Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 03-Sep-2020| Report No: PIDC28613

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Senegal	P172723	Equitable and Resilient Recovery in Senegal DPF (P172723)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA WEST	Dec 10, 2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministry of Finance and Budget, Republic of Senegal	Ministry of Finance and Budget, Republic of Senegal		

Proposed Development Objective(s)

The development objective of this programmatic DPO is to enable equitable growth and sustainably increase resilience of households, firms and fiscal accounts.

Financing (in US$, Millions)

SUMMARY

Total Financing	180.00

DETAILS

Total World Bank Group Financing	180.00
World Bank Lending	180.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **The COVID19 pandemic has significant economic, fiscal and social repercussions for Senegal, threatening to reverse half of the last decade's poverty reduction.** Real GDP growth is projected to slow from 5.3 percent in 2019 to 1.1 percent in 2020, accompanied by rising external current account (8.8 percent of GDP) and fiscal deficits (6.1 percent of GDP). As a result, public debt will increase from 64.1 percent of GDP in 2019 to 69.3 percent in 2020. In light of tightening

global and regional financial markets, the resulting substantial financing gap will need to be closed with the support of external concessional sources to avoid liquidity pressures and a disorderly macro-fiscal adjustment. 2020 GDP per capita will contract by 1.5 percent while poverty is rising. Services and export growth have slowed as tourism and transport suffer a standstill and key markets have shut down. Lower remittances and labor income loss subdue private consumption. As a result of these shocks, poverty incidence is estimated to have increased by 3.8 percent during Q2 of 2020: equivalent to 600,000 additional poor and 1 Gini point in inequality. Instead of falling by an additional 1.4 percentage point (pre-COVID19 estimate), poverty incidence is likely to increase to circa 40 percent in 2020, reversing half of the progress made since 2011.

Despite decisive measures by the Government of Senegal (GoS), the socio-economic crisis has underlined the need for inclusive structural transformation to boost resilience, productivity growth and ultimately shift gears towards a more equitable growth path in the medium term. On top of temporary, stringent containment measures, the Government is implementing a comprehensive support and recovery plan, the Economic and Social Resilience Programme (PRES). In addition, significant external financing has been received. Nonetheless, structural weaknesses have been underlined. Despite considerable progress in the past decade, key sectors of social policy remain insufficient to protect lives and livelihoods from large-scale health or climate shocks efficiently. The universal health coverage program is not financially sustainable and access to quality healthcare is weakened by an uneven supply of drugs and qualified practitioners across the country. The social protection system is well established but is not yet leveraged as a platform to boost the equity and efficiency of shock responses and social spending across sectors. The recent (2018) Systematic Country Diagnostic (SCD) for Senegal has identified low labor productivity as an important barrier to equitable growth and inclusive structural transformation. On the one hand, insufficient and unevenly distributed human capital and structural inequalities constrain labor supply. On the other hand, stifled by insufficient competition and inadequate financing, the private sector has been unable to generate enough productive jobs to keep up with high demographic growth, and formal employment only benefits less than 6 percent of total workers (ENES 2018). Finally, the crisis aggravated emerging fiscal vulnerabilities, underlining the importance of transparent, effective fiscal and debt management as a foundation of inclusive growth.

The macroeconomic policy framework is adequate for the proposed operation. Growth is expected to gradually recover once the crisis recedes, driven by a robust return of private consumption and returning investment growth. The Government is committed to returning to the 3 percent fiscal deficit West African Economic and Monetary Union (WAEMU) convergence criterion by 2022, including through the implementation of a Medium-Term Revenue Strategy and expenditure rationalization. Public debt is sustainable. Monetary policy remains prudent and anchored in a credible monetary union framework. The macroeconomic policy framework is anchored on the IMF Policy Coordination Instrument (PCI) program. Ultimately, given the projected increase of fiscal deficit and the surge in public debt in light of COVID-19, a set of proposed Policy and Performance Actions (PPAs) focus on safeguarding fiscal sustainability and strengthening fiscal and debt management.

Relationship to CPF

The proposed DPF supports the World Bank's Senegal CPF for 2020–24 as well as the Twin Goals. The CPF reflects Senegal's Strategic objective of becoming an equitable middle-income economy by 2035. Consistently, this DPF series is closely aligned with the three pillars of the CPF, which focus on making growth more inclusive, competitive and sustainable. A key success factor of the CPF is to support the development of a healthy, skilled, and productive population that is well prepared to contribute to the growth process (Pillar 1 of the CPF). Along with these investments in human capital, the CPF also focuses on job creation and increasing competitiveness to support a private sector-led, diversified, and inclusive economy (Pillar 2 of the CPF). Finally, the CPF proactively mitigates sustainability risks, including those related to enhancing public sector transparency and accountability (Pillar 3 of the CPF). BY focusing on women empowerment (under Pillar 1 of the reform program) and paying attention to climate-change impacts the DPF is also consistent with the CPF cross-cutting themes of gender equality and climate change rick management. The DPF also addresses several of the priorities outlined in the Systematic Country Diagnostic for Senegal (World Bank 2018), which represented one of the three selectivity criteria that guided the definition of the CPF, together with the Government Strategy and the Word bank competitive advantage. Such priorities include, among others, weak competitiveness in the private sector, inefficiency of social spending resulting in weak human capital, gender inequalities and social norms limiting the productive potential of women. The DPF advances these priorities by focusing on improving the efficiently and targeting of social spending, favoring human capital accumulation and use among women and improving the business environment to unlock the private sector potential to create more jobs. Finally, the proposed reform program supported by this DPF series will enable gains in poverty reduction and shared prosperity, the twin goals of the World bank Group, while fostering dynamic and equitable growth.

C. Proposed Development Objective(s)

The development objective of this programmatic DPO is to enable equitable growth while permanently increasing resilience of households, firms and fiscal accounts.

Key Results

The overall result should be to enable equitable growth with a focus on (i) strengthening the resilience of individuals and households and ii) strengthening private sector and macro fiscal resilience. Key results under pillar 1 are increasing health insurance coverage, beneficiaries of social programs drawn from the unique social registry (RNU), and female labor force participation. Pillar 2 targets results including more effective fiscal and debt management, including building fiscal risk assessment capacity, increasing access to finance for Micro, small and medium sized enterprises (MSMEs) and related job creation, as well as increasing competition across the economy and in key sectors including energy and ICT, thereby reducing mobile telephony prices while boosting fixed broad band penetration and rural connectivity.

D. Concept Description

The proposed programmatic DPF attempts to operationalize the Jobs and Economic Transformation (JET) framework. As illustrated by the JET analytical framework for IDA19, in the context of growing labor force and urbanization, rising productivity and market creation are key preconditions to trigger inclusive economic transformation and growth, together with connectivity to jobs and macro stability. Against this background, this new DPO series proposes building a bridge from addressing the immediate needs dictated by the COVID19 crises to an inclusive medium-term, structural reform agenda. The two complementary pillars of this program aim at 1) enhancing equal opportunities for human capital accumulation and use in the labor market, with a focus on the most vulnerable population, while 2) improving the framework for macroeconomic stability and capacity of an innovation-led private sector to contribute to growth and productive jobs creation (including potential energy sector reforms for better, greener and more inclusive access to energy).

The proposed reform program is fully consistent with the second Priority Action Plan (PAP 2 for 2019-23) of the *Plan Senegal Emergent (PSE)*, which aims at generating the conditions for Senegal to become an inclusive emerging economy by 2035. The proposed operation aims to enable the *development of a competitive, inclusive and resilient economy to foster structural transformation (pillar 2)* and to the *development of human capital (pillar 1)*.

The DPF operation is structured in two pillars: Pillar One (1) supports policy and institutional reforms to protect and strengthen household resilience, empower productive human capital and its use in the labor market. Reforms focus on the supply side of labor, and specifically on individual human capital and capacity to access economic opportunities and respond to shocks. Pillar Two (2) supports policy and institutional reforms to strengthen the foundations of the economic recovery in order to set the country on a more sustainable and equitable growth path. Macroeconomic stability and resilience as witnessed by transparent, prudent and effective fiscal and debt management are necessary conditions for maximizing Senegal's potential for recovery and medium term, sustainable and inclusive growth. At the same time, reforms aiming at empowering private sector contributions to job creation and growth will be emphasized.

Pillar One (1) of this DPF series supports the strengthening household and individual resilience, empowering productive human capital and its use in the labor market. Reforms focus on the supply side of labor, and specifically on individual human capital and capacity to access economic opportunities and respond to shocks. On the one hand, the proposed measures intend to increase the efficiency, sustainability and targeting of social spending. This enhances household capacity to deal with shocks while providing them with the means to productively engage in the labor market. On the other, measures under this pillar aims at increase access to a more diversified, fairer and remunerative labor market. In the context of generalized low productivity, low employment rates and poor jobs quality, women are particularly disadvantaged, exacerbating an already suboptimal resource allocation.

Pillar 2 targets the creation of vital fiscal space in the medium term, while maximizing private sector contributions to inclusive growth. Proposed reforms pay particular attention to efficient fiscal and debt management as well as strengthening the administration and policy underlying VAT and customs collection/exemptions to boost revenue collection and equity. At the same time, reforms aiming at empowering private sector contributions to job creation and growth are two-pronged: On the one hand, the relevant regulatory and institutional framework for inclusive access to financing for MSMEs would be created. On the other hand, market competition both nationally and in the ICT telecom sector, digital economy and potentially the energy sector[1] would be strengthened.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The reform program supported by this operation is likely to significantly contribute to poverty reduction over the short and medium term, as it addresses major constraints to effective risk management, broad-based productivity growth and inclusive economic activity. With the COVID-19 crisis and its impacts still unfolding, risk management features prominently in the world development agenda for its key role in building people and firms' resilience and reducing the effects of adverse events, while allowing them to take advantage of opportunities for improvement. In this sense, today Senegal needs structural reforms addressing the need for long-term impacts mitigation to avoid possible surges in chronic poverty, while enabling an inclusive and dynamic recovery. Consistently, the proposed reform program[2] is expected to strengthen the livelihood of households and individuals by protecting and favoring their human capital accumulation and its productive use in the labor market, hence alleviating current poverty as well the risk of falling into it in the future. The inclusive growth potential of the private sector will also be strengthened by increasing access to financing for micro and small enterprises and by deepening competition in key growth-enabling industries, such as the ICT sector. Such actions are expected to reduce the cost of entry, improve the business environment and unlock firms job creation potential, including for low skilled workers, further contributing to reduce poverty. Finally, the strengthening of macro-fiscal

[1] To be determined.
[2] All proposed actions refer to the priority constraints to inclusive growth and poverty and inequality reduction identified in the recent Systemic Country Diagnostic for Senegal (World Bank 2018)

foundations is likely to set Senegal on a sustainable and poverty reducing growth path, as increased fiscal space and transparent management are essential to finance the key investments in human capital and social protection planned in the Government Development Plan. The details of the expected impacts are reported in Project Document Annex, with the full PSIA analysis.

Environmental, Forests, and Other Natural Resource Aspects

The reforms and policy actions supported by the proposed operation are not likely to have significant negative impacts on environment, forests, and natural resources. Reforms to/improvement of universal health coverage (balancing the supply of drugs and qualified practitioners, debt settling agreement, improving international sourcing, transport and storage of basic health products, and improving the management of qualified personnel), the Labor Code, Child Code and Criminal Code; empowerment for women; improved fiscal and debt management, VAT and customs collection, startup laws and fiber optics competition will not have negative E&S impacts. Further, a shift in the energy mix from HFO to natural gas and renewable energy will have the environmental benefit of lower greenhouse gas emissions and pollution. The ability of the Government (Directorate of Environment and classified establishments (DEEC) in the Ministry of Environment) to operate, particularly to hold public consultations, as required as part of the EIA process, and to circulate freely over the territory, will however be reduced temporarily under the current pandemic. The DEEC will require more time to carry out its duties, which should be a consideration in the approval process of EIAs. This requirement will only be temporary and should be waived with the passing of the pandemic.

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APPROVAL

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