PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

May 25, 2017
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Operation Name	Senegal Structural Reform Development Policy Operation Series
Region	AFRICA
Country	Senegal
Sector	General energy sector (50%); General communications sector (50%)
Operation ID	P159023
Lending Instrument	Development Policy Lending
Borrower(s)	Government of Senegal
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Implementing Agency	Ministry of Economy, Finance and Planning
Date PID Updated	May 25, 2017
Estimated Date of Appraisal	December 9, 2016
Estimated Date of Board Approval	June 30, 2017
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

Growth and poverty reduction have been sluggish in Senegal over the past 25 years – but more recently growth accelerated and poverty reduction may be following. 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. In addition, growth has been driven by capital accumulation, with little or negative contribution from Total Factor Productivity (TFP) growth and human capital accumulation. In the last few years, growth performance improved reaching 6.6 percent in 2016 and expected to attain similar levels or higher in the next few years. In addition to external and internal factors (such as low commodity prices or positive climate behavior), these advances are linked to the implementation of the Plan Sénégal Emergent (PSE), with which Senegal aims to become an emerging country by 2035. For this to happen, growth rates of 7-8 percent would be required, in a context of higher productivity and competitiveness. Similarly, progress in poverty reduction has been mixed. Poverty decreased 7 percentage points over 2000-05, particularly in urban areas, and stagnated until 2011 reaching 47.3%. Recent data point to a reduction of 2 percentage points since 2011.

Underperformance of the Senegalese economy has been related to enduring structural constraints and persistent infrastructure gaps. Macro-fiscal policies has been supportive to growth and Senegal benefits also from other factors such as its coastal location or its 1500 km of optic fiber network. However, structural constraints undermine the efficiency of investment and sustained growth. For instance, growth in agriculture has been slow and volatile, and productivity gains scarce, despite the high potential of the sector and its important share of jobs. In addition, key non-tradable inputs such as communications and electricity, increase the country's relative prices. Senegal also scores below average on transport infrastructure, and electricity and telephone infrastructure. Furthermore, the country does not take full advantage of existing infrastructure. This is the case, in particular, of the ICT infrastructure, including the important public optic fiber network.

II. Operation Objectives

The overarching goal of the proposed DPO series is to support the government of Senegal in its efforts to implement structural reforms in selected sectors for faster, sustained and more inclusive growth. In this sense, the proposed operation is strongly aligned with the PSE, in particular with its first pillar linked to the structural transformation of the economy. The support would focus on areas where there is demonstrated government ownership and a good reform momentum, for enhanced impact and sustainability.

In this sense, the DPO programmatic series will focus on two sectors, which have been identified as critical binding constraints to inclusive growth: the Energy sector and the ICT sector. These are also sectors where the government reforms plans and the policy dialogue with the Bank are more advanced, thus allowing building a credible medium-term reform agenda. In both sectors, the ultimate objective of the reforms is to expand supply and to lower cost for improved and more equitable access to the services.

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.

Pillar 1: Energy

The proposed series supports reforms to address some of the key policy and institutional bottlenecks in the sector, targeting three policy areas:

1.1 *Improving governance in the energy sector*. SENELEC corporate governance, and sector financial arrangements and regulation for improved transparency, financial sustainability and enhanced quality of electricity services. The goal of the reforms is to enhance the financial and institutional sustainability of the energy sector. The first plank of that agenda is to enable the public utility company to carry out its functions according to sound operational and transparent practices though a strengthening of its corporate governance environment. A second plank is to ensure that the sector financing arrangement are well-structured and financially sustainable. Third, the regulation of the sector must be enhanced.

1.2 *Removing barriers to investment and competition in the Energy sector*. Institutional and policy reforms in electricity generation, for enhanced planning and management of generation expansion, and increased transparency and competition in power purchases. The objective is to develop an optimized, long-term power generation plan – also allowing for transparent PPAs – and improve the power generation market structure by way of increased competition, in order to reduce costs factors in electricity production, enhance the composition of the energy mix, and increase reliability.

1.3 *Facilitating equitable access to electricity*. Universal access to electricity by ensuring affordability to modern electricity services to large areas of the country that are today only partially served. This objective aims to support investment in order to boost access to electricity in rural areas through the awarding of new concessions, provision of transparent subsidies, leveling the playing field for providers, and harmonizing rural tariffs with (lower) urban tariffs while insuring financial sustainability to providers.

Pillar 2: ICT

The proposed series will support critical policy and institutional actions in three policy areas:

2.1 *Improving the governance of the ICT sector*. The DPO will support the national strategy on the Digital Economy (Sénégal Numérique 2025) to increase access to and use of broadband internet services; the creation of the Conseil National du Numérique, gathering public and private stakeholders, for the implementation of the strategy; strengthen the sector's legal framework to enhance its performance; support cross-sectoral coordination among public infrastructure projects to boost the development of optic fiber networks; and complete the legal framework for e-commerce and cybersecurity.

2.2 *Removing barriers to investment and creating competition in the internet broadband market* across all segments of the broadband infrastructure for improved and more affordable services. Reforms would facilitate ICT market access conditions for ISP and infrastructure operators replacing the current licensing regime by a general authorization regime; and facilitate access to the existing optic fiber networks to enhance competition, digital development, and connectivity at the national and international level.

2.3 *Facilitating universal access to ICT services* by implementing effectively the universal access policy and optimizing the use and management of digital public infrastructure. The operation will support broadening the coverage of ICT services in under-served areas by means of reallocating resources, adopting a new universal access policy, and a new legal framework for FDSUT activities; and facilitating access by public and private customers to the important public broadband network, while optimizing its use and enhancing its management.

III. Rationale for Bank Involvement

The proposed operation would support the government's structural reform agenda to unlock growth, focusing on a limited number of transformational structural reforms. The operation is fully aligned with the first pillar of the CPS concerning economic growth. It is designed as the first one under a programmatic series of three annual DPO. The multi-sectoral structure reflects the interrelated impacts on competitiveness and inclusiveness of growth. The series envisage credit amounts in the USD 30-80 million range annually, contingent on the depth of the government's reform program and the government's financing needs. The series will focus on energy and ICT sector. The focus on 2 sectors allow to balance the need for a meaningful package of reforms in each sector, with the ability to accompany flexibly the government according to a differentiated pace of reform in each sector.

ICT and Energy are keys structural sector for medium-term growth and the government reforms plans have allowed to build a credible medium-term reform agenda. Electricity is a critical engine of competiveness, growth and inclusiveness. Electricity is a major constraint by 50 percent of Firms (2016 Senegal ICA), the third after informality and access to finance. Electricity is also critical to inclusiveness and poverty reduction, as electricity access in rural areas, where 2/3 of the poor still live, is still very low. Senegal's rapidly growing information and communications technology (ICT) subsector has enormous potential to boost economy-wide productivity and speed the pace of poverty reduction. Telecommunications alone represents about 6 percent of 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 economy-wide growth, resilience and shared prosperity.

The World Bank is engaged in the energy and ITC sectors and this operation will deepen this engagement. The World Bank Group financed the Electricity Sector Support Project as well as an energy interconnection project with Gambia and private sector interventions in power generation. The WBG is also supporting the access agenda in Senegal through the Sustainable Energy for All Technical Assistance and helping the Government to develop a 50-200 MW of solar IPP projects in the context of the WBG Scaling Solar Program. In the ICT sector, the DPO follows a 3-year WBG engagement on ICT policy dialogue, which was supported by an ASA activity generating a number of policy notes on policy and regulatory reforms. These policy notes are key inputs for this DPO.

IV. Tentative financing

Source:		($m.)
BORROWER/RECIPIENT		0.00
International Development Association (IDA)		60.00
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	60.00

V. Institutional and Implementation Arrangements

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 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 Bank by fax or email that such transfer has taken place, and that proceeds have been credited in a manner satisfactory to the Bank.

The Ministry of the Economy, Finance and Planning will have overall responsibility for the implementation of the reforms supported by the operation. The Ministry will be responsible for tracking progress (through the indicators) towards the medium-term objectives of the program. The objectives and indicators of the operation are aligned with the objectives and indicators of the government's PSE and PAP (Plan d'Actions Prioritaires) and can take place in the context of the Government's M&E framework CASE (Cadre Harmonisé de Suivi-Evaluation), which assures the coordinated monitoring across sectors of the implementation of the PSE. The monitoring of the operation will therefore not create additional burden for the government. Regular meetings with the concerned sectors (energy and ICT) will provide timely feedback on progress and allow the government to take action to ensure that reforms are being completed in a timely manner. On the Bank's side, the implementation of the operation will be monitored and evaluated through continuous dialogue and timely missions. Furthermore, scheduled Implementation Status and Results Reports will be prepared and made public.

VI. Risks and Risk Mitigation

Overall risk.

The 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.

Political context.

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

Operational context.
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.

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.

VII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

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.

Environment Aspects

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.

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.

VIII. Contact point

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