Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 19-Jan-2022 | Report No: PIDA29997

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Senegal	P172723	Equitable and Resilient Recovery in Senegal DPF (P172723)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA WEST	15-Mar-2022	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Senegal	Ministry of Finance and Budget, Republic of Senegal		

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	180.00

DETAILS

Total World Bank Group Financing	180.00
World Bank Lending	180.00

Decision

The review did not authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

The COVID19 crisis interrupted years of strong economic performance and led to a temporary increase in poverty. The COVID 19 crisis has halted years of strong economic performance, resulting in the slowing down of real GDP growth from 4.4 percent in 2019 to 1.5 percent in 2020, accompanied by a widening of the external current account deficit (from 8.1 percent of GDP in 2019 to 10.2 percent in 2020). Unexpected total financing needs from the crises elevated fiscal deficits

to 6.4 and 6.3 percent of GDP in 2020 and 2021, respectively, and were met by regional and international bond issuances (1.9 percent of GDP in 2021), and with the support of external concessional sources (4.6 percent of GDP in 2021) to avoid liquidity pressures and a disorderly macro-fiscal adjustment. 2020 GDP per capita contracted by 1.2 percent with poverty rising alongside. Services and export growth have declined as tourism and transport suffered a standstill and key markets shut down in 2020. Lower remittances and labor income loss subdued private consumption. As a result of these shocks, poverty incidence is estimated to have increased by 2.1 percentage points in 2020, equivalent to 357,000 additional poor. Therefore, instead of following its pre-COVID-19 downward trend, poverty incidence has risen to 38.2 in 2020 and is expected to continue to increase in 2021, before declining over the medium term.

Despite decisive measures by the Government of Senegal (GoS) to contain and mitigate the short-term socio-economic effects of the pandemic, more needs to be done on the medium-term and structural front. There is need for inclusive structural transformation to boost resilience, productivity growth and ultimately shift gears towards a more equitable growth path in the medium term. On top of temporary, stringent containment measures, the Government has implemented a comprehensive support and recovery plan, the Economic and Social Resilience Programme (PRES). The main vehicle is a dedicated solidarity fund at Central Bank of Western African States (Banque Centrale des Etats de l'Afrique de l'Ouest, 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. In addition, significant external financing has been received. Nonetheless, structural weaknesses have been underlined. Despite considerable progress in the past decade, key sectors of social policy remain insufficient to protect lives and livelihoods from large-scale health or climate shocks efficiently. The universal health coverage program is not financially sustainable and access to quality healthcare is weakened by an uneven supply of drugs and qualified practitioners across the country. The social protection system is well established and now includes over 550,000 households, which represents about two thirds of the poor, it is not yet leveraged as a platform to boost the equity and efficiency of shock responses and social spending across sectors. The recent (2018) Systematic Country Diagnostic (SCD) for Senegal identified low labor productivity as an important barrier to equitable growth and inclusive structural transformation. On the one hand, insufficient and unevenly distributed human capital and structural inequalities constrain labor supply. On the other hand, stifled by insufficient competition and inadequate financing, the private sector has been unable to generate enough productive jobs to keep up with high demographic growth, and formal employment only benefits less than 6 percent of total workers (ENES 2018). Finally, the crisis aggravated emerging fiscal vulnerabilities, underlining the importance of transparent, effective fiscal and debt management as a foundation of inclusive growth.

The macroeconomic policy framework is adequate for the proposed operation. Growth is estimated to gradually recover in 2021, driven by a private consumption and investment. The Government is committed to returning to the 3 percent fiscal deficit West African Economic and Monetary Union (WAEMU) convergence criterion by 2024, including through the implementation of a Medium-Term Revenue Strategy and expenditure rationalization. Public debt is sustainable. Monetary policy remains prudent and anchored in a credible monetary union framework. The macroeconomic policy framework is anchored in the IMF Policy Coordination Instrument (PCI) program. Ultimately, given the projected increase of fiscal deficit and public debt considering COVID-19, a set of proposed Policy and Performance Actions (PPAs) focus on safeguarding fiscal sustainability and strengthening fiscal and debt management. The recently concluded 2021 IMF Article IV Consultation for Senegal has similarly found the authorities' reform agenda to be appropriate to achieve strong and inclusive growth while maintaining macro-economic stability and containing risks to debt sustainability.

Relationship to CPF

The proposed DPF 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. Consistently, 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 success factor of the CPF is to support the development of a healthy, skilled, and productive population that is well prepared to contribute to the growth process (Pillar 1 of the CPF), with an emphasis on women and youth. Along with these investments in human capital, the CPF also focuses on job creation and increasing competitiveness to support a private sector-led, diversified, and inclusive economy (Pillar 2 of the CPF). Finally, the CPF proactively mitigates sustainability risks, including those related to enhancing public sector transparency and accountability (Pillar 3 of the CPF). By focusing on women empowerment (under Pillar 1 of the reform program) and paying attention to climate-change impacts, the DPF is also consistent with the CPF cross-cutting themes of gender equality and climate change risk management.

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, the number of beneficiaries of social programs drawn from the unique social registry (RNU), and female labor force participation. Pillar 2 targets 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 and in key sectors like ICT telecom, by boosting fixed broadband penetration and rural connectivity.

D. Project Description

The proposed DPO series will operationalize the Jobs and Economic Transformation (JET) framework to build a bridge from crisis management to an inclusive structural reform agenda. In Senegal's 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. While focusing on both the supply and demand side of labor, the proposed adapted framework emphasizes the concept of resilience and its importance to mitigate crisis impact on the one hand, while preparing the country for a stronger and more equitable recovery. Therefore, the DPO series supports building a bridge between addressing the immediate needs dictated by the COVID19 crises, on the one hand, and an inclusive medium-term, structural reform agenda on the other hand.

The proposed reform program is fully consistent with the second Priority Action Plan (PAP 2 for 2019-23) of the *Plan Senegal Emergent (PSE)*, 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 a competitive, inclusive, and resilient economy to foster structural transformation (pillar 2)* and to the *development of human capital (pillar 1)*.

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 witnessed 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 will be emphasized.

Pillar One (1) of this DPF series supports the strengthening household 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. On the one hand, 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. On the other, measures under this pillar 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 efficient fiscal and debt management as well as strengthening the administration and policy underlying VAT and customs collection/exemptions 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: On the one hand, the relevant regulatory and institutional framework for inclusive access to financing for MSMEs would be created. On the other hand, market competition both nationally and in the ICT telecom sector, digital economy and potentially the energy sector[1] would be strengthened.

F. 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 chronic poverty due to shocks. The proposed program addresses major constraints to broad-based productivity growth and inclusive economic activity. With an estimated increase in the poverty rate by 1.7 percentage points (compared to a 2.1 p.p. decline, if compared to a no-covid counterfactual), the headcount may increase to approximately 38.4 percent at the end of 2020, up from 36.7 percent at the beginning of 2020, eroding a significant share of the progress achieved since 2011 (when the poverty rate stood at 43 percent). Inequality, on the other hand, stagnated with a Gini of 0.35, just as in 2011. The short-term impact of COVID19 had been strong, with an estimated increase in poverty by 2.8 p.p., equivalent to 500,000 additional poor, and 1 Gini point in inequality. Among the transmission channels, the most impactful are the losses in migrants' transfers and labor income, and food price inflation. The disruption in basic service provision may lead to long-term impacts on human capital and therefore productivity, particularly among women, undermining the objective of inclusive growth.

Environmental, Forests, and Other Natural Resource Aspects

The reforms and policy actions supported by the proposed operation are unlikely to have significant negative impacts on environment, forests, and natural resources. Reforms to/improvement of universal health coverage (balancing the

[1] In the second operation under this program.

supply of drugs and qualified practitioners, debt settling agreement, improving international sourcing, transport, and storage of basic health products, and improving the management of qualified personnel), the Labor Code, Child Code and Criminal Code; empowerment for women; improved fiscal and debt management, VAT and customs collection, startup laws and fiber optics competition will not have negative E&S impacts. Further, a shift in the energy mix from HFO to natural gas and renewable energy will have the environmental benefit of lower greenhouse gas emissions and pollution. The ability of the Government (Directorate of Environment and classified establishments, DEEC, in the Ministry of Environment) to operate, particularly to hold public consultations, as required as part of the EIA process, and to circulate freely over the territory, will however be reduced temporarily under the current pandemic. The DEEC will require more time to carry out its duties, which should be a consideration in the approval process of EIAs. This requirement will only be temporary and should be waived with the passing of the pandemic.

G. Risks and Mitigation

The overall risk rating of the operation is substantial. Macroeconomic, sector strategy and policy, and institutional capacity for implementation and sustainability have increased substantially in the wake of the pandemic and remain high. Macroeconomic risks remain substantial and depend primarily on progress in reining in COVID19. The outbreak of new waves of COVID19 would hamper growth in 2022 and flatten the recovery curve. Nonetheless, the Government's comprehensive and determined response to support poor and vulnerable households and firms, while staying committed to fiscal and debt sustainability and supported by BCEAO's monetary policy tools mitigates these risks. Sector Strategy and Policy risks have been elevated by the COVID-19 crisis and remain high. The financing of social programs was destabilized, as illustrated by considerable delays incurred by the cash transfer program in the payment of quarterly transfers to the poor and vulnerable in 2021. The telecommunications and energy sector policy reforms could be affected by repercussions from reduced or delayed investment activity, pressures on prices/tariffs in face of increased economic and social pressures, or changes in profitability and timeline of important gas investment projects. Institutional Capacity for Implementation and Sustainability risks are high. These are characterized by slow bureaucratic processes and coordination issues within the Government and with regulating agencies, as well as bottlenecks at the decision-making level. Delays in implementation and, at times, policy stalling or partially regressing on previously-implemented reforms – as observed during implementation of past DPOs, has become more likely. The close supervision by field-based staff, complementary investment, and technical assistance operations in the same sectors, as well as the proposed budget support to GoS to avoid reallocation of scarce resources and binding of institutional capacity all help mitigate this risk.

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APPROVAL

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