Program Information Documents (PID)

Appraisal Stage | Date Prepared/Updated: 14-May-2024 | Report No: PIDA293697

BASIC INFORMATION

A. Basic Program Data

Country	Project ID	Program Name	Parent Project ID (if any)
Senegal	P181537	AF for Municipal and Agglomerations Support Program	P157097
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
WESTERN AND CENTRAL AFRICA	06-May-2024	26-Jun-2024	Urban, Resilience and Land
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Program-for-Results Financing	GOVERNMENT OF SENEGAL	Municipal Development Agency	

Program Development Objective(s)

The Program and Project Development Objectives (PDO) are to: (i) improve local government financing; and (ii) enhance the performance of participating urban local governments in managing public investments.

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	571.00
Total Operation Cost	110.00
Total Program Cost	110.00
Total Financing	110.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	50.00
World Bank Lending	50.00
Total Non-World Bank Group and Non-Client Government Financing	60.00
Multilateral and Bilateral Financing (Concessional)	27.00

Private Capital and Commercial Financing	33.00
of which Private Capital	0.00

B. Introduction and Context

Country Context

Senegal has emerged as one of the fastest growing economies in Sub-Saharan Africa over the past decade, benefiting from enhanced international competitiveness and favorable external conditions. The country's growth model was mostly investment-led, augmented by significant foreign domestic investment in natural resource extraction. Growth, however, was non-inclusive, characterized by a slow pace of poverty reduction and persistent inequalities. Vulnerability of the population to shocks remains high, as the majority of households (55 percent) remains one shock away from falling into poverty. Sustainable social and economic development is threatened by exposure to climate risks, external shocks and rising global uncertainties, that -coupled with rising domestic political uncertainty and regional instability - have led to a deceleration of Senegal's growth to 3.8 percent over 2020-2023 – from 6 percent over 2014-19; this exacerbates structural vulnerabilities, such as low productivity, limited human capital, high informality, and youth emigration. Increased fiscal deficits and unfavorable terms of trade for oil-importing economies such as Senegal have worsened external accounts, emphasizing macroeconomic imbalances that might jeopardize crucial productivity-enhancing investments and policies. Senegal's coastal exposure and reliance on natural resources for economic activities, jobs, and livelihoods make e country particularly vulnerable to climate change, which is a reality for Senegal, given the already rising temperatures and erratic rainfall, weather-related hazards, and sea-level rise. Senegal is becoming warmer - at a much faster pace than other regions in the world - and drier.

Sectoral and Institutional Context

Driving economic growth and improving access to services via Decentralization. The third Decentralization Act (Acte III de la Décentralisation) reflects the commitment of the Government of Senegal (GoS) to transform the country into viable, competitive and development-oriented territories. A GoS program was prepared for the implementation of the Act III, the PROACTSEN (Programme d'Opérationnalisation de l'Acte 3 de la Décentralisation du Sénégal) with a 10 year duration from 2017-2028 and executed over two phases: Phase I- 2018-2023 with a budget of US$ 829 M and Phase II- 2024-2028 with a budget of US$ 571 M. The GoS program is undergoing the second phase of its implementation. It highlights GoS' commitment to empowering local governments (LGs) to drive economic growth and improve access to services by transferring selected responsibilities from the state to LGs, modernizing public management processes, reforming LG financing, and developing a qualified and capable LG administration. PROACTSEN focuses on creating an effective enabling environment to empower LGs to fulfill their mandates, while simultaneously introducing a results-based focus to encourage LGs to improve their performance. Thus far, PROACTSEN has been successful on the revenue side of LG financing, where total revenues of Senegal's 601 LGs more than doubled between 2018 and 2022 (from CFA 140 billion -227 million to CFA 302billion - US$ 460 million) due to the creation by law (2013) of 386 new municipalities in addition to the existing 167 municipalities ("communalisation intégrale") and 43 departments replacing the formal 14 regions. Total revenue per capita of the municipalities increased from an average of FCFA 6 200 (US$ 10) to FCFA 12 400 (US$ 20) over the program's five-year duration (2018-2022). PROACTSEN, however, was less successful on the LG expenditure side partly due to: (1) challenges that LGs face with direct service delivery and infrastructure investment compared to the past, where most local civil works were delegated to Contract Management entities (Maîtrise d'Ouvrage Déléguée, MOD); (2) the small size of intergovernmental transfers that don't incentivize LGs to plan and execute larger investments, especially in the 14 larger LGs and 5 cities; (3) the need for improvement of budgeting and accounting rules applied to multi-year investment contracts operated by LGs; and (4) limited human resource capacity at local level to effectively manage local development.

Investing in productive, inclusive, and resilient cities can make a real difference in meeting Senegal's development goal and can support key priorities for climate adaptation in Senegal, which is drafting a new Climate Change Law. Senegal's level of urbanization (49%) is higher than the average for sub-Saharan Africa (42%), and since 2004, its annual urban population growth has been between +3.5% and +3.7%. As of 2023, the total population is estimated at around 18 million people and is expected to grow to about 39 million people by 2050, of which 65% (more than 25 million) will live in urban areas. Senegalese towns and cities arethe driving force behind the Senegalese economy. Urban economy is largely based on the tertiary sector with a significant role of informal sector, in Dakar and more importantly in secondary towns. While cities reap the economic and social benefits of agglomeration, proximity to services, and innovation, cities also face significant climate change (CC) impacts, thus reducing their potential as engines of economic growth. Senegalese cities are vulnerable to climatic hazards such as pluvial and fluvial flood hazards, rising sea levels, erosion and landslides, heat waves, and urban heat islands, drinking water constraints due to competition for water resources, increasing pollution and more frequent droughts, as well as new disruptions to transport, communication, and electricity networks. Cities are undergoing uncontrolled physical expansion, and are often expanding into high-risk zones, making them vulnerable to flooding, landslides, and sea level rise. To address this challenge, GoS adopted a National Adaptation to CC Action Plan in 2004, and in 2017 its National Determined Contribution (NDC) – the latter constitutes Senegal's commitment to the 2021 Paris COP engagements. The NDC is an operational planification document providing both mitigation and adaptation goals for Senegal by 2030. To implement the NDC, nine sectoral National Adaptation Plans (NAPs) are currently formulated. The Senegal Climate Change Development Report CCDR is in final preparation stage with an expected public dissemination in June 2024; its findings and recommendations relate to the climate agenda, including on local CC management. Senegal is also in the early stages of developing a new CC Law with the Climate Change, Ecological Transition and Green Finance Directorate (CCETGFD) under the Ministry of Environment and Ecological Transition (METE) in the lead of drafting the bill, in collaboration with the National Committee for Climate Change Adaptation (COMNAC), its subcommittees, and the 12 regional committees (COMRECs). Without a formal timeline, the CC Law is not expected to be adopted and promulgated within the next 18 to 24 months.

Currently, no specific standards for LGs have been developed to guide them on their roles and responsibilities in implementing Senegal's NDC. Given LG mandates and their relevance in CC adaptation, the missing LG guidelines on NDC implementation are an important operational gap. Senegal is ranked 149th (out of 192) in the Climate Vulnerability index 2021, with lack of adaptive capacities rated as high. Thus, it is critical to put in place institutionalized systems that ensure Senegal's increasing urbanization is climate resilient, comprising climate risk-oriented planning and resilient urban investments that are aligned with national CC reforms, including a new CC law in early stages of development.

Existing regulations for LG investments (FECT decree) do not allow for project financing of LG investments, including on climate resilience. There are no provisions to include or exclude possible LG investments. FECT allocations criteria are exclusively based on criteria related to population, poverty, and density. Hence, there is no legal basis upon which LG investments can be determined upstream, given that LGs receive their allocations and determine the use thereof downstream.

PforR Program Scope

The scope of the Program remains unchanged but is extended. The new support to Senegal's climate reform was identified as (i) developing Senegal's NDC standards at the LG level, which are currently missing; and (ii) adding climate resilience into the program's existing focus on enhancing LG performance in managing public investment. GoS sees the PACASEN AF as a catalyst to (a) support the operationalization of its NDC objectives at LG level; (b) strengthen LGs' CC capacities given that LGs are at the frontline of CC but tend to still be somewhat unfamiliar with this being a new agenda; and (c) inform its new "Climate Law", that is being prepared.

The Parent program will be restructured to introduce the following changes (i) new support to Senegal's climate resilience reform at LG level, as well as adding climate resilience into the program's focus on enhancing LG performance in managing public investments; (ii) an expected reform on the creation of a conditional transfer window to allow future project financing, including for LG climate resilient investments; (iii) extension of the closing date by 24 months to December 31, 2026; (iv) update of the institutional arrangements; and updates of (v) the program scope (vi) the results framework and (vii) the Program Action Plan. The expected outcomes to be achieved by the AF include (a) finalization of fiscal reforms (FDD, FECT) to further enhance LG finances and LGs' fiscal performance including a mechanism for providing project-specific financing of LG investments including climate resilient investments; (b) development and roll-out of LG level standards on implementing Senegal's NDC at local level. This will address the current unclear, uneven, and ad-hoc efforts by LGs to operationalize Senegal's NDC without guidelines and institutionalization into Senegal's country systems for systemic, nation-wide LG standards and sustainability; (c) enhanced climate resilience in the program's annual LG performance evaluation to incentive LGs to play their part in climate action; and (d) enhanced LG capacity on climate resilience for future project-specific financing of climate resilient LG investments.

Role of the French Development Agency (AFD) and relations WB/AFD:
Due to the substantial Program financing, the World Bank (WB) and the French Development Agency (AFD) are currently the leading development partners to finance Senegal efforts on decentralization reform. Since Program start, WB-AFD collaboration remains close through (i) implementation of joint support missions, (ii) internal coordination meetings, as needed, (iii) shared documents conjointly prepared. For the AF, the AFD will finance € 33 million to support GoS' decentralization efforts. The current financial and governance arrangements between IDA and the AFD will remain unchanged. AFD is awaiting a GoS request on a reallocation of undisbursed funds to equally address (i) the extension of the parent program (PforR and IPF), and (ii) fund reallocation, which will allow the AFD to extend the two loan agreements of the Program to December 31, 2024. The AFD board is scheduled for early 2025. Finally, the Cofinancing Service Agreement between IDA and AFD currently ends in June 2024 and needs to be extended or renewed with a new agreement, on which both parties have started working on.

Coordination with the decentralization donors and UNCDF especially.
Through support and the active engagement of the WB and the AFD in the Decentralization Donor Coordination Committee (DDCC), both partners were well positioned to leverage and coordinate support from other development partners when the AF was feasible. Donors took the opportunity to meet with the DDCC twice during the two last AF preparations missions (Nov-Dec 2023) and (Jan-Feb 2024). UNCDF (UN Capital Development Fund) has long-term experience on LGs performance assessment and developed an Assessing Climate Change Adaptation Framework (ACCAF) that has been implemented in 32 countries. LoCAL is designed and hosted by UNCDF and serves as a mechanism for integrating climate change adaptation into LG planning and budgeting systems, increasing awareness and response to climate change at the local level, and increasing the amount of funding available for climate change adaptation. Discussions with UNCDF informed the AF preparation in terms of reflection and design, considering climate change action as a holistic approach. In 2024, UNCDF plans to start the implementation of its Senegalese 'LoCal' mechanism (Local Climate Adaptive Living Facility) in the form of a pilot of approximately 3 LGs-climate-oriented investments over 2 years. This mechanism comprises integration of climate adaptation into local development plans and budgets with a Climate

risk–informed investment menu, LGs performance assessments, and technical assistance. Given that the PACASEN AF and the UNCDF operations are complementary, parallel funded, and use different PIUs under the same Ministry (MUCTAT), the WB, AFD and UNCDF agreed to (i) pursue a continued dialog on their respective projects to share progress and, (ii) invite the UNCDF to attend future PACASEN support missions if needed.

C. Program Development Objective(s)

The Program and Project Development Objectives (PDO) are to: (i) improve local government financing; and (ii) enhance the performance of participating urban local governments in managing public investments.

There are no changes in the Program Boundaries of the Parent Program (PP), nor its Result Areas or geographical coverage. While the original PP design is largely maintained, it is expanded by the climate resilience focus. The AF continues to use the PforR instrument with the two RAs of the PP.

Government program PROACTSEN	Original PforR	With AF (& restructuring)
Objective: empower LGs to drive economic growth and improve service access by transferring select responsibilities from the State to LGs, modernizing public management processes, reforming LG financing, and developing qualified and capable LG administrations	**PDO:** i) improve LG financing; and (ii) enhance the performance of participating urban LGs in managing public investments	**PDO**: No change from original PDO
Duration: 2017-2028	**Duration: 2018- 2024**	**Duration: 2024-2026**
Geographic coverage: Nationwide	**Geographic coverage**: 124 select LGs	**Geographic Coverage**: 124 select LGs
Subprograms: SPs (1) “Strengthening legal and national coordination framework SPs (2) "Reinforcing the cohesiveness of territorial governance and spatial planning" SP (3) “Enhancing organization and technical and human capacity of LGs” SP (4) “Reinforcing the financial capability of LGs	**Results Areas:** RA 1: “Enhancing financial viability of LGs” RA 2: “Enhancing performance of select LGs in managing public investments	**Results Areas**: No changes to results areas
Overall financing: US$ 1.4 Billion	**Overall IDA financing**: US$110 million Overall AFD financing: US$90 million Government contribution: US$60 million	**Overall IDA financing**: US$50 million Overall AFD financing: US$33 million Government contribution: US$27 million

The AF is part of a scale up of the program envelope and time horizon. Specifically, the AF contributes to a total additional financial envelope of US$ 110 M to the program, including US$ 50M from IDA, US$ 33M from AFD, and US$ 27M from GoS. The AF also extends support to the program for 2 years until December 31, 2026. The proposed additional credit would help finance the expenditures associated with (i) the continued support to financial reforms, started under the PP, of LG investment and operating budgets; (ii) new support to Senegal’s climate resilience reform; and (iii) a new focus on climate resilience in the annual LG PE and LG capacity building.

The Results Framework is revised and updated to reflect achievements and lessons under the parent, and to accommodate the AF’s new climate angle. Changes related to a deepened climate resilience focus under the AF and achievements under the PP have increased the number of Program DLIs from 7 to 10, with 8 DLIs active under the AF. Specifically, the AF finances DLIs 1, 2, 4, 5, 6, 8, 9, and 10. Two DLIs under the PP, i.e. DLIs 3 and 7 are discontinued under the AF, as DLI 3 on local fiscal commissions was achieved under the PP, and DLI 7 on LG capacity building is revised to include climate capacity building under a new DLI 10.

The Program Scope is revised to incorporate the new climate requirements into State and LG level reforms, LG performance, and LG capacity building, supported by 5 DLIs.

The Program Action Plan is revised and updated to reflect achievements and lessons under the parent, and to accommodate the AF's new climate angle.

The Parent Program (PP) will be restructured (level two) to introduce the following seven changes: (i) new support to Senegal's climate resilience reform at LG level, and adding climate resilience into the program's focus on enhancing LG performance in managing public investments and LG capacity building; (ii) support to a LG investment reform to create a conditional transfer window to allow future project financing, including for LG climate resilient investments; (iii) PP extension of the closing date by 24 months to December 31, 2026; (iv) update of the institutional arrangements; and updates of (v) the program scope (vi) the results framework and (vii) the Program Action Plan. Expected AF outcomes include (a) finalization of reforms to state-transfer system to LGs (FDD, FECT) to further enhance LG finances and LGs' financial performance including a mechanism for project-specific financing of LG investments including climate resilient investments; (b) development and roll-out of LG level standards on implementing Senegal's NDC at local level, thereby addressing existing unclear, uneven, and ad-hoc efforts by LGs to operationalize Senegal's NDC without guidelines, (c) institutionalization into Senegal's country systems for systemic, nation-wide LG standards and sustainability; (d) enhanced climate resilience in the program's annual LG PE to incentive LGs to play their part in climate action; and (e) enhanced LG capacity on climate resilience for future project-specific financing of climate resilient LG investments.

D. Environmental and Social Effects

There are no indirect and/or long-term environmental and social effects due to anticipated future activities in the program area. This Program is not expected to involve any major civil works that will have significant adverse environmental impacts as the civil works under the Program will likely focus on investment in local infrastructure to enhance local development and local service delivery as well as the development and roll-out of LG standards to implement NDC at LG level. The GRM is in place in the existing program and will continue.

E. Program Financing

Sources	Amount (USD Million)	% of Total
International Development Association (IDA)	**50.00**	**45.45**
IDA Credit	50.00	45.45
Cofinancing - Other Sources (IFIs, Bilaterals, Foundations)	**60.00**	**54.55**
Borrower/Recipient	27.00	24.55
FRANCE: Govt. of [MOFA and AFD (C2D)]	33.00	30.00
Total Program Financing	**110.00**	

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