PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

July 27, 2017
Report No.: 119205

Operation Name	Energy and Telecommunications Structural Reforms DPO
Region	AFRICA
Country	Senegal
Sector	Energy (50%); ICT (50%)
Operation ID	P164525
Lending Instrument	Development Policy Lending
Borrower(s)	Ministry of Economy, Finance and Planning
Implementing Agency	Ministry of Economy, Finance and Planning
Date PID Prepared	July 25, 2017
Estimated Date of Appraisal	January 23, 2018
Estimated Date of Board Approval	March 22, 2018
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 has been accelerating since 2015 – contrasting with its long history of poor performance and volatility. Since 2015, growth performance accelerated to over 6% 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. This recent good performance contrast with the low and volatile growth since Independence (1960), related to vulnerability to external shocks. Growth has been mostly driven by capital accumulation while the contribution from Total Factor Productivity (TFP) has been small or negative. Because of weak growth and high population growth (2.8 percent annually over 1990-2015), real GDP per capita is close to the 1960 level and has only increased by 17 percent since 1990, against 45 percent in SSA and 134 percent in emerging and developing countries. 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 due to higher growth.

Sustaining growth acceleration of the recent past requires addressing some key structural constraints. 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. Senegal also scores below average on transport infrastructure, and electricity and telephone infrastructure. However, persistent structural constraints still affect the efficiency of investment, competitiveness and growth. In effect, according to the 2016-17 Global Competitiveness Report, Senegal underperforms in Market Size (2.9 out of 7), Infrastructure (3 out of 7) and Technological Readiness (3.2 out of 7). In Infrastructure, the worst ratings apply to Telephone Lines, Railroad, Overall Infrastructure and Electricity Supply, while in Technological Readiness the stronger gaps are linked to Internet access and quality. These results point to the importance of continuing to support the ongoing reforms in the energy and ICT sectors

Therefore, the program keeps the focus on advancing structural reforms in the energy and ICT sectors, taking advantage of the lessons learned and the reform momentum supported by DPO 1. This second operation is part of a programmatic series of three annual DPO focused on Energy and ICT credits. In effect, in the energy sector, high costs of energy and problems with reliability of supply are widely seen as the most binding constraints to the competitiveness of the Senegalese economy, while the ICT sector is central to the competitiveness of Senegal's most important sector, the service sector, and to the broader economy. The series envisages credits in the USD 30‒80 million range annually over FY2017‒19, depending on the depth of reforms implementation and the financing needs of the Government. Implementation of DPO 1 confirms the willingness to advance complex reforms. However, changing priorities observed during DPO 1 also underline the complex context and special interests that influence (and even reverse) policy decisions. Successful reforms require a strong alignment between leadership, support from a large coalition of stakeholders, and close oversight to mitigate the influence of the special interests being affected by the reforms.

II. Proposed Objectives

The operation will keep its original design around a common overarching policy structure for both the Energy and ICT Pillars. The objective of the reforms remains expanding supply and lowering cost for improved and more equitable access to the services, for faster, sustained and more inclusive growth. The policy agenda – which is strongly aligned with the PSE – remains structured around the following three areas and operational objectives, common to both pillars: 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; and facilitating equitable access by supporting supply and demand in underserved areas.

The Program Development Objective (PDO) remains unchanged. The 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.

III. Preliminary Description

DPO 2 will keep the same structure in both the Energy and the ICT Pillars as in DPO 1, proposing to address key policy and institutional bottlenecks, through the policy areas described below.

Policy area 1: Energy

i. *Improving governance of the energy sector:* **enhancing the sector's institutional and financial arrangements for improved performance and financial sustainability, with the objectives of:** (i) enabling SENELEC to function according to sound operational practices, with stronger corporate governance and in accordance with international best practice; (ii) ensuring that the sector financing arrangements, particularly between the Government and SENELEC, are well-structured, transparent and sustainable; and (iii) improving sector regulation. The program seeks to enable SENELEC to reach the performance level of best-practice utilities in comparable countries, thereby facilitating access to commercial financing and setting the stage for longer-term corporate reforms, which could include increased private sector participation in the utility.

ii. *Removing barriers to investment and competition in the energy sector:* **supporting institutional and policy reforms in electricity generation**, with the goal of ensuring that the sector policy and institutional instruments support credible sector planning, thereby facilitating the adoption of least cost production choices and private sector participation. This will entail shifting the energy mix from the current dependency on HFO, towards a mix of low carbon technologies, consistent with Senegal's commitment at COP 21 and, over time, significantly reducing both the cost and the carbon intensity of generation.

iii. *Facilitating equitable access to electricity:* **expanding access to electricity services in underserved rural areas by enhancing affordability.** A first priority 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 tackled simultaneously to scale up access in rural areas. Lowering the *Concessionaire d'Electrification Rurale* (CER) tariffs to the level of SENELEC tariffs is key to facilitating the uptake in electricity demand.

Policy Area 2: ICT

i. *Improving governance of the ICT sector*; **improving the quality of the legal and regulatory environment for broadband Internet conducive to its development**. This policy area will support the implementation of the National Strategy for the Digital Economy (*Sénégal Numérique 2025*) adopted under DPO 1 and the updating of the legal framework governing the ICT sector, in accordance with the principles of the National Strategy.

ii. *Removing barriers to investment and creating competition in the Internet broadband market*, **promoting the expansion of overall broadband Internet access.** The priorities will be to facilitate entry of new Internet providers and telecom operators, thus increasing competition, reducing costs and improving access in the ICT markets across all segments of the broadband infrastructure.

iii. *Facilitating equitable access to ICT services*, **thus increasing the availability of ICT services in currently underserved areas and for underserved populations**. This policy area will support broadening access to broadband services in under-served areas in the context of the universal access policy and the adoption and implementation of a new model to manage the extra capacity of the large public fiber optic network, to facilitate wider provision of Internet services.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The poverty and social impact analysis developed for DPO 1 will be updated for DPO 2 in the final Program Document (PD), and the operation is expected to have important positive impacts. The early 2017 electricity tariff reduction focused on the households in the lower tariff band, thus benefiting poor households more. As new rural concessions facilitate access, expanded electricity supply would disproportionately benefit the (rural) poor. This will compound the positive impact of the rural tariff harmonization implemented under DPO 1. In the longer-run, reforms in the energy sector will stimulate productivity, job creation and poverty reduction. Diversification of the energy mix will help reduce highly regressive energy subsidies. Negative social impacts are likely to be limited. SENELEC's performance contract may lead to some staff reductions, but Senegal has robust provisions for compensation of employees. In the ICT sector, reforms will promote access to broadband services, stimulating cross-sector productivity, jobs and poverty reduction in the medium-term. A more important positive impact is expected for SMEs and the urban youth. The revamped universal access program and easier and more affordable access to the public digital network would help reduce the digital divide between urban and rural areas, thus benefiting the poor. The program would also contribute to the socio-economic empowerment of women. Easier and more affordable access to energy and ICT services may lead to increased economic opportunities and employment, particularly in rural areas, and boost income generating activities for women. They may also improve the access and quality of health and education services in rural areas, and contribute to reducing infant and maternal mortality rates in the longer-term.

Environment Aspects

The environmental evaluation of DPO 1 will be updated for DPO 2 in the final PD, with an emphasis on the impacts of the Strategic Master Plan for electricity generation approved under DPO 1. The Production Plan includes coal, gas, oil and renewables (hydropower, solar and wind) as energy sources. The Plan's impact on air pollution is expected to be positive or neutral (and clearly positive in rural areas), as it will reduce the high use of heavy fuel while significantly increasing renewable sources – which would compensate for the higher production of coal. Also, increased electricity supply in the rural areas will reduce indoor air polluting sources, such as wood and charcoal, compounding the effect of the new energy mix. The carbon intensity of power generation is expected to fall by 30 percent from 0.70 to 0.48 tons of CO_2 per MWh by 2035, when the Plan would be fully implemented. Regarding the reforms in the ICT sector, only the deployment of new retail broadband infrastructure by service providers may have limited negative impacts. This would require mitigation measures to be determined and put in place.

V. Tentative financing

Source:		($m.)
Borrower/recipient		0
International Development Association (IDA)		60
IBRD		0
	Total	60

VI. Contact point

World Bank

Contact: Julio Loayza
Title: Sr. Country Economist
Tel: +221 33 859 41 97
Email: jloayza@worldbank.org

Borrower

Contact: Alioune Ndong
Title: Conseiller Technique
Email: andong@minfinances.sn

VII. 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