# Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 06-Apr-2017 | Report No: PIDISDSA21346

## BASIC INFORMATION

### A. Basic Project Data

| Country | Project ID | Project Name | Parent Project ID (if any) |
|---|---|---|---|
| Senegal | P160652 | Supporting Gas Project Negotiations and Enhancing Institutional Capacities | |
| **Region** | **Estimated Appraisal Date** | **Estimated Board Date** | **Practice Area (Lead)** |
| AFRICA | 02-Mar-2017 | 26-Apr-2017 | Energy & Extractives |
| **Lending Instrument** | **Borrower(s)** | **Implementing Agency** | |
| Investment Project Financing | Ministere de l'Economie et des Finances et du Plan | Gestion Exécutive et Stratégique du Comité d'Orientation Stratégique et de Suivi du Développement du | |

Proposed Development Objective(s)

Enhance the government's capacity to progress negotiations towards final investments decisions, and lay the foundations for the sector's contributions to the economy through enhanced legal and regulatory framework and capacity building.

Components

Support for hydrocarbon project negotiations
Enhancement of the strategic and policy framework
Institutional diagnostic and capacity building
Stakeholders engagement campaign
Project management and coordination

**Financing (in USD Million)**

| Financing Source | Amount |
|---|---|
| International Development Association (IDA) | 20.00 |
| **Total Project Cost** | **20.00** |

Environmental Assessment Category

B - Partial Assessment

Decision

The review did authorize the preparation to continue

**Note to Task Teams:** End of system generated content, document is editable from here.

Other Decision (as needed)

## B. Introduction and Context

### Country Context

1. The Republic of Senegal is located in the western-most part of Africa's Sahel region and has a national territory covering 196,722 km². Senegal borders Mauritania in the north, Mali in the east, Guinea to the southeast, and Guinea-Bissau to the southwest. It also borders The Gambia, a sovereign enclave occupying a narrow sliver of land along the banks of the Gambia River and sharing a maritime border with Cape Verde. Over the last decade, Senegal averaged an annual population growth rate of just under 3 percent, bringing its total population to 15.1 million by 2015, of which 44 percent live in urban areas.

2. Senegal is one of the most stable countries in Africa. Since its independence from France in 1960, the country has considerably strengthened its democratic institutions. Most notably, it had three peaceful political transitions under four presidents: Leopold Sedar Senghor (1960–1980), Abdou Diouf (1981–2000), Abdoulaye Wade (2000–2012), and since March 2012, Macky Sall. In March 2016, the Government pushed through a package of 15 constitutional reforms in a national referendum, which strengthened the powers of Parliament, shortened presidential terms from seven to five years, and entrenched a two-term limit. As a result, the next presidential election is expected in 2019.

3. Economic growth in Senegal has picked up since 2014. Over the course of 2015, Senegal's macroeconomic performance has been strong, with a Gross Domestic Product (GDP) growth rate of 6.5 percent – a rate not attained since 2003, and is estimated to have remained robust in 2016 as all components of demand have behaved strongly. GDP growth is projected to continue accelerating gradually to about 7 percent over 2017–2020 as the primary sector continues its strong growth due mostly to agriculture and extractive industries, while services also show a growth rate over the average, particularly due to commerce, transport, communication, and real estate. This spurt in growth is remarkable, particularly when compared to other African economies, which have registered a marked slowdown as a result of a depressed global environment characterized by the still fragile recovery in the euro zone and slowing growth in China. As a result, Senegal registered the second fastest growing economy in West Africa, behind Côte d'Ivoire.

4. The main driver of the strong economic performance in 2015 was higher private sector demand, which reflected positive effects on the national income of a good harvest and improving terms of trade for Senegal stimulated by lower energy and transport prices combined with the ambitious public investment program carried out by the Government, which was up by almost 0.4 percent of GDP in 2015. Notably, Senegal also witnessed a much stronger contribution of exports to GDP growth in 2015, or 3.6 percentage points out of 6.5 percent growth, as exports increased by almost 13 percent in real terms. At the sectoral level, higher growth in 2015 was mainly due to larger contributions from the agricultural and industrial sectors. Services remained the engine of growth, accounting for over one third of economic expansion, while industry's contribution increased to approximately 23 percent as a result of the solid performance of

the chemical industry and construction sector. Meanwhile, the agricultural sector accounted for nearly 35 percent of GDP growth in 2015 mainly due to good rainfall and various targeted government programs in favor of rice production and horticulture value chains.

6. Despite the country's recently improved economic performance, poverty remains high and predominantly rural, affecting 46.7 percent of the population. Lackluster economic growth prior to 2014 and repeated shocks in recent years have further hampered progress, with poverty incidence decreasing by only 1.8 percentage points between 2006 and 2011 and the number of poor increasing to 6.3 million in 2011. Most of the poor live in rural areas, where poverty is deeper and more severe, and live mainly off agriculture. In urban areas, the poor are mainly unemployed or working in the informal sector, typically in trade.

7. The long-term underperformance of the Senegalese economy reflects enduring structural constraints and persistent infrastructure gaps. The structural constraints arise from weaknesses in sector policies and the business environment, while infrastructure gaps also affect energy, transport, and communications. While macroeconomic policy has been adequate, limited fiscal space and strict monetary arrangements provide little room for spurring growth. Improving the business climate has been a priority for the Government, and Senegal twice scored as a top reformer recently. However, the country still ranks in the lower tier of international rankings for ease of doing business. Improving the country's competitiveness by addressing key real sector and infrastructure constraints is therefore an essential element in enhancing the ability of the economy to create productive livelihoods and employment opportunities.

8. In July 2016, the Government of Senegal (GoSN) approved a revised 2016 Budget Law, which adds another US$373 million in public spending. Overall, the government budget increased by approximately 5.3 percent in 2016, which is roughly equivalent to 32 percent of GDP. On the external front, rapidly growing exports helped reduce the current account deficit (CAD) from nearly 9 percent of GDP in 2014 to 7.6 percent of GDP in 2015 despite higher imports linked to stronger growth. Similarly, higher revenues supported government efforts to progressively close the fiscal gap, which fell from a deficit of 8.5 percent of GDP in 2014 to 7.7 percent in 2015. Owing to a consolidating fiscal policy, the public debt ratio increased at a slower pace in 2015. Debt increased to an estimated 56.8 percent of GDP but remains sustainable.

9. Securing the revenue base is an important objective for the authorities if they are to preclude future increases in borrowing or budget deficits, especially as the economy's positive prospects depend heavily on the Government's ability to sustain and accelerate structural reforms to address persistent supply-side constraints while maintaining fiscal discipline. The immediate priority is to increase tax mobilization through continued capacity building and the modernization of tax administration as well as the rationalizing of spending related to wages and salaries. In addition, a decrease in the current expenditure to total expenditure ratio from 80 percent in 2015 to 75 percent in 2016 will contribute to a reduction in the deficit while allowing for an increase in the investment ratio as well as the development of social safety nets.

## Sectoral and Institutional Context

**Government Policy Context**

10. In 2014, the Emerging Senegal Plan (PSE, 2014–2035) was adopted by the Government as its strategic framework for the country's long-term economic and social development. Over the shorter term, the PSE is articulated into five-year Priority Action Plans (PAP), the first of which covers 2014–2018 and which provide greater granularity on

implementation. The PAP identifies strategic areas, lines of action, and projects and programs within a budget framework, outlining the investments to be made during the five-year period. The PSE's three strategic areas are: (i) the transformation of the economy's structures to support strong and sustainable growth; (ii) expanding access to social services and social protection and preservation of conditions for sustainable development; and (iii) enhancing good governance through institutional strengthening and promoting peace, security, and African integration.

11. The policy framework for the oil and gas sector is set in the Energy Sector Development Policy Letter (LPDSE) adopted in October 2012, which has been integrated into the PSE. The LPDSE outlines ambitious objectives for improving the sector's performance in the medium to long term. Overall, the objective of the policy is to improve the reliability and affordability of access to modern electricity services in a sustainable manner by: (i) ensuring energy security and increasing energy access for all; (ii) developing an energy mix combining thermal generation, bioenergy, and renewables and taking advantage of the opportunities flowing from regional interconnections to access low-cost hydropower; iii) continuing and accelerating the liberalization of the energy sector by encouraging independent production and sector institutional reform; (iv) improving the competitiveness of the sector to lower the cost of energy and reduce sector subsidies; and (v) strengthening sector regulation. The LPDSE has four key objectives regarding the oil and gas sector, namely: (i) intensification of the promotion of the sedimentary basin; (ii) enhancement of the legal and regulatory framework; (iii) reinforcement of production capacities; and (iv) securitization of the capacities of storage conditions.

**Legal and Regulatory Framework**

12. The current legal and regulatory framework for the legal upstream oil and gas sector is defined by the following laws: (i) Petroleum Code Law No. 98-05 of January 8, 1998; (ii) its Application Decree No. 98-810 of October 6, 1998; and (iii) Tax Law No. 2012-32 of December 31, 2012. The Petroleum Code is relatively up-to-date, concise (71 articles), and aligned with the (then) main good practices for designing flexible petroleum laws in developing countries similar to Senegal in terms of petroleum prospection and potential when it was promulgated nearly two decades ago. The Code deals with upstream activities only (exploration and exploitation, including petroleum processing and transportation of production) regarding petroleum (oil and natural gas). The law empowers the Government to enter into upstream petroleum agreements of various types, including concession contracts and production sharing contracts (PSC), which was then a relatively new type of arrangement for the country and since 1998 has become the default scheme used for new upstream petroleum agreements in Senegal. Since the promulgation of the 1998 Code, around 20 PSCs have been signed, of which 14 were effective at the end of 2015. These are based on the model PSC issued by decree. Each PSC must be approved by Presidential decree and published in the Official Gazette (art. 17 and 34 of the Code). Therefore, all petroleum agreements are now public in Senegal. It is worth mentioning that the 1998 Petroleum Code correctly specifies that the country's Investment Code is not applicable to the upstream sector, and therefore the benefits and advantages awarded to qualified investors under the Investment Code are not applicable to upstream operations. This declaration prevents potential uncertainties when both codes are applicable.

13. In the meantime, the upstream petroleum fiscal regime is provided for in the Petroleum Code and the general tax legislation of Senegal, in particular the General Tax Code (Code Générale des Impôts, CGI). The Petroleum Code contains specific tax provisions in its Chapter 7 (art. 41 to 49) dealing with the taxes or contributions applied to upstream activities, either under concession contracts, where the main taxes are royalty, corporate tax (CT), and the progressive additional profits tax triggered by a profitability criterion, or under PSCs, where the main government revenues are CT in addition to the Government's share in Profit Petroleum. The Petroleum Code provides for some tax exemptions, which have been partly transferred into the CGI since 2012. The Petroleum Code also stipulates that some tax rules may be clarified in a Petroleum Agreement. This right applies (for example) to rules for tax depreciation and to

the specific CT rate applied to a given Petroleum Agreement, which may therefore differ from one agreement to another depending on their signing date. A new CGI was enacted in 2012 under Law 2012-32 of December 31, 2012, which contains short provisions dealing with petroleum activities and petroleum enterprises and mostly related to specific tax exemptions. However, the new CGI does not specifically clarify the determination of the CT taxable base for PSC holders and does not address the specificities of upstream petroleum operations. See Annex 2 for further details.

**Institutional Framework**

14. Until the creation of the Strategic Petroleum and Gas Steering and Development Monitoring Committee (COS-PETROGAZ) in 2016, the Ministry of Energy and Development of Renewable Energy (Ministère de l'Energie et du développement des Energies renouvelables, MEDER) was the only entity responsible for the oil and gas sector. The upstream oil and gas arms of MEDER are the Directorate of Hydrocarbons (DH) and the National Oil Corporation of Senegal (PETROSEN), which was created in May 1981 with a state participation of 99 percent. MEDER ensures the implementation of the laws promulgated by the President of Senegal with respect to both onshore and offshore oil and gas exploration and production activities, hydrocarbon imports, exports, and marketing as well as crude oil refining, transportation, storage, and petroleum products distribution. Institutional roles and responsibilities in the upstream oil and gas sector are as follow:

15. **President of the Republic**: Under the Petroleum Code, the President's role in the oil and gas sector consists in:

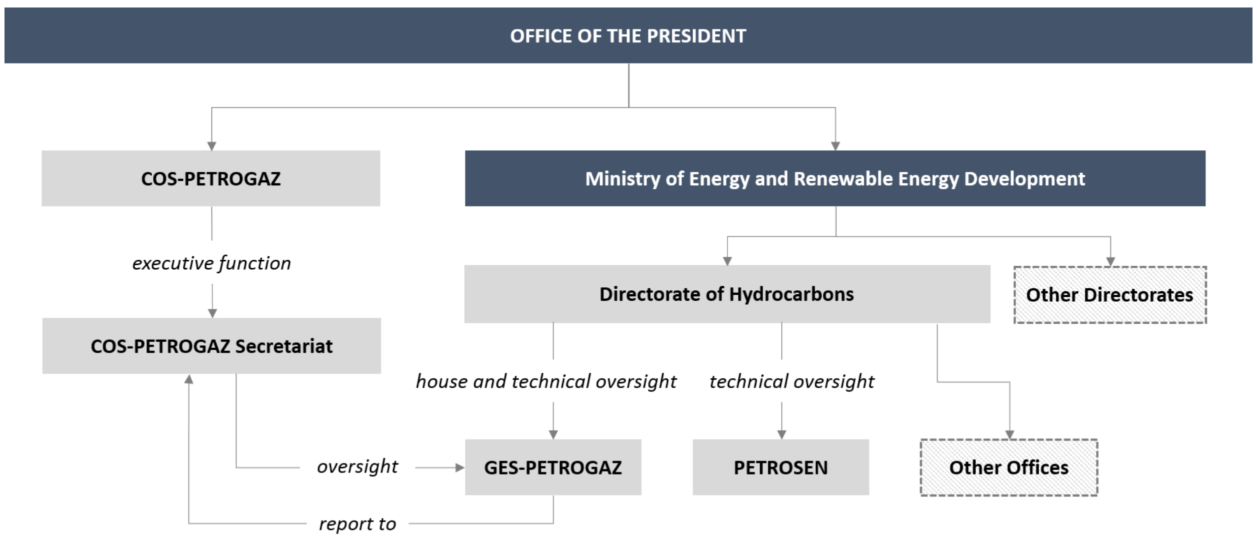
a. Awarding and renewing exploration licenses or authorizations (by decree)
b. Awarding temporary production authorizations (by decree)
c. Awarding and renewing concessions or authorizations (by decree)
d. Approving oil and gas exploration and production contracts, including PSCs (by decree).

16. **The Ministry of Energy and Development of Renewable Energy**: The Ministry is the supervising entity responsible for the implementation and monitoring of the Government's policy for the oil and gas sector. Based on the Petroleum Code, it is responsible for oil and gas sector operations and is tasked with the following mandate:

a. Protecting certain areas of the country from oil and gas operations (by executive order);
b. Awarding prospection authorizations (by executive order);
c. Authorizing construction works for oil and gas transportation (by executive order);
d. Opening up oil and gas exploration areas to competition;
e. Accepting or refusing applications for petroleum exploration areas; and
f. Signing petroleum agreements, including PSCs, following Ministry of Finance's recommendations of financial and fiscal terms.

17. **PETROSEN**: PETROSEN is a public limited company created in 1981 operating under the technical supervision of the Ministry of Energy. It is an instrument of Senegal's implementation of oil and gas policy. As defined by the Petroleum Code (No. 98-05 of January 8, 1998) and its implementing decree (No. 98-810 of October 6, 1998), PETROSEN is active in the upstream, midstream, and downstream oil and gas sectors. In upstream oil and gas, its mission is to evaluate the country's hydrocarbon resources, promote the development of these resources by international oil companies, oversee petroleum development, and monitor contract compliance. PETROSEN is thus in charge of the preparation and negotiation of all petroleum conventions and PSCs, which are signed by MEDER and the petroleum companies. PETROSEN is entitled to a contributing participating interest in any exploitation project in a range of 10 percent up to the maximum rate stipulated in the conventions or PSCs (generally 20 percent). To that end, it is a signatory to all Joint Operating Agreements (JOA) entered into with the petroleum companies. In the downstream oil and gas sector, PETROSEN is a strategic stakeholder in the refinery process. In the upstream sector, it is responsible for:

a. Promoting Senegal's sedimentary basins;
b. Representing the GoSN and managing national interests in the oil and gas sector, particularly with regards to PSCs;
c. On behalf of the GoSN, managing the minority participation interest PETROSEN may be granted in petroleum conventions and PSCs;
d. On behalf of the GoSN through its subsidiaries or in association, intervening in all operations relating to production, processing, transformation, valuation, and transportation of hydrocarbons;
e. Commercializing and exporting hydrocarbons extracted in Senegal regarding its participation interests in production;
f. Technical monitoring and control of oil and gas operations;
g. Preparing and negotiating all petroleum agreements and contracts in collaboration with MEDER.




18. **COS-PETROGAZ**: In October 2016, the GoSN established by decree the COS-PETROGAZ to provide strategic guidance as well as define and oversee policies regarding hydrocarbon development. COS-PETROGAZ is embedded within the Office of the President of Senegal. Specifically, its key roles and responsibilities include: (i) defining, overseeing, monitoring, and verifying the implementation of the national oil and gas policy; (ii) implementing strategies and programs for the promotion and development of hydrocarbon projects; (iii) approving oil and gas studies pertaining to reserves assessment and development; (iv) approving strategies submitted by private operators; (v) approving action plans for the creation of an entity devoted to research and training in the oil and gas sectors; (vi) approving local content and policy for oil and gas development; (vii) mobilizing funds from ministries, public entities, and donors for the promotion of oil and gas projects; and (viii) ensuring that good governance practices are followed in the development of the hydrocarbon sector. COS-PETROGAZ has been effective since December 2016. It is headed by the President of Senegal, and includes key cabinet members, including MEDER. It is managed by a Secretariat created in November 2016 and composed of a Permanent Secretary and an Adjunct Secretary, who have already been appointed. COS-PETROGAZ is expected to meet every quarter or at the President's request.

20. **GES-PETROGAZ**: The October 2016 Decree also created a Project Implementation Unit (PIU), Unité d'Exécution et de Gestion (GES-PETROGAZ), housed in the MEDER. The latter takes charge of the day to day coordination and

management of all technical assistance project activities in the oil and gas sector, as well as the implementation of all relevant decisions by the MEDER and COS-PETROGAZ.

21. **The GoSN** has developed an institutional framework with all relevant bodies needed to oversee the negotiations of its oil and gas project development projects. During the negotiations that will lead to the Final Investments Decisions (FID) needed to start oil and gas development works, the GoSN will have to strengthen this institutional framework in order to bring it up from the level needed to oversee exploration to the required level to oversee effective development, production, and commercialization. When projects near FID, it will become important to decide on a strategy for future petroleum revenue management, which may include the creation of a sovereign fund. Further institutional capacity building will thus be needed post-FID.

**Oil and Gas Exploration**

22. Exploration has been conducted for a long time in Senegal, leading until 2014 to very small petroleum discoveries, some of them onshore, the others non-commercial. Owing to continuous promotion efforts over the past decades, MEDER, supported by PETROSEN, has been able to attract petroleum companies, small at first but recently larger, particularly since the promulgation of the 1998 Law, which was designed to make exploration and exploitation more attractive and to give greater consideration to environmental issues in the country's various geographical environments, including onshore, shallow water, and deep offshore. Until 2013, natural gas reserves and production were very small, at just 363 million and 41 million m3, respectively. All gas sold in 2013 was delivered by pipeline to SOCOCIM, a cement producer (about 22 million m3) and SENELEC (about 18 million m3), the latter for the purpose of generating electricity. Senegal's sedimentary basin is divided in 18 separate blocks: eight onshore blocks and 10 offshore blocks. Over the entire basin, only Gadiaga Field No. 2 on the onshore Tamna block was in production in 2013. The other 17 blocks were under lease.

23. Over the last few years, Senegal has made world-class oil and gas discoveries, as follows:

24. **Deep Offshore Sangomar Block**. In late 2014, Cairn Energy PLC (40 percent, operator) in partnership with ConocoPhillips (35 percent), FAR (15 percent), and PETROSEN (10 percent) made two significant discoveries. First, the FAN-1 well, drilled to a water depth of 1,430 meters, reached a reservoir initially estimated to contain 330 Million Barrels (MMBbl) of oil; and second, the SNE-1 well, drilled to a water depth of 1,000 meters, reached a reservoir estimated to contain a range of contingent oil resources from 270 to over 900 MMBbl as well as several trillion cubic feet (Tcf) of gas, the characteristics of which have not been disclosed. An appraisal campaign for the SNE discovery is still in progress, and included a 3D seismic analysis in 2015 and four delineation wells (SNE-2, SNE-3, BEL-1, and SNE-4) drilled in 2016. Further appraisal work is planned for 2017, including well testing. This campaign confirmed the quality of the crude oil (32° API), the productivity of the wells as well as the likely development concept for the project (Floating Production Storage and Offloading – FPSO). As of late 2016, Woodside Petroleum Ltd agreed to a binding purchase and sale agreement with ConocoPhillips to acquire all of the company's interests in Senegal. In the Sangomar block, the concept for the development of SNE oil and gas resources still needs to be finalized, and the appraisal program for FAN is to be developed.

25. **Tortue and Teranga**. In 2015, Kosmos (90 percent, operator) in partnership with the Mauritanian Hydrocarbons and Mining Resources Corporation – SMHPM, 10 percent) made a discovery in the Ahmeyim-1 offshore well in southern Mauritania close to the border with Senegal. In early 2016, Kosmos (60 percent, operator) in partnership with Timis (30 percent) and PETROSEN (10 percent) reported another offshore gas discovery in Senegal in the Geumbeul-1 well located roughly five kilometers from the Ahmeyim-1 well. Both drilling operations reached the target formation at a

water depth of approximately 2,700 meters and a well depth of over 5,000 meters. Moreover, both exploration wells encountered about 100 meters of net gas pay. In March 2016, the Ahmeyim-2 well, which was drilled in Mauritania, encountered 78 meters (256 feet) of net gas pay. The drilling confirmed reservoir continuity on both sides of the border. In May 2016, Teranga-1 was successfully drilled in Senegal. While the latter is not part of Tortue but of Grand Tortue, a larger inboard trend extending from Marsouin in Mauritania to Teranga in Senegal may hold 25-50 Tcf of gas. However, the appraisal program for Grand Tortue will have to be completed before a thorough assessment of the nature and size of the reservoirs can be provided along with the specifications of the gas and its deliverability. Late December 2016, British Petroleum (BP) signed a farm-in agreement with Kosmos Energy to acquire a 62 percent working interest, including development operatorship, of Kosmos' exploration blocks in Mauritania, and a 32.50 percent effective working interest in Kosmos' Senegal exploration blocks. BP is planning to drill four additional wells and then decide on a project development concept this year in the hope of a Final Investment Decision (FID) by end of 2018. Given the large size of the resources and low international market price trends for LNG, the operator is seeking to develop the resource in phases. The first phase would be a low-cost solution meant to establish Senegal and Mauritania as producing countries in a timely manner. An innovative near-shore floating LNG (FLNG) concept is thus part of preliminary and screening studies.

**Challenges Ahead for Oil and Gas Development**

26. Now that world-scale discoveries have been made offshore in Senegal, operators are working on finalizing the appraisal of the oil and gas resources and defining the project development concepts, as required before they can make an FID. The period separating the moment resources are discovered from the moment a decision is made on whether and how to develop them (i.e., the FID) involves critical work. Often underestimated in new producing countries, the work needed during this period is substantial and directly impacts the fiscal and non-fiscal revenues that the resource exploitation will bring to the host country. With oil and gas discoveries come expectations of fiscal revenues and local content, and there is generally greater public interest in how to invest these revenues and train people for future industry needs rather than in how best to choose a project development concept, supplement the petroleum law and the PSC, and set-up or reinforce institutions.

27. Yet, the choice of a project development concept will irreversibly define the project's socioeconomic and fiscal impacts as well as its ability to bring more than fiscal revenues for a country. During the early screening phase, it is essential that all relevant development concepts be screened. In countries such as Senegal and Mauritania, where the lack of affordable electricity is one of the key binding constraints on growth, it is essential to make sure than the concepts under preliminary analysis include options for gas destined for domestic power generation. While such concepts may not always be commercially viable, there can be instances where they compete with concepts excluding gas for power generation, and access to concessional financing can make a difference. Some projects development concepts come with more local content than others, and it is important to make sure they too are analyzed as needed. Such concepts are not always optimal, especially when markets prices trends are low and key infrastructures underdeveloped. Yet, expectations of local content are often higher than what is feasible, and ruling out such concepts without a rationale can add substantial time and costs to project negotiations. It is therefore important for governments to proceed methodically and focus on their responsibilities on firming up an FID before widening their efforts to training people to future industry needs and managing future revenues. Once operators near an FID, based on factors that can optimize the government's fiscal revenues and other positive externalities, the timing for petroleum revenue buildups and training needs become clearer. Governments should then focus on switching.

28. During the conceptualization phase, governments and operators must work in collaboration to finalize all agreements needed for an FID. While the greatest part of the work falls to the lead operators, governments must grant

approval for a large number of decisions. In new producing countries, governments often need to complete the legal and regulatory framework so that it covers all critical uncertainties that could affect the feasibility of the project. For instance, if a Petroleum Law and PSC do not specify the fiscal regime that will apply to the liquefaction of the gas, the fiscal, legal, and regulatory framework will need to be supplemented to remove this uncertainty. Governments will also be asked to review the Front End Engineering Design (FEED) of oil and gas development concepts as well as field developments, which typically requires new capacity. Before they make an FID, private operators will also have to make sure that project financing is adequate and that all parties, including national oil corporations, can assume their share of development and production costs. In such cases, this suggests that the Government should determine its stake and secure ways to finance it ahead of time. In the development of LNG, the private operator will lead the gas marketing strategy and find buyers for the gas. However, the Government may still need to provide clearance for the gas marketing strategy and gas sale agreements in a timely manner.

29. Key landmarks that need to be achieved by the Government of Senegal in the earliest stage of Sangomar and Grand Tortue negotiations include the following:

a. Ratification of an Intergovernmental Cooperation Agreement (ICA) for the development of the transnational resource, which will leverage cooperation between Senegal and Mauritania;
b. Adoption a Unitization and Unit Operating Agreement (UUOA) complying with the ICA;
c. Approval of project development concepts for Sangomar and Grand Tortue discoveries that optimize fiscal revenues under existing PSCs and other positive impacts for the country (e.g., gas for domestic power generation) while meeting investors' requirements; and
d. Identification of the optimal share of PETROSEN in Sangomar and Grand Tortue developments and option(s) for financing this participation.

30. The proposed World Bank Technical Assistance (TA) will support the GoS's efforts to mobilize the capacity needed to partner with private operators to ensure progress toward completion of these specific landmark and broader needs for an FID.

## C. Proposed Development Objective(s)

**Note to Task Teams:** The PDO has been pre-populated from the datasheet for the first time for your convenience. Please keep it up to date whenever it is changed in the datasheet.

Development Objective(s) (From PAD)

Enhance the government's capacity to progress negotiations towards final investments decisions, and lay the foundations for the sector's contributions to the economy through enhanced legal and regulatory framework and capacity building.

Key Results

Achievement of the intended PDO will be monitored by the following indicators:

- Development concept for Grand Tortue Ahmeyim (GTA) and SNE determined;
- Unitization agreement for the GTA reservoir developed;
- Oil and gas policy, strategy, and action plan developed;
- Master plan for oil and gas development formulated;

- Institutional diagnostic conducted and results publicly disseminated;
- Communications strategy and roadmap for government agencies developed and implemented.

### D. Project Description

31. The proposed TA has five components: Component A – Support for hydrocarbon project negotiations; Component B – Enhancement of the strategic and policy framework; Component C – Institutional diagnostic and capacity building; Component D – Stakeholders engagement campaign; and Component E – Project management and coordination. Details of the project components are summarized below:

32. **Component A – Support for hydrocarbon project negotiations (US$ 10 million):** The objective of this component is to help the GoSN engage in a timely and constructive manner with the Government of Mauritania and PSC holders to ensure the sustainable development of its oil and gas resources. International experts on the technical, fiscal, legal, marketing, and financial fronts will be contracted to ensure that project negotiation is prepared based on best available knowledge. Specific activities to be implemented under this component include the following forms of support, through the development of a series of agreements, for the negotiation of SNE and Grand Tortue Ahmeyim (GTA) development:

a. Support the Government's negotiation team effort to clear the operator's resources estimate as well as the methodology used to delineate SNE and GTA – the transnational gas resources, which will be subject to intergovernmental cooperation and unitization.
b. Help the Government's negotiation team clear the concept for the development of SNE and GTA, future field development plans, and engineering studies.
c. Help the Government complete the legal, fiscal, regulatory framework needed to progress towards FID for SNEA and GTA, clear the intergovernmental cooperation agreement and the unitization agreement for GTA, and develop the series of operational, fiscal, marketing and financial agreements needed for SNE and GTA.
d. Support government efforts to identify the fiscal impact of the various LNG development concepts, close project financing, and identify the optimal share of the national company in the gas and LNG developments and how to finance it.
e. Help the Government's negotiation team clear SNE and GTA marketing agreements and identify optimal gas to domestic power options for SNE and GTA.

33. **Component B – Enhancement of the strategic and policy framework (US$ 2 million)**: The objective of this component is to support the GoSN develop an oil and gas sector policy and strategy. Specific activities to be implemented under this component include:

a. **Oil and gas sector policy, strategy, and action plan**: This activity intends to support government's effort to develop an oil and gas policy, articulating how the country will manage the sector (upstream, midstream, and downstream) and assess the share of future oil and gas production that could be delivered to shore (gas-to-power, refining, other industrial usages). Preliminary input for future local content and revenue management policies will be developed as background material for the oil and gas policy;
b. **Master Plan**: All background work needed to develop or update the sector policy and strategy and to ensure its implementation will be financed under this project activity. This includes the development of an oil and gas master plan, which will articulate whether and how developments in Senegal will support the power sector or any other local industry. The master plan will be developed after the preliminary concept studies have been finalized and a pre-FEED is approved for the development of SNE and GTA. It will assess the social and

environmental risks associated with the project development concept as well as the readiness of Senegalese safeguards designed to mitigate risks adequately.

34. **Component C – Institutional diagnostic and capacity building (US$ 6 million):** The objective of this component is to identify the needs for capacity building, develop tailored training programs, and support the Government's effort to mobilize instrumental ad hoc expertise:

a. **Institutional diagnostic**: This activity is aimed at providing a detailed analysis of the operations and internal policies and procedures of Government institutions involved in oil and gas exploration and production benchmarked against international good practices. The targeted institutions will include relevant line Ministries (Energy, Economy, Finance, Transport, Infrastructure, and Environment) as well as PETROSEN. The diagnostic will contribute to short- to medium-term training and organization and staffing strategies for public institutions involved in the development of oil and gas.
b. **Training**: This activity is meant to provide high-level training to oil and gas decision-makers (COS-Petrogaz, line Ministers, PETROSEN, and parliamentarians) as well as in-depth training to the staff of PETROSEN, GES-Petrogaz, and Ministries directly involved in project negotiation and their future execution.
   - <u>High level training</u> aims to facilitate the decision-making process on legal provisions that would be needed to supplemental the Petroleum Code, the adoption of an ICA, the ratification of a unitization agreement, the clearance of concepts for oil and gas developments, etc. Study visits to LNG production sites similar to those that could be developed in Senegal could also be offered to a small targeted audience under this activity.
   - <u>In-depth training</u> will be based on industry needs and subject to a preliminary capacity audit, which will ensure that trainees have the capacity to absorb the proposed training. The training will be delivered after the capacity audit is completed, and the training program will be tailored for oil and gas engineers, economists, and lawyers.
c. **Instrumental Staffing**: This activity is meant to support the Government's effort to mobilize additional expertise in petroleum engineering, LNG project development, oil and gas economics, project finance, and the oil and gas fiscal and legal framework. Experts will be recruited as consultants and predominantly support COS-PETROGAZ, the Ministry of Energy, and PETROSEN. To ensure sustainability, short term experts will be a twinned with permanent staff where relevant.

35. **Component D – Stakeholders engagement campaign (US$ 1 million):** The main objective of this component is to mobilize international third party expertise needed for the GoSN to develop a communications strategy and information campaign to engage effectively and sustainably with all key stakeholders on issues relating to oil and gas development projects in SNE and Grand Tortue. This component, which will create and maximize synergies with the Senegal EITI activity on communications campaign, will include the following activities:

a. **Audit**: This activity will support the assessment of current communications options and mechanisms and institutional capacities needed to communicate, inform, and engage with key target audiences across relevant government agencies, including the Presidency, COS-PETROGAZ, the Ministry of Energy and Development of Renewable Energies, and PETROSEN. The needs assessment will outline priority communications mechanisms and institutional capacities that will need to be put in place across as well as within relevant government actors.
b. **Communications strategy**: This set of activities will support the development of the stakeholders mapping needed to identify key audiences for GoSN communication. It will also provide a survey of key stakeholders and target audiences' opinions, perceptions, interests and communication preferences around oil and gas

development issues. Finally, it will develop a Communication Strategy and Roadmap (from present day to FID and post-FID) and support government efforts to implement it.

c. **Stakeholders engagement campaign**: This set of activities will support the development and implementation of an information and engagement campaign. Based on the communications strategy developed under this component, the stakeholders engagement campaign will inform and engage citizens on oil and gas development issues in Senegal, both pre- and post-FID.

d. **Capacity-building for oil and gas sector development communications**: This set of activities will aim to develop and execute a training program for key GoSN staff who will play a critical role in the implementation of the communication strategy and engagement campaign.

36. **Component E – Project management and coordination (US$ 1 million):** The proposed component will help develop the capacity of GES-PETROGAS, the Project Implementation Unit (PIU), to manage all project activities financed under the World Bank TA. More specifically, it will support the costs associated with the recruitment of a procurement specialist, accountant, administrative and financial director, and other instrumental staff as needed to build the GES-PETROAS procurement, financial management, and monitoring and evaluation as well as safeguards and management capacities in a sustainable manner.

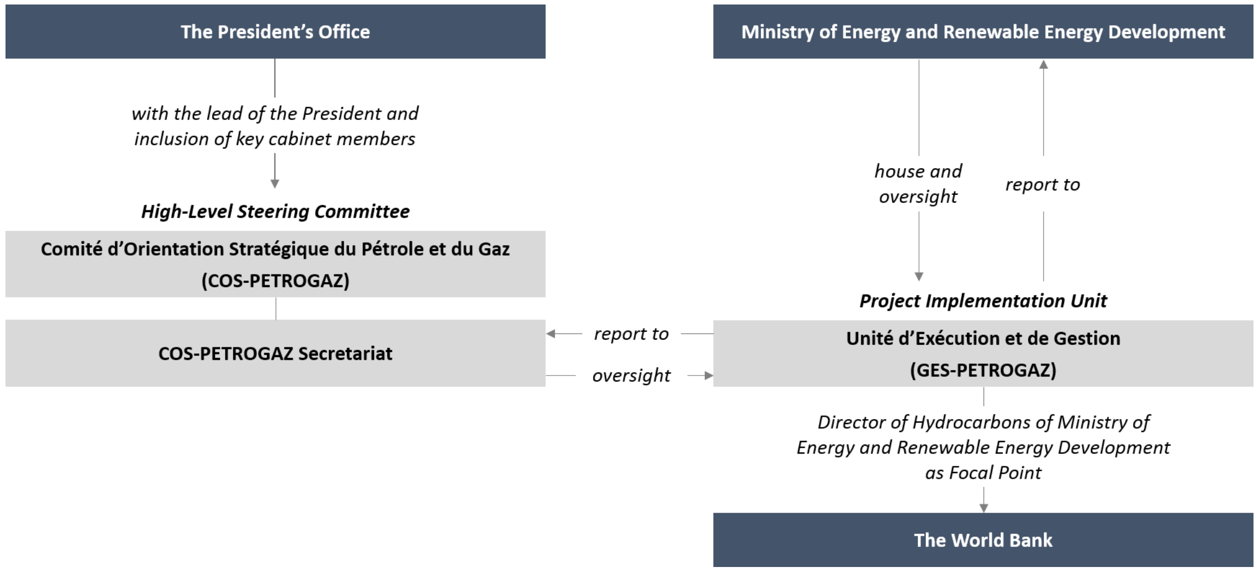
## E. Implementation

### Institutional and Implementation Arrangements

37. Through the newly created GES-PETROGAZ housed in MEDER, the GoSN will execute the proposed TA. It will carry out all activities planned under the authority of MEDER and a high level Steering Committee, COS-PETROGAZ, through the COS-PETROGAZ Secretariat. GES-PETROGAZ benefits from the support of the Director of Hydrocarbons in MEDER, who serves as focal point for the proposed World Bank TA in charge of day-to-day coordination and management. All actions taken by the GES-PETROGAZ focal point are dictated by the final approval or decisions made in MEDER and COS-PETROGAZ through its Secretariat. GES-PETROGAZ also benefits from the support of PETROSEN, which provides on a time basis a procurement specialist, an administrative and financial director, an accountant, and legal and technical experts.

38. The temporary staffing capacity supported by PETROSEN will last until GES-PETROGAZ recruits as part of this TA: (i) an administrative and financial director and an accountant for the financial management and the reporting requirements; (ii) a procurement specialist to ensure that all activities financed by the project are committed following World Bank procurement guidelines; and (iii) an assistant tasked with providing administrative assistance to the whole team. Such transfer of responsibilities for the management of the proposed TA will require obtaining approval from MEDER and COS-PETROGAZ as well as a review and non-objection from the World Bank.

39. To ensure smooth project implementation, a Project Implementation Manual (PIM) will be developed to articulate how the operations planned under the proposed project will be undertaken by GES-PETROGAZ. In particular, the Manual will outline implementation arrangements, project costs and parallel arrangements, disbursement, financial management, procurement arrangements, internal controls, etc. The Bank team (based in Washington and Senegal) will provide technical support during implementation, monitor operational progress, and provide fiduciary oversight and clearances.




40. **Financial Management Arrangements**: GES-PETROGAZ will be responsible for financial management and disbursements of this TA loan. Until a seasoned administrative and financial director and an accountant are recruited as dedicated staff, GES-PETROGAZ will use the support of PETROSEN fiduciary experts, who have experience in implementing Bank financed projects. PETROSEN's chief accountant has gained experience in the implementation of other Bank loans in the past and will be responsible for financial management and disbursements under this TA loan. The Financial Management expert hired by GES-PETROGAZ will ensure continued compliance with Bank fiduciary requirements, including the preparation of withdrawal applications, interim financial reports, financial audits, etc. Accounting records will be retained by the GES-PETROGAZ accounting system and complemented by additional disclosure tables (as may be necessary). Semi-annual IFRs comprising the sources and uses of funds, detailed use of funds by each activity, and movements and balances in the designated and transit account, will be prepared and submitted to the Bank. The TA will undergo annual audits by an independent auditor acceptable to the Bank, and the audit reports will be publicly disclosed by the Bank and by GES-PETROGAZ.

41. GES-PETROGAS will prepare quarterly Interim Financial Report (IFRs) for the project in form and content satisfactory to the Bank. These IFRs will be submitted to the Bank within 45 days after the end of the quarter to which they relate. PETROSEN will prepare and agree with the Bank on the format of the IFRs by negotiations. GES-PETROGAS will also prepare Project' Financial Statements in compliance with SYSCOA and World Bank requirements.

42. **Disbursement Arrangements**: The following disbursement methods may be used by the project: reimbursement, advance, direct payment and special commitment as specified in the Disbursement Letter and in compliance with the World Bank Disbursement Guidelines for Projects, dated February, 2017. Disbursements will be transactions-based whereas withdrawal applications will be supported with Statement of Expenditures (SOE). A Designated Account (DA) will be opened in a commercial bank acceptable to the Association to facilitate payment for eligible expenditures. The Designated Account will be managed according to the disbursement procedures described in the manual of administrative and financial procedures in compliance with the Disbursement Letter. The DA would be managed by the Direction of investment (DI), in coordination with PETROSEN first and thereafter with GES PETROGAS PIU. The allocation of the Designated Account will cover approximately four months of expenditures.

43. The summary disbursement table is as follows:

| Category | Amount financed by IDA<br>US$ | % financed by IDA |
|---|---|---|
| Goods, non-consulting services, consultants' services, Training and Incremental Operating Costs under the Project | 20,000,000 | 100% |
| Total | 20,000,000 | 100% |

**Note to Task Teams:** The following sections are system generated and can only be edited online in the Portal.

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### F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

Not applicable

### G. Environmental and Social Safeguards Specialists on the Team

Hocine Chalal,Alexandra C. Bezeredi

## SAFEGUARD POLICIES THAT MIGHT APPLY

| Safeguard Policies | Triggered? | Explanation (Optional) |
|---|---|---|
| Environmental Assessment OP/BP 4.01 | Yes | An assessment will be commissioned of the readiness of the Senegalese safeguards related regulatory framework to deal with current oil and gas development projects. Terms of reference will be prepared and disclosed as soon as possible which will delineate the environmental and social safeguards mitigating and regulatory measures as well as the capacity building measures that will be built in the technical assistance package for Senegal. The project precedes the preparation of feasibility and environmental and social studies, and final |

| | | |
|---|---|---|
| | | investments decisions are not anticipated to take place in the short- to medium-term. Therefore, the objective of this contribution is to ensure that the government is well equipped to negotiate, manage and implement the projects that will come out of this technical assistance operation. |
| Natural Habitats OP/BP 4.04 | No | |
| Forests OP/BP 4.36 | No | |
| Pest Management OP 4.09 | No | |
| Physical Cultural Resources OP/BP 4.11 | No | |
| Indigenous Peoples OP/BP 4.10 | No | |
| Involuntary Resettlement OP/BP 4.12 | No | |
| Safety of Dams OP/BP 4.37 | No | |
| Projects on International Waterways OP/BP 7.50 | No | |
| Projects in Disputed Areas OP/BP 7.60 | No | |

## KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

### A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
The proposed TA precedes the preparation of feasibility and environmental and social studies, and final investments decisions are not anticipated to take place in the short to medium term. Thus, the TA does not pose environmental and social safeguards related risks to the communities or to the country at large.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
The goal of the proposed TA is to support the government to reach Final Investment Decisions on oil and gas development, therefore, it does have eventual implications for addressing the environmental and social impacts related to future oil and gas development.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
To take preventive measures, the Terms of Reference (ToR) for the Master Plan for Oil and Gas Development will ensure that the plan addresses broad environmental and social risks in the sector. Once the Master Plan is developed, the Government plans to prepare a Strategic Environmental and Social Assessment of the oil and gas sector in Senegal.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
To prepare the country and GES-PETROGAZ for future oil and gas development projects, an assessment will also be commissioned to examine the readiness of the Senegalese safeguards related the regulatory framework applicable to

oil and gas development projects.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

At this stage, the World Bank team will ensure quality supervision of the Master Plan financed under the project and stands ready to change the risk rating from B to A of the project in the unlikely event a FID is prepared during the life of the TA.

### B. Disclosure Requirements

**Environmental Assessment/Audit/Management Plan/Other**

| Date of receipt by the Bank | Date of submission to InfoShop | For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors |
|---|---|---|
| 30-Nov-2017 | 02-Jan-2018 | |

**"In country" Disclosure**

Senegal
05-Apr-2017

Comments

### C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

**OP/BP/GP 4.01 - Environment Assessment**

Does the project require a stand-alone EA (including EMP) report?
No

**The World Bank Policy on Disclosure of Information**

Have relevant safeguard policies documents been sent to the World Bank's Infoshop?
No

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
No

**All Safeguard Policies**

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
No

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
No

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

## CONTACT POINT

### World Bank

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Senior Oil and Gas Specialist

Ana Francisca Ramirez
Consultant

### Borrower/Client/Recipient

Ministere de l’Economie et des Finances et du Plan

### Implementing Agencies

Gestion Exécutive et Stratégique du Comité d’Orientation Stratégique et de Suivi du Développement du
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## FOR MORE INFORMATION CONTACT

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## APPROVAL

| | |
|---|---|
| Task Team Leader(s): | Ilhem Salamon<br>Ana Francisca Ramirez |

**Approved By**

| | | |
|---|---|---|
| Safeguards Advisor: | Maman-Sani Issa | 06-Apr-2017 |
| Practice Manager/Manager: | Christopher Gilbert Sheldon | 06-Apr-2017 |
| Country Director: | R. Gregory Toulmin | 06-Apr-2017 |

**Note to Task Teams:** End of system generated content, document is editable from here.