main reasons why supply increases lag behind are the sector's financial challenges and the limited success in planning and implementing new generation projects.

49. **In an effort to reduce the cost of service in the medium to long term, Senegal intends to shift its energy mix towards natural gas, renewable energies, and imported electricity, which requires improved sector planning in a context of fast-growing demand.** In the past, uneven implementation of the least-cost production plan has made investments in generation both erratic and non-transparent, and has contributed to recurrent episodes of undersupply. A series of unsolicited negotiated projects launched under 'emergency' procedures faced difficulties with their implementation and/or financial closure, as many development partners hesitated to assist projects that have not been the result of fully competitive procedures and whose key terms and conditions remain opaque. The recent large oil and gas discoveries in the countries hold a transformational potential in terms of medium-to long term diversification of the energy mix.

50. **Weakness in corporate governance and in the regulatory capacity are at the root of the sector long-standing problems and need to be addressed to face current and future challenges.** The management of SENELEC is highly centralized, while the Board struggles to exercise a substantive strategic and oversight role. At the same time, the Energy Ministry and the sector regulator CRSE do not have enough resources and tools to face the sector challenges, while the interface between the regulator, the involved sector ministries and the operator are not fully operational or effective. At the same time, SENELEC operations are hampered by its dependence from both the Ministry of Energy and the Ministry of Finance in terms of procedures, particularly concerning procurement. The overall result is slow, opaque and fragmented decision-making affecting most aspects of sector development. In this context, important vested interests have sprouted around SENELEC operations, creating serious constraints to reforms. Recent efforts at addressing internal management issues, and lower oil prices, have helped improve the internal efficiency of SENELEC.

51. **The financial situation of SENELEC has been undermined by high production costs, high technical and commercial losses, and cross-debt and arrears buildup with Government, although it has improved recently.** Apart from the decrease in oil prices, SENELEC's improved financial situation is due to the commissioning of new power generation, implementation of a loss reduction program, and increased use of prepayment meters. Transmission and distribution losses have declined from 20.7 percent of total dispatch in 2012 to 19 percent in 2015, still above the international benchmark of 10 percent but below SSA average of 23 percent (excluding South Africa). Substantial cross-debt and arrears, amounting to around CFAF 160 billion (US$275 million approx., equivalent to about 50 percent of its 2015 total revenue), are still due between central government entities, municipalities, other public entities, and SENELEC. These cross debts include unpaid local and central administration electricity bills, arrears on value added tax (VAT) reimbursement to SENELEC, as well as unpaid taxes from SENELEC. These issues call for revisiting the financial arrangements governing the sector, as they have prevented the company for many years from successfully managing its finances and from investing in required maintenance and upgrading of aging assets for generation, distribution and transmission. The portion of costs covered by cash collected is estimated to have increased from 63 percent in 2013 to 84 percent in

[13] These values exclude units that have been taken out of operation for maintenance and include some operational rental units.

2015 and above 100 percent in 2016. This progress needs to be consolidated institutionally.

52. **In rural areas, affordability has hampered the achievement of Government objectives for access to modern energy services for all**. Success of the private rural concessionaire (CER) model has been very limited so far. By the end of 2015, only 8,036 rural households were connected against a target of 106,600 in the six awarded concessions. One of the main issues lies in the coexistence of different tariffs and connection fees in contiguous areas, depending on whether the service is provided by SENELEC or a private concessionaire, the latter being as much as twice more expensive than SENELEC. To achieve access targets, it is therefore important to review the legal and regulatory framework governing rural electricity distribution, including the model of rural electrification concessions, pricing methods of electrical services, and connection fees. Finally, high import tariffs on solar electrical equipment also appear to reduce access to modern electricity services for rural populations, such as portable solar lamps and solar home systems.

Reform program supported by the operation and expected results

53. **The proposed series supports key reforms to address some of the key policy and institutional bottlenecks, and setting the sector on a path to significant improvements in the medium term.** These reforms will complement ongoing and planned investments undertaken by the Government with the support of the WBG and other partners. The DPF-supported program is well aligned with government priorities and targets three policy areas.

- The first policy area "*Improving governance of the sector*" focuses on addressing long standing issues related to ***SENELEC corporate governance, and the sector financial arrangements and regulation***, with a view of transforming SENELEC into a well-run and financially viable utility company within a well-regulated sector.
- The second policy area "*Removing barriers to investment and competition*" supports ***institutional and policy reforms in electricity generation***, for more efficient and more transparent planning and implementation of generation expansion, with a view to ending the sector's chronic exposure to oil price shocks, and – over time – significantly reducing the cost of power generation and reducing the carbon intensity of power generation.
- The third policy area "*Facilitating equitable access*" aims to promote ***rural access to electricity*** by ensuring enhanced affordability and availability of modern electricity services in rural areas of the country that are today only partially served.

A policy matrix describing the Government's reform program supported by the DPO is shown in Annex 1.

1.1. Improving governance in the energy sector

54. **The goal of the reform under this pillar is to enhance the sector's institutional and financial arrangements for improved performance and financial sustainability, and modernize corporate governance.** The first objective in this area is to enable SENELEC to carry out its functions according to sound operational practices, through strengthening of its corporate governance and in accordance with international best practice. A second objective is to ensure that the sector financing arrangements, particularly between the Government and SENELEC, are well-structured, transparent, and financially sustainable. Third, the program aims to enhance and strengthen the regulation of the sector. By supporting sound governance and an effective regulatory regime, the program seeks to enable the company to reach the performance level of best-practice utilities in comparable countries. This would

allow it to secure financing from commercial sources and set the stage for further longer-term corporate reforms, which could include increased private sector participation in the ownership or management of the utility.

Governance and corporate arrangements of SENELEC

55. **The series supports strengthening of the corporate governance of SENELEC to sustain recent improvements in management and financial performance**. The signature of a better-designed performance contact will provide an effective incentive framework for improved management performance, while the strengthening of the Board and the annual publication of the performance contact audits will provide monitoring and implementation checks.

- A performance contract with the Government was signed between the utility and the Government in 2012 covering the period 2013-2015 (and extended in 2016), but the multiplicity of performance indicators and a lack of sanctions in case of failure did not allow it to be substantially effective in improving the performance of the sector. To address this, <u>this first operation in the series (DPO1) supports a new and focused performance contract for SENELEC, covering the period 2017-2019 (prior action #1)</u>. The new contract spells out a narrower set of indicators of technical and financial performance and contractual obligations, together with a working incentive system for top management. In subsequent years of the program, the independent audit on implementation of the performance contract is expected to be published (DPO 3 trigger #1) to increase consumer awareness of the performance of SENELEC.
- Furthermore, in conjunction with a more effective performance contact, the program aims to strengthen the ability of SENELEC's Board to oversee its operations and management. DPO1 supports therefore a set of measures to <u>strengthen the Board of SENELEC, by allowing the opening of the Board to independent directors (i.e. non-shareholders) from the private sector and civil society, and establishing Board Technical and Financial Committees (prior action #2)</u>. In 2017, the Government will define specific profiles for Board members, and will define the criteria for the appointment of Directors that are note shareholders, based on which a new Board will be appointed by the Government (DPO2 trigger #2).
- In order to reduce the bureaucratic delays associated with SENELEC's dependence on the Ministry of Finance central procurement unit, the Government has also agreed to streamline procurement procedures for SENELEC, by creating a dedicated procurement unit in SENELEC for clearance of procurement transactions related to exploitation investments, and increasing the number of transaction eligible for ex-post review (DPO2 trigger #3). Complementing the DPO actions, other International Development Association (IDA) interventions in the sector are supporting the financing of associated investments, such as new information systems that can provide SENELEC's management and Board with timely access to reliable corporate information on the performance of the company in its key business areas.

56. **The improvement in corporate governance and management will be deepened in the outer years of the program, which will prepare the ground for further longer-term reforms of SENELEC's corporate model**. The Government is aware that, to be sustained, improvements in the performance and financial sustainability of SENELEC will require deeper structural changes to the governance arrangements of the utility, including possibly by enhancing private sector participation.

- To prepare the ground for deeper and longer term reforms, a baseline credit rating will be sought in 2017 from a reputable credit rating agency, with an associated action plan to secure an investment grade rating within a two-year period (DPO2 trigger #1). Credit ratings help in establishing targets or benchmarks for introducing financial discipline thereby empowering public utility officials to introduce sound financial management practices that would enhance future ratings and are an important prerequisite for accessing financial markets.

- Similarly, for enhanced transparency and greater commercial orientation, SENELEC envisages carrying out the accounting and organizational separation of its activities over the course of the program. As such, DPO3 would support the creation of separate SENELEC entities for generation, transmission and distribution subsidiaries in 2018 (DPO3 trigger #2).
- In parallel, over the next two years, the Government plans to work with the WBG and other stakeholders to review and assess available options for enhancing further SENELEC's corporate governance and performance, and build consensus around these options.

Sector financial arrangements

57. **The program includes a package of complementary measures to help redress the financial situation of SENELEC, by addressing cross-debt issues between the Government and the utility company.** This package includes <u>a new cross-debt clearance agreement between the Government and SENELEC (prior action #3[i])</u>, for an amount of FCFA 90 billion, with a remaining credit in favor of the Government of around FCFA 70 billion. This cross debt clearance does not cover large amounts of accumulated reimbursable VAT, which SENELEC was unable to claim due to administrative obstacles that have now been solved. Based on a recently completed audit of SENELEC's VAT accounts, the Ministry of Finance has formally recognized documented VAT credits of SENELEC for FCAF 71 billion as of end November 2016. This backlog of VAT credits will be offset against the FCFA 70 billion government credit remaining from the cross-debt clearance agreement, through an addendum to the cross-debt convention (DPO2 trigger #4[i]), leaving a balance of around FCFA 1 billion in favor of SENELEC, which the Government will clear with tax credits in favor of SENELEC. In parallel, the Government is also seeking to clear the cross debts related to the March 2016 to February 2017 period (DPO2 trigger #4[ii]).

58. **On other occasions, cross debts have been cleared, most recently in November 2012, but they have thereafter started accumulating again, thus debt clearance measures are complemented, under the program, by structural solutions to stem new arrears and cross debts accumulation.** This set of actions constitute a package of complementary measures, providing an incentive framework to sustainably address SENELEC's financial cross-debt with the Government. They address both the payment of reciprocal tax obligations of the Government and SENELEC, as well as mechanisms for the payment of both the electricity compensation due to shortfalls in SENELEC's revenue and electricity bills by the central and local governments.

- <u>The performance contract of SENELEC contains a specific provision by which SENELEC agrees to honor 100 percent of its tax commitments by 2019, and the Minister of Finance to pay SENELEC's 2017 VAT credits within the statutory three months' delay (prior action #3[ii])</u>. The performance contract is a binding document for both parties, with monitoring mechanisms.
- In November 2016, <u>the Minister of Finance has issued a circular instructing all central government autonomous institutions and entities to include in their yearly budgets submissions to the Ministry of Finance separate allocations for their electricity and water bills (prior action #3[iii])</u>. The defined budget allocations for electricity will prevent autonomous central government entities, such as universities and hospitals, from reallocating these funds for other uses, therefore limiting the accumulation of electricity bills arrears.
- The package also includes measures to stem arrears from municipalities' electricity bills, mostly due to non-payment of public lighting. The Government intends, as a transitory measure, to fund through the budget the direct payment of electricity for public lighting for the 2017 budget

year (DPO2 trigger #4[iii]), which accounts for around 2/3 of the electricity bill of municipalities. The Government is working to introduce in 2017 a permanent solution, either by integrating the cost of public lighting into the tariff of SENELEC, and/or finding budgetary mechanisms to ensure payment by municipalities of their bills. (DPO3 trigger #3).

The Government is also committed to paying its budgetary transfer to SENELEC, to cover the expected revenue shortfall from the announced 10 percent tariff reduction, in regular installments. The level of the compensation is defined quarterly by the regulator. Timely payments by the Government will be monitored under the Electricity Sector Support Project (P125565). These measures taken under the program are expected to contribute to critically improve the financial sustainability of SENELEC's operations.

59. **The Government has also moved to address the subsidization of energy, by reforming the FSE, and choosing a tariff reduction modality that minimizes the fiscal subsidy**. In the 2017 budget, the Government has re-assigned an earmarked tax on telecoms from the FSE to the general budget. This measure is in line with the Government's commitment to rationalize earmarked taxes and special funds. The Government has also opted for a differentiated modality of the 10 percent tariff reduction announced in early 2017, which will reduce the implied budgetary cost compared to a uniform reduction by almost half from CFAF 20 billion to CFAF 11 billion. The Government will retain the core function of the FSE for the next few years to ensure timely payment of budgetary compensation to SENELEC, to avoid potential cash flow issues for SENELEC, and to channel SENELEC's payment for efficient fuel supply management. The fund will also remain in place to offset potential exogenous shocks at least until end 2018, when significant new non-HFO electricity generation will come on stream, making the sector less vulnerable to oil price volatility.

Sector regulation

60. **The series will support measures aimed at improving sector regulation, and enhancing the institutional capacity of the regulator CRSE.** As the sector is undergoing significant changes, the capacity and mandate of the sector regulator needs to be strengthened, for it to be better equipped to face current and future regulatory challenges in a highly politicized environment. These challenges pertain in particular to the regulation of SENELEC and the monitoring of its performance contract, as well as the regulation of new concessions for rural electrification, the downstream hydrocarbon sector, and IPPs. Building on an ongoing institutional and regulatory study, as well as an audit of the effectiveness of the CRSE, and with the support of DPO2 and DPO3, the Government intends to implement a two-year program of legal and regulatory reforms focusing on: (i) adjustments to the organizational architecture of sector regulation, including the expansion of the mandate of the regulator over the downstream hydro-carbon sector; (ii) the composition and structure of the regulator; (iii) regulatory procedures; and (iv) the strategic and capacity development plan of the regulator.

61. **The Government plans to gradually allow third party purchase of power generation, with the objective of allowing critical segments of the economy to benefit from less costly power supply, while introducing some competitive pressure on SENELEC.** The principle of ending SENELEC's monopsony as the single buyer of electricity, and allowing third party access to power generation is already included in the country legal framework and was supposed to be implemented by end of March 2009. An extension however was granted and the expiration of SENELEC's monopsony was postponed until 2019. The Government is committed to keep this 2019 expiration date, and intends to allow independent electricity provision already in 2017, but limited to the new Special Economic Zone in Diamniadio. Third party access is expected to remain limited in the early years of this new policy, but it may also support

SENELEC to smooth its peak demand and in turn reduce SENELEC's reliance on expensive peak rental units. For third party access to be operational in 2018, SENELEC will need to finalize the accounting separation for its transmission activities, and a regulatory framework defining the rules and compensation related to third party access will be put in place, with particular attention to maintaining the sector overall financial equilibrium (DPO3 trigger #4).

62. **The policy and institutional measures to improve overall governance in the energy sector are expected to lead, by the end of the series, to improvements in the technical and financial performance of SENELEC**. The selected indicators of better technical and financial performance are drawn from SENELEC's performance contract, and aim to demonstrate significant progress by the end of the series. In particular, these would include a significant improvement in the financial sustainability of SENELEC, as expressed by the debt cover ratio targeted to increase from 0.54 to 0.90 by 2019. Overall electricity losses (technical plus commercial) are also expected to fall by 15 percent, from 21 to 18 percent of total energy produced, compared to a regional average performance of around 23 percent, a notable result given the fast expansion of the system. Finally, the hours of unserved energy, a proxy for blackouts and brownouts, that are already relatively low by the regional standards are projected to reduce from 34 GWh to 20 GWh per year.

Prior Actions under Energy policy area 1:
#1 In order to improve the management of SENELEC, the Government has entered with SENELEC into a focused performance contract, which includes a monitoring and corrective mechanism, and incorporates a functional performance incentive system.

#2 2. In order to enable the board of directors of SENELEC to better perform its corporate governance role, (i) SENELEC's General Assembly has adopted the modifications to SENELEC's statutes to ensure compliance with Article 416 of the OHADA Revised Uniform Act of 2014, allowing the appointment of directors to its board of directors that are not shareholders, and (ii) SENELEC's Board of Directors has established technical and financial committees at board level for auditing, investment and commercial aspects.

#3: In order to sustainably resolve the sector issues on cross debt and financial arrears, (i) the Government has entered with SENELEC into a cross-debt and arrears clearance agreement covering the period August 2012 - February 2016, (ii) the Government has agreed to pay SENELEC's 2017 VAT credits within the statutory three months while SENELEC has agreed to honor 100 percent of its tax commitments by 2019; and (iii) the Minister of Finance has issued a circular instructing all central government autonomous institutions and entities to include in their yearly budgets, separate allocations for covering electricity and water bills.

1.2. Removing barriers to investment and competition in the energy sector

63. **Under the program, the Government has approved, and is committed to credibly implementing a strategic master plan for the energy sector, to diversify Senegal's electricity mix, including towards natural gas and renewable energy, with the aim to reduce the cost and improve reliability of electricity supply.** While progress has been made in increasing generation capacity, this has been done without a consistent and credible generation expansion plan, geared towards lowering the cost of electricity generation, resulting in the high dependence of energy generation on HFO. Sound expansion has also been undermined by the signature of an unknown number of uncompetitive Power Purchasing Agreements (PPAs). Several of these unsolicited, negotiated projects are now facing difficulties with financial closure. To address these issues, the Government has approved a strategic master plan for the energy sector, which sets the priorities in terms of energy diversification and private sector participation in power generation, and includes a detailed description of project development modalities (prior action #4). This generation plan will guide supply-side planning for the next 15 years, with the aim of diversifying the power generation mix towards less costly sources, including coal and natural gas, as well as renewable energies (hydropower, wind, and solar). The approved master plan is in line with Senegal priorities and commitments as part of the Intended Nationally Determined Contribution (INDC) under the international climate agreement at the United Nation's Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP21), held in Paris in December 2015.

64. **To ensure consistent implementation of the generation expansion plan, the Government intends to increase transparency around the PPAs through which the plan will be executed, and to publish an audit of implementation.** To improve sector transparency and in line with international good practice, and as a trigger for DPO2, the Government will mandate the publication of the key contractual terms (including contract modifications) of all future PPAs and MoUs for which an exception to competitive procurement has been sought (DPO2 trigger #5). In the outer years of the program, and with the support of DPO3, the Government plans to publish an independent technical audit indicating that generation projects are implemented transparently and consistently with the objectives of the generation plan. The World Bank will also support the Government in designing a systematic and transparent procedure to regularly update the plan, defining key criteria for revision and approval stages.

65. **The implementation of the new generation plan is expected to lead, by the end of the series a rebalancing in the composition of the energy mix.** The energy mix of Senegal is expected to see a steep decline in the current 90 percent reliance on expensive and polluting heavy fuel oil, to 60 percent by the end of the series and further declining to zero by 2025 as the least cost power generation plan is fully implemented. This brings three important long term benefits to the country. First, the power sector's chronic financial vulnerability to oil price shocks would be dramatically reduced over time. Whereas at present, a global oil price increase from US$55 to US$80 per barrel would lead to a 19 percent increase in the cost of power generation, by 2025 this impact would have shrunk to barely 1 percent. Second, the absolute cost of power generation will fall steadily throughout the implementation of the plan. It is projected that, once fully implemented in 2025, the plan will reduce SENELEC's average cost of production to about US$12 cents/kWh (based on a baseline oil price scenario). The overall cost reduction anticipated by the end of the least cost plan in 2035 would be 22 percent at an oil price of US$55 per barrel, and this benefit would be even higher were oil prices to rebound during this period. Third, due to the high carbon intensity of heavy fuel oil in power generation the emissions factor associated with the generation of each kWh of electricity could also be expected to fall substantially, contributing to lower net GHG emissions in Senegal and bringing the GHG emissions trajectory down over time, with coal generation peaking, heavy fuel oil phasing out and an increasing share of gas coming online within the timeframe of Senegal's voluntary INDC commitments (2020-2030).

Prior Actions under Energy policy area 2:
#4 In order to diversify the country energy mix towards less expensive sources including renewables, the Council of Ministers has approved a strategic master plan for electricity generation setting forth the Government's priorities in energy diversification and private sector participation in power generation, including related project development modalities.

1.3 Facilitating equitable access to electricity

66. **The program supported by the series aims to expand access to electricity services in underserved rural areas by enhancing affordability.** A first objective of the program in this pillar is addressing key barriers to access in the six concessions already awarded to private operators. Studies have shown that a series of key barriers needs to be tackle simultaneously to scale up access in rural areas. Lowering the CER tariffs to the level of SENELEC tariffs is key to support the uptake in electricity demand. In parallel, programs to cover connection costs and last mile investments, which are significantly higher for CER consumers and represent another important barrier to access, are being supported by complementary World Bank's sector programs. Preliminary conclusions from a recent study carried out with the support of the European Union estimated that the cost associated with tariff harmonization is about US$2 million for the first year, about US$16 million for the second year and about US$19 million for the third year, taking into consideration the Government's aggressive, rural access policy. Connection costs are estimated at US$1 million to US$3 million over the next three years. Considering the important potential impacts of this harmonization in terms of affordability and equity of electricity services in rural areas, the Government has instructed the regulator to lower electricity user tariffs in rural concessions to the level of SENELEC's national tariff (prior action #5). To ensure appropriate implementation, the Government will provide resources from the 2017 budget to fund the lowering of rural concessionaire electricity tariffs for 2017 (DPO2 trigger #7). Going forward, the Government will work to ensure the financial sustainability of rural tariff harmonization in line with rural electrification expansion plans, possibly considering building a solidarity charge into SENELEC bills, concurrently with the reduction in generation costs, as to avoid any increase in tariffs.

67. **The program also aims to remove institutional bottleneck to the expansion of electricity supply in the four remaining concessions.** On both the Government and CER side there is limited interest in moving ahead with the bidding process for the remaining four rural concessions before key barriers and institutional bottleneck have been fully addressed. The operation therefore provides a new impetus to the electrification process in the remaining concessions, towards meeting the universal access target in 2025, by supporting the Government's intention to award the remaining four rural concessions in 2017 (DPO2 trigger #6). Two options are being considered by the Government at this stage: (i) direct awarding of the remaining concessions to SENELEC (or SENELEC distribution entities, in line with the expected separation process); or (ii) redefinition of the criteria and selection process and launching a revised competitive bidding process to select new CERs for the remaining concessions. The Government has committed in year three to carry out and make public an independent audit of the implementation of all rural concessions, and identify any corrective actions to achieve access targets (DPO3 trigger #6).

68. **Expected results under this pillar include increased access to electricity in rural areas.** The projected increase in the number of connections per year in rural areas, due to improved affordability and expansion of the rural concessions, is expected to lead to higher access rates to electricity in rural areas. Specifically, the share of the rural population with access to electricity is expected to increase from 29 percent in 2015 to 35 percent by the end of the series.

Prior Actions under Energy policy area 3:
 # 5 In order to improve access to affordable electricity services in rural areas, the Minister of Energy has instructed the electricity national regulator to lower rural concessions' electricity user tariffs to SENELEC's national tariffs.

Pillar 2: ICT

Main issues in the ICT sector and Government priorities

69. **Senegal has a well-developed telecommunications infrastructure, but over the past 10 years, Senegal lost its regional leader position in the ICT sector, and access to internet broadband services remains relatively limited.** The country has a bandwidth of 23 Gigabytes/second (Gb/s) through its three submarine cables South Atlantic 3 (SAT3), Atlantis 2, ACE, and its satellite connections), and its telecommunications infrastructure ranks among the most developed and successful in West Africa. However, according to the International Telecommunication Union (ITU), in late 2014, the percentage of people who use the internet is estimated at less than 18 percent in Senegal, against 49 percent in South Africa, 42 percent in Nigeria, 40 percent in Cape Verde, and 19 percent in Ghana. As a result, Senegal is yet to harness the power of digital technology for transformation, there is a persistent digital divide, as well as an innovation deficit and limited capacity for digital service delivery by Government.

70. **The ICT sector in Senegal is organized around a composite set of institutional and private sector players.** The Ministry of Post and Telecommunication is the policy maker. The Regulatory Authority of Telecommunications and Posts (ARTP in its French acronym) is the sector regulator. There is an Agency in charge of providing connectivity to all public sector entities -- *Agence de l'Informatique de l'État (*ADIE) -- which owns and operates the second largest fiber optic network in Senegal, next to Sonatel, the incumbent operator privatized in the late 1990s. On the private sector side, there are three mobile operators: Sonatel/Orange – which benefits from a quasi-dominant market position --, Sentel/Tigo (entered in 1998), and Sudatel/Expresso (entered in 2007); and one independent Internet Service Provider, Arc Informatique. *Organisation des Professionnels des Technologies de l'Information et des Communications (*OPTIC) is the private sector representative body, and has been working for enhanced competition in the sector. A number of ICT users' associations are also active in the sector. Achieving policy consistency among all the public institutions around ICT sector management and reforms has been a challenge in the past, and this has in turn impacted the quality of the public-private dialogue in the sector.

71. **Senegal aspires to join the group of leading countries and has agreed to revisit sector policy, update the legal and regulatory framework governing the sector, and promote competition in the broadband market for improved access to and quality of services**. Currently, only the three existing telecom operators hold licenses that allow them to provide internet service and the market is skewed by the dominant position of the incumbent operator --Sonatel-- which owns the largest fiber optic network and is the only operator to provide ADSL internet. Backed by a new institutional and legal framework allowing for an open and contestable data transmission market, increased competition in the broadband market is expected to lead to a reduction in the price of services, increased quality of service, improved use, and higher investments in communication infrastructure and service provision. In general, updating the telecommunications regulatory framework to integrate competition principles will deliver better market outcomes in terms of access, innovation, prices and quality. Drawing on international practices and the Senegal context, stronger regulations and decisions to enable competition would be important, for example, in the following areas: access to essential infrastructure and services for international and domestic voice, SMS and data transmission services, conditions and obligations for operators with significant market power, and spectrum management including assignment of frequencies and pricing.

72. **Senegal has also an untapped opportunity to leverage its large public fiber optic network.** The

network, which is under the responsibility of the ADIE, includes close to 1,500 kilometers of optical fiber, and a large extension (up to 4,500 kilometers) is being planned. This network represents therefore a strategic asset for the development of the ICT sector and digital economy in Senegal. However, the ADIE does not have the technical and financial resources needed to use this network effectively, and there are also significant weaknesses in terms of maintenance and service quality. As a consequence, most public users, such as public schools, are either not connected to the Internet, or have to rely on costlier services provided by the three telecom operators. Sentel/Tigo and Sudatel/Expresso (who have much less fiber optic infrastructure than Sonatel) have expressed interest in using the network, which would require revision of the current model governing the provision of connectivity services.

73. **Senegal has developed a universal access policy to promote access to ICT services for the underserved population, but the lack of an adequate governance model and strategic framework for implementation hampers its effectiveness.** A Telecom universal access fund, the *Fonds de Développement des Services Universels de Télécommunications* (FDSUT), was set up in 2007 to promote the deployment of telecommunications networks and services in underserved areas where such deployment is not profitable for the private sector. Until 2016, the FDSUT was funded by a tax (CODETE) levied on telecommunications operators (representing 5 percent of their total annual turnover). However, only 2.5 percent of the resources collected from telecommunication operators were actually granted to the FDSUT, while the remaining 97.5 percent are currently allocated to the FSE in the energy sector. In addition to these financial constraints, the FDSUT's ability to carry out universal access projects has been constrained by lack of adequate capacity. The Government has therefore decided to revisit the rules governing its funding and operations. Meanwhile, starting in January 2017, this earmarked tax has been transferred to the general budget and renamed Tax for telecommunications development.

Reform program supported by the operation and expected results

74. **In line with Government priorities, the proposed series will support critical policy and institutional actions under three policy areas:**

- ***(i)*** <u>*The first policy area is on improving governance*</u> of the ICT sector, more specifically the ***overall sector strategic and legal framework, and sector regulation.***
- (ii) <u>*The second policy area is*</u> *removing barriers to investment and creating competition in the internet broadband market* across all segments of the broadband infrastructure (access, backbone, and international connectivity) **by removing specific legal and regulatory obstacles to entry;** and
- (iii) <u>*The third policy area is focused on facilitating equitable access*</u> *to ICT services* by ***reforming and implementing effectively the universal access policy***.

A policy matrix describing the Government reform program supported by the series is shown in Annex 1.

2.1 Improving governance of the ICT sector

75. **The Government has adopted a national strategy for the Digital Economy *("Sénégal numérique 2025")* that establishes clear policy orientations to promote competition and establish an improved governance model for the ICT sector.** Following public consultations<u>, the National Strategy for the Digital Economy "Sénégal Numérique 2025" was adopted by the Council of Ministers in 2016 (prior action #6)</u>. The strategy commits the Government to the principles of deepening the liberalization

of the internet broadband sector in line with international best practices. The strategy also sets forth the creation of an umbrella governance body for the ICT sector -- *Conseil National du Numérique* – bringing together both public and private stakeholders. Such institution is needed to improve coordination and consistency in the implementation of the Strategy in all its dimensions. As a trigger for DPO2, the *Conseil National du Numérique* is to be created and made operational (DPO 2, trigger #9).

76. **Consistent with the new strategy, the Government has also decided to update its legal and regulatory framework governing the ICT sector, in order to support enhanced sector performance.** As a trigger for DPO2, an updated Telecommunications law is planned to be promulgated in 2017 and its implementation decrees will be also concurrently approved (DPO2 trigger #7), and fully implemented in 2018 (DPO3 trigger #8). This remodeling of the legal and regulatory framework is expected to enhance the scope and quality of sector regulation, which has been lagging behind the strength of the operators and the dynamics of the market. This measure will complement actions to be undertaken under the Government's program to develop a conducive legal and regulatory framework for the development of broadband Internet. These actions include the promotion of cross-sectoral coordination of civil works among public infrastructure projects for the development of optic fiber networks (DPO3 trigger #9), and the development of regulations for e-commerce and cybersecurity.

77. **The measures taken under this policy area aim to improve the quality of the legal and regulatory environment for broadband internet**. Such improvement will be measured by the ranking of Senegal with respect to the Network Readiness Index of the World Economic Forum.

Prior Actions under ICT policy area 1:
 # 6 The Council of Ministers has adopted the National Strategy for the digital economy "Sénégal Numérique 2025" providing policy basis for increased open market access to new service providers in the telecommunications sector in line with international best practices.

2.2 Removing barriers to investment and competition in the internet broadband market

Overcoming barriers to entry for new internet service providers and wholesale infrastructure operators

78. **The main purpose of this reform is to redefine market access conditions for facility-based Internet Service Providers (ISPs) and wholesale infrastructure operators[14] so as to facilitate the entry of new players in the internet broadband segment**. In Senegal, reforms to open up the market have stalled over the past decade. The third and last mobile license was awarded in 2007. Currently, the legal framework in the ICT sector imposes a licensing regime via bidding to actors willing to deploy their own infrastructure to serve the end-users. This constitutes a barrier to the entry of new players such as facility-based ISPs that are not using and commercializing scarce resources (i.e. frequencies).

79. **The Government has decided to take critical measures to facilitate market entry of ISPs and open up the sector to competition and investment.** It has therefore amended the provisions of the 2011 Telecommunications Law so that establishing ISPs is now subject to the lighter and less expensive general authorization regime instead of the licensing regime, with a right to develop their own infrastructure to serve the end-users (prior action #7). As part of this prior action, the Government has

[14] In line with the 2011 Telecom Code, an infrastructure operator is a wholesale operator who deploys telecom infrastructure to commercialize wholesale services to retail operators (telecom and ISPs) as well as public administrations and agencies.

subsequently issued the implementation decree related to the amendment on the ISP regulatory regime, which includes a provision to convert ISP licenses granted after the enactment of the amended Law to the new "authorization" regime, to ensure full regulatory consistency for all private operators[15]. Following the approval of the amendment by Parliament and of the associated decrees by Government in early 2017, it is expected that regulatory guidelines and a standard model to be used for the granting of authorizations to ISPs, which do not include undue service restrictions, will be issued to operationalize the new regime (DPO2 trigger #10). Under this regime, the market itself will regulate the number of facility-based ISPs. Liberalizing entry requirements for ISPs and allowing them to deploy local infrastructure is expected to significantly increase competition in the internet access market, lower cost and improve quality of services. As such this measure is critical to the whole ICT reform agenda. In conjunction with measures taken to open up proprietary infrastructure to interconnection (see below), this is expected to lead to a significant increase in internet access in urban areas.

80. **In parallel, the program supports measures to promote market entry by wholesale telecom infrastructure operators.** To that end, a new Presidential Decree specifies the rules and practical modalities governing the allocation of authorizations to wholesale telecommunications infrastructure operators, for enhanced applicability of the provisions of the 2011 Telecommunications law (prior action #8). To accompany this reform, in 2017, regulatory guidelines and standard documents will be issued to be used for granting authorizations to wholesale IT infrastructure operators (DPO2 trigger #11). By the end of the series, these measures would lead to an increase in the deployment of optic fiber by wholesale operators. Allowing easier entry by wholesale infrastructure operators is also expected to result in enhanced competition and better and cheaper internet access.

Opening up the infrastructure to competitive use

81. **To complement measures aimed at removing restrictions to market entry, a competitive ICT sector in Senegal requires more open access to the existing infrastructure of optic fiber networks, through an improved legal and regulatory framework governing infrastructure sharing, and a workable interconnection system.** To ensure fairness and protect operators' incentives to invest in costly equipment, infrastructure sharing must be regulated according to adequate technical and pricing conditions. In the absence of such a framework, infrastructure sharing has remained limited in Senegal. To address this issue, a new Presidential decree establishes the required rules and regulations (prior action #9). In mid-2017, the series will support the promulgation by the regulator ARTP of adequate regulatory decisions framing the technical and pricing offers for interconnections and network access by telecom operators with a significant influence on relevant telecom markets (DPO2 trigger #12. The objective is to promote meaningful competition in the sector by opening up the operation of infrastructure to both new and existing telecom operators according to sound principles. As a result of these actions, competition in the segment is expected to increase, while operators' costs are expected to decrease thanks to a more efficient use of infrastructure.

82. **The regulatory and legal measures taken under this policy area are expected to lead to an expansion of overall internet broadband access.** The indicators to measure progress include a larger

[15] The State will reimburse the excess fees paid by the three ISPs that received licenses after the amendment of the Law. The original payment added to around US$1.3 million. As the authorization fees are not defined yet, the reimbursement is not known, but it will imply a substantial share of the original payment. Lower fees and revised Cahier de Charges – in particular, the possibility to develop their own infrastructure – would facilitate investment by entrant ISPs and enhance service provision in the sector.

number of facility-based ISPs and wholesale IT infrastructure operators providing services in Senegal, leading to an increase in the internet penetration rate.

Prior Actions under ICT policy area 2:
#7 : In order to facilitate the entry of a wider range of internet service providers (ISP) into the retail internet broadband segment, the Government has: (i) enacted the amendments to Articles 29 to 32 of the Telecom Law No 2011-01 of February 24, 2011, providing that ISPs are subject to the lighter and less expensive general "authorization" regime instead of the "licensing" regime, and are allowed to deploy and operate their own infrastructure; (ii) issued an implementation decree of the amended Articles 29 to 32 of the Telecom Law No 2011-01 of February 24, 2011, which includes a provision converting already attributed ISP licenses into authorizations.

#8: In order to increase competition in the wholesale internet broadband segment, the Government has adopted and implemented a decree specifying the rules for granting authorizations to wholesale telecommunications infrastructure operators, in accordance with Telecom law no 2011-01 of February 24, 2011.

#9: With a view to reduce infrastructure roll-out costs for telecom operators, the Government has adopted and implemented a decree clarifying the technical and financial rules for infrastructure sharing among telecommunication operators in accordance with Articles 10 and 25 of the Telecom law no 2011-01 of February 24, 2011.

2.3 Facilitating equitable access to ICT services

Implementing the universal access policy more effectively

83. **The series supports more effective implementation of government policy geared towards broadening access to broadband services in under-served areas.** To that end, the Government has decided to strengthen the telecommunication universal access Fund, FDSUT, and optimize its use as the main vehicle for implementing the universal access policy throughout the country. A first priority is to revisit the legal and regulatory framework governing FDSUT operations under the new telecom Law to be approved in 2017. An implementation decree of the Telecom Act will specify the modalities pertaining to (i) FDSUT strategic orientation; (ii) the institutional governance of the FDSUT; and (iii) the Fund's financial resources. This will open the way for making the Government universal access policy fully operational in 2018 (DPO3 triggers #11).

84. **The series also supports the adoption (DPO2 trigger #11) and operationalization (DPO3 trigger #12) of a new model for the management, operation, maintenance and commercialization of the public fiber optic network managed by ADIE**. This will improve the management of the public telecom infrastructure owned by ADIE, allowing private operators to access and use the ADIE network thus avoiding duplicating the existing ADIE infrastructure. As a result, private operators will be in a better position to focus their infrastructure investment in areas where infrastructure is lacking. These measures will build on a comparative study of the best strategic options to improve the current model, with partial attention to successful models of public private partnerships.

85. **Expected results by the end of the series include an increase in the availability of ICT services in currently underserved areas and for underserved populations**. More specifically, it is expected that digital divide gap between rural and urban areas (as measured by the ARTP based on an annual surveys)

will start decreasing.

Table 4. **DPF Prior Actions and Analytical Underpinning**

Prior actions and triggers	Analytical Underpinnings
Operation Pillar I: ENERGY	
Policy Area I.1: Improving governance of the energy sector	
Prior action #1: *In order to improve the management of SENELEC, the Government has entered with SENELEC into a focused performance contract, which includes a monitoring and corrective mechanism, and incorporates a functional performance incentive system.*	Electricity Sector Support Project strategic studies: Organizational and Managerial Audit of SENELEC; Institutional and Regulatory Sector Study; SENELEC accounting separation reports; Reports from the Independent Auditor of the Performance Contract; Institutional audit of CRSE
Prior action #2: *In order to enable the board of directors of SENELEC to better perform its corporate governance role, (i) SENELEC's General Assembly has adopted the modifications to SENELEC's statutes to ensure compliance with Article 416 of the OHADA Revised Uniform Act of 2014, allowing the appointment of directors to its board of directors that are not shareholders, and (ii) SENELEC's Board of Directors has established technical and financial committees at board level for auditing, investment and commercial aspects.*	
Prior action #3: *In order to sustainably resolve the sector issues on cross debt and financial arrears (i) the Government has entered with SENELEC into a cross-debt and arrears clearance agreement covering the period August 2012 - February 2016, (ii) the Government has agreed to pay SENELEC's 2017 VAT credits within the statutory three months while SENELEC has agreed to honor 100 percent of its tax commitments by 2019; and (iii) the Minister of Finance has issued a circular instructing all central government autonomous institutions and entities to include in their yearly budgets, separate allocations for covering electricity and water bills.*	
Policy Area I.2: **Removing barriers to investment and competition in the energy sector**	
Prior action #4: *In order to diversify the country energy mix towards less expensive sources including renewables, the Council of Ministers has approved a strategic master plan for electricity generation setting forth the government's priorities in energy diversification and private sector participation in power generation, including related project development modalities.*	Electricity Sector Support Project strategic studies: Strategy for gas-to-power options; Least-cost planning TA
Policy Area I.3**: Facilitating **equitable access to electricity	
Prior action #5: *In order to improve access to affordable electricity services in rural areas, the Minister of Energy has instructed the electricity national regulator to lower rural concessions' electricity user tariffs to SENELEC's national tariffs.*	EU rural tariff study; Sustainable Energy for All TA
Pillar II: ICT sector	
***Policy Area II.1**:* **Improving governance of the ICT sector**	
Prior action #6: *The Council of Ministers has adopted the National Strategy for the digital economy "Sénégal Numérique 2025" for the Digital Economy providing policy basis for increased open market access to new service providers in the telecommunications sector in line with international best practices.*	World Bank ICT TA; Competition ASA
Policy Area II.2: **Removing barriers to investment and competition in the internet broadband market**	

Prior action #7: *In order to facilitate the entry of a wider range of internet service providers (ISP) into the retail internet broadband segment, the Government has: (i) enacted the amendments to Articles 29 to 32 of the Telecom Law No 2011-01 of February 24, 2011providing that ISPs are subject to the lighter and less expensive general "authorization" regime instead of the "licensing" regime, and are allowed to deploy and operate their own infrastructure; (ii) issued an implementation decree of the amended Articles 29 to 32 of the Telecom Law No 2011-01 of February 24, 2011, which includes a provision converting already attributed ISP licenses into authorizations.*	World Bank ICT TA; Competition ASA
Prior action #8: *In order to increase competition in the wholesale internet broadband segment, the Government has adopted and implemented a decree specifying the rules for granting authorizations to wholesale telecommunications infrastructure operators, in accordance with Telecom law no 2011-01 of February 24, 2011.*	World Bank ICT TA; Competition ASA
Prior action #9: *With a view to reduce infrastructure roll-out costs for telecom operators, the Government has adopted and implemented a decree clarifying the technical and financial rules for infrastructure sharing among telecommunication operators in accordance with Articles 10 and 25 of the Telecom law no 2011-01 of February 24, 2011*	World Bank ICT TA; Competition ASA

4.3 LINK TO CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY

Link to CPF

86. **This Operation falls under Pillar I of the Senegal CPS.** The FY13-FY17 CPS (Report 73748-SN, January 2013) includes two pillars, Pillar 1: Accelerating inclusive growth and creating employment, and Pillar 2: Improving service delivery, and one foundation: Improving governance and strengthen resilience. This operation falls squarely under Pillar 1. The programmatic DPF modality is explicitly envisaged in the CPS. The DPO series now proposed is designed to extend beyond the life of the current CPS, but, recognizing how central the PSE is to Senegal's development agenda, support to key PSE sectors is likely to remain a priority in the new CPF.

Link to other World Bank operations

87. **The proposed operation is a key element of a suite of WBG instruments supporting the power sector value chain in Senegal, including generation, transmission, distribution, and improvement of SENELEC's performance.** The WBG program is anchored in strong sector dialogue with the authorities, focusing on lowering the cost of energy through cheaper and more mixed generation, better governance and management of the power sector, and ensuring reasonably priced energy access in rural areas. In addition to the Electricity Sector Support Project (P125565), whose objective is to reduce SENELEC's technical and commercial losses and improve the reliability of electricity services, the WBG has supported the dual fuel private power investment at Taiba Ndiaye, which came online in mid-March 2016, and which will alleviate the need for emergency rentals and thus meet expanding demand at lower cost. In addition, the IDA-supported *Organisation pour la Mise en Valeur du fleuve Gambie* (OMVG) Interconnection Project (P146830) will link Senegal to Guinea, providing access to its extensive hydropower potential at lower cost, while also connecting the Casamance and Senegal Oriental regions to the national grid. A project (P147921) to extend the *Organisation pour la Mise en Valeur du fleuve Sénégal* (OMVS) system is also under preparation with World Bank support, which will enable hydropower capacity (from the Manantali and Gouina hydropower plants) to be evacuated efficiently by interconnecting the OMVS and OMVG systems at Tambacounda.

88. **The World Bank is supporting the access agenda in Senegal through The Sustainable Energy for All Technical Assistance Program** that is helping to develop an investment prospectus to reach the Government's access goals and the Sustainable and Participatory Energy Management Project (P7075) for Senegal that contributes to increasing the availability of diversified household fuels. Senegal is also due to benefit from the Banda Gas to Power Guarantee Project (P145664), for which IDA is providing guarantees to Mali, Mauritania, and Senegal. The WBG is also working with Government to prepare a support package for a quick, transparent tender process for the development of 50 MW to 200 MW of solar IPP projects in the context of the WBG Scaling Solar Program, supported jointly by IDA, the International Finance Corporation, and the Multilateral Investment Guarantee Agency (MIGA).

89. **The World Bank has been engaged on an ICT Policy Dialogue for the last three years.** In FY16, this dialogue was supported by a study (P157222) aimed at providing the Government with ICT policy notes, with a view to encourage policy makers to endorse a number of policy and regulatory reforms (aimed at increasing the level of competition in the broadband market) while improving the readiness of its agencies to effectively implement these reforms. This policy dialogue task has provided much of the technical and policy input for the DPO. Over the current fiscal year, a study on competition issues in Senegal will also look at the ICT sector, and provide additional analytical insights into the sector.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

90. **The design of the proposed operation is based on reforms included in the PSE, which benefited from broad stakeholder consultations.** Additional consultative inputs are drawn from a local policy forum (LEAD - *Laboratoire d'Etudes et d'Analyses pour le Développement*). The LEAD represents broad sections of society (including the Government, private sector, think tanks, academia, and civil society) and is supported by the World Bank. On January 2016, the LEAD forum discussed the current situation of the ICT sector and the relevance of intended reforms. Also in early 2016, the Government has held consultations with private sector telecom operators[16], on the proposed ICT decrees and amendment included in this program, as well as on the National Strategy for the Digital Economy "Sénégal Numérique 2025". Participants provided generally favorable feedback, identified in a written document the main constraints faced by private operators, and praised the participative process. This was followed by a validation seminar of the National Strategy by the private sector held in September 2016, also organized by the Government. The same month, the World Bank held a one-day seminar with the Government and other stakeholders on the political economy of reforms, focused on the agriculture, land and energy sectors. More recently, at end March 2017, the WB and the IFC organized an ICT Day to evaluate the sector context and the advance of reforms with representatives of the public and private sector.

91. **The World Bank collaborates with a range of bilateral and multilateral development agencies in Senegal.** Through the Framework Agreement on Budget Support, donors providing budget support have contributed to establish a consolidated policy matrix of policy reforms, and common monitoring mechanisms to improve harmonization and exchange of information, and enhance the predictability of budget support. World Bank teams also participate in Development Partners' coordination groups at the sector level, particularly in Energy, Agriculture, Land and Transport.

[16] Including the main employer's union, OPTIC (*Organisation des Professionnels des TIC*), which brings together the most important ICT private companies in Senegal.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

92. **This DPF supports policy and institutional actions that are expected to have positive effects on poverty reduction in both the short and medium term.** In the medium term, the energy sector reforms supported by the program will enhance competiveness, stimulate job creation and productivity, thus contributing to overall poverty reduction. Also, the diversification of the energy mix towards less expensive and volatile source should help reduce the need for highly regressive energy subsidies. In the shorter term, improved affordability of rural electricity provision would disproportionately benefit poor and extreme poor households. Negative social impact in the energy sector are likely to be very limited. SENELEC's performance contract may potentially lead to some staff reductions, but Senegal has robust legal provisions for compensation of employee in case of termination. The World Bank will monitor the impact of the performance contract on human resources outcomes in SENELEC. In the ICT sector, reforms will promote access to broadband services, stimulating productivity and jobs in the medium-term, improvements especially for small and medium size firms, both directly, but more importantly in other sector of the economy which create jobs for the urban youth. In the later years of the program, the re-activation of an improved universal access program, together with a policy to leverage the public digital network of AIDE are expected to lead to a gradual reduction in the digital divide between urban and rural areas, and to positively impact the poor.

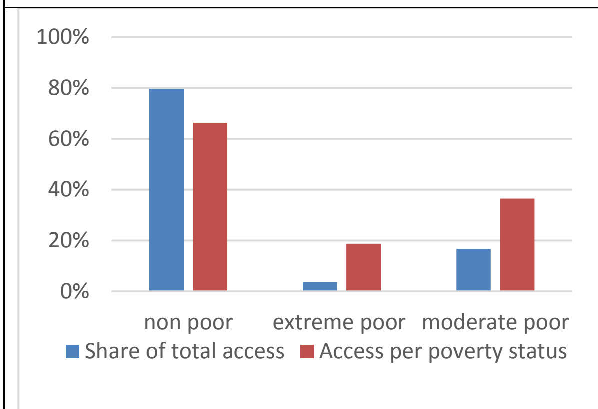
93. **Although access to electricity access has significantly improved in Senegal, it remains unequal, especially between urban and rural areas, which the program seeks to address.** Access to electricity, both through a formal or informal connection to SENELEC or though generators, has moved from 55 percent in 2011 to 57 percent in 2014. This remarkable progress, however, hides important territorial and welfare disparities, with Dakar having an access rate well over 90 percent while rural areas – where more than 70 percent of the poor and more than 80 percent of the extreme poor live – only have a third of it. Access to SENELEC is prevalent among non-poor households, 66 percent benefit from a connection, against 36.4 percent among the poor and 17.7 percent among the extreme poor (Figure 2, left-hand bars). Indeed, access is much more important among the wealthier part of the population. In effect, of all the SENELEC connections, almost 80 percent benefit the non-poor (Figure 2, right-hand bars).

94. **Access to mobile telephony is high and presents limited spatial disparities, but access to internet broadband is extremely limited in rural areas.** Access to mobile telephony has grown rapidly in Senegal over the past decade. Between 2005 and 2014, overall access has more than doubled passing from 44 to 93 percent. This good performance is largely due to the strong breakthrough of rural mobile where the access rate has more than tripled. Urban areas, Dakar in particular, has been gradually progressing towards universal access. The introduction of ADSL in 2003 positioned Senegal among the first African countries to have internet broadband service, but this has not led to widespread use of the Internet. Estimates from household surveys indicate enormous spatial disparities in access with rural areas – where poverty is higher—having least access. Reforms of the Telecom Universal Access Fund would help bridge these gaps.

95. **The need for electricity subsidies, which are regressive and largely benefit the non-poor, will recede due to policy actions supporting lower generation costs and higher efficiency of SENELEC's operations.** Until 2013, when oil prices were high, the Government was providing large electricity

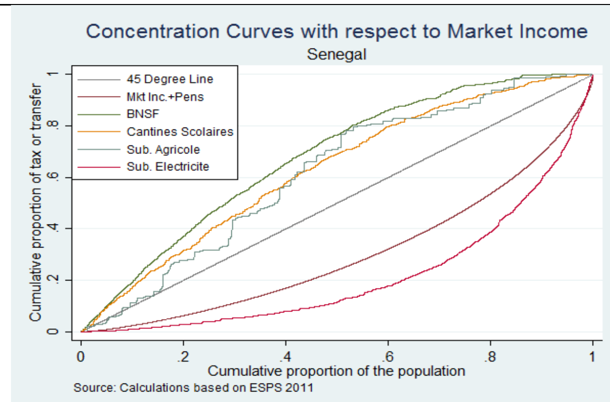
subsidies to compensate SENELEC for not raising electricity tariffs to the cost-reflective levels indicated by the regulator. After totally eliminating electricity subsidies to SENELEC in 2016, the Government will have to reintroduce them in 2017, for an amount of around FCFA 11 billion at current oil prices (equivalent to US$19 million or 0.1 percent of GDP). Since access is preeminently concentrated among non-poor, urban households, these subsidies benefit largely the non-poor. Tariff harmonization in rural areas is also expected to benefit a few wealthier rural consumers, although their number remains minimal. Incidence analysis of government transfers indicate that electricity subsidization is the most regressive intervention implemented by the Government, after tertiary education expenditure (Figure 3). To reduce the regressive impact of the new subsidies, the Government has opted for a differentiated tariff reduction modality, which favors consumers in the lower tariffs bands. A such, the lower tariff band will receive a 15 percent reduction, the middle tariff band an 11 percent reduction, and the top tariff band, as well as industrial customers, will received a 4 percent reduction. With this modality, the share of the subsidy going to the top quintile, compared to a uniform 10 percent reduction, drop from 45 percent to 41 percent.

Figure 2. Access to SENELEC Services (2011)



Sources: ESPE 2 (ANSD, 2011)

Figure 3. Concentration curves for selected indirect transfers and subsidies.



Source: ESPE 2 (ANSD, 2011), Commitment for Equity Study for Senegal

96. **The program has the potential to contribute to the socio-economic empowerment of vulnerable groups and women.** The program aims to facilitate access to energy due to lower production costs – linked to a diversified energy mix – and the harmonization of tariffs in rural areas to the lower urban ones. Lower rural tariffs would particularly benefit the poor. The program will also promote connection to the internet for the poor by providing more services at a reasonable cost. The connection to better and more sustainable energy sources and the access to ICT may lead to increased economic opportunities including employment in rural areas, and possibly boost income generating activities for women and young micro-entrepreneurs in several sectors. They also may improve the access and quality of health and education services in rural areas, and contribute to reducing infant and maternal mortality rates in Senegal.

5.2 ENVIRONMENTAL ASPECTS

97. **The country possesses a solid legal framework on environmental protection, which requires a comprehensive environmental assessment before projects are realized.** The Ministry of Environment and Sustainable Development is the main institution responsible for implementing/enforcing the environment code and the Environmental Impact Assessment (EIA) regulations, particularly decree 2001-282 dated April 12, 2012 that defines the projects submitted to an environmental assessment

(Article. R40). The environment code being a framework law it relies on subsidiary regulations and bylaws and also on specific translations of the principles contained in the law into contracts and agreements. For instance, on November 28, 2001, the following bylaws were enacted; bylaw 009471 that define the content of and EIA, bylaw 009471 conditions for approval of EIA, bylaw 009472 content of the EIA, bylaw 009468 on public consultation, bylaw 009469 role and function of the technical committee in charge of reviewing the EIA. Standards have also been issued for air and water quality. The 2001 Environmental Code is the main environmental management instrument in Senegal. This law identifies key environmental principles, and defines priority actions fields. According to this law, any development or activity likely to affect the environment, as well as policies, plans, programs, should be subject to an environmental and social assessment. The executive decree of the Environmental Code sets the specific obligations related to authorities, project promoters and programs. The section on the environmental impact requires the assessment of these impacts before the realization of projects, in accordance with the severity of the potential impact. Although the overall environmental protection framework is relatively sound, its implementation is still uneven and dependent on the capacity of the project proponent and the consultants hired to prepare the EIAs. Government capacity to assess and mitigate potential environmental and social impacts of energy sector projects is being reinforced. A technical assistance component built into the existing Electricity Sector Support Project is supporting the Government to further reinforce its capacity to assess and manage potential adverse impacts related to electricity sector. In addition, as part to the ongoing preparation for the energy sector program for results (PforR) program (P159625), the country system will be further assessed and further reinforced if needed.

98. **The use of fossil fuels for energy generation raises concerns, but the overall environmental impact would be positive or neutral, with clearly positive impact in rural areas.** Among the policies supported by the operation that may raise concerns from an environmental perspective is the approval of a Power Sector Master Plan that includes coal as energy sources. However, the impact of this power plan on environmental outdoor and indoor air pollution is expected to be positive or neutral. The new Least Cost Plan for power generation allows Senegal to completely phase out its current 90 percent reliance on expensive and carbon-intensive HFO for power generation, replacing it over time with a diversified mix of coal, natural gas, hydropower, wind and solar generation capacity. Given that the carbon content of HFO in power generation exceeds that of coal, the carbon intensity of Senegal's power generation is expected to fall by 30 percent from a peak of 0.70 to 0.48 tons of CO_2 per kWh of electricity by the time the plan has been fully implemented in 2035. A sensitivity analysis of the least cost expansion plan was carried out based on various values of the shadow price of carbon (modeled at US$30/tons (2015), rising to US$35 (2020), US$50 (2030), and US$65 (2040). The results show that incorporating these shadow prices of carbon would not change in any significant way the optimized energy mix of the plan, taking into account availability of gas, intermittency and operational issues. Further information on the existing coal project funded by the African Development Bank (AfDB) will allow WBG to ascertain the level of environmental standards that have been required. This information will allow the WBG to define if that project can be considered the baseline for future coal plants included in the Plan. Regarding the impact of this DPF on the demand side of the energy sector, improved access to electricity is likely to increase the level of satisfaction – particularly in rural areas – as it would reduce indoor air polluting sources such as wood and charcoal. Concerning the reforms to be implemented in the ICT sector, only the deployment of new retail broadband infrastructure by service providers has the potential for limited negative environmental impacts. This would require mitigation measures to be determined and put in place.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

99. **Senegal's public financial management system is considered satisfactory, but an updated evaluation of PFM performance in Senegal is needed.** In terms of public investment management, execution rates of the country's investment budget have consistently been above 90 percent since 2011. However, these rates do not reflect the realization of all investments included in the state budget (many of which are entrusted to parastatals for which the appropriation may not correspond with the actual realization of the investment). Investment management performance is further skewed by the late adoption of supplementary budgets (which revise appropriations to reflect actual appropriations). The last Public Expenditure Framework Assessment (PEFA) was conducted in 2011 and a PEFA is due to be carried out in 2017, together with a public investment management assessment. The 2016 Report on the Observance of Statutes and Codes (ROSC) on Auditing and Accounting reveals significant progress had been made to improve the quality of financial information in the country: nine of the 15 recommendations from the 2005 ROSC have been fully or partially implemented.[17] Some success has been achieved in improving the transparency of fiscal information with the regular publication of quarterly budget appropriations and their execution on the Ministry of Finance website – the country is also in the process of adopting the BOOST instrument to improve the availability of budget data, but the implementation is not yet completed. The budget is publicly available and can be downloaded from the webpage of the Ministry of Finance (www.finances.gouv.sn)[18]. Tax reform and tax administration capacity have improved in recent years. A new Tax Code came into force in 2013 and the application of the Common External Tariff (CET) of Economic Community of West African States (ECOWAS) from January 2015 expanded the tax base. The development of a Single Taxpayer Identification Number (NINEA) has also been critical for enforcement and cross checking of taxes, in both the customs and the tax directorate. A Tax Administration Diagnostic Assessment will be undertaken in 2017.

100. **Further efforts are needed to strengthen the PFM institutional framework and accelerate the reforms to shift state public spending to the WAEMU-mandated performance-based paradigm.** In 2009, the WAEMU adopted six new PFM regulations (*Directives*) setting ambitious objectives, including performance budgeting, decentralization of commitment authority to line Ministries, reinforcement and modernization of internal and external control, modernization of expenditures management, implementation of accrual accounting, and new budget classification aligned with international standards. The Senegalese Government has been proactive in developing an appropriate legal framework in alignment with the WAEMU directives. The organic law on public finances (LOLF) was approved in July 2011[19] and a Transparency Code was passed in 2013 to establish key budget management principles such as an obligation of assets declaration for civil servants managing public funds, adhesion of civil servants to an integrity code, and public access to key fiscal information. An embryonic system for asset declaration was introduced in 2014 under the supervision of the *Office National de Lutte contre la Fraude et la Corruption (OFNAC).* Around 740 public servants were required to declare their assets in 2016; less than 400 complied but the advance is significant. Also, the Ministry of Civil Service is preparing a draft for a new integrity code. The draft code is expected to be sent to the Parliament by the end of the year. Hence, Senegal is amongst the four countries that is most advanced in implementing the WAEMU directives, and the country has committed to full compliance during 2017. Notwithstanding the progress made in implementing these directives, fundamental aspects of the architecture required for shifting responsibility for program budgets to line ministries have yet to be developed. These include: the institutional and organizational arrangements for the decentralization of

[17] The recommendations that have not been implemented are largely due to weaknesses in the functioning of WAEMU and OHADA regional institutions.
[18] The latest budget (Loi de Finances 2016) can be found at www.finances.gouv.sn/images/yootheme/demo/Projet_de_Loi_de_finances_2016.
[19] Loi n° 2011-15 du 8 juillet 2011 portant loi Organique relative aux lois de finances.

commitment authority, the identification of program managers, the re-positioning of internal controls and the inter-relationship between the principal actors in the budget program. Weak capacity of line ministries, and the Court of Auditors also represent critical challenges for the effective implementation of budget programs.

101. **The procurement framework is considered satisfactory and has undergone several iterations of reform.** The WAEMU procurement directive has been transposed and a new Procurement Code was introduced in 2014, drawing upon recommendations identified in the Boosting Public Investment Management Report 2013. Nevertheless, the Code continues to provide for unsolicited bidding and procurement processes tend to be complicated by lengthy procedures.

102. **The proposed credit would follow IDA's disbursement procedures for development policy credits.** It would be disbursed, upon effectiveness of the Financing Agreement, and provided IDA is satisfied with the implementation of the development policy program and the appropriateness of the Recipient's macroeconomic policy framework. The proceeds of the credit would be disbursed by IDA into a dedicated account designated by the Recipient that is part of the country's foreign exchange reserves accounts at the BCEAO. The dedicated account will be used exclusively for the DPO credit proceeds. Disbursement will not be linked to specific purchases however the proceeds of the credit would not be used to finance expenditures excluded under the Agreement. The Recipient shall ensure that upon the deposit of the credit into said account, an equivalent amount is credited in the Borrower's budget management system, in a manner acceptable to IDA. Based on previous experience, the execution of such a transaction from the Central Bank (BCEAO) to the Treasury (Ministry of Economy and Finance) does not require more than four days. The Borrower will report to the World Bank on the amounts deposited in the foreign currency account and credited in local currency to the budget management system. Assuming that the withdrawal request is in foreign exchange, the equivalent amount in CFAF reported in the budgetary system will be based on the market rate at the date of the transfer. The Borrower will promptly notify the World Bank by fax or email that such transfer has taken place, and that proceeds have been credited in a manner satisfactory to the World Bank.

103. **The BCEAO is the common central bank of the West African States, thus including Senegal.** The BCEAO publishes a full set of audited financial statements, and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). The BCEAO had improved the explanatory notes to their financial statements and further changes are scheduled, with a view toward gradual alignment with International Accounting Standards (IAS). Furthermore, an internal audit charter has been put in place, mechanisms have been established to improve risk management and risk prevention, and follow-up on internal and external audit recommendations has been strengthened. The foreign exchange risk is moderate. A number of areas were identified where further steps would help solidify the progress made in recent years. These areas include: (i) improving the external audit process by adopting a formal rotation policy and further enhancing the transparency of the financial statements by fully adopting IFRS; and, (ii) enhancing effectiveness of internal audit functions by further strengthening reporting to BCEAO management. The most recent IMF Safeguards Assessment was conducted in 2013.

104. **Auditing.** The Borrower will (a) report the exact sum received into the Dedicated Account; (b) ensure that all withdrawals from the Dedicated Account are for budgeted public expenditures, except for purposes such as military expenditures or for other items on IDA's negative list; (c) provide to IDA evidence that the CFAF equivalent of the credit proceeds was credited to the Dedicated Account and disbursements from that account were for budgeted public expenditures. IDA reserves the right to seek an audit of the dedicated account by independent auditors acceptable to IDA. If, after being deposited in

this account, the proceeds of the credit are used for ineligible purposes as defined in the Financing Agreement, IDA will require the Recipient to refund the amount directly to IDA. The draft budget execution law for 2016 is expected to be approved by the Parliament before the end of 2017.

5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

106**. Strengthening monitoring and evaluation is critical for the successful implementation of the Government's priorities.** The last presidential election brought high expectations for Government accountability as well as enhanced performance of service delivery and policy implementation. The institutional framework for the evaluation of public policies is still developing, and focused on procedural and expenditure control. Monitoring and Evaluation (M&E) functions in the Senegalese public administration are characterized by weakness in line ministries, and the need to coordinate and strengthen central government actors. The current institutional link between the head of the executive, the head of government, the Ministries of Finance Planning and Economy, and sector M&E units has not been clear. On May 2015, the Government adopted through decree a new M&E framework called CASE (*Cadre Harmonisé de Suivi-Evaluation*) in order to assure coordinated monitoring across sectors of strategic objectives, projects and programs in the PSE. The CASE supports an M&E unit based in the Bureau of Operations and Method (BoM), located in the Office of the President, a unit to follow up on the PSE implementation and priority programs, the BoS (*Bureau Operationel de Suivi*), also located in the Office of the President, while the Ministry of Finance still has responsibility for the overall monitoring of budget spending. An inter-agency committee has been established between these three entities to define clearly an integrated M&E system based on the CASE decree, and clarify operational division of responsibilities. It is expected that M&E reporting will improve based on the work of this committee over the period of the program.

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

6. SUMMARY OF RISKS AND MITIGATION

108**. Overall risk is judged to be substantial as several factors could jeopardize some of the expected outcomes and benefits.** These include: (i) resistance to reform by entrenched interests; (ii) pressure to water down reforms or take politically-motivated decisions ahead of general elections in 2019; (iii) weak government implementation capacity. The design of this operation, the relative strength of Senegalese institutions, and the country's tradition of stability are important mitigating factors.

109**. Risks associated with the political environment are substantive.** The political situation is stable but subject to the normal pressures of a governing coalition in a lively democracy. The ruling party depends on the cooperation of numerous smaller parties, and there is continuous political bickering, which could escalate with the approaching general elections. However, the President's authority is strong, and with his program now clearly defined in the PSE, with which the proposed operation is closely aligned, a reasonable degree of stability is expected. The President's outreach to the opposition has also helped pacify the political climate. Nonetheless, the policy reforms risk becoming increasingly politicized as the 2019 presidential elections approach. The programmatic nature of the operation and the focus on monitoring and sustaining policy reforms will help mitigate this risk.

110. **Risks associated with sectoral strategies and policies are high.** The electricity sector reforms have a long history of failed attempts, and their leadership has often lacked a sense of urgency, or they have been captured by vested interests. The experience from previous operations underscores the need to balance a realistic, more focused reform agenda with enough flexibility to adapt to the political decision-making in the country, and to ensure Government's ownership. Similarly, the reforms in the ICT sector affect powerful vested interests in this growing and highly profitable sector, which have been able to delay or dilute reform attempts in the past. The reforms promoted through this series are backed by continuous policy dialogue by a field-based team, including the IFC, active involvement by management, and regular discussions with the IMF and other Development Partners on structural and sector reforms. This allows to address emerging issues promptly, and the Government so far has proved responsive to instances of potential policy misalignments with the program.

111**. Risks related to institutional capacity for implementation and sustainability are substantive.** Bureaucratic inertia, poor coordination between sector ministries and the Ministry of Economy and Finance, bottlenecks at the decision-making level, frequently result in delays in implementation and at times policy stalling altogether. The programmatic nature of this series, its supervision by field-based staff, as well as complementary investment and technical assistance operations in the same sectors should help mitigate this risk.

Table 5: Systematic Operations Risk-rating Tool (SORT)

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

ANNEX 1: POLICY AND RESULTS MATRIX

DPO 1	DPO 2	DPO 3	Results
PILLAR I: ENERGY SECTOR			
Policy Area *I.1: Improving governance of the energy sector*			
Governance and corporate arrangements of SENELEC			Improvement in SENELEC's performance and financial sustainability (aligned with SENELEC's performance contract indicators): **SENELEC debt cover ratio (EBIDTA*/debt service)** Baseline: 0.54 (2016) Target: 0.90 (2019) **Un-served energy (total) per year (GWh) as proxy of blackouts and brownouts:** Baseline: 34.1 (2015) Target: 20 (2019) **Overall electricity losses as percent of electricity produced** Baseline: 21 percent (2014) Target: 18 percent (2019) *Earnings before interest, taxes, depreciation and amortization
Prior Action 1: In order to improve the management of SENELEC, the Government has entered with SENELEC into a focused performance contract, which includes a monitoring and corrective mechanism, and incorporates a functional performance incentive system.	**Trigger 1:** In order to subject SENELEC to greater market discipline, SENELEC has applied for a baseline rating from a reputable credit rating agency, and adopted an associated action plan to secure an intermediate investment grade rating within a two-year period.	**Trigger 1:** Publication of the first independent audit of performance contract covering the year 2017.	
Prior Action 2: In order to enable the board of directors of SENELEC to better perform its corporate governance role, (i) SENELEC's General Assembly has adopted the modifications to SENELEC's statutes to ensure compliance with Article 416 of the OHADA Revised Uniform Act of 2014, allowing the appointment of directors to its board of directors that are not shareholders, and (ii) SENELEC's Board of Directors has established technical and financial committees at board level for auditing, investment and commercial aspects.	**Trigger 2:** The Government has established the required profile for SENELEC Board members, and determines the criteria for the appointment of directors that are not shareholders to SENELEC's Board, and the Government has appointed a new SENELEC Board based on the new rules. **Trigger 3:** For greater operational efficiency, the Government has streamlined procurement procedures related to SENELEC's operation and maintenance investments.	**Trigger 2:** For enhanced transparency and commercial orientation, SENELEC has been reorganized in distinct generation, and transmission & distribution subsidiaries.	
Sector financial arrangements			
Prior Action 3: In order to sustainably resolve the sector issues on cross debt and financial arrears (i) the Government has entered with SENELEC into a cross-debt and arrears clearance agreement covering the period August 2012 - February 2016, (ii) the Government has agreed to pay SENELEC's 2017 VAT credits within the statutory three months while SENELEC has agreed to honor 100 percent of its tax commitments by 2019; and (iii) the Minister of Finance has issued a circular instructing all central government autonomous institutions and entities to include in their yearly budgets separate allocations for covering electricity and water bills.	**Trigger 4:** In order to sustainably resolve the sector issues on cross debt and financial arrears, (i) the Government and SENELEC have signed an addendum to their November 2016 cross-debt clearance agreement offsetting the backlog of SENELEC's VAT credits against the balance of the cross-debt clearance agreement; (ii) the Government and SENELEC have signed an addendum to their November 2016 cross-debt clearance agreement to settle the remaining cross-debt and arrears related to the period March 2016 to February 2017; (iii) the Minister of Finance has allocated XOF 10 billion for the payment of public lighting in the 2017 budget.	**Trigger 3:** Implementation of permanent funding mechanisms for public lighting and rural-urban tariff harmonization.	

DPO 1	DPO 2	DPO 3	Results
Sector regulation			
		Trigger 4: In view of the expiration of SENELEC's purchase monopoly, the Government has implemented an action plan and regulatory framework, including grid code and transmission charges calculations, allowing eligible customers to purchase directly from power producers, while preserving the financial equilibrium of the power sector. **Trigger 5:** Revision of mandate and strengthening of legal & regulatory framework and capacity of sector regulator (CRSE).	
Policy Area *I.2: Removing barriers to investment and competition in the energy sector*			
Generation expansion			Least cost generation expansion in progress as indicated by: **Mix of non-HFO based generation** Baseline: 10 percent (2015) Target: 43 percent
Prior Action 4: In order to diversify the country energy mix towards less expensive sources including renewables, the Council of Ministers has approved a strategic master plan for electricity generation setting forth the Government's priorities in energy diversification and private sector participation in power generation, including related project development modalities.	**Trigger 5:** To ensure transparent implementation of the Government's energy master plan, the Minister of Energy has issued a decision mandating SENELEC to publish key terms of any generation project legal agreement, including PPAs, MoUs and any related contract modifications, for which an exception to competitive procurement (as per laws 2010-21 and 2002-01or the country procurement code) is obtained.	**Trigger 6:** The Government has published an independent technical audit of the implementation of power generation plan for the year 2017, showing satisfactory implementation and/or justifying any variation and adaptation of the approved plan.	
Policy Area *I.3: Facilitating Equitable access to electricity*			
Affordability and availability of rural electricity			Increased access to electricity in rural areas. **Share of rural population with access to electricity** Baseline: 29 percent of the population (2015) Target: 35 percent
Prior Action 5: In order to improve access to affordable electricity services in rural areas, the Minister of Energy has instructed the electricity national regulator to lower rural concessions' electricity user tariffs to SENELEC's national tariffs.	**Trigger 6:** The Government has awarded the remaining 4 rural concessions and made available the associated funding. **Trigger 7:** The Government has provided resources from the 2017 budget to fund the lowering of rural concessionaire electricity tariffs for 2017.	**Trigger 7:** The Government has published an independent audit of the implementation of all rural concession, including corrective actions to achieve access targets.	
PILLAR II: ICT SECTOR			
Policy Area II.1: Improving governance of the ICT sector			
Sector legal, policy and institutional framework			**Ranking of Senegal with respect to the A.1.02 sub-index of the Network Readiness Index** (which assesses the extent to which the national legal framework
Prior Action 6: The Council of Ministers has adopted the National Strategy for the digital economy "Sénégal Numérique 2025" providing policy basis for increased open market access to new service providers in the telecommunications sector in line with international	**Trigger 8:** Submission to parliament of a new Telecom Act that reflects the principles of the National Strategy the Digital Economy "Sénégal Numérique 2025" for and approval of associated implementation decrees.	**Trigger 8:** Full operationalization of the implementation decrees of the new Telecom Act related to sector governance and regulation.	

DPO 1	DPO 2	DPO 3	Results
best practices.			facilitates ICT penetration and a safe development of business activities -Source World Economic Forum)
	Trigger 9: The Government has created the *Conseil National du Numérique*, appointed its members, and a first meeting of the said Conseil has taken place.	**Trigger 9:** The Cabinet has adopted a legal and regulatory framework to promote inter-sectoral coordination for civil works related to public infrastructure projects (including telecoms).	Baseline (2015): 81^{th} Target (2019): 72^{th}
Policy Area II.2: Removing barriers to investment and competition in the internet broadband market			
Regulatory framework for Internet Service Providers (ISPs) and IT infrastructure operators			**Internet penetration rate** (source ARTP) Baseline (2016): 60 percent Target (2019): 70 percent **Number of facility-based Internet providers** Baseline (2015): 1 Target (2019): 6
Prior Action 7: In order to facilitate the entry of a wider range of internet service providers (ISP) into the retail internet broadband segment, the Government has: (i) enacted the amendments to Articles 29 to 32 of the Telecom Law No 2011-01 of February 24, 2011, providing that ISPs are subject to the lighter and less expensive general "authorization" regime instead of the "licensing" regime, and are allowed to deploy and operate their own infrastructure; (ii) issued an implementation decree of the amended Articles 29 to 32 of the Telecom Law No 2011-01 of February 24, 2011, which includes a provision converting already attributed ISP licenses into authorizations.	**Trigger 10:** The regulator ARTP has issued a standard model and guidelines to be used for the granting of ISP authorizations which contain only limited and reasonable restrictions to service provision and geographic coverage.		
Prior Action 8: In order to increase competition in the wholesale internet broadband segment, the Government has adopted and implemented a decree specifying the rules for granting authorizations to wholesale telecommunications infrastructure	**Trigger 11:** The regulator ARTP has issued a standard model and guidelines to be used for the granting of authorizations to wholesale Telecom infrastructure operators.		
Access to essential infrastructure and interconnection			
Prior Action 9: With a view to reduce infrastructure roll-out costs for telecom operators, the Government has adopted and implemented a decree clarifying the technical and financial rules for infrastructure sharing among telecommunication operators in accordance with Articles 10 and 25 of the Telecom law no 2011-01 of February 24, 2011.	**Trigger 12:** Publication of regulatory decisions by the regulator ARPT to guide the technical and pricing interconnection offers of telecom operators with a significant influence on relevant telecom markets.		

DPO 1	DPO 2	DPO 3	Results
Policy Area *II.3: Facilitate equitable access to ICT services*			
Reform of the Universal Service Development Fund for Telecommunications (FDSUT)			**Percentage of rural households reporting access to the Internet (Source: Gallup survey)** Baseline (2015): 2 percent Target (2019): 4 percent
		Trigger 10: Operationalization of implementation decrees of new Telecom Act related to the Universal Telecommunications Services **Trigger 11:** The Government has adopted a fully-funded investment plan for universal access to ICT services.	
Leveraging the state-owned fiber network			
	Trigger 13: In order to fully exploit the country-wide state-owned digital network of ADIE, the Government has adopted a new management model which meets criteria of economic and financial efficiency and national security.	**Trigger 12:** Operationalization of the selected model for the management of state-owned digital network of ADIE.	

ANNEX 2: LETTER OF DEVELOPMENT POLICY

République du Sénégal
Un Peuple – Un But – Une Foi

MINISTERE DE L'ECONOMIE
DES FINANCES ET DU PLAN

Le Ministre

N° 4893 MEFP/CAB/CT A. Nd

Dakar, le 17 MAI 2017.

A

Monsieur Jim Yong Kim
Président de la Banque Mondiale
Washington DC

OBJET : Premier Crédit d'Appui à la Politique de Développement pour les Réformes Structurelles Multisectorielles».

Monsieur le Président,

Je voudrais, au nom du Gouvernement de la République du Sénégal, solliciter un Crédit d'Appui à la « **Politique de Développement pour les Réformes Structurelles Multisectorielles** ». d'un montant équivalent à 60 millions de dollars US pour soutenir notre programme de réformes.

A cet effet, je vous transmets en annexe, une lettre de politique de développement qui résume les récentes performances économiques et sociales du Sénégal, particulièrement dans les domaines soutenus par le Crédit cité en objet et présente les orientations majeures sur la période 2017 – 2019 faisant partie intégrante de notre stratégie nationale le «Plan Sénégal Emergent (PSE) ».

Par ailleurs, je précise que l'ensemble des actions préalables convenues avec les services de la Banque Mondiale ont été entièrement réalisées.

En vous remerciant pour l'appui constant que vous nous apportez, je vous prie d'agréer, Monsieur le Président, l'assurance de ma haute considération.

Pour le Ministre de l'Economie des Finances, et du Plan et par Délégation
Le Ministre Délégué Chargé du Budget

Birima Mangara

REPUBLIQUE DU SENEGAL

Un Peuple – Un But – Une Foi

MINISTERE DEL'ECONOMIE, DES FINANCES ET DU PLAN

LETTRE DE POLITIQUE DEVELOPPEMENT

(mai 2017)

I. Introduction

1.Le Sénégal a élaboré et adopté, avec l'appui de ses partenaires techniques et financiers sa Stratégie de développement économique et social, le Plan Sénégal Emergent (PSE). Il s'agit de politiques et programmes intégrés qui traduisent la volonté politique du Gouvernement, d'inscrire le Sénégal sur la voie du développement et la prise en compte des préoccupations de base des populations. L'objectif consiste à assurer les conditions d'une croissance soutenue, inclusive et durable à même de réduire significativement la pauvreté et d'atteindre les Objectifs de Développement Durable (ODD).

2.Le développement économique et social du Sénégal nécessite la mise en œuvre d'une stratégie conduisant à une croissance économique à fort impact positif sur les conditions de vie des populations mais prenant en compte la nécessité de redresser les finances publiques et de maintenir la dette publique à des niveaux soutenables. A cet égard, le défi majeur porte essentiellement sur la relance de l'économie dans un contexte de gouvernance vertueuse, efficace et efficiente. Le PSE s'articule autour de trois axes : (i) Croissance, Productivité et Création de richesses ; (ii) Capital humain, Protection sociale et Développement durable ; et (iii) Gouvernance, Institutions, Paix et Sécurité.

3. Par ailleurs, en vue de renforcer le dialogue sur les politiques publiques avec ses partenaires au développement, et de rationaliser les interventions de ces derniers pour un meilleur alignement et une meilleure prévisibilité, le Gouvernement tient des rencontres périodiques avec le groupe G50 des partenaires techniques et financiers et une revue annuelle conjointe.

Ce document résume les récentes performances économiques et sociales et les perspectives du Sénégal,

II. Les résultats préliminaires pour 2016

4. Au plan interne, la mise en œuvre du Plan Sénégal Émergent a été profitable à l'économie nationale. En effet, au terme de l'année 2016, le taux de croissance du PIB réel est estimé à 6,7% contre 6,5% en 2015, reflétant, ainsi, le regain de dynamisme dans les secteurs primaire et tertiaire conjugué à la bonne tenue du secteur secondaire. Dans le secteur primaire, la croissance a été soutenue par la performance observée dans le sous-secteur de la pêche, mais

également par l'agriculture vivrière, moins affectée par les difficultés de la saison hivernale grâce, notamment, à la bonne tenue de l'horticulture. En matière d'inflation, l'évolution des prix est restée timide au regard de la progression de l'indice harmonisé des prix à la consommation (IHPC) évalué à 0,8%, dans un climat de faiblesse des cours de matières premières sur le marché mondial. Au titre des échanges avec l'extérieur, le déficit du compte courant s'inscrirait en amélioration par rapport à l'année 2015, en raison de l'impact du repli du cours du baril sur les importations de produits pétroliers et de la forte progression des envois de fonds des migrants.

5. L'objectif de déficit budgétaire de 372 milliards de FCFA (4,2 pourcent du PIB) a été respecté. Le Gouvernement a poursuivi la rationalisation des dépenses de consommation publique afin de favoriser l'investissement dans le capital humain, les infrastructures publiques et dans le renforcement du développement communautaire. Il a, par ailleurs, renforcer le recouvrement des recettes budgétaires.

III. Politique macroéconomique et réformes structurelles pour 2017-2019

6. L'objectif principal est de mettre en place les conditions favorables à une croissance plus forte et mieux partagée pour une réduction significative de la pauvreté. En 2017, le taux de croissance du PIB est projeté à 6,8%. Pour atteindre cet objectif, le gouvernement doit accélérer la cadence dans la mise en œuvre des projets et des réformes du PSE, notamment dans l'énergie, l'agriculture (filières riz et horticulture), du tourisme, des mines et des infrastructures. En outre, la mise en œuvre des importants projets annoncés à Diamniadio (parc d'exposition, hôtel 5 étoiles, cité du savoir, Université Amadou Moctar Mbow,...) devrait être accélérée. Il convient également de créer les conditions favorables à l'ouverture de l'espace économique aux PMEs et l'IDE. L'objectif est de promouvoir un environnement réglementaire favorable à l'entreprise y compris un régime fiscal approprié.

A. politique macroéconomique

7. Les perspectives macroéconomiques du Sénégal sur la période 2017-19 sont généralement bien orientées. La croissance du PIB réel devrait s'accélérer graduellement pour atteindre 6,8% en 2017. L'inflation devrait rester dans la fourchette de 1 à 2 pourcent. Le déficit du compte courant (en pourcentage du PIB) devrait s'améliorer en 2017 et diminuer par la suite et surtout de plus en plus financé par des flux d'Investissements Directs Etrangers (IDE). L'objectif pour le déficit budgétaire est fixé à FCFA 349 milliards en 2017 soit 3,7% du PIB. Il devrait atteindre les 3% à l'horizon de convergence fixé par l'UEMOA en 2019. Le niveau du ratio d'endettement (dette publique totale, extérieure et intérieure) devrait être réduit et ramener sous la barre des 50% du PIB sur la période sous revue. Pour atteindre les objectifs de déficit public, le gouvernement compte sur une bonne collecte des recettes budgétaires par l'élargissement progressif de l'assiette fiscale et améliorer sensiblement l'efficience de la dépense publique dans les secteurs sociaux et des infrastructures et contenir les risques budgétaires. Cependant, une attention particulière sera accordée à l'accroissement des dépenses d'investissement pour soutenir la croissance inclusive à travers les différents programmes de développement communautaire. Il s'agira de créer un environnement

favorable à des activités génératrices de revenu et d'améliorer les conditions de vie des populations en milieu rural.

B. Réformes structurelles

B.1. Réformes budgétaires et de marchés publics

8. Le gouvernement poursuivra ses efforts de réformes budgétaires en vue d'améliorer le recouvrement des ressources et la productivité des dépenses publiques, d'accroître la transparence budgétaire et de renforcer l'évaluation, le suivi et la comptabilisation des risques budgétaires. A cet effet, le gouvernement entend relever le défi de la mobilisation des ressources internes par un renforcement des administrations fiscale et douanière et un élargissement progressif de l'assiette fiscale. En effet, l'accent sera mis sur la poursuite de la modernisation des administrations fiscale et douanière, le renforcement de la politique fiscale et la rationalisation des dépenses fiscales. Les mesures d'ordre législatif et/ou réglementaires seront prises pour rapatrier dans le budget dans la LFI 2018 tout ou partie des impôts, droits, taxes, redevances, contributions qui ne sont pas prélevés au profit du budget de l'Etat et qui frappent des opérations, notamment dans le secteur des mines, de l'Energie, des télécommunications et maritime. En attendant, le gouvernement examinera avec le FSE, l'ARTP, l'ARMP, le COSEC et le FERA la possibilité de rapatrier une partie de leur excédent dans le budget. La DGID sera également impliquée dans la liquidation, le contrôle et le recouvrement des redevances et autres recettes minières et pétrolières.

Par ailleurs, suite à l'audit des restes à recouvrer réalisé par la DGID, le gouvernement s'engage à mobiliser au minimum 50% de créances fiscales jugées recouvrables avec un plancher de 45 milliards, d'ici à fin décembre 2017.

9. L'amélioration de la qualité de la dépense publique financée sur ressources internes reste un défi majeur. Ainsi, le gouvernement entend, à partir de la deuxième année d'exécution d'un projet dont le coût global est supérieur ou égal à un milliard de francs, subordonner l'inscription de crédits de paiement dans la loi de finances, à la production, par le ministère concerné, d'un rapport d'exécution physique et financière portant sur l'année antérieure. Par ailleurs, en, vue de favoriser l'orientation des dépenses vers la formation brute de capital fixe, le gouvernement s'engage à réviser le décret n°2012-673 du 4 juillet 2012 portant nomenclature budgétaire de l'Etat. Le Gouvernement entend accroître l'efficacité de l'investissement. A cet effet, il va mettre au point des critères rigoureux pour la sélection et la hiérarchisation des projets. Toute proposition de projet serait inscrite dans une banque de projets et une analyse rigoureuse serait demandée avant de pouvoir l'inclure dans le budget. Les projets étudiés seront désormais prioritaires dans le budget Consolidé d'Investissement (BCI). La banque intégrée de projets sera opérationnelle et un Comité de sélection des investissements publics sera mis en place. Un plan d'actions sera mis en place pour intégrer, dans la plateforme, le cheminement des projets significatifs en termes d'impact sur la croissance. L'amélioration de l'efficacité des investissements en actifs financiers et non financiers est également une forte préoccupation. Le portefeuille de l'Etat comporte certes beaucoup d'actifs stratégiques mais il n'est pas géré selon une approche globale. Pour remédier à cette situation, la stratégie de gestion du portefeuille de l'Etat et des entreprises publiques, accompagné d'un plan d'actions, sera finalisée au courant de l'année.

Le gouvernement continuera à mettre en œuvre les réformes visant à améliorer la planification et la préparation du budget, l'exécution transparente du budget ainsi que son contrôle à posteriori par l'Assemblée nationale. Le Gouvernement compte renforcer davantage le contrôle externe de l'exécution du budget. A cet effet, le gouvernement a transmis la loi de règlement de 2013 à l'assemblée nationale et les comptes de gestion de l'année 2014 à la Cour des comptes

10. Le parachèvement de l'interface entre le Système Intégré de Gestion des Finances Publiques (SIGFIP) et ASTER (logiciel de comptabilité du Trésor public) a permis de réduire considérablement les délais de production des comptes de gestion et des projets de lois de règlement. Par ailleurs, le Gouvernement a renforcé les moyens et l'indépendance de la Cour des Comptes et a, à cet effet, fait adopter par l'Assemblée Nationale une nouvelle loi organique sur la Cour des Comptes en 2012 et une loi sur le statut des magistrats de cette Cour. Les rapports annuels de cette Cour sont régulièrement publiés et les comptes des comptables publics audités.

11. Le Gouvernement procédera à l'évaluation préalable de tous les projets financés sous forme de Partenariat Public-Privé (PPP) en application de la loi relative aux contrats de partenariat et de son décret d'application. Le Gouvernement utilisera les meilleurs critères d'analyse des implications budgétaires pour tous les projets de ce type et s'assurera de leur soutenabilité budgétaire. Le MEFP prendra les dispositions nécessaires pour fixer les modalités de financement des PPP et veillera à ce que les risques d'exploitation de ces projets soient supportés par les opérateurs privés attributaires de conventions.

12. Un débat d'orientation budgétaire entre le gouvernement et l'Assemblée nationale précède toujours la présentation du budget. Toutes les directives de l'UEMOA sont maintenant internalisées et leur mise en œuvre effective débutera en 2017.

B2. Autres réformes structurelles

13. Le Gouvernement entend promouvoir le secteur privé, vecteur de valeur ajoutée et d'émergence par : (i) la création dans une ZES d'un espace économique avec un réglementation favorable à l'entreprise y compris un régime fiscal avec un taux d'imposition modéré et des dépenses fiscales minimales ; (ii) la poursuite de la dématérialisation des procédures administratives et la facilitation dans les meilleurs délais possibles de la circulation dans la zone industrielle ; l'examen des contraintes liées au processus d'immatriculation des véhicules neufs, à l'établissement de textes juridiques dans le secteur de la sécurité, etc., (iii) l'accompagnement ou la contribution des services de la Douane dans l'amélioration de l'environnement du climat des affaires se poursuivra par la finalisation du projet relatif au ticket libératoire dans sa double composante de signature de l'arrêté ministériel et de la plateforme informatique de mise en œuvre.

14. Ainsi en ce qui concerne l'accès au crédit, l'opérationnalisation des bureaux d'informations sur le crédit (BIC) est effective depuis le 1er février2016. Une stratégie de

communication à l'endroit du public est en cours d'élaboration afin de faciliter le recueil du consentement des clients des établissements assujettis.

15. Egalement pour faciliter l'accès aux services financiers, le Gouvernement s'engage à : i) mettre en œuvre intégralement le programme d'éducation financière pour les PME ; ii) poursuivre les discussions avec le secteur privé et les syndicats des travailleurs pour le paiement, par domiciliation dans les comptes bancaires ou par tout moyen de paiement électronique, des salaires supérieurs à 100.000 FCFA ; iii) poursuivre, en collaboration avec les partenaires techniques et financiers et la BCEAO, les efforts visant la promotion de l'inclusion financière à travers l'élaboration d'une stratégie nationale d'inclusion financière et la digitalisation de certains paiements gouvernementaux.

16. Le Gouvernement va poursuivre l'approfondissement du secteur financier à travers la finalisation des diligences relatives à l'intervention effective des six (6) Spécialistes en Valeurs du Trésor(SVT) agréés. Ces nouveaux acteurs du marché financier devraient contribuer à faciliter le placement à l'émission des titres publics émis par le Trésor et à animer le marché secondaire des titres.

17. Pour renforcer la stabilité du système financier, un comité national a été créé à cet effet. Les travaux du Comité ont été axés en 2015 sur la qualité du portefeuille des banques et des SFD ; pour l'année 2016, les problématiques seront relatives au risque de concentration et au développement de la monnaie électronique.

18. Le Gouvernement mettra en place, pour accompagner la relance du secteur touristique, le Fonds dénommé «Crédit Hôtelier et Touristique » qui sera opérationnel en 2016. Le cadre institutionnel y relatif a été finalisé à travers la signature de l'arrêté interministériel créant le mécanisme et l'arrêté ministériel créant le Comité technique chargé d'examiner la recevabilité des demandes de financement avant examen par le Comité de crédit.

19. La mise en œuvre du Programme de Réformes de l'Environnement des Affaires et de la Compétitivité (PREAC) se poursuit. Le Sénégal a rénové et harmonisé les principaux codes qui régissent son cadre juridique (Code des douanes, Code Général des Impôts, Code des Procédures civiles) et la loi sur le partenariat public-privé pour se conformer aux meilleures pratiques. Parallèlement à la simplification des textes et la rationalisation des procédures administratives, le Gouvernement a travaillé sur la baisse des coûts de transactions. Des réformes sectorielles ont été également menées dans les secteurs du Tourisme (extension de la TVA réduite à toutes les activités du secteur ; baisse de moitié des redevances tirées par l'Etat sur les billets d'avion) et de l'agriculture (suspension de la TVA pour faciliter l'installation d'investisseur de référence).La deuxième phase du PREAC, prévue pour la période 2016-2018, sera l'occasion d'achever les réformes visant à réduire les coûts des facteurs et d'intermédiations dans le domaine, notamment des services portuaires et de l'électricité. Il permettra aussi de finaliser les mesures structurelles dans le domaine du foncier, de la justice commerciale et de la législation du travail en plus de la consolidation et de l'extension des procédures dématérialisées avec la généralisation de la télé-déclaration et du télépaiement pour le renforcement de l'efficacité d'un service public rénové.

C. Autres politiques de réformes sectorielles

20. Le Plan Sénégal Emergent ambitionne de réduire les inégalités sociales en corrigeant, entre autres, les disparités locales d'accès aux services de base. La pauvreté ayant un caractère multidimensionnel, l'accès à des infrastructures socio-économiques, de santé, d'éducation, d'eau et d'assainissement, énergie et infrastructures de télécommunication et infrastructures de transport ainsi que de financement, aura un effet de levier direct sur la qualité de vie. Il détermine, en plus, l'offre d'opportunités économiques aux populations à la base. Il met aussi l'accent sur une politique de décentralisation et de bonne gouvernance accrue. Pour relever l'ensemble des défis relatifs à une amélioration durable des conditions de vie de sa population, le Sénégal a élaboré un agenda de transformations économiques et sociales bâties sur des politiques sectorielles ambitieuses dont une bonne partie concerne les communautés de base.

a) SECTEUR DE L'ELECTRICITE

21. Le Gouvernement réaffirme sa volonté de poursuivre les réformes dans le secteur de l'Electricité après les résultats encourageants obtenus jusqu'ici. En particulier, un objectif clé de cette réforme est de permettre à SENELEC d'atteindre un niveau de performance comparable aux « standards internationaux », et d'obtenir une note de crédit sur une période de 2 à 3 ans par une société de cotation de crédit reconnue. C'est dans cet esprit que le Gouvernement a décidé de signer un nouveau contrat de performance avec la SENELEC sur les trois prochaines années et sur la base du nouveau Plan Stratégique de la SENELEC. Ce contrat inclura des mécanismes renforcés de suivi et un système de bonus/malus. Le statut de la SENELEC est en cours de révision dans le but de renforcer le rôle de son Conseil d'Administration conformément aux standards régionaux OHADA, avec la cooptation de membres indépendants dans le Conseil et la mise en place de comités techniques et financiers. En perspectives, deux études importantes, la révision du cadre législatif, réglementaire et institutionnel du secteur de l'énergie et les travaux de finalisation de la séparation comptable des activités de la SENELEC, sur financement du projet PASE de la Banque mondiale, sont en cours. Le plan stratégique de la SENELEC 2016-2020 a été validé selon les axes stratégiques suivants: (i) le développement optimal de l'offre et de la maitrise de la demande; (ii) le développement et la mise aux normes de l'infrastructure de transport et de production (iii) l'accroissement du chiffre d'affaires et la satisfaction du client par un service de qualité et à moindre coût; (iv) la restauration de la rentabilité financière; (v) la diversification des activités et l'innovation. Un plan d'action prioritaire a été mis en place par la SENELEC. Le gouvernement a pris en charge la phase d'urgence de ce plan à hauteur de 23 milliards de fCfA suivant un plan de décaissement présenté par la SENELEC sur la période 2017-2018.

22. Dans le cadre d'un meilleur équilibre offre-demande, le Gouvernement s'est déjà engagé non seulement à poursuivre une expansion du parc de production d'une façon compétitive, mais aussi à poursuivre une politique de diversification du mix énergétique vers les énergies renouvelables. Le résultat principal sera une baisse durable du prix de l'électricité au Sénégal. En 2016, une puissance de 230MW est déjà mise en service avec les centrales duals fiouls de Taiba Ndiaye (105MW),de Cap des Biches (85MW),les centrales solaires de Bokhole (20

MW) et Malicounda (20 MW) à laquelle il faut ajouter l'importation d'énergie en provenance de la Mauritanie qui a atteint 50 MW. Dans ce sens, le Gouvernement a développé un Plan de Production au Moindre-Coût à 15 ans qui définit des modalités de lancement et de développement pour chacun de ces projets, avec les objectifs prioritaires d'accroissement de la production, réduction des coûts et diversification de ses sources – en y incluant des sources renouvelables, en plus du fioul, du gaz et du charbon. Dans ce cadre, en 2017, il est prévu les mises en service de la centrale à charbon de Sendou (125 MW) et des centrales solaires suivantes à Méouane (30 MW),Merina Dakhar (30 MW),Sakal (20 MW),Kahone (20 MW) et Diass (15 MW), soit une puissance de 240 MW qui ne tient pas compte de l'importation d'énergie de la Mauritanie. De plus, le programme Scaling Solar permettra de disposer d'une puissance de 100 MW répartie sur trois sites (Touba, Kahone et Taiba Ndiaye)...

23. S'agissant en particulier de l'électrification rurale, dans le cadre de l'accès au service universel de l'énergie décliné par le Plan Sénégal Emergent (PSE), le Gouvernement s'est engagé à travers le Programme National d'Urgence d'Electrification rurale (PNUER), qui vise un accès universel à l'électricité à l'horizon 2025 avec un objectif intermédiaire en zone rurale de 60% en 2017,avec au moins 30% par département. Afin d'améliorer l'accessibilité des prix de services d'électricité pour la population rurale, le Gouvernement a instruit la CRSE, à réduire les tarifs du service pour les concessions rurales au niveau des tarifs nationales de SENELEC. En outre, le Gouvernement envisage de transférer les quatre concessions d'électrification rurale non encore attribuées à SENELEC pour les exploiter.

24.En ce qui concerne la restructuration financière du secteur, le Gouvernement a pris une série de mesures que permettront de nettoyer les importants stocks de dettes croisées entre l'Etat et la SENELEC et, en même temps, de mettre en place des mécanismes pour éviter l'accumulation de nouvelles dettes dans le futur. Ce paquet de mesures inclut une convention signée entre l'Etat et la SENELEC comprenant les dettes croisées sur la période Août 2012 - Février 2016. Cet accord sera traduit en opérations budgétaires au courant de l'année 2017 et permettra entre autres de faciliter la gestion de la trésorerie de la SENELEC (au moyen de l'émission de certificats de détaxe) et sa recapitalisation. Le nouveau Contrat de Performance mentionné plus haut est aussi cohérent avec les objectifs de la convention. Il faut également souligner que l'étude sur l'harmonisation des tarifs de l'électricité entre les autres concessions et SENELEC, a été réalisée. A cet effet, le gouvernement prendra en charge pour environ 3,2 milliards les besoins de subvention pour la première année. Le gouvernement s'attellera à mettre en place en début d'année 2017, un système pérenne de prise en charge de l'harmonisation tarifaire. Dans le même ordre d'idées, le gouvernement prendra en charge le paiement de l'éclairage public pour l'année 2017 à hauteur de 10 milliards de fCFA.

b) SECTEUR DES TECHNOLOGIES DE LA COMMUNICATION

25. Le numérique constitue un domaine déterminant dans le développement économique et social du Sénégal. Il est un levier essentiel de démultiplication des gains de productivité et d'accroissement de la compétitivité de tous les secteurs de l'économie, à travers l'offre des biens et des services numériques. Son se ressent notamment sur l'amélioration des services administratifs et d'autre part, sur l'amélioration de la productivité dans les secteurs-clés (agriculture, santé, éducation, commerce, services financiers, e-gouvernement).

26. Au Sénégal, le secteur est porté par le sous-secteur des Télécommunications qui s'est développé à la faveur de la privatisation de l'opérateur historique, la Société Nationale des Télécommunications (SONATEL), de la mise en place d'une autorité de régulation mais également, de l'ouverture du marché à deux (2) autres opérateurs globaux, TIGO et EXPRESSO et à un (1) opérateur de service universel, le Consortium du Service Universel (CSU).

27. Le secteur représente un des principaux moteurs de développement du Sénégal par sa contribution à la croissance du PIB et sa part effective dans celui-ci. Le poids de l'Internet dans le PIB sénégalais reste en 2013, le plus fort de tout le continent africain, se rapprochant davantage de la moyenne des pays développés.

28.Au niveau continental, le Sénégal est classé 1er pays africain pour le poids d'Internet dans l'économie (I-PIB) estimé à 3,3%, du fait notamment d'une très bonne connectivité internationale et d'un bon réseau national de transmission. Toutefois, la décomposition de l'I-PIB du Sénégal montre que 91% de sa valeur est due à la consommation privée tandis que les autres dimensions telles que la contribution des investissements privés, publics et l'exportation sont plus faibles.

29. Il s'agira d'accélérer la diffusion du numérique dans les secteurs prioritaires identifiés dans le PSE pour d'une part, favoriser l'accès aux services sociaux de base (santé, éducation, services financiers) et d'autre part accroître sensiblement la productivité en se focalisant sur l'usage accrue du numérique dans l'agriculture, l'élevage, la pêche et le commerce.

30. Les progrès attendus à l'horizon 2025, pourront se mesurer à travers les classements internationaux à partir des indices suivants :

- D'une part, pour le *Network Readiness Index*(NRI) du World Economic Forum (WEF), l'objectif visé est d'atteindre au moins la **70èmeplace dans le monde**, et le **4èmerang en Afrique à l'horizon 2025**. Tandis que l'indice NRI comporte plusieurs sous indices, la réalisation de cet objectif impliquera notamment d'améliorer le score du Sénégal sur l'indice A.1.02 qui mesure l'ampleur avec laquelle le cadre légal et règlementaire favorise la pénétration des TIC et le développement des initiatives privées en prenant en compte notamment l'adoption de nouvelles lois relatives aux télécommunications et à l'économie numérique[1].

- D'autre part, concernant l'*Indice de développement des TIC* (IDI) de l'Union internationale des Télécommunications (UIT), l'objectif visé est d'atteindre au moins **la 90eme place mondiale** et le **4èmerang en Afrique à l'horizon 2025.**

31. Le Sénégal a défini une nouvelle stratégie de développement du numérique à l'horizon 2025 et alignée sur les orientations du PSE. En effet, dans la vision du Sénégal Emergent, le numérique joue un rôle déterminant, car considéré comme un facteur essentiel de démultiplication des gains de productivité et d'accroissement de la compétitivité de tous les secteurs. Avec l'ambition de faire du numérique un moteur de développement économique et social à l'horizon 2025, la stratégie vise à apporter « le numérique pour tous et pour tous les

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usages avec un secteur privé dynamique et innovant dans un écosystème performant ». Cette vision traduit l'option de s'appuyer sur le numérique comme catalyseur pour une transformation structurelle de l'économie nationale et de s'inscrire dans la société du savoir et de la connaissance de manière inclusive et durable. Elle traduit également une véritable prise de conscience que l'enjeu des politiques publiques du secteur consiste aujourd'hui à élargir l'accès et l'usage de l'internet au-delà des principaux centres urbains du pays afin d'éviter le creusement d'une fracture numérique entre zones rurales et urbaines et par conséquent un accroissement des inégalités économiques et sociales. Afin d'atteindre les objectifs visés, la stratégie fournit les fondations en matière de politique sectorielle, en particulier pour le parachèvement de l'ouverture du marché des télécommunications au secteur privé et du développement dans la lignée des meilleures pratiques internationales.

32. Dans le cadre des orientations de la stratégie Sénégal Numérique 2025, le Gouvernement vise notamment à mettre en œuvre rapidement plusieurs mesures stratégiques pour transformer le secteur des télécommunications et se positionner à nouveau en tant que leader dans la sous-région, à côté d'autres leaders africains tels que le Ghana, le Kenya, l'Afrique du Sud, le Nigéria, ou l'Ile Maurice :

- Adopter et mettre en œuvre (via des décrets d'application) un nouveau code des télécommunications permettant de renforcer le niveau de concurrence en facilitant l'entrée de nouveaux acteurs sur les marchés de gros et de détail de l'Internet haut débit. Ainsi, les Fournisseurs d'Accès Internet ne seront plus soumis au régime de licence mais au régime d'autorisation générale, moins contraignant et moins coûteux, et seront autorisés à déployer leur propre infrastructure dans le cadre d'une convention « type ». Cette mesure vise à réduire la complexité des procédures administratives pour l'accès au marché des télécommunications, dans la lignée des engagements présidentiels. De façon similaire, et afin de créer un véritable marché de gros dans le secteur de l'Internet haut débit, les modalités d'introduction, d'instruction, et d'octroi des demandes d'autorisation pour les « opérateurs d'infrastructures » de télécommunications seront clarifiées de façon à pouvoir accélérer l'entrée de tels acteurs sur le marché dans le cadre d'une convient « type ». Enfin, parce que l'accroissement du niveau de concurrence sur le marché des télécommunications nécessite de renforcer les efforts de régulation sectorielle, la notion de « partage des infrastructures » de télécommunications sera précisée en clarifiant le type d'infrastructures concernées et les modalités de régulation du partage des infrastructures concernées. Dans ce sens des décisions de régulation seront prises pour permettre le partage d'infrastructures entre opérateurs dans des conditions justes et d'accès ouvert. Ces mesures iront de pair avec des efforts visant à renforcer le modèle de gouvernance publique du secteur des télécommunications et de l'économie numérique via un partage équilibré et clair des rôles des différents acteurs publics en charge de la politique sectorielle et de la régulation.

- Adopter et rendre opérationnel un modèle de gestion permettant d'optimiser l'usage des infrastructures publiques numériques tout en garantissant les critères d'efficacité économique, financière et de sécurité nationale. Le Sénégal dispose d'infrastructures numériques publiques qui constituent un actif unique dans La sous-région et donc un avantage comparatif significatif et un atout stratégique pour le développement des TIC et de l'économie numérique. Ainsi, il est indispensable que ces infrastructures soient pleinement exploitées dans des conditions économiques, financières et sécuritaires optimales. Des études pointues seront donc menées à partir de meilleures expériences internationales et tenant compte des spécificités nationales, pour identifier et appliquer le modèle de gestion le plus adaptée pour la gestion des infrastructures fibres optiques financées par des investissements publics. Tout en permettant de réduire les coûts d'investissement en infrastructure des opérateurs de télécommunications qui pourront mieux utiliser les infrastructures numériques publiques sénégalaises, cela générera aussi des économies financières pour l'Etat.

- Améliorer l'utilisation du Dispositif mis en place pour le Développement du Service Universel des Télécommunications en concertation avec les acteurs publics et privés du secteur afin de généraliser l'accès à l'économie numérique sur l'ensemble du territoire sénégalais. Ce dispositif devra permettre de favoriser plus efficacement le développement des réseaux et services de télécommunications, et de haut débit en particulier, dans des régions sous-desservies en zone semi urbaine et rurale. Ainsi, les dispositions du nouveau cadre légal et réglementaire seront rapidement appliquées. Et, le gouvernement adoptera un plan d'investissement relatif à l'accès au service universel qui dotera le dispositif mis en place de ressources budgétaires adéquates. Par conséquent, et dans le cadre d'une stratégie d'accès universelle qui sera préparée en consultation avec l'ensemble des acteurs du secteur, le gouvernement s'attachera à réaliser des projets de renforcement de la connectivité nationale dans les zones caractérisées par des carences d'intérêt privé.

LETTER OF DEVELOPMENT POLICY – UNOFFICIAL TRANSLATION
REPUBLIC OF SENEGAL

One People - One Goal - One Faith

MINISTRY OF THE ECONOMY, FINANCE AND PLANNING

DEVELOPMENT POLICY LETTER

(May 17, 2017)

I. Introduction

1. Senegal, with the support of its technical and financial partners, developed and adopted its Economic and Social Development Strategy, the 'Plan Sénégal Emergent' (PSE). It consists in integrated policies and programs that translate the political will of the Government, to position Senegal on the path of development and take into account the basic concerns of the populations. The objective is to fulfil the conditions of a sustained, inclusive and sustainable growth likely to significantly reduce poverty and achieve the Millennium Development Goals (MDG).

2 The economic and social development of Senegal calls for the implementation of a strategy leading to economic growth with a strong, positive impact on the living conditions of the populations but also taking into account the need to improve public finance and maintain public debt at bearable levels. In this respect, the major challenge primarily relates to the revival of the economy in a context of righteous, effective and efficient governance. The PSE is structured around three axes: (i) Growth, Productivity and Wealth Creation; (ii) Human Capital, Social Protection and Sustainable Development; and (iii) Governance, Institutions, Peace and Security.

3. Besides, in order to consolidate the public policy dialogue with its development partners, and rationalize their interventions for improved alignment and greater predictability, the Government holds periodic meetings with the G50 group of technical and financial partners and a joint annual review.

This document summarizes the recent economic and social performances and the prospects for Senegal,

II. II. Preliminary results for 2016

4. In the domestic front, the implementation of the 'Plan Sénégal Emergent' was beneficial for the national economy. Indeed, at the end of 2016, the actual GDP growth rate was estimated at 6.7% compared to 6.5% in 2015, reflecting the renewed momentum in the primary and tertiary sectors as well as the good performance of the secondary sector. In the primary sector, growth was sustained by the good performance of the fisheries subsector, but also by a successful food-producing agriculture, and has less been affected by the irregular rainy season, thanks to good yields in horticulture. In terms of inflation, the evolution of prices remained marginal with regards to the progress in the Harmonized Index of Consumer Prices (HICP), estimated at 0,8% in the context of low commodity prices in the global market. Regarding foreign trade, the current account deficit improved, compared to 2015, as a result of the impact of the oil price decline on oil product imports and the strong increase in remittances from the diaspora.

5. The budget deficit target of 372 billion CFAF (4.2 percent of the GDP) was achieved. The Government pursued its efforts to rationalize public consumption expenditure in order to promote investment in human capital, public infrastructure and in the strengthening of community development. The Government has also enhanced its fiscal revenue recovery.

III. Macroeconomic policy and structural reforms for 2017-2019

6. The main objective is to create favorable conditions for a stronger and better shared growth geared towards significant poverty reduction. In 2017, the GDP growth rate is projected at 6.8 percent. To achieve this goal, the Government must accelerate the pace in the implementation of projects and PSE reforms, in particular in energy, agriculture (rice and horticulture sectors), tourism, mines and infrastructure. Moreover, the implementation of major projects announced at Diamniadio (Exhibition Centre, 5-star hotel, City of Knowledge, University Amadou Moctar Mbow,) should be accelerated. There is also need to create favorable conditions for the opening of the economic space to SMEs and FDI. The objective is to promote a regulatory environment favorable to business, including an appropriate tax system.

A. Macroeconomic policy

7. The macroeconomic prospects for Senegal over the 2017-19 period are generally favorable. Real GDP growth should gradually accelerate to reach 6.8% in 2017. Inflation should remain within the 1 to 2 percent range. The current account deficit (in percentage of GDP) is expected to stand at 6.2 percent of GDP in 2016 and decline thereafter and should be increasingly financed through Foreign Direct Investment (FDI) flows. The budget deficit target is fixed at 349 billion CFAF in 2016, i.e. 3.7% of GDP. It is expected to reach the 3% at the convergence horizon set by WAEMU in 2019. The debt ratio (total external and domestic public debt) is expected to decrease and brought back below 50% of GDP during the period under review. To achieve the public deficit goals, the Government relies on an efficient collection of public revenues by widening the tax base and considerably improving the efficiency of public spending in the social and infrastructure sectors and containing budgetary risks. However, special attention will be paid to the increase in capital expenditure to support inclusive growth through the various community development programs. This will involve creating a favorable environment for income-generating activities and for improving the living conditions of the populations in the rural areas.

B. Structural reforms

B.1. Budgetary and public procurement reforms

8. The Government will pursue its budgetary reform efforts in order to improve resource recovery and the productivity of government spending, improve budgetary transparency and reinforce the evaluation, monitoring and accountability of budgetary risks. To this end, the Government intends to address the internal resources mobilization by strengthening tax and customs services and by gradually broadening the tax base. There will be a focus on the further modernization of the tax and customs services, the strengthening of fiscal policy and the rationalization of tax expenditures. Legislative and/or regulatory measures will be taken to repatriate in the budget in the LFI 2018 (Initial Finance Law) all or part of the taxes, duties, fees, contributions that are not levied for the Government budget and that affect some operations, including in the mining, energy, telecommunications and maritime sectors. In the meantime, the Government will discuss with FSE, ARTP, ARMP, COSEC and FERA the possibility of repatriating part of their surplus in the budget. DGID (main office of tax administration) will also be involved in the liquidation, monitoring and recovery of fees and other mining and oil revenues.

Moreover, following the DGID audit of the remaining amounts s to be recovered, the Government is committed to mobilize at least 50% of tax claims deemed recoverable with a floor of 45 billion by the end of December 2017.

9. Improving the quality of public expenditure funded by internal resources remains a major challenge. Thus, from the second year of implementation of a project with an overall cost of more than or equal to one billion francs, the Government intends to make payment appropriations in the Finance Law subject to a release, by the relevant ministry, of a physical and financial execution report covering the previous year. Furthermore, in order to encourage the focus of spending towards gross fixed capital formation, the Government is committed to revise Decree No. 2012-673 of July 4, 2012 on the Government budgetary nomenclature. The Government intends to increase the efficiency of investment. To this end, it will develop rigorous criteria for the selection and prioritization of projects. Any project proposal would be entered into a project bank and a rigorous analysis would be requested before it could be included in the budget. The projects studied will now have priority in the Consolidated Investment Budget (BCI). The integrated project bank will be operational and a Public Investment Selection Committee will be established. An action plan will be put in place to integrate, in the platform, the path of significant projects in terms of impact on growth. Improving the efficiency of investments in terms of financial and non-financial assets is also a major priority. Although the Government portfolio has many strategic assets, it is not managed based on a comprehensive approach. To address this, the portfolio management strategy of the Government and state-owned companies, backed by an action plan, will be finalized during the year.

The Government will continue to implement reforms to improve budget planning and preparation, transparent budget execution and post-audit control by the National Assembly. The Government intends to further strengthen external control over budget implementation. To this end, the Government transmitted the 2013 discharge bill to the National Assembly and the management accounts for the year 2014 to the Court of Auditors

10. The completion of the interface between the integrated PFM system (SIGFIP) and ASTER (the Public Treasury's accounting software) helped to considerably shorten the process for the production of management accounts and budget review acts. In addition, the Government stepped up the means and strengthened the independence of the Court of Auditors and, to this end, had the National Assembly adopt a new organic law on the Court of Auditors in 2012 and a law on the status of magistrates of this Court. The Court’s annual reports are regularly published and the accounts of public accountants audited.

11. The Government will undertake the preliminary evaluation of all projects financed under Public-Private Partnership (PPP) pursuant to the law on partnership contracts and its implementing order. The Government will use the best criteria to analyze the budget implications for all such projects and will ensure their budget sustainability. The MEFP will take the necessary measures to fix the PPP funding arrangements and will ensure that the operational risks of these projects are borne by the private operators that benefit from the conventions.

12. A budget orientation discussion between the Government and the National Assembly always precedes the presentation of the budget. All the WAEMU guidelines are now internalized and their effective implementation will begin in 2017.

B2. Other structural reforms

13. The Government intends to promote the private sector, vector of added value and emergence through: (i) the creation in a SEZ of an economic space with a regulation favorable for business including a tax system with a moderate tax rate and minimal tax expenditure; (ii) the continued dematerialization of administrative procedures and facilitation, as soon as possible, of circulation in the industrial zone; the examination of constraints relating to the registration process for new vehicles, to the establishment of legal texts in the security sector, etc., (iii) the support or contribution of the Customs authorities to the improvement of the business environment will be pursued with the finalization of the discharge ticket project in its double component: signing the ministerial decree and the automated implementation platform.

14. Thus with regard to access to credit, the operationalization of the credit information bureaux (BIC) became effective since February 1, 2016. A strategy for communication with the public is being developed to make it easier to obtain the consent of clients of the institution concerned.

15. Also, to facilitate access to financial services, the Government undertakes to: i) fully implement the financial education program for SME; ii) pursue discussions with the private sector and workers trade unions for the payment, by domiciliation in the bank accounts or any means of electronic payment, of salaries exceeding higher than 100 000 CFAF; iii) pursue, in collaboration with technical and financial partners and the BCEAO, the efforts to promote financial inclusion by developing a national strategy for financial inclusion and the digitalization of some government payments.

16. The Government will continue to deepen the financial sector by finalizing due diligences relating to the effective intervention of the six (6) authorized Specialists in Treasury Values (SVT). These new financial market players should contribute to facilitating placement for the issuance of public securities by the Treasury and to managing the secondary securities market.

17. To strengthen the stability of the financial system, a national committee was set up. In 2015, the proceedings of the Committee were focused on the quality of the portfolio of banks and DFS; for 2016, the problems will relate to the risk of concentration and the development of electronic money.

18. To accompany the revival of the tourist sector, the Government will set up “Hotel and Tourist Credit” Funds which will be operational in 2016. The relating institutional framework was finalized by signing the inter-ministerial decision creating the mechanism and the ministerial decision establishing the Technical Committee in charge of examining the admissibility of requests for financing before consideration by the Credit Committee.

19. The implementation of the Business Environment and Competitiveness Reforms Program (PREAC) is being pursued. Senegal upgraded and harmonized the main codes governing its legal framework (Customs Code, General Income Tax Code, Code of Civil Procedures) and the law on public-private partnership to comply with the best practices. Concurrent with the simplification of texts and the rationalization of administrative procedures, the Government strived to reduce the costs of transactions. Sectoral reforms were also carried out in the Tourism sector (extension of VAT reduction to all the activities of the sector; reduction by half of the fees collected by the State from air- tickets) and the agriculture sector (suspension of the VAT to facilitate the installation of benchmark investors). The second phase of the PREAC, scheduled for the 2016-2018 period, will provide the opportunity to complete the reforms aimed at reducing the costs of outputs and intermediations in the sector, in particular of port and electricity services. It will also make it possible to finalize the structural measures in the field of land tenure, commercial justice and industrial legislation in addition to the consolidation and extension of the dematerialized procedures with the generalization of the Tele-declaration and tele-banking, with a view to improving the effectiveness of a renovated public service.

C. Other sectoral reforms policies

20. The ‘Plan Sénégal Emergent’ is intended to reduce the social inequalities while correcting, inter alia, the local disparities of access to basic services. Since poverty is multidimensional, access to socio-economic infrastructure of health, education, water and sanitation, energy and telecommunication infrastructure and transport infrastructure as well as financing, will have direct impact on the quality of life. It moreover determines the provision of economic opportunities to the populations at the grassroots. It lays emphasis on a policy of decentralization and enhanced good governance. To address all the challenges relating to a lasting improvement of the living conditions of its population, Senegal prepared an economic and social transformation agenda built on ambitious sectoral policies, a good part of which concerns grassroots communities.

a) ELECTRICITY SECTOR

21. The Government reaffirms its will to pursue the reforms in the sector of Electricity after the encouraging results obtained so far. A key objective of this reform is to make it possible for SENELEC to reach a level of performance comparable with "international standards", and obtain a credit note over a period of 2 to 3 years from a recognized credit rating agency. In this spirit, the Government decided to sign a new performance contract with SENELEC over the next three years and on the basis of SENELEC's new Strategic Plan. This contract will include reinforced monitoring mechanisms and a bonus/malus system. SENELEC's status is being reviewed with the aim of reinforcing the role of its Board of Directors, in accordance with regional OHADA standards, with the cooptation of independent members in the Council and the setting up of technical and financial sub-committees. In perspective, two major studies, the revision of the legislative, regulatory and institutional framework of the energy sector and work to finalize the accounting separation of SENELEC activities, with funding from the World Bank PASE project, are in progress. The SENELEC strategic plan 2016-2020 is being validated according to the following strategic axes: (I) the reform of human resource management to motivate and ensure personnel safety; (II) bringing the industrial infrastructure up to standard; modernization through development and innovation; (III) restoration of financial profitability; (iv) the optimal development of the supply and the control the demand; (v) the diversification of activities and deployment abroad. A priority action plan was implemented by SENELEC. The Government took charge of the costs of the emergency phase of this plan to the tune of CFAF 23 billion according to a disbursement plan presented by SENELEC over the period 2017-2018.

22. Within the framework of an improved supply-demand balance, the Government has already committed not only to pursue an expansion of the production park in a competitive manner, but to pursue a policy for the diversification of the energy mix towards renewable energies. This will essentially result in a sustainable decline in the electricity price in Senegal. In 2016, a capacity of 230 MW is already commissioned with the dual fuels plants of Taiba Ndiaye (105 MW), of Cap des Biches (85 MW), the solar power stations of Bokhole (20 MW) and Malicounda (20 MW), to which there is need to add the energy imports from Mauritania which has reached 50 MW.. In this regard, the Government developed a 15-year low cost production plan which defines the ways in which each of these projects are launched and developed. The top priority of the said plan is to increase production, reduce costs and diversify its sources - by including renewable sources, in addition to fuel oil, gas and coal. In this connection, there are plans to commission in 2017, the coal-powered station of Sendou (125 MW) as well as the following solar power stations in Méouane (30 MW), Merina Dakhar (30 MW), Sakal (20 MW), Kahone (20 MW) and Diass (15 MW), i.e. a capacity of 240 MW, which does not take into account energy imports from Mauritania. Moreover, the Scaling Solar program will help provide a capacity of 100 MW distributed on three sites (Touba, Kahone and Taiba Ndiaye).

23. With regard to rural electrification in particular, within the framework of access to the universal energy service provided for by the 'Plan Sénégal Emergent' (PSE), the Government was committed through the National Emergency Rural Electrification Program (PNUER), which aims at universal access to electricity by 2025, with an intermediate objective of 60% in the rural zone in 2017, with at least 30% per department. In order to improve the affordability of electricity services for the rural population, the Government instructed the CRSE (the regulatory body) to lower the tariffs for rural concessions and align them to the national tariffs of SENELEC. In addition, the Government is considering to transfer to SENELEC the four rural electrification concessions not yet allocated for exploitation.

24. With regard to the financial reorganization of the sector, the Government took a series of measures which helped clear huge stocks of crossed-debts between the State and SENELEC and, at

the same time, establish mechanisms to avoid the accumulation of new debts in future. This package of measurements includes a convention signed between the State and SENELEC including the crossed debts for the period August 2012 - February 2016. This agreement will translate into budget operations in the course of 2017 and help, inter alia, facilitate SENELEC's cash management (through the approval of tax remission) and its recapitalization. The above-mentioned new Performance Contract is also consistent with the convention objectives. It should also be underscored that the study on the harmonization of electricity rates between the other concessions and SENELEC, was undertaken. To this end, the Government will provide about 3.2 billion to cover the needs in subsidy for the first year. The Government will strive to set up in early 2017, a permanent system to deal with tariff harmonization. In the same vein, the Government will bear the cost of street lights for the year 2017, to the tune of CFAF 10 billion.

b) COMMUNICATION TECHNOLOGIES SECTOR

25. Digital technology plays a decisive role in the economic and social development of Senegal. It is an essential lever for scaling up gains in productivity and enhancing the competitiveness of all the sectors of the economy, through the supply of goods and the provision of digital services. It is felt in the improvement of administrative services, on the one hand, and in the increase in the productivity of key sectors (agriculture, health, education, trade, financial services, e-government), on the other.

26. In Senegal, the sector is driven by the Telecommunications subsector which developed as a result of the privatization of the historical operator, the National Telecommunications Company (SONATEL), the establishment of a regulatory authority as well as the opening of the market to two (2) other global providers, TIGO and EXPRESSO and to one (1) universal service provider, the Consortium of Universal Service (CSU).

27. The sector is among the key engines of Senegal's development through its contribution to GDP growth and its sizeable share in the latter. The weight of the Internet in the Senegalese GDP in 2013 was the greatest in the entire African continent, and is close to the average of developed countries.

At the continental level, Senegal is ranked 1st African country in terms of the weight of Internet in its economy (I-GDP) estimated at 3.3%, because of a very good international connectivity and a good national transmission network. However, the breakdown of Senegal's I-GDP shows that 91% of its value are due to private consumption while the other dimensions such as the contribution of private, public investments and export are lower.

29. It will involve accelerating the dissemination of digital technology in the priority sectors identified in the PSE in order to promote access to basic social services (health, education, financial services), on the one hand, and significantly increase productivity while focusing on the increased use of digital technology in agriculture, livestock production, fishing and trade, on the other hand.

30. The progress expected by 2025, will be assessed through international ratings based on the following indices:

- On the one hand, for the *Network Readiness Index* (NRI) of the World Economic Forum (WEF), the objective sought is to be ranked least **70th worldwide**, and **4th in Africa by 2025**. While the NRI comprises several sub-indices, the achievement of this objective will imply improving Senegal's score on the A.1.02 index which measures the extent to which the legal and regulatory framework promotes the penetration of ICT and the development of private initiatives by taking into account the adoption of new laws on telecommunications and the digital economy.

  http://reports.weforum.org/global-information-technology-report-2015/network-readiness-index/#indicatorId=NRI.A.01 - Besides, concerning the ICT development Index (IDI) of the

International Telecommunication Union (ITU), the objective sought is to occupy at least **90th place worldwide** and be ranked **4th in Africa by 2025.**

31. Senegal defined a new strategy for digital development by 2025 and was aligned to the PSE orientations. Indeed, in the Emerging Senegal vision, digital technology plays a crucial role, because it is considered as a vital factor in the scaling-up of productivity and the improved competitiveness of all sectors. With the ambition to turn digital technology into an engine of economic and social development by 2025, the strategy seeks to bring about “digital technology for all and for all uses with a dynamic and innovating private sector in an efficient ecosystem”. This vision gives concrete expression to the option to rely on digital technology as a catalyst for the structural transformation of the national economy and to inclusively and sustainably fit into the knowledge society. It also translates a genuine awareness that today, the sector’s public policy challenge consists in expanding the access and use of the Internet beyond the major urban centers of the country so as to avoid widening the digital divide between rural and urban zones and consequently increasing economic and social inequalities. In order to achieve the pursued goals, the strategy provides the basis for sectoral policy, in order to complete the opening of the telecommunications market to the private sector and to develop in harmony with the best international practices.

32. Within the framework of the orientations of the Digital Senegal 2025 Strategy, the Government intends to rapidly implement several strategic measures to transform the telecommunications sector and again position itself as leader in the sub-region, next to other African leaders like Ghana, Kenya, South Africa, Nigeria, or Mauritius:

- Adopt and implement (through implementing orders) a new telecommunications code that steps up the level of competition by facilitating the entry of new actors on the wholesale and retail high-speed internet markets. Thus, the Internet Service Providers will no longer be subjected to the licensing regime but to a general authorization regime, which is less constraining and less expensive. They will be authorized to deploy their own infrastructure within the framework of a “standard” convention. This measure is meant to ease the complexity of administrative procedures for access to the telecommunications market, in line with the President's commitments. Likewise, and in order to create a genuine wholesale market in the high-speed Internet sector, the terms and conditions of submission and processing of applications for authorization to operate as telecommunications “facility provider” and its issuance will be clarified with a view to accelerating the entry of such actors on the market within the framework of a “standard” agreement. Finally, because the increase in the level of competition on the telecommunications market requires the improvement of sectoral regulation efforts, the notion of telecommunications infrastructure sharing" will be specified by clarifying the type of infrastructure concerned and the methods whereby the infrastructure in question will be regulated and shared. In this respect, regulatory decisions will be taken to facilitate infrastructure sharing between providers in fair and open access conditions. These measures will go hand in hand with efforts made to strengthen the public governance model of the telecommunications and digital economy sector, through a balanced and clear distribution of roles to the different public actors in charge of the sectoral and regulation policy.

- Adopt and operationalize a model of management meant to optimize the use of public digital infrastructure while guaranteeing the criteria of economic, financial effectiveness and of national security. Senegal has public digital infrastructure which constitute a unique asset in the sub-region and thus a significant comparative advantage and a strategic advantage for the development of ICT and the digital economy. It is therefore essential that these infrastructures be fully exploited in optimal economic, financial and security conditions. Advanced studies will thus be undertaken on the basis of the best international experiences and taking national specificities into account, to identify and apply the most adapted management model for the management of the optic fiber infrastructure financed by public investments. While making it possible to reduce the infrastructure investment costs of telecommunications providers which could make better use of the Senegalese public digital infrastructure, this will also generate financial savings for the State.

- Improve the use of the Development Fund of the Universal Telecommunications Service, in consultation with the public and private actors of the sector in order to generalize access to the digital economy throughout the country. This system should promote more effectively the development of the telecommunications networks and services, and broadband, in particular, in under-serviced areas in semi-urban and rural areas. Thus, the provisions of the new legal and regulatory framework relating to the FDSUT will be implemented rapidly. And, the Government will adopt a capital spending program relating to access to universal service which will provide the Development Fund of the Universal Telecommunications Service with adequate budget resources. Consequently, and within the framework of a universal access strategy which will be prepared in consultation with all the actors of the sector, the Government will focus on implementing projects to strengthen national connectivity in zones characterized by private interest gaps.

Press Release No. 16/537
FOR IMMEDIATE RELEASE
December 2, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review under the Policy Support Instrument (PSI) for Senegal and Concludes 2016 Article IV Consultation

The Executive Board of the International Monetary Fund (IMF) completed the third review of Senegal's economic performance under the program supported by the Policy Support Instrument (PSI)[1] approved on June 24, 2015 (see Press Release No. 15/297). The Board also concluded the 2016 Article IV Consultation[2] with Senegal. The Board's decision was taken on a lapse of time basis.[3]

Senegal's macroeconomic situation is stable. Growth is expected to exceed 6 percent in 2016, while inflation remains low. The fiscal deficit has been declining steadily from 5.5 percent of GDP in 2013 and is projected to reach 4.2 percent of GDP in 2016. The current account deficit has narrowed and is projected to reach 6.5 percent of GDP in 2016, driven by lower oil prices and improved export performance.

Program performance through September 2016 has been satisfactory. All end-June 2016 assessment criteria and indicative targets were met, except for the indicative target on tax revenue which was missed by a very narrow margin due to lower-than projected customs revenue. Of the five structural benchmarks (SBs) set for the period from June to October 2016, three were met. Of the other two SBs, one has been implemented and the other on the reorganization of the tax office will be postponed as part of a wider reform.

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[1] The PSI is an instrument of the IMF designed for countries that may not need, or want, IMF financial assistance, but still seek IMF advice, monitoring and endorsement of their policies. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies (see http://www.imf.org/external/np/exr/facts/psi.htm).

[2] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[3] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

In completing the third review of Senegal's economic performance under the program supported by the PSI and concluding the 2016 Article IV consultation with Senegal, Executive Directors endorsed staff's appraisal, as follows:

Implementation of the first set of PSE projects has helped move Senegal to a higher growth path, but sustaining this growth over the medium term requires steadfast implementation of reforms that would enable SMEs to thrive and attract FDI for globally competitive production. Continued efforts to increase the competitiveness of the private sector, including through making tax collection more transparent, lowering electricity costs and improving service distribution, and creating an environment where SMEs and FDI can contribute to broad-based growth, will allow the private sector to take the reins of growth over the medium term. Staff welcomes efforts to revamp the rules for the SEZ, drawing on the experience of China and Mauritius, and with input from organizations representing the investors from China, Europe and the US. It will be important, however, for the SEZ to move away from tax holidays and to have a transparent, rules-based tax regime that is easy to comply with and has reasonable rates.

The authorities are committed to preserving macroeconomic stability. Efforts to increase revenue collection and rationalize public consumption have helped control budget deficits. However, these efforts need to be pursued with further vigilance, particularly with respect to the wage bill, a more transparent and fairer public sector wage remuneration system and a more equitable and efficient collection of taxes, where tax expenditures are significantly reduced. Reforms to ensure everyone pays their fair share of taxes in a transparent system, should make it possible to raise more revenue, whilst removing tax disincentives facing SMEs and FDI in globally competitive activities. The use of comfort letters to encourage bank financing of projects in advance of budget appropriations can undercut fiscal discipline and create contingent liabilities, and should be kept to the absolute minimum.

The financial sector should play a stronger role in supporting private-sector led growth. Financial indicators are improving, but from a low level. Regional supervision should be strengthened, including with a view to further reducing non-performing loans. Domestic reforms are needed to improve incentives for extending credit.

Senegal remains at low risk of debt distress, but debt levels are rising. Increased non-concessional borrowing, including on the regional market, has raised the debt service burden on the budget. Maintaining its low risk of debt distress is predicated on sustaining the high levels of growth envisaged under the PSE while adhering to the planned fiscal consolidation path, which will require rapid progress in fostering private investment. Better selection, evaluation and monitoring of investment projects to ensure a strong economic return and accessing concessional and semi-concessional borrowing whenever possible as part of a comprehensive debt management strategy will contribute to keeping debt on a sustainable path while ensuring efficient implementation of the public investment program envisaged under the PSE. Moreover, there is an urgent need to strengthen Treasury operations that are under pressure from legacy arrears and financial difficulties of the postal system. Staff welcomes the authorities' intention to take stock of the pressures on the Treasury by conducting an audit by end-March 2017 and formulate an action plan as soon as possible.

The outlook for the Senegalese economy is positive and risks are manageable, provided there is a concerted effort to continue improving economic governance. PSE success depends on rapidly implementing the critical mass of reforms which have been identified, including from the peer learning catalyzed by the Fund. An explicit review of the political economy of reforms should facilitate implementation of these reforms. However, risks, mainly domestic, relate to the entrenched rent seeking and patronage that may hinder opening up economic space and ensuring that everyone pays their fair share of taxes in a transparent system. Failure to overcome these lobbies for the status quo would, as has happened four times since 1990, result in the current growth momentum being lost. External risks include possible increases in the cost of public borrowing and slow growth in key partner countries. Security risks in the region could also adversely affect investment and, hence, growth and exports.

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
Pillar 1: Energy sector		
Prior action #1: *In order to improve the management of SENELEC, the Government has entered with SENELEC into a focused performance contract, which includes a monitoring and corrective mechanism, and incorporates a functional performance incentive system.*	No	Yes, positive (through gains in productivity, competitiveness and job creation)
Prior action #2: *In order to enable the board of directors of SENELEC to better perform its corporate governance role, (i) SENELEC's General Assembly has adopted the modifications to SENELEC's statutes to ensure compliance with Article 416 of the OHADA Revised Uniform Act of 2014, allowing the appointment of directors to its board of directors that are not shareholders, and (ii) SENELEC's Board of Directors has established technical and financial committees at board level for auditing, investment and commercial aspects.*	No	No
Prior action #3: *In order to sustainably resolve the sector issues on cross debt and financial arrears (i) the Government has entered with SENELEC into a cross-debt and arrears clearance agreement covering the period August 2012 - February 2016, (ii) the Government has agreed to pay SENELEC's 2017 VAT credits within the statutory three months while SENELEC has agreed to honor 100 percent of its tax commitments by 2019; and (iii) the Minister of Finance has issued a circular instructing all central government autonomous institutions and entities to include in their yearly budgets, separate allocations for covering electricity and water bills.*	No	Yes, positive through improved service delivery.
Prior action #4: *In order to diversify the country energy mix towards less expensive sources including renewables, the Council of Ministers has approved a strategic master plan for electricity generation setting forth the Government's priorities in energy diversification and private sector participation in power generation, including related project development modalities.*	Yes. While this will have positive impacts in terms of energy access, different types of generation can have potential environmental impacts, which will need to be mitigated. The overall impact is expected to be positive as it will reduce current use of heavy fuel in energy generation, and of wood and charcoal in domestic uses.	Yes, positive, through 1. Improved affordability, gains in productivity, competitiveness and job creation; 2. Potentially lower subsidies, which resources can be channeled to alternative, more progressive objectives.
Prior action #5: *In order to improve access to affordable electricity services in rural areas, the Minister of Energy has instructed the electricity national regulator to lower rural concessions' electricity user tariffs to SENELEC's national tariffs.*	No	Yes, positive (through improved affordability and access to energy in rural areas).
Pillar 2: ICT sector		
Prior action #6: *The Council of Ministers has adopted the National Strategy for the digital economy "Sénégal Numérique 2025" providing policy basis for increased open market access to new service providers in the telecommunications sector in line with international best practices.*	No	Yes, positive (through lower prices and increased access, thus promoting productivity and jobs, particularly for SME and urban youth).

Prior action #7: *In order to facilitate the entry of a wider range of internet service providers (ISP) into the retail internet broadband segment, the Government has: (i) enacted the amendments to Articles 29 to 32 of the Telecom Law No 2011-01 of February 24, 2011, providing that ISPs are subject to the lighter and less expensive general "authorization" regime instead of the "licensing" regime, and are allowed to deploy and operate their own infrastructure; (ii) issued an implementation decree of the amended Articles 29 to 32 of the Telecom Law No 2011-01 of February 24, 2011, which includes a provision converting already attributed ISP licenses into authorizations.*	To be determined. Deployment and operation of infrastructure by service providers has the potential for negative environmental impacts which could require mitigation measures to be determined and put in place. The positive impact is the ability to influence such policy at an upstream level.	Yes, positive (through lower prices and increased access, thus promoting productivity and jobs, particularly for SME and urban youth).
Prior action #8: *In order to increase competition in the wholesale internet broadband segment, the Government has adopted and implemented a decree specifying the rules for granting authorizations to wholesale telecommunications infrastructure operators, in accordance with Telecom law no 2011-01 of February 24, 2011.*	No	Yes, positive (through lower prices and increased access thus promoting productivity and jobs, particularly for SME and urban youth).
Prior action #9: *With a view to reduce infrastructure roll-out costs for telecom operators, the Government has adopted and implemented a decree clarifying the technical and financial rules for infrastructure sharing among telecommunication operators in accordance with Articles 10 and 25 of the Telecom law no 2011-01 of February 24, 2011.*	No	Yes, positive (through lower prices and increased access thus promoting productivity and jobs, particularly for SME and urban youth). Also, the sharing of infrastructures will prevent their duplication and consequently the propagation of electromagnetic waves.

ANNEXE 5: ELECTRICITY SECTOR ADDITIONAL BACKGROUND INFORMATION

I. Diagnostic

Institutional Background

1. Senegal's energy sector is overseen by the Ministry of Energy and Development of Renewable Energies. SENELEC is a state-owned enterprise fully responsible for Transmission and distribution within its concession. SENELEC also owns about half of the generation capacity, with the remainder being owned by IPPs that generate electricity and sell it exclusively to the utility (single buyer model). An independent Electricity Regulatory Commission (Commission de Régulation du Secteur de d'Electricité, CRSE) was established in 1998 with the responsibility of approving revenue requirements for the sector and overall regulation, including licensing and leading IPP tender processes. The sector also includes the rural electrification agency (Agence Sénégalaise d'Electrification Rurale, ASER). In rural areas, six concessions (out of ten) have been granted to private sector operators (CER, or Concessionaire d'Electrification Rurale), which are contracted to carry out priority investments with government financial support, so as to increase the number of connections in underserved rural areas.

2. As of today, SENELEC remains a state-owned vertically-integrated power utility despite failed attempts to partially privatize it in the past. Since the late 1990s, private operators have entered the power generation (under generation licenses) and distribution segments (under rural concessions).

3. The Government's objective in the short-medium terms is to corporatize SENELEC and enable it to carry out its functions according to sound operational practices, through strengthening of its corporate governance and in accordance with international best practice, while remaining a publicly owned company. This would allow it to secure financing from commercial sources and possibly set the stage for further longer-term corporate reforms, which could include increased private sector participation in the ownership or management of the utility if the Government wishes so in the future. The Government of Senegal (GoS) is aware that a solid and well-performing utility is a condition precedent for launching any new attempt to privatize the company.

4. The current GoS approach to SENELEC steams from the lesson learned over the past 30 years. SENELEC governance and privatization issues are complex and highly politicized. Back in the 1990s, the DFIs made privatization-focused electricity sector reform conditional for Senegal to receive additional concessionary loans. As consequence, in 1999, the Government sold 34 percent of SENELEC share capital to a private consortium, namely Hydro-Quebec International and Elyo. However, following a political change, the partnership contract between SENELEC and HQI/Elyo came to an end after just 18 months. The new Government did not question the SENELEC privatization process per se, but claimed that the existing arrangements were not beneficial for consumers. A second privatization attempt was therefore launched in 2001, following a different improved model based on the lesson learned from the first process. However, due to a limited market interested and aggressive negotiations posture, the second privatization attempt was abandoned in July 2002.

5. After the 2011 energy crisis were much of the attention was on critical investments to ensure continuity of services and keep the company afloat, the GoS has today refocused on a long-term strategy to improve the utility performances. SENELEC has developed a PAP for 2016–2018 to identify specific governance measures and investments needed in the electricity system to improve quality of service standards. The total investment program over three years is valued at US$170 million. In addition to the PAP, SENELEC has prepared a Strategic Plan 2016-2021 that provides a longer-term aspirational vision for sector growth and corporatization of the utility. The Strategic Plan sets aggressive targets in terms of performances and reflects the GoS ambitions to fully redress the utility.

The PAP is intended to lay the foundation for the Strategic Plan. By implementing such measures, SENELEC is expected to ripe benefits equivalent to 3 percent of its revenue per year.

Energy sector performance (symptoms)

6. The performance of the energy sector in Senegal has been steadily improving over the last five years, although financial sustainability remains fragile. Table 5.1 below highlights some key performance indicators, which are explained in more detail below.

Table 5.1: Key performance indicators

Parameter	Value (2016)
Electricity Access rate	57 percent
Number of electricity customers	about 1.1 million
Installed capacity	718 MW
Energy mix	90 percent HFO – 10 percent hydro imports
Share of private sector in generation	60 percent
Average cost of service	Estimated at US$19 cents per kWh
Average tariff	US$17 cents per kWh
Average T&D losses	20 percent
Electricity bill collection rate	95 percent (with exception of public consumers)

7. Senegal has one of the better overall rates for access to electricity in Sub-Saharan Africa, but access remains limited in rural areas. The current access rate in Senegal is relatively high by regional standards, at 57 percent of households (as against 55 percent in Cote d'Ivoire and in Nigeria, for example, or about 26 percent in Guinea and Mali) but rural access remains low at 29 percent, hindered by inadequate infrastructures and high tariffs. Number of total electricity customers was about 1 million in 2015, estimated to be over 1,100,000 in 2016.

8. As in other countries in the sub-region, electricity demand is growing at an annualized rate of approximately 8 percent per year, and one of the main challenges is to add sufficient and low cost generation capacity to meet demand, and achieve energy security. The available installed capacity increased from 540 MW in 2010 to 718 MW in 2016, an increase of about 30 percent. The situation has improved recently with new power plants coming online in 2016. However, the increase in installed capacity is to be compared to an increase in peak demand from 429 MW in 2010 to an estimated 592 MW in 2016, an increase of about 40 percent. The main reasons why supply increases lag behind are the sector's financial challenges and the limited success in planning and implementing new generation projects

9. High electricity tariffs are driven by high generation costs resulting from a high reliance on imported HFO and diesel (90 percent of the current energy mix), which makes the sector highly vulnerable to global oil prices shocks. As the country relies mostly on expensive imported fossil fuels for power generation, the average electricity cost of US$0.19 per kWh is higher than the global average of approximately US$0.10 per kWh, or that of other key markets with indigenous natural resources in the sub-region. In an effort to reduce the cost of service in the medium to long term, Senegal intends to shift its energy mix towards natural gas, solar power and imported electricity.

10. The financial situation of SENELEC has been undermined by high production costs, high

technical and commercial losses, and cross-debt and arrears buildup with Government, although it has improved recently. Apart from the decrease in oil prices, SENELEC's improved financial situation is due to the commissioning of new power generation, implementation of a loss reduction program, and increased use of prepayment meters. Transmission and distribution losses have declined from 20.7 percent of total dispatch in 2012 to 19 percent in 2015, still above the international benchmark of 10 percent but below SSA average of 23 percent (excluding South Africa). Substantial cross-debt and arrears, amounting to around CFAF 160 billion (US$275 million approx., equivalent to more than 10 times its 2015 gross income), are still due between central government entities, municipalities, other public entities, and SENELEC. These cross debts include unpaid local and central administration electricity bills, arrears on VAT reimbursement to SENELEC, as well as unpaid taxes from SENELEC.

Key sector obstacles are summarized in Table 5.2 below.

Table 5.2: Key obstacles to be overcome

Obstacle	**Description**
Complex sector management and governance: inefficient planning; fragmented decision-making power	*Complex corporate governance and significant political interference have been at the root of the sector long-standing problems. The management of SENELEC is highly centralized, while the Board struggles to exercise a substantive strategic and oversight role. Investment decisions rely mostly on negotiated deals with lack of transparency on pricing and contractual terms. In this context, important vested interests have sprouted around SENELEC operations, creating serious constraints to reforms. Recent efforts at addressing internal management issues, and lower oil prices, have helped improve the internal efficiency of SENELEC.*
Moderately weak utility: moderate operational, financial and commercial performance	*T&D losses reducing but still high by international standards. Large arrears and cross-debt issues between SENELEC and the State (including VAT, public lighting, municipalities' payments, university and hospital payments, etc.). These factors have undermined SENELEC performance over time. Performance contract has kick started systematic performance tracking, and recent amendment to performance contract (supported by DPO) reduces number of indicators and introduces an incentive/penalty structure*
High dependency on HFO for base load and inefficient existing generation park.	*Old and inefficient SENELEC generation park which has not kept pace with demand growth. Lack of long term or medium term planning means GoS ends-up in a constant state of emergency/catching–up on demand and renting expensive rental units. Emergency situation leads to vested interests pushing for negotiated contracts being awarded and not competitive tendering.*
Unstable T&D network with limited ability to rapidly absorb new RE production	*Given the projects currently planned, the penetration of Renewable Energy (RE) will likely be between 23 percent to 35 percent by 2030. This is a challenge for dispatching to manage intermittent supply and requires flexibility in the management of the electrical system. Integrating such large levels of both solar and wind require reinforcing the network to enhance the absorptive capacity of the grid*
Non-performing rural electrification model.	I*n rural areas, affordability has hampered the achievement of Government objectives for access to modern energy services for all. Success of the private rural concessionaire model has been very limited so far. By the end of 2015, only 8,036 rural households were connected against a target of 106,600 in the six awarded concessions. One of the main issues, addressed by the DPO under preparation lies in the coexistence of different tariffs and connection fees in contiguous areas, depending on whether the service is provided by SENELEC or a private concessionaire, the latter being as much as twice more expensive than SENELEC.*

II. Opportunities

11. **Security of Supply:** While Senegal has made progress in increasing generation capacity over the past years, this has been done without a consistent and credible generation expansion plan. Sound expansion has also been undermined by the signature of an unknown number of uncompetitive Power Purchasing Agreements. To address these issues the Government has approved a strategic master plan for the energy sector, which sets the priorities in terms of energy diversification and private sector participation in power generation. The plan will guide supply-side planning for the next 15 years, with the aim of diversifying the power generation mix towards less costly sources, including coal and natural gas, as well as renewable energies (hydropower, wind, and solar). It is important for the World Bank's group to remain engaged by supporting a timely and cost effective implementation of the plan, ensuring that new generation options come online as envisaged (especially on the gas and renewable side), and ensuring that there is a process in place to periodically update the plan. The WBG support could take the form of investments and credit enhancement mechanisms (similarly to the ongoing Tobene IPP Project and Scaling Solar Program). The implementation of the new generation plan is expected to lead to a rebalancing in the composition of the energy mix with a steep decline in the current 90 percent reliance on expensive and polluting heavy fuel oil, to 60 percent by the end of the project series and further declining to zero by 2025 as the least cost power generation plan is fully implemented. In the medium to long term, the large discoveries of offshore oil and gas, as well as the OMVG and OMVS regional interconnection projects are potential game changers for Senegal, enabling the development and importing of reliable low cost cleaner energy.

12. **Energy Access**: Strong focus should be devoted to expanding access to electricity services in underserved rural areas, but promoting a mix of policy intervention (including tariff harmonization, awarding the remaining four concessions, connection costs, etc.) and investments on last-mile delivery. The World Bank is supporting the access agenda in Senegal through the Sustainable Energy for All Technical Assistance Program that has helped the Government to develop an investment prospectus to reach the universal access goals and the Sustainable and Participatory Energy Management Project for Senegal that contributes to increasing the availability of diversified household fuels. While pushing for policy reforms in the right direction, World Bank's intervention should be scaled up. It would be key to support the Government in the implementation of the access expansion plans through public and private investments Aligned with this goal, the team is also finalizing the preparation for the Rural Electrification Carbon Finance Project with the objective to increase access to electricity and reduce greenhouse gas emissions in rural areas of Senegal through result-based carbon finance, which will be complemented by an access focused Modern Energy Services Program for Results under preparation supporting the GoS goal to reach universal access by 2025.

13. **Operational Competence:** The objective is to enable SENELEC to carry out its functions according to sound operational practices, through strengthening of its corporate governance and in accordance with international best practice. In addition to the scaling-up/continue the ongoing Electricity Sector Support Project, whose objective is to reduce SENELEC's technical and commercial losses and improve the reliability of electricity services, the Government has committed to a series of policy actions under the proposed operation to ensure better sector governance and management. In the short term, such measures include a reinforcement and professionalization of SENELEC Board of Directors to better perform its corporate governance role, proactive use of the Performance Contract, between the State and SENELEC. The Government is however aware that, to be sustained, improvements in the performance and financial sustainability of SENELEC will require deeper structural changes to the governance arrangements of the utility. While Government may decide to keep the utility has a publicly owned, corporatizing the utility and adopting best practice governance procedures would improve the sector's performance. To enhance transparency and greater commercial

orientation, the Government envisages carrying out SENELEC accounting and organizational separation of its activities over the course of the next three years. In parallel, over the next two years, the Government plans to work with the WBG and other stakeholders to review and assess available options for enhancing further SENELEC's corporate governance and performance (including potential PSP), and build consensus around these options.

14. **Financial Viability:** Apart from the decrease in oil prices, SENELEC's improved financial situation is due to the commissioning of new power generation, implementation of a loss reduction program, and increased use of prepayment meters. This progress needs to be consolidated institutionally. Going forward, a key objective is to ensure that the sector financing arrangements, particularly between the Government and SENELEC, are well-structured, transparent, and financially sustainable. While today tariffs are almost cost-reflective, and therefore no direct subsidies have been provided to the utility since 2014, SENELEC lacks creditworthiness to raise financing on its own and carry out key structural investment in the network, beyond operation and maintenance. In particular, structural solution should be found to resolve the permanent issue of cross-debt and arrears between the Government and SENELEC. While with the support of the proposed operation the Government has tackled the overall financial arrangements of the sector by committing to a package of complementary measures to help redress the financial situation of SENELEC and addressing the cross-debt issues, more remain to be done with SENELEC to strengthen its internal controls and improve is creditworthiness, allowing the company to refinance its short term debt and borrow on international markets at lower rates and longer tenure.

III. Results

15. The reforms supported by the proposed operation targets each of the dimensions above. If these opportunities are seized by the Government and leveraged by the WBG with complementary operations, Senegal has a great potential to achieve important progress in its power sector performance over the next three years. Table 5.3 outlines what change might be possible if Government commitment remains strong.

Table 5.3: Power Sector Reform Agenda over the next three years

Focus Area	*Stage 1*	*Stage 2*	*Stage 3*
1. Security of Supply	Develop Least Cost Plan (LCP) and associated institutional capacity; factor in regional trade alternatives into the planning exercise	Link procurement of generation capacity to LCP	Procure LCP at least cost through competitive bidding of IPPs OR EPCs
	Senegal*: If the approved generation master plan is timely and competitively implemented as per the Government commitment, Senegal will be on a sustainable generation path, with lower cost of production and well diversified energy mix.*		
2. Universal Access	Develop Electrification Master Plan and Prospectus	Prioritize grid densification, with suitable subsidy mechanism	Implement strong program for off-grid electrification through utility OR REA OR ISP
	Senegal*: In implemented correctly, the policy measures identified by the Government, together with the electrification master plan and prospectus, will produce substantial gain in access to modern electricity services, especially through grid densification. Expansion of rural access however is expected to take longer than three years (with universal access expected in 2025).*		
3. Operational Competence	Develop Management Improvement Plan and set governance standards for the government-utility relationship and for utility management	Improve management quality of utility for instance, by rehiring the Board/managers based on competency OR issuing a Management Contract	Consider more ambitious forms of PSP OR further SOE governance improvements
	Senegal*: SENELEC being able to carry out its functions according to sound operational practices, through strengthening of its corporate governance and in accordance with international best practice one sentence on expected movement on operational competence. Depending on results of the 2019 presidential elections and the new Government's appetite for reforms, some form of PSP could be considered.*		
4. Financial Viability	Achieve basic level of service quality, establish a viable financing strategy (including restructuring of outstanding debt as needed), identify subsidy requirements and establish mechanism for regular payment, and establish price-setting methodology	Set trajectory for operating cost recovery	Set trajectory for full cost recovery, plus cost pass-through, plus social tariffs
	Senegal*: SENELEC to operate sustainably (full recovery cost) and sector financing arrangements, particularly between the Government and SENELEC, well-structured, transparent, and financially sustainable. Depending on results of the 2019 presidential elections and the new Government's appetite for reforms, automatic cost pass-through/social tariffs could be considered.*		