PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

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Operation Name	SN- Third Governance and Growth Support Credit
Region	AFRICA
Country	Senegal
Sector	Public financial management (30%), education (20%), health (10%), energy (30%), private sector development (10%), agriculture (10%).
Operation ID	P150976
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF SENEGAL
Implementing Agency	
	Ministry of Economy and Finance Rue Rene Ndiaye BP 4017 Dakar Senegal Tel: (221-33) 889-2100 Fax: (221-33) 822-4195
Date PID Prepared	July 3, 2014
Estimated Date of Appraisal	September 22, 2014
Estimated Date of Board Approval	November 11, 2014
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues

Senegal is now a lower-middle income country but its economic growth has been sluggish since 2006. Income per capita in 2013 was US$1070 (Atlas method). The economy has shown little structural change, with a continued dependence on remittances to fuel domestic demand, a growing reliance on capital-intensive exports while labor-intensive sectors faltered, and thus little job creation. The effects of global slowdown, erratic rainfall and instability in neighboring countries have been exacerbated by the weakness of the domestic reform agenda.

Senegal needs more productive private investment and public spending**.** Investment levels are fairly high but not reflected in economic growth. Public spending is high but not reflected in human development indicators. Private investment needs to shift from residential construction and real estate to more productive, permanent job-creating enterprises, but that will require a better investment climate, starting with more reliable, lower-cost electricity supply. The notable expansion of public finances has been accompanied by large deficits, and rapidly rising debt. The state needs to shift its emphasis from spending more to spending better. Public investment needs to be more efficient, but since much of it is now domestically-financed and goes through independent agencies, this will require better planning, evaluation and monitoring of domestic programs and institutions. Current spending can be made more efficient by reducing and better targeting energy subsidies, reallocating hospital subsidies to primary care, and improving the composition of education spending. Stronger governance institutions will help control the general level of public spending.

II. Operation Objectives

The Program Development Objectives are: a) to improve economic governance by strengthening accountability systems; b) to promote service delivery through better governance and efficiency in the education, health and agriculture sectors, rationalization of agencies and strengthening monitoring and evaluation; and c) to enhance private sector development through energy sector reforms, and improvements in the urban and rural investment climate.

III. Rationale for Bank Involvement

The current series addresses several critical but overdue reforms and their implementation. These reforms underpin major projects supported by IDA in the electricity, higher education, health and agro-business sectors. At the same time, the proposed operation would provide financial support at a time when the government faces a revenue shortfall while trying to reduce debt financing.

The proposed Third Governance and Growth Support Credit (GGSC III) supports all three pillars of the government's Plan for an Emerging Senegal. The series highlights difficult reforms in the governance, education, and energy sectors, which the Sall government is now prepared to tackle. The current operation deepens the initial reforms, with an emphasis on implementation, while expanding to include agriculture. Policies and reforms supported by this series are fully consistent with the objectives of the CPS. By ensuring more efficient use of public resources, service delivery will be enhanced and fiscal space will be created for growth-enhancing and pro-poor spending. Jobs and wealth creation will benefit from an improved investment climate, as well as lower fiscal deficits, which will reduce pressure on interest rates and avoid crowding out credit to the private sector.

IV. Tentative financing

Source:	($m.)
BORROWER/RECIPIENT	0
International Development Association (IDA)	30
Total	**30**

Tranches (1 tranche, $m.)	
First Tranche	30
Total	**30**

V. Institutional and Implementation Arrangements

The Ministry of Economy and Finance will be responsible for the administration of credit.

VI. Summary of Risks and Risk Mitigation

Overall risk is judged to be moderate but several factors could jeopardize some of the expected outcomes and benefits. These include: (i) changes in the government as a result of the 2014 local elections and the need to maintain the ruling coalition; (ii) the legacy of deteriorating governance which will take some time to change; (iii) slow recovery in the global economy, and instability in neighboring countries; (iv) pressure to increase spending and exit the IMF program; and (v) weaknesses in certain sector policies and institutions. The design of this operation, World Bank support to neighboring countries, the strength of

Senegalese institutions, including the regional central bank, and the country's tradition of stability are important mitigating factors.

The political situation is broadly stable but subject to the pressures on a coalition. There will likely be another cabinet shuffle after the June local elections. However, the President's program is now clearly defined in the PSE, with which the proposed operation is closely aligned, and the message to any new ministers will be to accelerate priority programs and reforms.

Governance deteriorated in the last years of the previous regime but the new regime is committed to reversing this trend. The new transparency code and the creation of the OFNAC office to fight corruption are important steps forward and this GGSC series tackles some of the key sources of abuse.

A slower normalization in the current global context represents a significant though declining risk, as do political unrest in Mali and Guinea Bissau. Increases in global energy prices would put further pressure on public spending. The current series helps mitigate these risks by supporting reforms in the electricity sector, while reforms in the investment climate should eventually help diversify the economy and thereby reduce its vulnerability.

The current IMF PSI ends in December 2014 and the authorities have not yet decided whether to request a new program. However, Senegal's will need to maintain sound macroeconomic management to reassure traditional budget support partners, while its increasing reliance on international financial markets will only reinforce this obligation. The PSE reiterates the authorities' commitment to gradually reducing the fiscal deficit under 4 percent of GDP.

Bureaucratic inertia, poor coordination between sector ministries and the Ministry of Economy and Finance, bottlenecks at the decision-making level, and stakeholder pressure frequently result in delays in implementation. However, the reforms promoted through this series are backed by TA in a parallel investment operation, continuous dialogue by a reinforced field-based team including IFC, active involvement by management, and benefit from regular, in-depth discussions with the IMF.

VII. Poverty and Social Impacts and Environment, and Fiduciary Aspects

The proposed operation is expected to have a positive impact on the medium-term poverty reduction trend. This impact will be through an expected strengthening of the government's accountability system and institutional capabilities to ensure greater efficiency and effectiveness of public expenditure and improve quality of basic services. The selected actions are expected to create fiscal space for primary and secondary education and basic health care. The government actions to restructure the universities and improve quality in the higher education sector and strengthen accountability in hospitals will impact on student living conditions and patient care. Further improvements in quality and access will be supported by more targeted investment projects.

Fiduciary, environmental and social risks

Fiduciary, environmental and social risks are low. Fiduciary systems in Senegal are relatively strong and improving. No negative environmental implications are expected, and the social impacts are considered to be positive, notably through better health, education and agriculture services

The specific reforms supported by the proposed development policy credit are not likely to have significant negative impacts on the country's environment, forests and other natural resources. None of the policy measures supported by the operation are likely to have direct negative effects on Senegal's environment and natural resources. The structural reforms supported by the GGSC aim generally at strengthening the government accountability system and institutional capabilities to ensure greater efficiency and effectiveness of public expenditure and improve quality of basic services through a set of reforms that by themselves entail no specific impact on the environment.

VIII. Contact point

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