Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 18-Nov-2019 | Report No: PIDA27753

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Senegal	P170366	Senegal - Third Multi-Sectoral Structural Reforms Development Policy Financing (P170366)	P164525
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA	18-Dec-2019	Energy & Extractives	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministry of Finance and Budget, Government of Senegal	Ministry of Finance and Budget, Government of Senegal		

Proposed Development Objective(s)

Support Government's efforts in (i) the energy sector by improving financial performance, reliability and facilitating equitable access; (ii) enhancing the legal and regulatory framework of the ICT sector to promote competition, investment and equitable access, and (iii) reinforcing policy, institutional, and financial foundations of the emerging digital economy.

Financing (in US$, Millions)

SUMMARY

Total Financing	180.00

DETAILS

Total World Bank Group Financing	180.00
World Bank Lending	180.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. The proposed Development Policy Financing (DPF), in the form of an International Development Association (IDA) credit of US$180 million equivalent, is the third in a series of three programmatic DPFs. The series is intended to support Senegal's efforts to grow its economy at a sufficiently high rate and in a manner that is inclusive so as to reach targets set out in the Emerging Senegal Plan (Plan Senegal Emergent, PSE). The first operation under the series was approved by the Board in June 2017 for an amount of US$60 million equivalent, and the second DPF was approved in December 2018 for an amount of US$ 180 million equivalent.

2. Senegal is one of West Africa's main economic hubs, with several important endowments and sociopolitical stability. Based on gross domestic product (GDP) per capita, estimated at USD $1,311 in 2017, Senegal has recently joined the ranks of lower-middle income countries. The poverty rate is estimated to have decreased from 38 percent in 2011 to just over 33 percent in 2018 (measured against the international poverty line of US$1.90/day). This is explained by the excellent performance of the primary sector, and agriculture in particular, and sectors employing large number of poor, such as construction. Progress in access to basic services and infrastructure has also contributed to this improvement in living conditions.

3. Notwithstanding this growth, emerging data suggest that poverty reduction may have been less than would be expected. To consolidate the new trend and deliver on the PSE, it will be critical to move beyond the first wave of reforms and address the remaining bottlenecks. Persistent structural constraints still affect the efficiency of investment, competitiveness, growth and ability to deliver services, especially to rural communities. Addressing these constraints includes improving the performance of the electricity and broadband Internet sectors and strengthening the foundations of a nascent digital economy, including by addressing broader taxation and informality constraints.

4. Therefore, the program keeps the focus on advancing structural reforms initiated in the energy, ICT sectors and development of the digital economy. The focus is on reducing costs, increasing competition and increasing service. When the private sector is capable of delivering these, the aim is to have the appropriate enabling environment, in line with the PSE and Government needs, to reduce fiscal strains. In the energy sector, very high costs of energy and problems with reliability of supply are widely seen as the most binding constraints to the competitiveness of the Senegalese economy, while ICT and the downstream digital economy are central to the competitiveness of Senegal's most important sector – services, and to the future prospect of the economy in the context of the accelerating path of technological change.

Relationship to CPF

5. The PDO of the proposed operation is directly linked to focus areas and objectives of the FY19-FY24 Country Partnership Framework (CPF). By implementing its pillar 2 on DI reforms and initiating the development of a digital economy through pillar 3, the DPF will directly contribute to the following CPF objective: to improve digital and physical connectivity at the national and regional levels. Meanwhile, the DPF targets for the energy sector (pillar 1) would support CPF's objective of lowering energy cost and optimizing the energy mix. In that way, all three DPF pillars reinforce WBG's overall efforts to boost competitiveness and job creation through private-sector led growth – the second pillar of the upcoming CPF. In addition, the technical assistance activities included in the DPF would help improving Government's effectiveness, efficiency and transparency – which contributes to the CPF's third pillar focused on increasing resilience and sustainability in the context of growing risks.

C. Proposed Development Objective(s)

Support Government's efforts in (i) the energy sector by improving financial performance, reliability and facilitating equitable access; (ii) enhancing the legal and regulatory framework of the ICT sector to promote competition, investment and equitable access, and (iii) reinforcing policy, institutional, and financial foundations of the emerging digital economy.

Key Results

6. Key results include (i) for the energy sector : improved performance and financial viability of SENELEC (aligned with SENELEC performance indicators), an increase in the current least-cost power production and increased access to electricity in rural areas; (ii) for the ICT sector: reduced barriers to entry for new internet service providers and wholesale infrastructure operators and higher percentage of rural households reporting access to the Internet; (iii) with regard to the development of digital economy : roll out of e-Government solutions and strengthened start-up ecosystem.

D. Project Description

7. The focus of DPF 3 follows from DPF 2 and consists of critical government policy and reforms in the energy and ICT sectors as well as policy needed for development of the digital economy. These reform areas are part of the PSE foundational elements for achieving strong and inclusive growth, what is termed "emergence". The PDO for DPF 3 is unchanged from DPF 2: to support Government's efforts in (i) strengthening the governance and management of the energy sector to reduce costs, improve reliability and facilitate equitable access; (ii) enhancing the legal and regulatory framework of the ICT sector to promote competition, investment and equitable access, and (iii) reinforcing the policy, institutional, and financial foundations of an emerging digital economy.

8. DPF 3 will deepen the reforms contained in the Energy Pillar and follow the same structure as DPF 2, proposing to address key policy and institutional bottlenecks, through the following policy areas.

i. *Improving governance of the energy sector:* **enhancing the sector's institutional and financial arrangements for improved performance and financial sustainability, with the objectives of:** (i) enabling SENELEC to function in a more transparent manner with clear separation of activities across the value chain to increase opportunities for competition and private sector investment; (ii) improving transparency and sustainability of sector financing arrangements, particularly between the Government and SENELEC; and (iii) improving sector regulation. The program seeks to enable SENELEC to reach the performance level of best-practice utilities in comparable countries over time. Having good governance will be important to the transformation being sought in the sector.

ii. *Removing barriers to investment and competition in the energy sector:* **supporting institutional and policy reforms in electricity generation**, with the goal of ensuring that the sector policy and institutional instruments support credible sector planning, thereby facilitating the adoption of updated least cost production choices and private sector participation. This pillar will also enable the shift in the energy mix from the current dependency on HFO, towards a mix of low carbon technologies, consistent with Senegal's commitment at COP 21 and, over time, significantly reducing both the cost and the carbon intensity of generation.

iii. *Facilitating equitable access to electricity:* **expanding access to electricity services in underserved rural areas by enhancing affordability.** It will address key barriers to access in the six concessions already awarded to private operators. Studies have shown that a series of key barriers needs to be tackled simultaneously to scale up access

in rural areas.

9. DPF 3 will focus on the following priorities for the digital infrastructure sector:

i. *Improving digital infrastructure sector governance*: Following adoption of the new Electronic Communications Code and given the extensive spectrum needs for providing high quality 3G and 4G services, DPF 3 supports the adoption of a decree that will support the reduction in prices.

ii. *Removing barriers to investment and competition in the internet broadband market*: The measures taken under this policy area would allow to fully open the existing infrastructure to competitive use by imposing specific obligations on dominant players to provide open and non-discriminatory access to infrastructure.

iii. *Facilitating equitable access to digital services* : DPF 3 supports the implementation of a private sector concession model to manage the extra capacity of the large public fiber optic network, to facilitate wider provision of Internet services; DPF 3 also supports the full implementation of the Universal service policy with a view to fully activate the Universal Service Fund and to use it especially for expanding access to broadband services in underserved areas.

10. In line with Government priorities, as elaborated in the Digital Senegal Strategy (SSN2025) and the PAP2, this third operation will further support critical policy actions under the two policy areas: *(i)* the roll-out of online and mobile tax solutions; and *(ii)* strengthening start-up ecosystem to create an environment favorable for entrepreneurship and innovation.

E. Implementation

Institutional and Implementation Arrangements

11. The Ministry of Finance and Budget (MFB) is the main counterpart for monitoring program implementation. The WBG and the MFB set up two mechanisms for close follow up and monitoring of program implementation. A high-level Steering Committee, led by the MFB Secretary General, and technical committees, led by a Technical Advisor of the Minister. The Steering Committee, that meets at least twice per month, groups all involved institutions both at the executive and technical levels, allows to identify delays and bottleneck, and defines alternative solutions and responsibilities. The Technical Committees, for Energy and ICT, meet at an ad hoc basis, alternating with the Steering Committee, and follows up the day-to-day advances in the reform program, and identifies higher-level difficulties to be brought to the Steering Committee attention.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

12. The policies outlined in this operation are expected to have positive welfare effects on the whole population, in the form of poverty reduction and positive social outcomes[1]. Access to key services and infrastructure such as electricity and telecommunications can contribute significantly to improve the living conditions of the population by facilitating access to basic services and therefore favoring human capital accumulation and improving access to markets

[1] The empirical analysis to estimate the potential distributional effects of these reforms is based mostly on the latest available household survey, 2011 Enquête de suivi de la pauvreté au Sénégal II (2011 ESPS II). Given that this data is from seven years ago, the interpretation of results should be taken as lower bound effects of the reforms as both access to electricity and ICTs

via connectivity enhancements. Furthermore, the improvement of the business environment in the sense of more competition and fairer taxation could lead to more job creation, hence better revenues for the population. A Poverty and Social Impact Assessment (PSIA) was carried out to analyze the expected distributional social impacts of this program of policy reforms.

13. The set of prior actions under Pillar 1 corresponding to the Energy Sector are expected to have positive direct effects on poverty and inequality reduction in the medium and long-run due to lower electricity tariffs and increased access, and negligible negative impacts. All income groups will benefit from higher competition in the ICT sector outlined under Pillar 2, mainly due to lower prices and more access to broadband internet, and to a lesser extent through direct and indirect job creation. Specifically, under certain conditions, prior action 6, which aims at continuing expanding market competition in the ICT sector, may achieve a combined impact on poverty reduction in the medium to long term of 0.58 percentage points, lifting almost 80,000 people above the poverty line. Policies under Pillar 3 on Digital Economy are expected to have positive indirect social effects by creating a better environment for firms to grow and create jobs.

Environmental Aspects

14. The reforms and policy actions supported by the proposed operation are not likely to have significant impact on environment, forests, and natural resources. As per the World Bank Policy on DPF, the World Bank has assessed whether specific country policies supported by the DPF are likely to cause significant effects on the country's environment, forests, and other natural resources. Prior actions concerning the energy sector are expected to be environmentally positive.

G. Risks and Mitigation

15. Overall risk remains high, as higher fiscal vulnerability may impact the program outcomes, particularly in the energy sector. There are several factors that could jeopardize the expected outcomes and benefits. These factors include: (i) resistance to reform by entrenched interests; (ii) pressure to water down reforms or take politically-motivated decisions; and (iii) weak government implementation capacity. In addition, growing fiscal vulnerabilities – that also explain the macroeconomic risk – generated an accumulation of arrears to SENELEC's since 2017 – although a large portion were addressed in DPF 2. The design of this operation – including the specific measures to solve the delayed payments situation – the relative strength of Senegalese institutions, the country's tradition of stability and its willingness to recover a solid medium-term macroeconomic framework are important mitigating factors.

CONTACT POINT

World Bank

Mustafa Zakir Hussain, Arthur Denis Pascal Foch, Markus Kitzmuller
Lead Energy Specialist

Borrower/Client/Recipient

Ministry of Finance and Budget, Government of Senegal

Implementing Agencies

Ministry of Finance and Budget, Government of Senegal
Abdoulaye Daouda Diallo
Minister of Finance
infos@minfinances.sn

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

APPROVAL

Task Team Leader(s):	Mustafa Zakir Hussain, Arthur Denis Pascal Foch, Markus Kitzmuller

Approved By

Country Director:	Nathan M. Belete	15-Oct-2019