Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 27-Feb-2023| Report No: PIDC35715

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Senegal	P175293	Senegal: DPF2 - Equitable and Resilient Recovery in Senegal (P175293)	P172723
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
WESTERN AND CENTRAL AFRICA	Jun 15, 2023	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministry of Finance and Budget	Ministère de la Communication, des Télécommunications, et de l'Économie Numérique, Ministère de la Femme, famille et Protection des Enfants		

Proposed Development Objective(s)

The development objective of this programmatic DPO is to enable equitable growth and sustainably increase resilience of households, firms and fiscal accounts.

Financing (in US$, Millions)

SUMMARY

Total Financing	300.00

DETAILS

Total World Bank Group Financing	300.00
World Bank Lending	300.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

The COVID-19 pandemic and ongoing war in Ukraine induced sizable terms-of-trade shocks, noticeably reducing growth for 2022 and leading to sustained, high fiscal deficits and debt levels, with little room for maneuver. Real GDP growth is estimated to have decelerated to 4.8 percent in 2022, compared to a pre-shock forecast of 5.5 percent, as higher food and energy prices, trade disruptions, and greater uncertainty caused private consumption and investment to decline. As a result, average inflation reached 9.6 percent in 2022 from 2.2 percent in 2021, driven by a sharp increase in food, transport, and energy prices which is disproportionally hurting the poor and vulnerable, whose consumption is skewed towards fulfilling basic needs. The overall fiscal balance registered a deficit that is projected to reach 6.2 percent in 2022, similar to 6.3 percent of GDP in 2021. Higher subsidies to the energy sector, a stronger appreciation of the US dollar against the FCFA and additional borrowing by State Owned enterprises are behind the persistence of this fiscal deficit. As a result, public debt also increased from 63.6 percent of GDP in 2019 to a projected 75.1 percent in 2022. The national poverty (estimated as 333,440.5 CFAF per person per year in 2018) remains high and persistent despite the decline from 43 to 37.8 percent between 2011 and 2019. The shock induced by the Covid 19 pandemic and the war in Ukraine resulted in an increased poverty incidence (38.2 in 2020).

The Government of Senegal (GoS) is progressively taking steps to contain and mitigate the short-term socio-economic effects of the war in Ukraine on the population, though more can be done on the medium-term structural reform agenda. To maintain social cohesion, following the compounded effects of shocks induced by the pandemic and the war in Ukraine, the government revised its 2022 budget to increase its social interventions and support to critical sectors. Energy subsidies were projected to increase to 2.7 percent of GDP in the 2022 supplemental budget law (LFR 22), reached 4.4 percent of GDP. In the first week of 2023, Government announced new measures to reduce subsidies on electricity, diesel and premium fuel to sustainable levels by 2025Despite recent progress in improving health services, Senegal's Universal Health Coverage (UHC) program remains financially unsustainable and access to quality healthcare continues to suffer from the uneven supply of drugs and qualified practitioners across the country. The UHC program combines free access to healthcare for eligible segments of the population and a subsidized community insurance scheme. The social protection system is well functioning, but there is considerable scope for growth and quality improvement to boost the equity and efficiency of social spending across sectors, particularly relevant in time of crisis. The private sector, which is constrained by insufficient competition and inadequate financing, has been unable to generate enough productive jobs to keep up with high demographic growth. Formal employment benefits less than 6 percent of total worker. To address these challenges, this DPO support critical structural reforms to boost resilience and productivity of human capital such as reforms to enable women-led firms gain better access to public procurement contracts, thereby enhancing their economic potential, and to strengthen both the social protection and health system to improve their targeting, efficiency and financial sustainability.

The macroeconomic policy framework is adequate for the proposed operation. Growth recovered in 2021, driven by a strong return of private consumption and investment, and is expected to strengthen over the medium-term ,despite the temporary shock from the war in Ukraine and its impact in 2022, bolstered by the coming onstream of gas production. The Government is committed to gradually returning to the 3 percent fiscal deficit West African Economic and Monetary Union (WAEMU) convergence criterion by 2025, including through the implementation of a Medium-Term Revenue Strategy and expenditure rationalization. Public debt is sustainable and monetary policy remains prudent and anchored in a credible monetary union framework. The macroeconomic policy framework is anchored in the recently concluded IMF Policy Coordination Instrument (PCI) program and Stand-By Arrangement (SBA) and Standby Credit Facility (SCF).

Relationship to CPF

The proposed DPF supports the World Bank's Senegal CPF for 2020–24, the GRID strategy and ultimately achieving the Twin Goals. The CPF reflects Senegal's Strategic objective of becoming an equitable middle-income economy by 2035. This DPF series is closely aligned with the three pillars of the CPF, which focus on making growth more inclusive, competitive, and sustainable. A key objective of the CPF is to support the development of a healthy, skilled, and productive population. By focusing on women empowerment and paying attention to climate-change impacts the DPF is also consistent with cross-cutting themes of gender equality and climate change risk management. The DPF intends to support a rebuilding better approach, directly linking to the World Bank's Green, Resilient and Inclusive Development (GRID) approach to recovery through health, social protection, Labor market access reforms (Pillars 1 and 2 of GRID) and boosting private sector access to markets and finance as well as fiscal and debt sustainability (Pillars 3 and 4 of GRID). The proposed operation also addresses several of the priorities outlined in the Systematic Country Diagnostic (SCD) for Senegal[1], including weak competitiveness in the private sector, inefficiency of social spending resulting in weak human capital, gender inequalities and social norms limiting the productive potential of women. The DPF advances these priorities by focusing on improving the efficiency and targeting of social spending, supporting human capital accumulation and productive utilization for women, and improving the business environment to unlock the private sector potential to create more jobs. Finally, the proposed reform program supported by this DPF series will enable gains in poverty reduction and shared prosperity, the twin goals of the World bank Group, while fostering dynamic and equitable growth.

C. Proposed Development Objective(s)

The development objective of this programmatic DPO is to enable equitable growth and sustainably increase resilience of households, firms and fiscal accounts.

Key Results

The overall result should be to enable equitable growth with a focus on (i) strengthening the resilience of individuals and households and ii) strengthening private sector and macro fiscal resilience. Key results under pillar 1 are increasing health insurance coverage, beneficiaries of social programs drawn from the unique social registry (RNU), and female labor force participation. Pillar 2 targets results including more effective fiscal and debt management, including building fiscal risk assessment capacity, increasing access to finance for micro, small and medium sized enterprises (MSMEs) and related job creation, as well as increasing competition across the economy.

D. Concept Description

The proposed DPO series is aligned with the Bank's Global Crisis Response Framework (GCRF) as it supports the strengthening and targeting of adaptive social protection systems, increasing domestic revenue mobilization and access to basic health products and services. The reforms supported address binding constraints to poverty reduction and shared prosperity, as identified in the 2018 Systematic Country Diagnostic (SCD) and recent analytical studies, including the 2021 Country Economic Memorandum (CEM). This operation is supported by ongoing Technical Assistance (TA) and Investment Project Financing (IPF) implemented under the World Bank's FY20-FY24 Country Partnership Framework (CPF). It also operationalizes the Jobs and Economic Transformation (JET) framework which, focusing on both the supply and demand sides of labor, emphasize the concept of resilience, gender equality and its importance to prepare the country for a stronger and more equitable recovery. As illustrated by the JET analytical framework for IDA19, in the context of growing labor force and urbanization, rising productivity and market creation are key preconditions to trigger inclusive economic transformation and growth, together with connectivity to jobs and macro stability. The GCRF and Jet frameworks emphasizes the concept of resilience, crisis mitigation and equitable recovery. The two complementary pillars of this series aim at 1) boosting the resilience and productivity of human capital, with a focus on the most vulnerable population, while 2) boosting macro-fiscal resilience and private sector participation for productive jobs to contribute to growth (including potential energy sector reforms for better, greener, and more inclusive access to energy).

The proposed operation is fully consistent with the second Priority Action Plan (PAP2 for 2019-23) of the Plan Senegal Emergent (PSE) and its adjusted and accelerated version (PAP 2A), which aims at generating the conditions for Senegal to become an inclusive emerging economy by 2035. The proposed operation aims to enable the *development of human capital (pillar 1) and the development of a competitive, inclusive and resilient economy to foster structural transformation (pillar 2).*

[1] World Bank 2018

The DPF operation is structured in two pillars: Pillar One (1) supports policy and institutional reforms to boost the resilience and productivity of human capital for households and individuals. Reforms focus on the supply side of labor, and specifically on individual human capital and capacity to access economic opportunities and respond to shocks. Pillar Two (2) supports reforms to strengthen the foundations of private sector-led and job creating recovery, to set the country on a more sustainable and equitable growth path. Macroeconomic stability and resilience, as supported by transparent, prudent and effective fiscal and debt management, are necessary conditions for maximizing Senegal's potential for recovery and medium term, sustainable and inclusive growth. At the same time, reforms aiming at empowering private sector contributions to job creation and growth are emphasized.

Pillar One (1) of this DPF series supports strengthening households and individual resilience, empowering productive human capital and its use in the labor market. Reforms focus on the supply side of labor, and specifically on individual human capital and capacity to access economic opportunities and respond to shocks. The proposed measures intend to increase the efficiency, sustainability and targeting of social spending. This enhances household capacity to deal with shocks while providing them with the means to productively engage in the labor market. Measures under this pillar also aims at increase access to a more diversified, fairer and remunerative labor market. In the context of generalized low productivity, low employment rates and poor jobs quality, women are particularly disadvantaged, exacerbating an already suboptimal resource allocation.

Pillar 2 targets the creation of vital fiscal space in the medium term, while maximizing private sector contributions to inclusive growth. Proposed reforms pay particular attention to improving fiscal risks management, efficiency of tax expenditures to boost revenue collection and equity. At the same time, reforms aiming at empowering private sector contributions to job creation and growth are two-pronged: (i) the relevant regulatory and institutional framework for inclusive access to financing for MSMEs would be created; (ii) market competition and fiscal sustainability of the energy sector would be strengthened. In addition, the legal framework for curtailing flaring and venting of emission will be established to support the global climate change agenda.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The reforms supported by this operation are likely to significantly contribute to poverty reduction over the short and medium term, including by avoiding surges in poverty due to ongoing macroeconomic shocks. Overall, the policy and institutional reforms supported under the proposed DPF are expected to improve the resilience of households, reduce gender gaps, improve the efficiency and redistributive impact of government taxes and transfers, increase private investment and employment, and reduce both monetary and multidimensional poverty. All the policy actions in Pillar 1 aimed at boosting the resilience and productivity of human capital are expected to have positive social impacts. For instance, adopting regulations to improve access to health services (PA#1) is expected to enable the expansion of Senegal's universal health coverage, thus reducing multidimensional poverty, while establishing and regulate the National Cash Transfer Program (PA#2) and increasing access to economic opportunities for women (PA#3) and to increase young mothers' chances of completing their studies during and following a pregnancy (PA#4) are expected to have positive poverty and social impacts. The policy actions under Pillar 2 aimed at boosting macro-fiscal resilience are not expected to have short term poverty and social impacts but could have positive medium to long term impacts by opening fiscal space for pro-poor spending, reducing the cost of electricity supply and generating higher investment and more productive jobs. For instance, policy actions aimed at boosting private sector participation for productive jobs are expected to have limited impacts in the short term, but potentially positive poverty and social impacts in the medium to long term. Incorporating FONGIP as a joint stock company (PA#7) is expected to strengthen its outreach, sustainability, and credibility, and in turn lead to more and better jobs, especially for low-income workers, thus leading to poverty reduction in the medium to long run. Similarly, actions to complete and operationalize the PPP legal and institutional framework (PA#11) are expected to have positive indirect effects on wellbeing in the medium to long term, by mobilizing private investment, thus potentially increasing employment in the medium term.

Environmental, Forests, and Other Natural Resource Aspects

The reforms and policy actions supported by the proposed operation are not likely to have significant negative impacts on environment, forests, and natural resources. Reforms to improve the financial soundness of universal health coverage program, regulating the cash transfer program, facilitating access to procurement by women-led enterprises to empower women; improving international sourcing, transport, and storage of basic health products, and improving the management of qualified personnel), improved fiscal and debt management, fiscal risk management, VAT and customs collection, startup laws and fiber optics competition will not have negative environmental impacts. However, an increase in universal health coverage and access to health care may have a negative impact on the environment, forests, and natural resources through a higher overall production of medical waste. The government's systems and capacity for managing medical healthcare wastes is being strengthened through our various health operations (the regional disease systems enhancements phase 1 & 2 (154807 & P159040); investing in maternal, child and adolescent health (P162042; and the COVID-19 response). Nonetheless, the energy policy reforms (PA8-11) are likely to have positive environmental impacts as they relate to the shift from carbon intensive Heavy Fuel Oil to a mix of options including natural gas and renewable energy. In the long run, the Gas-to-Power Strategy, the Gas Code, and the significant institutional arrangements developed under the energy DPF series will result in a net positive environmental impact when natural gas replaces fuel sources like HFO and coal.

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APPROVAL

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