

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC13730

<b>Project Name</b>	Senegal Growth and Export Development (P146469)
<b>Region</b>	AFRICA
<b>Country</b>	Senegal
<b>Sector(s)</b>	Other domestic and international trade (75%), SME Finance (25%)
<b>Theme(s)</b>	Export development and competitiveness (40%), Trade facilitation and market access (40%), Infrastructure services for private sector development (20%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P146469
<b>Borrower(s)</b>	Ministry of Commerce, Informal Sector, Consumption and Promotion of Local Products
<b>Implementing Agency</b>	Ministry of Commerce, Informal Sector, Consumption and Promotion of Local Products
<b>Environmental Category</b>	A-Full Assessment
<b>Date PID Prepared/ Updated</b>	17-Oct-2014
<b>Date PID Approved/ Disclosed</b>	10-Nov-2014
<b>Estimated Date of Appraisal Completion</b>	24-Apr-2015
<b>Estimated Date of Board Approval</b>	28-May-2015
<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

Since 2006, Senegal has faced a series of shocks which have hampered growth. While from the mid-1990s until 2005, Senegal enjoyed a significant GDP and per capita GDP growth, it has declined since then. Periodic droughts or unfavorable rains, international food and oil price shocks, and the global financial crisis have all contributed to a slowdown, and deterioration of the country's external and fiscal positions. Domestic policies also played a role, with weaknesses in public financial management, ineffective energy policy, and a limited ability of the domestic private sector to stimulate the economy. Overall, real annual GDP growth averaged 3.3 percent in 2006-12, below the SSA average of 4.9 percent, and only reached 3.5 percent in 2013.

This moderate growth path weighs heavily on the ability of the economy to create jobs. In 2011, Senegal's employment ratio was estimated at 0.52, indicating that only about one in two individuals of working-age were working at any job. Such a ratio is at the lower end of the distribution – it is considerably lower than the majority of countries, both low (0.71) and high-income (0.55). This economy is struggling to absorb a growing labor force. It is currently estimated that at least 150,000 jobs must be created each year to absorb this growing labor force. Most of the much needed job creation will have to come from the private sector as the state cannot sustainably create stable and secure jobs.

Senegalese authorities are now determined to address these challenges and have started taking some steps to redress the institutional and economic framework. Since 2009, the authorities have embarked on a series of reforms to improve the competitiveness of the economy, acting on multiple fronts, from the legal framework for business to infrastructures (new highways, new airport...) and energy (by 2017, GoS has committed to reduce energy cost and increase supply by 500Mw). Improvements in infrastructures, simplification in procedural process, and the increased competition in transport have also allowed Senegal to maintain some edge in international trade.

The reform process has accelerated in 2014 with the launch of the “Plan Sénégal Emergent” (PSE). PSE has triggered strong interest allowing the GoS to secure financing pledges worth about \$7.8 billion at a donor conference held in Paris in February 2014. The plan aims at boosting sustained and inclusive economic growth, making Senegal an emerging economy by 2035. The PSE is articulated around three pillars: (i) higher and sustainable growth and structural transformation, to be achieved by focusing on key sectors, (ii) human development by expanding social safety nets and improving the delivery of health and services, and (iii) governance, peace and security.

### **Sectoral and Institutional Context**

Sector Context.

In 2011, according to ANSD, the Senegalese formal sector included about 7000 firms, with 44.9 percent in services, 33.6 percent in trade, 13.3 percent in industry and 8.1 percent in the construction industry. More than 80 percent of them are MSMEs with less than 20 permanent employees.

Senegal's private sector activity has deteriorated since the mid-2000s. Manufacturing value-added declined from about 16 to 14 percent of GDP between 1995 and 2012, while exports as a percentage of GDP went from almost 31 percent to 24 percent of GDP (Chart 3). In 2013, the total value of exports stagnated. Furthermore, despite a recent decline in 2012, nominal and real effective exchange rates remain quite strong. Indeed, since 1999, Senegal has witnessed an appreciation of its currency, both in nominal and real terms, contributing to a loss of price competitiveness which has hampered the growth of the private sector and of exports.

The top foreign exchange earners are tourism, followed by exports of fish products, petroleum oils (largely a re-export), phosphoric acid, gold and cement. There has been some diversification of exported goods since the mid-1990s, notably horticulture products. The number of products traded, although still lower than the SSA average of 257 (2013), has indeed gone up from 132 in 1995 to 206 in 2013. As a consequence, the structure of Senegalese trade is steadily becoming slightly less divergent from the average structure of world trade; UNCTAD's diversification index went from 0.81 in 1995 to 0.71 in 2013.

Most exporting sectors have low value added generation. High technology exports are minimal,

estimates suggest they vary greatly across years and averaged only 0.8 percent of manufactured exports over 2010-12.

Although the export basket of the country has moved away from its former exclusive reliance on Europe due to increased intraregional trade, Senegal still has a relatively high geographical concentration of exports.

Significant constraints - including a weak competitiveness, underpinned by weak governance and poor implementation of reforms - undermine the private sector's role in stimulating the economy, exports and employment. Some of Senegal's key limitations in terms of global competitiveness include infrastructure (especially the quality of electricity supply), human capital (especially higher education and training), innovation and technological readiness (capacity for innovation, patents, internet bandwidth), and institutions (investment climate).

- **Infrastructure:** Energy supply remains costly and unstable. Due to insufficient or delayed investment in generation capacity during the last decade, there has been a gap between supply and demand since 2008, which resulted in major service disruptions between 2010 and 2012. At the end of 2011, thanks to leasing emergency diesel generators power supply increased significantly and service provision improved, but the cost of power production became excessive - at about US cents 24/kWh, electricity tariffs in Senegal are among the highest in Africa and the World . As a results, the last ICA (2009) estimated losses due to electricity shortages at 4.8 percent of sales, above the SSA average of 4.6 percent and the world average of 2.6 percent.

- **Low human capital.** A lack of skilled labor force is among the main deterrents of economic competitiveness. Senegalese gross school enrollment rates are well below compared to those in its peers: about 84 percent for primary, 36 percent for secondary, and 8 percent for tertiary education, while they average around 106 percent, 50 percent and 9 percent in other SSA low-middle income countries. This low accumulation of human capital leads to an oversupply of unqualified workers. As a result, unemployment is higher among women (38 percent) and men (42 percent) that completed only primary education.

- **Insufficient innovation.** Although the country has assets in research and knowledge creation (high number of researchers, multiple research institutions, ...) this does not translate into innovations in terms of new products on the market, or better production and delivery processes, due to poor linkages between the research sphere and the business sector. The country still spends too little in R&D, with a gross domestic expenditure on research and experimental development of only 0.48 percent of total GDP in 2008, way below the one percent target set for African countries . The limited research output mainly responds to government and foreign donor priorities; they respectively fund 57 and 38.3 percent of research activities. Less than 1 percent of researchers work in the business sector .

- **A difficult investment climate.** Besides infrastructures, some of the most important constraints for doing business include access to finance, taxation and the overall legal environment which is cumbersome and favor inefficient government bureaucracy. Access to finance is challenging, only 15 percent of firms had a bank loan/line of credit by the end of the 2000s. Banks mainly lend to large structured companies which are seen as less risky. Taxation is an issue as, during the reform of the tax code in 2012, Senegal made paying taxes more costly by increasing the corporate income tax rate to 30 percent (against 25 percent before). Finally, the legal environment is complex to operate in. In Doing Business 2014 , Senegal was ranked 178th out of 189 economies.

Electricity rules, tax procedures, property registration, investor protection and contract enforcement were all key regulatory issues.

Despite such constraints, Senegal has at least two sectors – agriculture and tourism - that have growth potential. These sectors are recognized in PSE as levers for growth, employment, forex earnings and will contribute to shared prosperity.

- The agriculture sector employs over 60 percent of the population, of which 60 percent are women. About 70 percent of the rural population depends on agriculture or related activities for their livelihood. Agriculture and livestock-raising contributes to 10-12 percent GDP. Senegal is a relatively attractive location for investment in agriculture and agri-business .

- Tourism is one of the brightest prospects for the country. In 2013, it generated 16 percent of export earnings, 11.6 percent of GDP, and 10.2 percent of all employment, which amounted to over 300,000 jobs (WTTC data). This is a result of a longstanding tradition, which originated with key tourism investments during the 1970s. By the 1980s, Senegal was among the top ten tourist destination in SSA. Since 2000, tourist arrivals steadily increased (an average of 8 percent per year) and are estimated at 980,000 tourists in 2012 (Chart 6).

The country’s beaches have been the chief draw, especially for the European markets. They have been attracted by Senegal’s dry, sunny weather during the northern winter, proximity to their home countries, and interesting variety of historical, cultural and natural attractions for day excursions from the beach hotels.

However, the sector also faces major challenges such as a short average length of stay (3.2 nights on average), an over-reliance on the French market (around 50 percent of visitors), few repeat visitors (around 5 percent), a high seasonality, a low average occupancy rate (around 33 percent). In this context, profitability for many hotels has been marginal at best. Consequently, some hotels are less able to reinvest and upgrade their facilities, thus resulting in lower quality and less competitive offers.

The key for a future inclusive growth and shared prosperity in Senegal will require implementing a mix of targeted support (both at firm and global levels, geographically and at sector level) and improvements in the investment climate, including the regulatory framework. This is the approach of the PSE that the proposed project will support too.

### **Relationship to CAS**

The proposed project builds upon a sound policy dialogue with the Senegalese authorities and the domestic private sector. The structure of the proposed project has received the unanimous approval of technical ministries (MC, MTAT) and of the private sector associations. It is aligned with the objectives expressed in the first pillar of the country’s strategic plan (PSE): “Accelerating inclusive growth and creating employment”, promoting growth and the development of Senegal as a touristic Hub. The project is likely to contribute to generating large positive externalities and foster shared prosperity, especially through entrepreneurship promotion and sustainable tourism development. The proposed operation also supports fundamental objectives of the World Bank’s Country Partnership Strategy (CPS) from February 2013. The latter supports the GoS efforts to accelerate growth and create jobs, including through creating more fiscal space for improved macroeconomic stability, more FDI and an improved business environment.

## **II. Proposed Development Objective(s)**

### **Proposed Development Objective(s) (From PCN)**

The Project Development Objective (PDO) is to support the creation of MSMEs and their access to export markets, improve tourism development and improve selected components of Senegal's investment climate.

### **Key Results (From PCN)**

The progress towards achieving the PDO would be monitored through the following indicators

Development Objectives: Support the creation of MSMEs

Performance Indicators:

- Number of participants in the BPC training program.
- Survival rate of awarded companies two years after the competition.

Development Objectives: Improve access to export markets

Performance Indicators

- Minimum of 33 percent of assisted firms accessed new nontraditional markets;
- Minimum 150 firms went through the scheme.

Development Objectives: Improve tourism development

Performance Indicators:

- Percentage increase in the number of international tourist arrivals in targeted destinations
- Percentage increase in tourist nights.

Development Objectives: Improve selected components of Senegal's investment climate

Performance Indicators:

- Time required to start a business in selected locations in the countryside identical to the time required in Dakar

## **III. Preliminary Description**

### **Concept Description**

The proposed project would consist of three operational components:

- Component 1. Supporting export development.
- Component 2: Improve tourism development.
- Component 3: Improving the business environment.

Details for each component are as follows.

Component 1. Supporting export development.

The objective of this component is to help SMEs increase and diversify exports. This should favor overall growth, increase forex earnings, and has a strong potential for job creation, a key concern of GoS.

Sub-component 1.1: Business Plan Competition. The Project will finance the i) organization of a

BPC aimed at assisting entrepreneurs in launching innovative new businesses with an export potential and ii) the one time equity grant provided to winners. Implementation would involve: (a) organizing an information campaign to raise awareness and invite proposals for new business ideas; (b) selecting the most promising business concepts; (c) providing them with support in the drafting of business plans and provision of required training in the areas of business planning and entrepreneurship; (d) selection of winners, (e) provision of seed capital (one time equity) to some of them; and (f) technical advice and mentoring to awardees to launch their business.

The competition will be for Senegalese up to 35 years of age, having viable new business ideas. The grant award ceremony would be held every year for 5 years. In order to strongly encourage women's participation, two editions will be exclusively for young women.

Sub-component 1.2: Export Market Access Fund. The proposed Senegalese Export Market Access Fund (EMAF) will be a matching grant fund. EMAF will help firms define and implement a strategy of access to export market. The grant would cover - on a temporary basis - a portion of costs related to business development services required to enable enterprises to enter export markets. This component will help Senegalese firms boost growth, employment and income through new export initiatives, and the diversification of markets and products. All firms exporting goods and services, indirectly or directly, can participate in the program.

EMAF will specifically provide non-reimbursable co-financing of (i) 50 percent for 100 individual firms, (ii) 70 percent for 25 innovative firms on a pilot basis (with a view to support product and marketing innovation for export) and (iii) 10 professional associations. It would draw lessons from past experiences and also have some key design element to ensure success (a public-private partnership for a demand driven scheme (first come first served basis), a sharing of costs and risks, the provision of TA to firms when needed, the financial autonomy of the fund and the responsiveness of a team).

The grant would also finance EMAF management, acquisition of equipment and technical support in the preparation of export plans, sponsorship of implementation workshops and training seminars, monitoring and impact evaluation, and specific training programs.

Component 2: Improve tourism development.

The objective of this component is to support tourism which is an export sector that can help boost overall growth, increase forex earnings, and has a strong potential for job creation that could especially benefit less skilled workers.

Sub-Component 2.1: Market and Product Development. To reduce the effects of seasonality on tourism and maximize receipts per visitor, this subcomponent would support product diversification and effective promotion of the Senegal Destination. The project would support the following activities:

- Support the development of Integrated Destination Development Plans in selected regions (Saly, Delta du Saloum, Tambacounda Kedougou-Niokolo Koba, Casamance, St Louis) to unveil the tourism potential of each region, with specific measureable targets that maximize economic, social and cultural benefits for visitors and residents and minimize negative impacts;
- Provide technical assistance to review the master plans and related investor incentives to make sure they enhance sites value, address sustainability issues, are attractive for investors interested in quality accommodations and services, and incorporate local communities in the tourism product.

- Technical assistance to stimulate internal air traffic and support to organize a yearly national transportation and tourism forum focused on expanding internal air, road and maritime access to tourist destinations.

The project would also support the promotion of the Senegal Destination through:

- The development and implementation of national, site-specific and segment specific marketing strategies including an increased effort on social media marketing;
- Assistance for investor missions and the development of a Senegal tourism web portal to showcase Senegal;
- Organization of a large market show and a road show to attract investors once master plans and investor packages are revised;
- Assistance to the Ministry of Tourism to finalize a hotel quality classification system, establish tourist services and proper information centers in tourist sites, town halls and other logical locations for visitors;
- Assistance for regional cooperation in tourism marketing.

Sub-Component 2.2: Institutional Strengthening and Capacity Building. This component will strengthen institutions and build the capacity of major sector stakeholders through technical assistance in the following areas:

- Stakeholder coordination, especially in agriculture, environmental protection and tourism to maximize linkages;
- Exploring PPP opportunities to enhance the Saly coastal zones, especially those areas slated for master plans, and also enhance the attractiveness of the National Park of Niokolo Koba;
- Improving heritage protection and the interpretation of sites, taking into account intangible heritage;
- Capacity Building producer of groups and associations to strengthen competitiveness;
- Tourism data collection and research;
- Cultural heritage and natural assets protection research;
- Redefinition of standards and regulations in the sector;
- Establishing a monitoring and evaluation system for tourism performance.

Sub-component 2.3: Redevelopment of Saly. Beach erosion is a critical issue for both Saly and Cap Skirring – beaches are their main attractions. The proposed activity would help counter current erosion and restore the attractiveness to the site through site cleaning, renovation of beaches and targeted erosion mitigation infrastructures.

Component 3: Improving the business environment.

Senegal's business environment has well known limitations, as reported by older Investment Climate Assessments (2005, 2009) and yearly publications such as Doing business or the Global Competitiveness Report. The GoS, within the framework of the "Plan Senegal Emergent", is trying to address these. The project would help this agenda by supporting efforts to improve business services to firms and administrative support they receive. Specifically, the project would finance the development of single windows in regions (on the model of the Dakar one) to allow for easier firm start up and better administrative services to exporters.

#### **IV. Safeguard Policies that might apply**

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>	<b>TBD</b>
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04	x		
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

#### V. Financing (in USD Million)

Total Project Cost:	50.00	Total Bank Financing:	50.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			50.00
Total			50.00

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