

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

July 28, 2016
Report No.: AB7863

Operation Name	Multi-sector Structural Reforms DPO
Region	AFRICA
Country	Senegal
Sector	Energy (50%); ICT (50%)
Operation ID	P159023
Lending Instrument	Development Policy Lending
Borrower(s)	Ministry of Economy, Finance and Planning
Implementing Agency	Ministry of Economy, Finance and Planning
Date PID Prepared	June 29, 2016
Estimated Date of Appraisal	October 18, 2016
Estimated Date of Board Approval	November 22, 2016
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation and series.

I. Key development issues and rationale for Bank involvement

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 in the context 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.

Hence, 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 designed as the first one under a programmatic series of three annual DPO. Each annual operation would focus on up to two sectors, to balance the need for reforms with the differentiated pace of changes in each sector. The multi-sectoral structure also 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.

II. Proposed 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 four sectors, which have been identified as critical binding constraints to inclusive growth: (i) the Energy sector; (ii) the Agriculture sector and Land; (iii) the ICT sector; and (iv) the Transport sector. This first operation focuses on the ICT and Energy 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.

III. Preliminary Description

Policy area 1: Energy

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

- 1.1 *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 under this pillar 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 through a strengthening of its corporate governance environment. A second plank is to ensure that the sector financing arrangements are well-structured and financially sustainable. Third, the regulation of the sector must be enhanced.
- 1.2 *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 of this pillar 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 *Universal access to electricity by ensuring affordability to modern electricity services to large areas of the country that are today only partially served.* This pillar 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.

Policy Area 2: ICT

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

- 2.1 *Improving the overall governance of the sector.* This pillar 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.* This pillar will support reforms to 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 broadband Internet services by implementing effectively the universal access policy and optimizing the use and management of digital public infrastructure.* In this pillar, the operation will support broadening the coverage of ICT services in under-served areas by means of reallocating resources to the FDSUT, 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.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

To be developed in the final Program Document. However, it is expected that the operation will enhance the competitiveness of the Senegalese economy, thereby stimulating job creation and productivity improvements, contributing to overall poverty reduction. Yet, policy reforms on energy may affect selected groups differently. The Bank has a broad analytical work program on poverty in Senegal, which will help evaluate potential poverty and social impacts of the program.

Environment Aspects

To be developed in the final Program Document. Evaluation will include (a) the likely environmental effects of the actions supported under the Operation, and (b) the government’s capacity to monitor and mitigate these effects. Potential issues have to be set in the context of the 2001 Environmental Code, which identifies key environmental principles, defines priority actions fields, and requires environmental and social assessment. Among the policies supported by the operation that may raise environmental concerns is the Power Generation Plan that includes coal, gas and oil as energy sources, as well as renewable sources. The overall impact is expected to be positive or neutral, as it would reduce the current high use of heavy fuel while increasing the use of renewable energy sources.

V. Tentative financing

Source:	(\$m.)
Borrower/recipient	0
International Development Association (IDA)	30-50
IBRD	0
Total	30-50

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