Public Disclosure Authorized

PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

November 21, 2016
Report No.: 109335-SN
(The report # is automatically generated by IDU and should not be changed)

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
	Ministry of Economy, Finance and Planning DAKAR Senegal Tel: +221 33 821 03 78 minfinances@minfinances.sn
Implementing Agency	Ministry of Economy, Finance and Planning
Date PID Prepared	November 21, 2016
Estimated Date of Appraisal	December 9, 2016
Estimated Date of Board Approval	January 19, 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 6.5 percent in 2015 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 governance and management to reduce costs, improve reliability and facilitate equitable access in the energy sector; and (ii) enhancing the legal and regulatory framework to promote competition, investment and equitable access in the ICT sector.

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) 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 *Opening up the market to competition and investment* 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)		50.00
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	50.00

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) slow recovery in the global economy, terms of trade shocks and instability in neighboring countries; (iii) pressure to increase spending ahead of general elections in 2019. *Mitigation*. The design of this operation, the relative strength of Senegalese institutions, including the regional central bank, 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 broadly stable but subject to the pressures on a 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. *Mitigation*. The President's program is now clearly defined in the PSE, with which the proposed operation is closely aligned, which guarantees a degree of stability. The President's outreach to the opposition and the recent pardon of the son of the former president has 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.

***Macroeconomic context*.**

Macroeconomic risks are moderate. Senegal's short-term prospects continue to depend on developments in the global and regional economy. A slower growth in the global economy – and in particular in Senegal's main trade partners, such as Europe and China – represent a significant risk, as political unrest in Mali, The Gambia and Guinea Bissau does. Increases in global energy prices would put further pressure on public spending by leading to higher subsidies for electricity and petroleum products in the absence of domestic price adjustments. Gradually accelerating public investment poses a challenge to maintain fiscal discipline. Also, despite efforts to enhance the quality of public investment, the PSE structural impacts – for instance, in energy supply or land reform – could be lower than expected. Agriculture volatility – highly dependent on climatic outcomes – may also affect growth. *Mitigation*. The current series helps mitigate these risks by supporting reforms in two key sectors that would boost growth and poverty reduction in the medium term. Concerning the macroeconomic context, Senegal authorities reiterated its commitment of good performance under the current IMF PSI program which would allow reducing both the external and fiscal deficit, and maintaining the debt level at a sustainable level. The latest IMF DSA confirms that Senegal has a low risk of debt distress, even under the extreme stress scenarios.

Operational context.

1. *Risks associated with sectoral strategies and policies are high.* Bureaucratic inertia, poor coordination between sector ministries and the Ministry of Economy and Finance, bottlenecks at the decision-making level, and stakeholder pressure frequently result in delays in implementation. The electricity sector and its institutions have a long history of failed reforms and their leadership has often lacked a sense of urgency. Similarly, the reforms in the ICT sector could affect vested interests in this growing and highly profitable sector. *Mitigation:* However, the reforms promoted through this series are backed by technical assistance (including in a parallel investment operation in the case of energy), as well as continuous dialogue by a field-based team including the IFC, active involvement by management, and regular discussions with the IMF on structural reforms.

Fiduciary, environmental and social risks are low. Fiduciary systems in Senegal are relatively strong and improving. No negative environmental implications are expected, and the social impacts are considered to be positive, notably through better health, education and agriculture services. *Mitigation*. No specific measures required.

VII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

It is expected that the operation will contribute to overall poverty reduction. The operation would enhance the competiveness of the economy, stimulate job creation and productivity, thus contributing to poverty reduction. Reforms on the energy sector would imply broader rural electrical coverage thus benefiting disproportionately poor and extreme poor households who concentrate in those areas. Diversification of the energy mix would help reduce costs and energy subsidies, which are strongly regressive thus freeing resources that could be channeled to more progressive objectives – including further investments to increase coverage. The new SENELEC performance contract may eventually lead to some reduction in staffing. However, the persons affected will be adequately compensated by the generous provisions of Senegalese law. In the ICT sector, the DPO promotes a higher access rate to broadband services, which will stimulate firm creation and productivity, especially for SMEs, thus promoting job creation benefiting urban youth in particular. An improved universal access program would lead to a reduction in the digital divide between urban and rural areas, and to positively impact the poor.

Environment Aspects

97. The country possesses a solid legal framework on environmental protection, which requires a comprehensive environmental assessment before projects are realized. 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.

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 Generation 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 Heavy Fuel Oil 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 Heavy Fuel Oil 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 0.74 to 0.52 tons of CO_2 per kilowatt-hour of electricity by the time the plan has been fully implemented in 2035. Further information on the existing coal project funded by the 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 DPL 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 negative environmental impacts. This would require mitigation measures to be determined and put in place.

VIII. Contact point

World Bank
Contact: Paolo B. Zacchia
Title: Lead Economist
Tel: 5352+4155
Fax:
Email: Pzacchia@worldbank.org
Location: Dakar, Senegal (IBRD)

Borrower
Contact: Alioune Ndong
Title: Conseiller Technique, Ministère de l'Economie, les Finances et du Plan
Tel:
Email: andong@minfinances.sn

IX. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop