Public Disclosure Authorized

Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 05-Jan-2021 | Report No: PIDC234973

BASIC INFORMATION

A. Basic Program Data

Country	Project ID	Parent Project ID (if any)	Program Name
Senegal	P174757		Senegal Jobs, Economic Transformation & Recovery Project
Region	Estimated Appraisal Date	Estimated Board Date	Does this operation have an IPF component?
AFRICA WEST	08-Mar-2021	12-May-2021	No
Financing Instrument	Borrower(s)	Implementing Agency	Practice Area (Lead)
Program-for-Results Financing	Ministry of Economy, Planning and Cooperation	ADEPME, FONGIP, FONSIS	Finance, Competitiveness and Innovation

Proposed Program Development Objective(s)

Support Senegal's economic recovery and transformation through fostering: i) access to exports markets for horticulture, ii) access to technology, iii) access de finance, and iv) public-private partnerships.

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	400.00
Total Operation Cost	125.00
Total Program Cost	125.00
Total Financing	125.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	125.00
World Bank Lending	125.00

Concept Review Decision

The review did authorize the preparation to continue

xx

B. Introduction and Context

Country Context

1. **Despite high growth, poverty reduction in Senegal has been disappointing over the last decade, and inequality has stagnated.** Since 2001, Senegal has experienced several periods of high economic growth—including recently between 2014 and 2019. Nevertheless, poverty reduction has remained modest. Between 2001-2011, the performance in terms of poverty reduction has been mixed, with high growth and falling poverty rates from 2001 to 2005, and low growth and stagnating poverty rates between 2005 and 2011. Moreover, the share of consumption of the bottom 40 percent of the population contracted during this period—stagnating during the high growth spell (between 2001 and 2005) and declining thereafter (the Gini coefficient remained unchanged at *circa* 0.4, close to the Sub-Saharan Africa average). New comparable estimates indicate that poverty declined from 41.5 percent in 2011 to 37.8 percent in 2018/9, despite an average annual growth rate of approximately 6 percent since 2014. With an average 0.4 percentage point (ppt) reduction per year, Senegal's track record falls well short of the top performing 15 Sub-Saharan African countries which recently reduced poverty rates between 1 and 3.4 ppts per year.[1]

2. **The COVID19 crisis 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 -0.7 percent in 2020 according to the IMF, 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. The poverty headcount may increase to approximately 40 percent in 2020, up from 38 percent in 2019, undoing more than half the reduction since 41.5 percent in 2011.

3. **On top of temporary, stringent containment measures, the Government is implementing a comprehensive support and recovery plan, the Economic and Social Resilience Program (PRES).** The main vehicle is a dedicated solidarity fund at Central Bank of Western African States *(*BCEAO), FORCE-COVID19. The objectives are to upgrade the health system and contain the economic fallout while providing targeted support to vulnerable households and firms. The International Monetary Fund (IMF) has provided significant financing to avoid liquidity pressures and many bilateral donors are providing project support to FORCE-COVID19—To support Senegal's economic recovery post-COVID, World Bank support, coordinated with other multilaterals, is now needed to put the country back on a more inclusive and higher growth path..

Sectoral (or multi-sectoral) and Institutional Context of the Program

Job creation

4. **Senegal's growth acceleration (above 6% per year since 2014) failed to create enough jobs to meet its growing labor supply and reduce poverty**. Therefore, Senegal needs to adopt more incentive-driven and capability-enhancing

[1] Between 2005 and 2015 poverty reduction is several countries in Sub-Saharan Africa exceeded 1 percentage point per year—e.g., Tanzania (-2.6 ppts per year); Rwanda (-1.5 ppts per year) and Ghana (-1.3 ppts per year). Over this same period Senegal only reduced poverty at an annual rate of 0.43 percentage points and only by 0.65 ppts per year between 2011 and 2018. Source: World Bank staff calculations using *PovCalNet* 2020 harmonized surveys and Macro Poverty Outlook Fall 2019 for the evolution between 2011 and 2018.

reforms to help it rebound forcefully following COVID-19, including replacing existing rent-seeking structures and incentives with an entrepreneurship/productivity focus as well as supporting the un/under-employed to engage in better work. Senegal's challenge is to sustainably reduce poverty through the creation of more than 300,000 jobs each year to absorb new entrants in the labor market Absent policy changes, this number is projected to rise to 427,000 in 2030, and to 500,000 by 2050.

Private sector structure and informality

5. **The formal sector is small. So creating better jobs for more people needs to include boosting the productivity of informal enterprises in addition to better and more private sector formal jobs.** A small share (6%) of firms in Senegal have 5 or more employees and are responsible for 48% of workers and 81% of sales. The share of formal firms with 5+ employees is even smaller, at 1.3% of the total number of firms (Table 1). These formal firms with 5+ employees employ 28% of workers, account for 77% of all sales, and are about 7 times more productive (based on sales per worker) than the average establishment in the RGE database. This large difference in productivity is also observed between formal and informal firms, disregarding their size in terms of number of employees. Improving the productivity of both informal and formal firms, and increasing the number of firms over time in the growing formal group, both more SMEs and large firms, will have a significant impact on the overall productivity and quality of jobs in the country.

Sectoral growth and productivity

6. **Recent growth is largely due to an increase in exports, agriculture, services and Foreign Direct Investment (FDI).** In 2013-2017, Senegal benefitted from increased and more diversified exports, with a growth rate of 4.4% and comprising of 202 product categories in 2017 versus 131 at the end of the 1990s: gold, petroleum products, certain manufactured products and agro-industrial products. This is more than its neighbors but much less than countries like Morocco (237), Vietnam (249) and Malaysia (254). The agricultural sector has experienced rapid growth: + 7.7% over the period 2014-17 as did the construction sector: + 15.4% over 2014-2017. The tertiary sector increased by 6.2% thanks to financial services and insurance, and real estate. FDI inflows increased to reach 2.8% of GDP in 2017 (2.4% in 2014).

Trade and logistics

7. **International trade remains a challenge in a country considered a commerce hub. Senegal has lower connectivity than countries positioned to export horticultural products.** Considering Senegal's emerging role as a transport and commerce hub in West Africa, its performance on the Logistics Performance Index is a reflection of the inefficiency of the country's clearance and logistics processes, namely pertaining to the speed, simplicity, and predictability of its formalities. Similar to its peer countries, Senegal's lacking logistics structure is reflected in its performance in the GCI, in which Senegal's score reveals how burdensome it is for businesses to comply with governmental administrative requirements, such as permits, regulations, and reporting. While the government has implemented various reforms in recent years to reduce this inefficiency, it continues to directly impact the growth of Senegal's mainstay industries.

The business environment

8. **The burdensome business regulatory environment is weakened by high barriers to entry in key sectors further increasing costs for all market players.** Regulatory requirements do not adopt a risk-based approach that seeks to adapt

the government's degree of regulatory control to the actual hazards and level of severity posed by industry sectors, economic activities and business establishments. Simplifying business licensing is about limiting licenses to those that are justifiable and adopting risk matrices. There is substantial literature arguing for delicensing various key sectors and simplifying barriers to entry as one remedy to decrease transaction costs for small firms attempting to join the market and to encourage participation in the formal market.

Technology adoption

9. **Senegalese firms lag in the adoption of relevant technologies.** New measures of technology adoption at the firm-level recently obtained by the World Bank in Senegal, Vietnam, and Brazil show a clear correlation between technology adoption, productivity and inclusive jobs growth. Senegalese firms have an average technological gap of 32% relative to firms in the State of Ceará in Brazil, and 20% relative to the average firm in Vietnam. This technological gap is also observed across Senegalese regions and is robust when comparing similar firms in Senegal by size, sector, age, foreign ownership, and export status. Importantly, firms with more sophisticated levels of technology on average generate more jobs and increase the share of unskilled workers in their payroll.

Access to finance

10. **Access to finance is restricted in Senegal, especially for MSMEs.** Only 22.6% of all firms have a bank loan or line of credit and when they get a credit, the collateral required is very high: 271.7% of the loan value. The micro-enterprises (99.8% of the total number of economic entities) obtain only 8% of the total financing. Obstacles to improving access to finance include: i) Limited competition in the financial sector. A few innovative financial services were recently launched (electronic banking services) but most of the small businesses are excluded and there is currently no interoperability between e-payment providers. However a project led by the BCEAO is currently ongoing to address this issue. The quality of the services offered is problematic and there is a lack of information on the clarity and comparability of fees. ii) Financial infrastructure has strong limitations. Credit information coverage is limited (information available on only 13,712 companies or 3.3% of the number of companies in August 2018), the insolvency regime is restrictive (long recovery, limited recovery of assets, etc.), there is uncertainty about guaranteed transactions, and a weak capital market. iii) Sector policies need to be improved. The BCEAO and the government have put in place mechanisms to improve access to financing (FONGIP, BNDE, CNCAS, BCEAO refinancing window, DER, FONSIS) but, as it stands, they do not allow all the desired objectives to be achieved.

Public-Private Partnerships

11. **There is strong political will to mobilize private financing and resources for the priority economic and social infrastructure investments identified in the PSE as necessary to underpin growth and competitiveness, and hence support recovery.** Mobilizing private sector solutions, where these are sustainable and provide value for money, will enable scarce public resources to be used where they are most needed, including to mitigate the immediate and medium-term impacts of COVID-19. The Ministry of Economy, Planning, and Cooperation (MEPC) has been charged with diversifying and optimizing the sources of finance for priority public investments, including through Public-Private Partnerships (PPP), and has established a Directorate for Finance and PPPs (DFPPP) to this end.

Relationship to CAS/CPF

12. **The proposed PforR 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. It is aligned with the

three pillars of the CPF, which focus on making growth more inclusive, competitive and sustainable. The 1st pillar of the CPF supports the development of a healthy, skilled, and productive population that is well prepared to contribute to the growth process (Pillar 1 of the CPF). The 2nd pillar of the CPF focuses on job creation and increasing competitiveness to support a private sector-led, diversified, and inclusive economy. The PforR will focus on women entrepreneurs and climate change (in its value chains development result area) thereby furthering coherence with the CPF cross-cutting themes of gender equality and climate change risk management.

Rationale for Bank Engagement and Choice of Financing Instrument

13. **At the request of the GoS, the Bank will support a subset of the authorities' economic recovery plan ("plan d'actions prioritaires II ajusté et accéléré, PAP2A), adopted in September 2020.** The Bank will build on its comparative advantage in the areas of value chains and exports development, access to finance, PPPs, investment climate and technological adoption. All these will be informed by recent Bank analytics and experience accumulated in other countries.

14. **The chosen the PforR instrument puts more emphasis on results and is adequate to support a well-defined government program**. The PforR instrument is also well suited to support activities and reforms that take time to materialize. It is focused on results and incentivizes them rather than on inputs thereby increasing the likelihood of achieving the PDO.

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

34. The Program Development Objective (PDO) of this Program for Results (PforR) is Support Senegal's economic recovery and transformation through fostering: i) access to exports markets for horticulture, ii) access to technology, iii) access de finance, and iv) public-private partnerships.

PDO Level Results Indicators

15. The following set of PDO level indicators is proposed and will be refined during project preparation:

- Increase in the value of exports of select horticulture value chains
- Number of MSME adopting technology through the program's incentives
- Number MSMEs accessing to finance, of which owned by women, of which are informal
- Number of PPP transactions initiated (Request For Proposals issued), using the PPP project preparation fund.

D. Program Description

PforR Program Boundary

36. **In response to the COVID crisis, the GoS issued on September 29, 2020 a new version of the Priority Action Plan 2- Adjusted and Accelerated (PAP2A)**. This action plan, spanning over 2021-2023, include 3 pillars and aims to implement the Plan Senegal Emergent Plan (PSE) initiated in 2012. This ambitious development program aims to improve infrastructure, achieve economic reforms, increase investment in strategic sectors, and strengthen the competitiveness of the private sector.

37. **Pillar 1 focuses on growth and structural economic transformation. It includes both horizontal and vertical elements.** The vertical elements relate to priority sectors: agriculture, livestock and fishery/aquaculture; industry, mainly agribusiness and pharmaceuticals; tourism; and the digital economy, by digitizing government services and standardizing the addressing system to ease good delivery and boost e-commerce. The horizontal elements of the government program include reforms related to competition policy, the local investment climate, access to land, commercial justice, the commercial code and the labor code. It also includes reforms of the PPP legal and institutional frameworks, with a view to using PPPs to mobilize private sector financing and resources to deliver efficiently on the PAP2A investment needs in a way that enables more private sector participation in the economy.

The government Program supported by the PforR

38. **The government Program supported by this PforR – a subset of pillar 1 of the PAP2-A- focuses on private sector development, export and PPPs**. The Program will revolve around the following three axes:

a. Private sector development -for formal and informal enterprises, notably MSMEs- through access to financing, access to technologies and access to markets,
b. Improving the competitiveness of value chains with export potential through diagnosing bottlenecks and implementing relevant reforms and making or encouraging required investments.
c. Crowding in of private investments through PPPs by addressing the binding constraint of government capacity to prepare high-quality projects, in particular through a PPP project preparation fund.

E. Initial Environmental and Social Screening

16. **An Environment and Social Systems Assessment (ESSA) will be prepared to assess Senegal's regulatory authority and organizational capacity to achieve environmental and social (E&S) objectives and manage risks** against the range of E&S impacts that may be associated with the proposed Program. This assessment will be undertaken against a set of core principles set out in the Operational Policy on Program for Results Financing (OP/BP 9.00). The ESSA will highlight the areas where the existing management system lacks the regulatory authority or organizational capacity to effectively manage E&S effects and will propose several actions for inclusion in the Program Action Plan to enhance E&S capacity and management, increase sustainability and impact and mitigate specific E&S impacts. Consultations are planned to take place between January and March 2021.

CONTACT POINT

World Bank

Name :	Meriem Ait Ali Slimane		
Designation :	Senior Private Sector Specialist	Role :	Team Leader(ADM Responsible)
Telephone No :	5352+4228 /	Email :	maitalislimane@worldbank.org

Name :	Laurent Gonnet		
Designation :	Lead Financial Sector Specialist	Role :	Team Leader

Telephone No :	5352+4161 /	Email :	lgonnet@worldbank.org

Borrower/Client/Recipient

Borrower :	Ministry of Economy, Planning and Cooperation		
Contact :	Ndeye Maguatte Diouf	Title :	Director of Private Sector Development
Telephone No :	221338892100	Email :	NdeyeMaguatte.DIOUF@economie.gouv.sn

Implementing Agencies

Implementing Agency :	ADEPME		
Contact :	Idrissa Diabira	Title :	Director General
Telephone No :	221338697070	Email :	dg@adepme.sn

Implementing Agency :	FONGIP		
Contact :	Therese Faye Diouf	Title :	Administrator General
Telephone No :	221338591919	Email :	courrier.fongip@fongip.sn

Implementing Agency :	FONSIS		
Contact :	Papa Demba Diallo	Title :	Director General
Telephone No :	221338696369	Email :	ddiallo@fonsis.org

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects