Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 11-May-2020 | Report No: PIDA29186

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Senegal	P173918	THIRD MULTI-SECTORAL STRUCTURAL REFORMS DEVELOPMENT POLICY OPERATION: SUPPLEMENTAL FINANCING (P173918)	P170366
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA	15-Jun-2020	Macroeconomics, Trade and Investment	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	100.00

DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **The proposed operation provides US$100 million in supplemental financing for the Third Multi-Sectoral Structural Reforms Development Policy Financing (DPO3) to help the Government of Senegal (GoS) cover an unanticipated financing gap that has opened due to the impact of the COVID-19 crisis**. On December 18, 2019, the Board approved DPO3 with an amount of US$180 million. The development objectives are (i) improving financial performance, reliability and facilitating equitable access in the energy sector; (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. The request for supplemental financing is consistent with the World Bank policy on Development Policy Financing.

2. **The unfolding COVID-19 crisis has significant economic, fiscal and social repercussions for Senegal, opening an unexpected financing gap of US$625 million (2.5 percent of GDP) in 2020.** Real GDP growth is estimated to slow from 5.3 percent in 2019 to 2.8 percent in 2020 accompanied by large external (11.3 percent of GDP versus 9.1 percent in 2019) and fiscal (5.6 percent of GDP versus 3.9 percent in 2019) deficits. As a result, public debt will increase from 64.2 percent of GDP in 2019 to 67.4 percent in 2020. Services and export growth would slow as tourism and transport suffer a standstill and key markets shut down. This, together with lower remittances and labor income loss would subdue private consumption and increase poverty. In light of tightening global and regional financial markets, the resulting substantial financing gap will need to be closed with the support of external concessional sources to avoid short term liquidity pressures.

3. **The Government of Senegal has taken decisive measures to contain the pandemic and mitigate its socio-economic impact, but financing is severely constrained.** On top of stringent containment measures, the government is implementing a comprehensive reaction plan, FORCE-COVID-19. The key objectives are to upgrade the health system and contain the economic fallout, including by setting up a dedicated fund at BCEAO and providing targeted support to vulnerable households and firms. The gross impact of COVID-19 is costed at around 7 percent of GDP. It is estimated as the sum of revenue shortfalls (including extra-ordinary tax exemptions and deferrals) and COVID-19 related expenditure measures (including food provision, cash transfers to SENELEC to cover the utility bill for the most vulnerable, supply of medical equipment and pharmaceuticals, and financial support for the private sector). At the same time, financing options are drastically reduced. While the IMF – built to react to urgent Balance of Payments needs – provides significant financing to avoid liquidity pressures translating into weakened responses to COVID-19, many bilateral donors are struggling in light of similar domestic crisis situations at home. Therefore, World Bank support – coordinated with other multilaterals - to address remaining public financing needs while maintaining fiscal and debt sustainability is needed.

4. **While the government remains committed to the implementation of the reform program supported under DPO3, COVID-19 poses significant risks to continued policy implementation and medium-term results.** Despite the challenging environment of containing a major health and economic crisis, GoS continues reform implementation.

- Under Pillar 1 on energy, the government has made advances on multiple fronts with no policy reversals. Financial arrangements of the energy sector, the implementation of the gas to power strategy and the roadmap to reaching universal access by 2025 are on track although there are medium term risks depending on the extent of the economic slowdown. In addition, COVID-19 will impact the energy sector and challenge maintaining reliable and affordable electricity services during the crisis and recovery phases. This could threaten recent advances towards financial viability of the utility and the objective to reduce energy subsidies within five years. Energy reforms supported by DPO3 are particularly relevant during a time of fiscal and financial pressure, as they are designed to reduce the cost of service and ensure financial resilience of the sector. As such, it will be important to maintain the pace of reforms as much as possible, and for the regulator to continue its role to assess the compensation requirement. As such, it will be important to maintain a solid pace of reforms and for the regulator to continue assessing the compensation requirement.

- Pillar 2 reforms on ICT remain highly relevant, gaining particular importance in the current crisis as digital infrastructure and solutions are vital for business continuity and equity. Implementation is slower than expected due to challenges to government business continuity, constraints on physical meetings and absence of electronic signing during the COVID-19 lockdown.
- Pillar 3 on the digital economy, reform implementation has been slightly delayed, particularly the adoption of the startup law's implementing regulations and its operationalization. Establishing the institutional set up, the ¨startup fund¨ while operationalizing an online platform for entrepreneurs is challenged by social distancing and the erosion of fiscal space due to COVID-19. However, the government is expected to accelerate implementation as part of the COVID recovery plans. Progress has been more notable regarding the electronic taxation actions supported under DPO2 and DPO3. Overall, this supplemental financing operation is considered critical to ensure continued government attention and ability to full implementation of reforms.

Relationship to CPF

1. 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

2. Key results of parent DPO3 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

3. **The focus of this supplemental financing operation is to safeguard the implementation of critical reforms in energy, ICT and digital economy achieved under DPO3.** It does so by providing immediate support to close an unexpected financing gap, providing fiscal sustainability and continued commitment to reform implementation in face of a severe economic, fiscal and social crisis.

4. **COVID-19 has significantly increased risks to achieving the development outcomes (as measured by the results indicators) targeted by DPO3 and the previous programmatic DPF series.** The potential short-term impact on this important energy, ICT and digital economy reform program, stemming largely from policy and resource constraints and diversion towards crisis management and a prolonged economic and fiscal fallout, could derail and/or delay envisioned medium term goals and developments. The proposed supplemental financing operation would play a key role in mitigating such risk through supporting the Government stem the fallout from the COVID-19 crisis in the short term and remaining on track regarding implementation of its medium-term policy agenda.

5. **The unexpected financing gap of 2.5 percent of GDP puts immediate pressure on fiscal accounts, investment plans and reduces government capacity and resources needed for reform implementation.** Real GDP growth and fiscal revenues are dramatically decreasing, while short term expenditure, net borrowing needs (fiscal deficit) and public debt are increasing with every day the crisis unfolds. As uncertainty negatively affects investors and the government reallocates resources to manage the health and social crisis, investment is also set to slow, further aggravating the situation. In light of tightening global and regional financial markets and declining FDI flows, the resulting substantial financing gap of around USD 625 million will need to be closed with the support of external concessional sources to avoid short term liquidity pressures and medium-term challenges to debt sustainability.

6. **The government remains committed and implementing agencies capable to carry out the reform program under DPO3.** On the energy pillar, the reform program is firmly on track. The GoS has made advances on multiple fronts with no policy reversals. In particular, it has advanced the financial arrangements of the energy sector, the implementation of the gas to power strategy and the roadmap to reaching universal access by 2025. Important ICT reforms have led to effective imposition of essential infrastructure sharing obligations on dominant players and substantive reduction of frequency fees, allowing for the expansion of mobile broadband networks and services, not only in Dakar but also in remote areas. Yet; COVID-19 has already slowed progress on the implementation of a private sector concession model to manage the extra capacity of the public fiber optic network currently under the ADIE management and the activation of the Universal Service Fund. Similarly, firm liquidity constraints and uncertainty are expected to negatively affect the number of MSMEs, thereby reducing startups registration and the potential of the digital economy altogether.

E. Implementation

Institutional and Implementation Arrangements

7. 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, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

8. **The policies realized under DPO3 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 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.

9. **However, the economic and social effects of COVID-19, compounded by direct health impact, will likely result in welfare losses and an increase in the number of poor, partly offsetting the positive mid to long term impact of the DPO series.** The negative consequences of COVID19 though risk to put in jeopardy the welfare gains linked to improved access to key services and connectivity (both in terms of affordability and infrastructure deployment), generating severe welfare losses for households via losses of labor and non-labor income, particularly private money transfers, domestic prices inflation and the disruption of basic services provision.

Environmental, Forests, and Other Natural Resource Aspects

10. **The COVID-19 crisis does not alter DPO3 reform impact on the environment.** The reforms and policy actions supported by the proposed operation are not likely to have significant impacts on environment, forests, and natural resources. The effects of the original Senegal Third Multi-Sectoral Structural Reform DPO (P170366) on the environment have not been significant. Similarly, the Covid-19 crisis has not had a significant negative impact on environment, forests or natural resources – quite the contrary, as air quality has improved in Dakar. 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

11. **While the overall risk rating of the operation remains high, risk under several sub-components has significantly increased on account of the COVID-19 crisis.** Macroeconomic, sector strategy and policy, implementation and fiduciary risks have increased substantially in the wake of the pandemic. Macroeconomic risks have been high but significantly increased and depend primarily on the depth and duration of the COVID-19 pandemic. A protracted and deeper crisis would cause a recession in 2020 and flatten the recovery curve. Sector Strategy and Policy risk have been further elevated by the COVID-19 crisis. Notably, energy sector policy reforms could be affected by repercussions from reduced or delayed investment activity, pressures on tariffs in face of the unfolding economic and social crisis, or changes in profitability and

timeline of important gas investment projects. Institutional Capacity for Implementation and Sustainability is challenged by the need to mitigate the current crisis. Lastly, the fiduciary risk associated with the proposed operation is increased from moderate to substantial but as a mitigation measure, the Government has established a dedicated local currency treasury account at the Central Bank specifically focused on COVID-19 into which the proceeds are transferred from the foreign currency account and from which payments are made.

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APPROVAL

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