INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT DOCUMENT FOR A

PROPOSED DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF EURO 161.4 MILLION
(US$180.0 MILLION EQUIVALENT)

TO THE REPUBLIC OF SENEGAL

FOR THE

THIRD MULTI-SECTORAL STRUCTURAL REFORMS DEVELOPMENT POLICY FINANCING

November 21, 2019
Republic of Senegal
GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of October 31, 2019)
Currency Unit = CFAF
US$1.00 = 588.03812839 CFAF
US$1.00 = 0.89645899 EURO
US$1.00 = 0.72495813 SDR

ABBREVIATIONS AND ACRONYMS
ADIE  State Informatics Agency (Agence de l’Informatique de l’État)
AfDB  African Development Bank
ANSD  National Statistics and Demographics Agency (Agence Nationale de la Statistique et de la Démographie)
ARTP  Telecommunications and Postal Services Regulator (Autorité de Régulation des Télécommunications et des Postes)
ASA  Advisory Services and Analytics
BCEAO  Central Bank of Western African States (Banque Centrale des Etats de l’Afrique de l’Ouest)
CFAF  Financial Community of Africa (Communauté financière d’Afrique) Franc
CGU  Single Global Contribution (Contribution Globale Unique)
CNN  National Consultative Council (Conseil National du Numérique)
COP  Conference of the Parties
CPF  Country Partnership Framework
CRSE  Regulatory Commission for the Electricity Sector (Commission de Régulation du Secteur de l’Électricité)
DE4A  Digital Economy for Africa
DGID  Tax Administration (Direction Générale des Impôts et Domaines)
DPF  Development Policy Financing
DSA  Debt Service Assessment
DSF  Debt Sustainability Framework
EBITDA  Earnings before Interest, Taxes, Depreciation and Amortization
ECOWAS  Economic Community of West African States
EPAF  Public Autonomous Entity (Etablissement Publique à Autonomie Financière)
ESPS  Senegal Poverty Monitoring Survey (Enquête de suivi de la pauvreté au Sénégal)
EU  European Union
FDI  Foreign Direct Investment
FSE  Energy Sector Support Fund (Fonds Spécial De Soutien au Secteur de L’Énergie)
FSRU  Floating Storage and Regasification Unit
GDP  Gross Domestic Product
GEP  Global Economic Prospects
GHG  Greenhouse Gas
DPO  Development Policy Operation
HCI  Human Capital Index
HFO  Heavy Fuel Oil
IBRD  International Bank for Reconstruction and Development
ICT  Information and Communications Technology
IDA  International Development Association
IFC  International Finance Corporation
IFRS  International Financial Reporting Standards
IMF  International Monetary Fund
IPP  Independent Power Producer
ISP  Internet Service Provider
KfW  German Development Bank (Kreditanstalt für Wiederaufbau)
LDP  Letter of Development Policy
LESDP  Letter of Energy Sector Development Policy
LFI  Initial Budget Act (Loi de Finances Initiale)
<table>
<thead>
<tr>
<th>Role</th>
<th>Name</th>
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</thead>
<tbody>
<tr>
<td>Regional Vice President</td>
<td>Hafez M. H. Ghanem</td>
</tr>
<tr>
<td>Country Director</td>
<td>Nathan M. Belete</td>
</tr>
<tr>
<td>Global and Regional Director</td>
<td>Riccardo Puliti</td>
</tr>
<tr>
<td>Practice Manager</td>
<td>Charles Joseph Cormier</td>
</tr>
<tr>
<td>Task Team Leaders</td>
<td>Mustafa Zakir Hussain, Arthur Denis Pascal Foch, Markus Kitzmuller, Laurent Olivier Corthay</td>
</tr>
</tbody>
</table>
REPUBLIC OF SENEGAL
SENEGAL - THIRD MULTI-SECTORAL STRUCTURAL REFORMS DEVELOPMENT POLICY FINANCING

TABLE OF CONTENTS

SUMMARY OF PROPOSED FINANCING AND PROGRAM ................................................................. 3

1. INTRODUCTION AND COUNTRY CONTEXT ............................................................................. 5

2. MACROECONOMIC POLICY FRAMEWORK ............................................................................. 7
   2.1. RECENT ECONOMIC DEVELOPMENTS ............................................................................... 7
   2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY ........................................... 14
   2.3. IMF RELATIONS .................................................................................................................... 19

3. GOVERNMENT PROGRAM ......................................................................................................... 19

4. PROPOSED OPERATION ............................................................................................................... 21
   4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION ................................. 21
   4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS ..................................... 22
   4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY .............................. 48
   4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS .................... 51

5. OTHER DESIGN AND APPRAISAL ISSUES .............................................................................. 52
   5.1. POVERTY AND SOCIAL IMPACT ......................................................................................... 52
   5.2. ENVIRONMENTAL ASPECTS ............................................................................................... 55
   5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS .............................................................. 55
   5.4. MONITORING, EVALUATION AND ACCOUNTABILITY ......................................................... 57

6. SUMMARY OF RISKS AND MITIGATION ............................................................................... 58

ANNEX 1: POLICY AND RESULTS MATRIX ...................................................................................... 61
ANNEX 2: LETTER OF DEVELOPMENT POLICY ............................................................................. 70
ANNEX 3: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS ..................................................... 99

ANNEX 4: CLIMATE CHANGE ADAPTATION CO-BENEFITS ........................................................ 103
ANNEX 5: WORLD BANK STRATEGY IN THE ENERGY SECTOR IN SENEGAL ............................. 106
ANNEX 6: CONTEXT ON ICT SECTOR ............................................................................................ 119
ANNEX 7: CONTEXT ON DIGITAL ECONOMY IN SENEGAL ....................................................... 123
The Third Multi-Sectoral Structural Reforms Development Policy Financing (DPF) for the Republic of Senegal was prepared by an International Development Association (IDA) team led by Mustafa Zakir Hussain (Task Team Leader (TTL) and Lead Energy Specialist, IAFE2) and including Arthur Foch (co-TTL and Senior Digital Development Specialist, IDD02), Markus Kitzmuller (co-TTL and Senior Economist, EA2M1), Laurent Olivier Corhay (co-TTL and Senior Private Sector Specialist, EA2F1), Manuel Luengo (Senior Energy Specialist, IAFE2), Ewa Klimowicz (Consultant, IAFE2), Johan Mistiaen (EA2DR), Alioune Fall (Consultant, IAFE2), Nicholas Elms (Consultant, IAFE2), Petra Valickova (Financial Specialist, IAFE2), Michele Renda (Consultant, IEEXI), Julio Ricardo Loayza (Senior Economist, OPSCE), Federica Marzo (Senior Economist, EA2PV), Inka Ivette Schomer (Operations Officer, IEEES), Aneliya Muller (E T Consultant, EA2F1), Laurent Gonnet (Lead Financial Sector Specialist, EA2F1), Jerome Bezzina (Senior Digital Development Specialist, IDD02), Jan Loeprick (Senior Economist, EMFTX), Fatou Fall Samba (Senior Financial Management Specialist, EA2G1), Sophie Wernert (Senior Counsel, LEGAM), Aminata Bob (Program Assistant, AFCF1), and Ndeye Aissatou Diagne Diouf (Program Assistant, AFCF1).

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Programmatic</th>
<th>If programmatic, position in series</th>
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</thead>
<tbody>
<tr>
<td>P170366</td>
<td>Yes</td>
<td>3rd in a series of 3</td>
</tr>
</tbody>
</table>

**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.

**Organizations**

Borrower: MINISTRY OF FINANCE AND BUDGET, GOVERNMENT OF SENEGAL

Implementing Agency: MINISTRY OF FINANCE AND BUDGET, GOVERNMENT OF SENEGAL

PROJECT FINANCING DATA (US$, Millions)

**SUMMARY**

| Total Financing | 180.00 |

**DETAILS**

| International Development Association (IDA) | 180.00 |
| IDA Credit                                 | 180.00 |

**INSTITUTIONAL DATA**

**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

**Overall Risk Rating**

High
## Results

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>Baseline/Latest Value</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unserved energy (total) per year (GWh) as proxy of blackouts and brownouts</td>
<td>19 (2018)</td>
<td>13 (2021)</td>
</tr>
<tr>
<td>Overall electricity losses as percentage of electricity produced</td>
<td>18 percent (2018)</td>
<td>15 percent (2021)</td>
</tr>
<tr>
<td>SENELEC debt coverage ratio (EBIDTA adjusted/debt service)</td>
<td>0.54 (2018)</td>
<td>1.0 (2021)</td>
</tr>
<tr>
<td>Percentage of generation capacity that is not HFO-based</td>
<td>17 percent (2018)</td>
<td>45 percent (2021)</td>
</tr>
<tr>
<td>Installed capacity of renewable energies</td>
<td>11 percent (2018)</td>
<td>30 percent (2021)</td>
</tr>
<tr>
<td>Share of rural population with access to electricity</td>
<td>43 percent (2017)</td>
<td>60 percent (2021)</td>
</tr>
<tr>
<td>Ranking of Senegal with respect to the A.1.02 sub-index of the Network Readiness Index</td>
<td>73rd (2016)</td>
<td>65th (2021)</td>
</tr>
<tr>
<td>Internet penetration rate</td>
<td>66 percent (2018)</td>
<td>75 percent (2021)</td>
</tr>
<tr>
<td>Number of facility-based Internet providers</td>
<td>3 (2018)</td>
<td>6 (2021)</td>
</tr>
<tr>
<td>Percentage of rural households reporting access to the Internet</td>
<td>17 percent (2017)</td>
<td>30 percent (2021)</td>
</tr>
<tr>
<td>Percentage of females reporting access to the Internet (rural)</td>
<td>12.1 percent (2017)</td>
<td>20 percent (2021)</td>
</tr>
<tr>
<td>Increase by 10 percent the number of MSME taxpayers registered at DSF / DGID</td>
<td>65,534 (2019)</td>
<td>72,088 (2021)</td>
</tr>
<tr>
<td>Number of tax payments (as measured by Doing Business “Paying Taxes” indicator)</td>
<td>58 (2018)</td>
<td>40 (2021)</td>
</tr>
<tr>
<td>Number of firms registered as ‘startups’ by a licensed private or public support structure (as defined in the startup law)</td>
<td>0 (2019)</td>
<td>150 (2021)</td>
</tr>
</tbody>
</table>
1. INTRODUCTION AND COUNTRY CONTEXT

1. The proposed Development Policy Financing (DPF), in the form of an International Development Association (IDA) credit of Euro 161.4 million (US$180.0 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 2014 (Plan Senegal Emergent, PSE). The first operation under the series was approved by the Board in June 2017 for an amount of US$60.0 million equivalent, and the second one was approved in December 2018 for an amount of US$180.0 million equivalent.

2. Senegal is one of West Africa’s main economic hubs with important endowments and sociopolitical stability. Positioned on the Atlantic Ocean coastline, Senegal covers a land area of almost 197,000 square kilometers and has a population of around 16 million, about a quarter of which is concentrated in Dakar and up to a half in other urban areas. The strategic coastal location makes it accessible to European and North American markets and positions it as a gateway for some of the landlocked countries in West Africa. The agro-ecological conditions are relatively favorable with a mild climate, large hydraulic potential, and an ability to produce crops during the European winter. Moreover, Senegal is well positioned to capitalize on its high urbanization rates and young population – more than 60 percent of Senegalese are under 25 years old. The economy earns foreign exchange from fisheries, phosphates, groundnuts, tourism and services. The country is also a sub-regional hub for banking, shipping and transportation. Senegal is one of the most stable and politically open countries in Africa. It remains the only country in the region not to have experienced a military coup and to enjoy a multi-party system (with five-year presidential mandates). The country recently undertook peaceful elections and a new government was formed in April 2019.

3. Senegal’s human development story is mixed. It’s Human Capital Index (HCI) score is 0.42. This places Senegal 121st out of 157 countries, slightly above the SSA average (of about 0.40), but below aspirational peers in lower middle-income country (LMIC) (average HCI of 0.48). In terms of the HCI, Senegal’s performance within the index is relatively good in nutrition and survival rates (e.g. the lowest under 5 stunting rate of all SSA, at 17 percent), but underwhelming in education: the average Senegalese child can only expect to achieve 7.2 years of schooling (compared to 8.1 in Sub-Saharan Africa (SSA) and 10.2 among LMIC), in part because a third or more of primary school-age children are out of the formal system. Progress in access to basic services and infrastructure has contributed to this improvement in living conditions. Solid performance has been demonstrated in selected health areas, providing nearly universal access to safe water, expanding coverage of electricity (to 64 percent in 2017) and social assistance programs.

4. Based on gross domestic product (GDP) per capita, estimated at US$1,311 in 2017, Senegal has recently joined the ranks of LMIC. Notwithstanding this growth, emerging data suggest that poverty reduction may have been slower than would be expected. The poverty rate is estimated to have

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1 Human Capital Project and related index (HCI).
2 Access rates provided by the national survey Listening to Senegal (ANSD 2014).
decreased to 33.4 percent in 2018 relative to 2011 when it stood at 38 percent (based on the international poverty line of US$1.90/day or 46.7 percent based on the national poverty line). The poverty rate reduced by a modest 4.5 percentage points over seven years. However, signs of rising inequality suggest that the elasticity of poverty to growth\(^3\) may have decreased, resulting in an even more modest poverty reduction. Although positive at 2.6 percent, growth for the bottom 40 percent has been slower than the growth for the overall population, indicating that the share of consumption for the poorest is shrinking, and confirming a trend started in 2005. Similarly, inequality of assets has become more pronounced, especially in rural areas, where the Gini coefficient increased from 0.38 to 0.41 between 2011 and 2017 and the top decile now holds 14 times the wealth of the bottom decile (versus 11 times in 2011).

5. **The inclusivity concerns require a renewed focus on tackling structural and policy constraints.** To consolidate economic growth and deliver on the PSE, it will be critical to move beyond the first wave of reforms and address remaining bottlenecks. Persistent structural constraints still affect the efficiency of investment, competitiveness, growth and the 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. Very high informality in Senegal is linked to several challenges affecting long term growth: insufficient fiscal revenues, competition that is perceived as unfair by formal businesses, stagnation of productivity, etc. According to the 2017-2018 Global Competitiveness Report,Senegal has a low score in total competitiveness (3.8/7) and underperforms in Market Size (3.1), Infrastructure (3.1) and Technological Readiness (3.3). In Infrastructure, the score for Electricity and Telephony is 3.2, while in Technological Readiness, information and communications technology (ICT) use is particularly low, at 2.0. These results imply high importance of reforming the energy and ICT sectors. Developing these infrastructure sectors, particularly internet broadband, would power downstream development of the private sector in new digital technologies, becoming Senegal’s engine for future growth and poverty reduction (see report from the World Bank Chief Economist’s Office of the Africa region: Africa’s pulse, 2019).

6. **Therefore, the program focuses on advancing deep structural reforms in the energy and ICT sectors, and on developing the digital economy – to reduce fiscal strains, safeguard economic growth and make it more inclusive, in line with the PSE.** The overarching objectives for the two sectors are to reduce costs, increase competition and improve service delivery. With regards to the reforms in energy, these are seen as a national macroeconomic priority as the current high cost and exposure to international oil prices is a high risk to the macroeconomic fundamentals of the country. Solving the challenge of high costs of energy generation and unreliability of supply would remove two of the most binding constraints to the competitiveness of the Senegalese economy. An efficient and digitalized private sector should help to reduce fiscal strains, in line with the PSE and Government’s critical needs. In the energy sector, ICT and the downstream digital economy are central to the performance of one of Senegal’s most important sectors – services – and to the future outlook for the economy in the context of accelerating the path of technological change. A more dynamic digital economy is expected to stimulate investment in digital intangibles, which combined with development of digital skills and diffusion of new technologies is expected to lead to productivity gains\(^4\).

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\(^3\) Preliminary estimations using 2017 Light Survey (ANSD/World Bank).

\(^4\) See for example: Dirk Pilat and Chiara Criscuolo (2018), *The Future of Productivity: what contribution can digital*
7. **The macroeconomic policy framework for this third operation remains adequate.** It is expected to remain anchored on the International Monetary Fund (IMF) Policy Coordination Instrument (PCI) program starting in January 2020. Fiscal and debt sustainability would be supported by increasing revenue mobilization and continued prudent expenditure polices assuring a fiscal deficit consistent with West African Economic and Monetary Union (WAEMU) convergence criteria. Arrears clearance and increasing investment activity will support solid growth over the next years. Monetary policy remains prudent and anchored in a credible monetary union framework. In that context, public debt is expected to remain on a declining path and external balances remain well financed.

2. **MACROECONOMIC POLICY FRAMEWORK**

2.1. **RECENT ECONOMIC DEVELOPMENTS**

8. **Economic growth has accelerated since 2014, remaining consistently above 6 percent per year.** Economic growth reached 6.8 percent in 2018, slightly down from 7.1 percent in 2017 but still among the highest in Africa. Higher growth reflects incipient structural transformation, supported by reforms aimed at improving the investment climate, sector governance and investment in infrastructure, energy and agriculture. Investment grew rapidly, at over 11 percent per year over 2014-2018, which bodes well for future growth. Strong growth has been supported by exogenous factors including improved terms of trade (ToT) during 2014-2016 as well as favorable weather boosting agricultural production. Economic activity in the first half of 2019 remains solid with an estimated growth rate of 5.7 percent y-o-y compared to 6.1 percent in 2018.

9. **Growth continues to be broad based but driven increasingly by investment.** Following the trend observed since 2014, all sectors grew above 6.0 percent in 2018. However, the primary sector grew more rapidly, at 7.7 percent, driven by agriculture (+9.4 percent), which has benefitted from Government programs (including subsidies in rice, groundnuts and horticulture) and adequate climate conditions. The secondary and tertiary sectors grew at 6.0 percent and 6.7 percent respectively. In terms of contributions to GDP growth, services will play an increasingly important role again. On the demand side, the most dynamic drivers were investment (+12.5%) and exports (+7.2%), reflecting strong external demand and a conducive investment climate. Going forward, investment is expected to be the key driver of growth.
### Table 1. Senegal: Contribution to GDP growth (2015 – 2022, annual percentage changes)

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</thead>
<tbody>
<tr>
<td>GDP at constant prices</td>
<td>6.4</td>
<td>6.4</td>
<td>7.1</td>
<td>6.8</td>
<td>6.0</td>
<td>6.8</td>
<td>7.0</td>
<td>8.4</td>
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#### Demand side:

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<tbody>
<tr>
<td>Private Consumption</td>
<td>3.3</td>
<td>3.9</td>
<td>6.0</td>
<td>5.8</td>
<td>4.1</td>
<td>4.9</td>
<td>4.9</td>
<td>5.0</td>
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<tr>
<td>Public Consumption</td>
<td>0.8</td>
<td>0.6</td>
<td>1.3</td>
<td>0.7</td>
<td>0.8</td>
<td>0.7</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Private Investment</td>
<td>0.4</td>
<td>1.9</td>
<td>1.5</td>
<td>0.6</td>
<td>0.8</td>
<td>1.9</td>
<td>1.0</td>
<td>1.4</td>
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<tr>
<td>Public Investment</td>
<td>1.0</td>
<td>1.4</td>
<td>0.3</td>
<td>2.6</td>
<td>1.7</td>
<td>1.1</td>
<td>2.4</td>
<td>3.3</td>
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<tr>
<td>Exports</td>
<td>2.0</td>
<td>0.9</td>
<td>1.8</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
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<tr>
<td>Imports</td>
<td>-2.8</td>
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<td>-3.0</td>
<td>-3.4</td>
<td>-3.7</td>
<td>-4.4</td>
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#### Supply side:

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<tbody>
<tr>
<td>Agriculture</td>
<td>1.7</td>
<td>0.9</td>
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<td>1.3</td>
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<td>1.2</td>
<td>1.3</td>
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<td>1.7</td>
<td>1.7</td>
<td>2.5</td>
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<tr>
<td>Services</td>
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<td>4.0</td>
<td>3.4</td>
<td>3.9</td>
<td>3.2</td>
<td>3.9</td>
<td>4.1</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Sources: Senegal authorities and WB staff estimates and projections.

Note: Supply side contributions to GDP include proportional net indirect taxes.
10. **The external current account deficit widened as oil prices increased and imports outpaced exports.** The deficit increased from 7.3 percent of GDP in 2017 to 8.8 percent in 2018, due to higher energy and capital goods imports and despite strong remittance flows (net private transfers reached 9.1 percent of GDP in 2018). This reflects strong investment and rising oil prices. Exports also increased but at a slower pace, driven by a boost in gold exports (+42 percent), food products and phosphoric acid. The issuance of Eurobonds in 2018 helped financing this deficit. The first quarter of 2019 shows export recovery - thanks to food products, phosphoric acid and gold - and a stabilization of imports. The trade deficit thus decreased from 6.5 percent of GDP in 2018H1 to 5.0 percent in 2019H1, y-o-y, but is expected to increase throughout the rest of the year.

11. **Senegal targets a fiscal deficit of 3 percent of GDP, anchoring its fiscal policy within the WAEMU convergence criteria and ensuring fiscal sustainability.** Senegal’s monetary and exchange rate policies are managed by the Central Bank of West African States - *Banque Centrale des Etats de l’Afrique de l’Ouest*.

### Table 2. Senegal: Key Macroeconomic Indicators (2015 – 2022)

<table>
<thead>
<tr>
<th>Senegal: Key Macroeconomic Indicators, 2015-2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Economy and prices</td>
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<tr>
<td>GDP at constant prices</td>
</tr>
<tr>
<td>Sector growth:</td>
</tr>
<tr>
<td>Primary</td>
</tr>
<tr>
<td>Secondary</td>
</tr>
<tr>
<td>Tertiary</td>
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<tr>
<td>Consumer price inflation</td>
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<td>End of period</td>
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<td>External sector</td>
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<td>Export, f.o.b (CFA francs)</td>
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<tr>
<td>Import, f.o.b (CFA francs)</td>
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<tr>
<td>Current account balance (incl. official transfers) (% GDP)</td>
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<tr>
<td>Terms of trade (&quot;-&quot; = deterioration)</td>
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<tr>
<td>WAEMU gross official reserves (Billions US$)</td>
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<tr>
<td>Government financial operations</td>
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<tr>
<td>Revenue</td>
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<tr>
<td>Grants</td>
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<td>Total expenditure</td>
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<td>Overall fiscal balance</td>
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<td>Primary fiscal balance</td>
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<td>Total public debt 1/</td>
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<tr>
<td>Domestic public debt 2/</td>
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<tr>
<td>External public debt</td>
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<tr>
<td>Total public debt service</td>
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<tr>
<td>Percent of government revenue</td>
</tr>
<tr>
<td>Memorandum item</td>
</tr>
<tr>
<td>Gross domestic product (CFAF billions)</td>
</tr>
<tr>
<td>Nominal GDP per capita (USD)</td>
</tr>
</tbody>
</table>

Sources: Senegal authorities; IMF and WB staff estimates and projections.

1/ Starting in 2017 debt level, debt service and government revenue include preliminary data covering the broader public sector.

2/ Domestic debt includes government securities issued in local currency and held by WAEMU residents.
(BCEAO), which maintains a fixed peg between the CFA Franc and the Euro. This requires national fiscal policy to complement and support convergence and macro stability (reserve accumulation) at the regional level. In recent years, the overall fiscal deficit has frequently been above 3 percent of GDP and largely financed through the issuance of foreign debt. Key challenges were revenue mobilization – the tax to GDP ratio remains around 15 percent and significantly below the 20 percent WAEMU target – and uncertainty on the expenditure side through energy subsidies.

### Table 3. Senegal: Key Fiscal Indicators (2015 – 2022)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Overall balance</td>
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<td>-3.3</td>
<td>-3.0</td>
<td>-3.6</td>
<td>-3.7</td>
<td>-3.0</td>
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<tr>
<td>Revenue</td>
<td>19.3</td>
<td>20.7</td>
<td>19.5</td>
<td>18.6</td>
<td>20.3</td>
<td>20.7</td>
<td>21.6</td>
<td>22.1</td>
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<td>Taxes</td>
<td>15.2</td>
<td>15.9</td>
<td>15.3</td>
<td>15.3</td>
<td>17.2</td>
<td>17.7</td>
<td>18.7</td>
<td>19.2</td>
</tr>
<tr>
<td>Grants</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
<td>2.0</td>
<td>1.9</td>
<td>1.9</td>
<td>1.9</td>
<td>1.8</td>
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<tr>
<td>Other revenue</td>
<td>1.9</td>
<td>2.7</td>
<td>1.9</td>
<td>1.4</td>
<td>1.2</td>
<td>1.0</td>
<td>1.0</td>
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</tr>
<tr>
<td>Expenditure</td>
<td>23.0</td>
<td>24.0</td>
<td>22.5</td>
<td>22.2</td>
<td>24.0</td>
<td>23.7</td>
<td>24.6</td>
<td>25.0</td>
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<tr>
<td>Current expenditure</td>
<td>14.3</td>
<td>14.3</td>
<td>13.7</td>
<td>14.3</td>
<td>14.7</td>
<td>14.2</td>
<td>14.1</td>
<td>14.2</td>
</tr>
<tr>
<td>Compensation of employees</td>
<td>5.0</td>
<td>5.1</td>
<td>4.9</td>
<td>5.2</td>
<td>5.3</td>
<td>5.4</td>
<td>5.4</td>
<td>5.5</td>
</tr>
<tr>
<td>Use of goods and services</td>
<td>3.7</td>
<td>2.9</td>
<td>2.7</td>
<td>2.3</td>
<td>2.8</td>
<td>2.9</td>
<td>2.8</td>
<td>2.8</td>
</tr>
<tr>
<td>Interest</td>
<td>1.5</td>
<td>1.7</td>
<td>1.9</td>
<td>2.0</td>
<td>2.0</td>
<td>2.1</td>
<td>1.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Foreign</td>
<td>1.2</td>
<td>1.2</td>
<td>1.5</td>
<td>1.6</td>
<td>1.7</td>
<td>1.8</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Domestic</td>
<td>0.3</td>
<td>0.4</td>
<td>0.5</td>
<td>0.4</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.2</td>
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<tr>
<td>Subsidies</td>
<td>0.5</td>
<td>0.5</td>
<td>0.3</td>
<td>1.0</td>
<td>2.1</td>
<td>1.3</td>
<td>1.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Grants (current excl. FSE)</td>
<td>2.1</td>
<td>2.5</td>
<td>1.6</td>
<td>1.6</td>
<td>1.5</td>
<td>1.3</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Social benefits</td>
<td>0.6</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Other expense</td>
<td>1.0</td>
<td>1.7</td>
<td>2.3</td>
<td>2.1</td>
<td>0.9</td>
<td>1.0</td>
<td>1.0</td>
<td>1.1</td>
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<tr>
<td>Capital expenditure</td>
<td>8.7</td>
<td>9.7</td>
<td>8.6</td>
<td>7.9</td>
<td>9.3</td>
<td>9.5</td>
<td>10.4</td>
<td>10.8</td>
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<tr>
<td>Financing</td>
<td>-3.7</td>
<td>-3.3</td>
<td>-3.0</td>
<td>-3.6</td>
<td>-3.7</td>
<td>-3.0</td>
<td>-3.0</td>
<td>-3.0</td>
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<tr>
<td>Net acquisition of financial assets</td>
<td>-1.0</td>
<td>-0.5</td>
<td>0.2</td>
<td>1.3</td>
<td>-0.3</td>
<td>-0.9</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Net incurrence of liabilities</td>
<td>2.7</td>
<td>2.8</td>
<td>3.1</td>
<td>4.9</td>
<td>3.5</td>
<td>2.1</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Domestic</td>
<td>-0.5</td>
<td>-1.4</td>
<td>-2.7</td>
<td>-1.6</td>
<td>-1.2</td>
<td>-0.3</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Foreign</td>
<td>3.3</td>
<td>4.2</td>
<td>5.9</td>
<td>6.5</td>
<td>4.7</td>
<td>2.4</td>
<td>2.7</td>
<td>2.6</td>
</tr>
</tbody>
</table>

### Memorandum items

<table>
<thead>
<tr>
<th>Nominal GDP (billion CFAF)</th>
<th>10508.7</th>
<th>11283.0</th>
<th>12159.0</th>
<th>13046.0</th>
<th>13983.0</th>
<th>15085.0</th>
<th>16421.0</th>
<th>18015.0</th>
</tr>
</thead>
</table>

Sources: Senegal authorities; IMF and WB staff estimates and projections (As of November 2019).

12. **Misalignment between domestic and global energy prices has aggravated fiscal pressures.** The fiscal deficit increased from 3.0 percent of GDP in 2017 to 3.6 percent in 2018. A key factor is the difference between domestic energy prices (including fuel pump prices and electricity tariffs) and increasing global oil prices (Figure 1). The resulting lack of regulatory adjustment in domestic prices has reduced energy related tax revenues and increased electricity subsidies with an accumulation of 2.5 GDP in unmet obligations by end 2018. Fuel pump prices have been increased by 12 percent for gasoline and 10 percent for diesel end-June 2019, while electricity tariffs have not yet been adjusted (though a decision has been taken for increases from December 1, 2019) (Figure 1).
Figure 1. Global Oil Prices vs. Domestic Energy and Fuels Prices (2014=100)

Note: The methodology to calculate the energy price index changed effective April 2019 from covering only Dakar to national base.

13. Arrears to private and public providers – including to SENELEC (the energy utility) – contribute to underestimating the fiscal deficits but are gradually being resolved. Notably, tariff compensation to SENELEC is legally due if the Government decides not to adjust electricity tariffs to the cost-reflective level calculated by the independent regulator, Regulatory Commission for the Electricity Sector (Commission de Regulation du Secteur de l’Électricité, CRSE). In 2018, the final compensation requirement amounted to CFAF 157.7 billion (1.2 percent of GDP) of which only CFAF 98 billion were budgeted, out of which CFAF 82 billion was paid to SENELEC as compensation payment. Any difference would be counted as outstanding central government debt towards SENELEC (Box 1). Overall, these discrepancies lead to underestimation of fiscal deficit and debt statistics and introduce additional risk for transparent budgeting.

14. At the same time, liquidity stress is imposed on the affected entities. In September 2019, the Government took a short-term loan from banks, in the amount of CFAF 125 billion, used to pay a considerable part of the outstanding payments to SENELEC related to compensation and electricity consumption of the public sector for the years 2017 and 2018. This is expected to result in a 3.7 percent fiscal deficit in 2019 (to be reflected in the second adjusted budget law). This loan is classified as a one-off exception explicitly integrated above the line of the fiscal accounts in 2019. This DPF operation includes policy measures to prevent further accumulation of commitments and to strengthen SENELEC’s revenues (Box 1).
Box 1: Government Fiscal Commitments to SENELEC

Since 2017, the Government has delayed in making substantial compensation payments to SENELEC. The Government reduced electricity tariffs by 10 percent in February 2017. Since then, tariffs have not been adjusted despite the increase in international oil prices (a key input in the production of electricity). This misalignment explains the increase of the compensation due to SENELEC since 2017. Part of the required compensation was paid in 2018. The Government also accumulated arrears on electricity bills due by the central administration, public autonomous entities Etablissement Publique à Autonomie Financières (EPAFs), public lighting and local authorities.

In September 2019, the Government borrowed CFAF 125 billion from domestic banks and transferred the proceeds to SENELEC. The original plan, in 2018, was to provide SENELEC with a promissory note referring to budget payments to SENELEC of CFAF five times 25 billion (over the next five years) as a pseudo guarantee for banks to finance SENELEC. However, the banks insisted on a formal central government guarantee. In September 2019, the Government and IMF agreed to allow a loan of FCA 125 billion to compensate SENELEC in 2019, while running a 3.7 percent deficit in 2019 (to be reflected in Loi de Finances Rectificative 2 or LFR2). This FCA 125 billion ‘allowance’ would be justified and labeled as a one-off exception and an explicit reference is made to Senegal having achieved the 3 percent deficit target without the SENELEC payment.

From a fiscal accounting perspective, the central government loan is registered above the line in 2019 and adds simultaneously to the public debt stock. This improves transparency as it avoids below the line operations and explicitly acknowledges (delayed) payment obligations. From a fiscal policy perspective, another advantage hereof is that outstanding SENELEC tax payments could be paid immediately and this helps the Government meet its revenue target. This is helpful as an important part of the anticipated fiscal consolidation originated from the revenue side. Finally, the immediate availability of these funds is critically needed for SENELEC operations and from an energy sector financial perspective.

<table>
<thead>
<tr>
<th>Government Fiscal Commitments (Billions of FCFA)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019 ***</th>
</tr>
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<tbody>
<tr>
<td>Compensation due</td>
<td>57.20</td>
<td>157.70</td>
<td>114.90</td>
<td></td>
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<tr>
<td>Compensation paid</td>
<td>15.00</td>
<td>81.60</td>
<td>75.20</td>
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<tr>
<td>Remaining compensation</td>
<td>42.20</td>
<td>75.10</td>
<td>39.70</td>
<td></td>
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<tr>
<td>Bank adj. for actual CAPEX</td>
<td>n/a</td>
<td>(3.60)</td>
<td>(18.80)</td>
<td>(25.30)</td>
</tr>
<tr>
<td>Adjusted compensation due</td>
<td>38.60</td>
<td>57.30</td>
<td>14.40</td>
<td></td>
</tr>
<tr>
<td>Tariff adjustment</td>
<td>2.87</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final remaining compensation due</td>
<td>38.60</td>
<td>57.30</td>
<td>11.53</td>
<td></td>
</tr>
<tr>
<td>Unpaid electricity bills (*)</td>
<td>10.20</td>
<td>23.20</td>
<td>22.90</td>
<td></td>
</tr>
<tr>
<td>Other payments due (*)</td>
<td>12.40</td>
<td>4.00</td>
<td>22.80</td>
<td></td>
</tr>
<tr>
<td>Total other payments due (*)</td>
<td>12.40</td>
<td>14.20</td>
<td>46.00</td>
<td>22.90</td>
</tr>
<tr>
<td>Total GoS arrears</td>
<td>12.40</td>
<td>52.80</td>
<td>103.30</td>
<td>34.43</td>
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<tr>
<td>2018 Promissory Note</td>
<td>125.00</td>
<td></td>
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<tr>
<td>2016-2018 remaining</td>
<td>43.50</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019 dues - payment plan</td>
<td>34.43</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(*) Unpaid electricity bills and other payments due as at 13th September 2019 (***) amounts for 2019 are not known yet (****) Final tariff revenue shortfall and compensation amount due for the year 2019 is subject to the evolution of fuel costs and other variables such as demand.
The proposed operation includes additional measures to adjust how SENELEC’s regulated maximum revenues are calculated and to ensure that SENELEC will receive them in a timely manner. Prior Action 2 includes measures to update the formula that defines SENELEC’s RMA (Revenu Maximum Autorisé) to adjust the amount with the actual investment expenditures; modify the structure of electricity tariffs (while ensuring that low consumption households remain protected); paying up all remaining amounts due to SENELEC; and, preventing the future accumulation of additional arrears (see the Program Section for further details).

15. Revenue collection performance has been disappointing but shows signs of strong recovery since July 2019. Revenues decreased from 19.5 percent of GDP in 2017 to 18.6 percent in 2018 (0.9 percent of GDP below target). Tax revenues remained stable at 15.3 percent of GDP. Overall, Revenue collection has been disappointing during 2017-2018 and 2019H1. In July and August 2019, however, monthly revenues (y-o-y) have increased substantially, implying that the tax revenue target of 17.2 percent of GDP is attainable under LFR2. The misalignment of local and international energy prices played an important role, but corporate taxes also performed poorly considering the political cycle. Measures geared to increasing revenues were implemented mid-year but did not bring the expected results.

16. In its attempt to meet the 3 percent fiscal deficit target, the Government had to reduce capital spending to accommodate recurrent spending pressures. Current expenditures increased from 13.7 percent of GDP in 2017 to 14.3 percent in 2018 due to electricity subsidies and increasing wage costs and transfers. Wage expenditures rose from 4.9 percent of GDP in 2017 to 5.2 percent in 2018. Given the Presidential elections and social pressures during 2019, the Government increased spending, particularly in the education and health sectors – with medium-term implications. To contain the fiscal deficit, public investment was reduced from 8.6 percent of GDP in 2017 to 7.9 percent in 2018. Nonetheless, fiscal pressures have continued to rise in 2019H1. Public spending accelerated (at 19.4 percent) and the fiscal deficit already stood at 3.3 percent of the 2019 estimated GDP as of end of June. Under the first supplementary budget, the annual deficit has been estimated at around 5 percent of GDP. Therefore, even if revenue targets were broadly met, the Government needs to further cut expenditure under LFR2 (see Outlook section).

17. Public debt has continued to increase and has become less concessional, reflecting a larger fiscal deficit, below the line financing and the inclusion of public entities into the debt perimeter. In 2017, the definition of public debt was broadened to include parastatals and SOEs as well as guarantees issued by central government. This methodological change increased public debt by around 11 percent of GDP in 2017. In addition, public debt continued to grow from 61.2 percent of GDP in 2017 to 61.6 percent in 2018, driven by the larger fiscal deficit and below-the-line treasury operations to finance deficits in other public institutions, such as La Poste⁵. In 2018, such operations increased central government financing requirements by 0.6 percent of GDP, less than in 2017 when they accounted for 1.4 percent of GDP. Public debt has also become less concessional due to the issuance of Eurobonds of US$2.2 billion in March 2018⁶. This issue allowed Senegal to temporarily withdraw from the less liquid regional bond markets, but it also reduced the degree of concessionality of public debt. Non-concessional debt has increased from an already high level of 76 percent of public debt in 2017 to 79 percent in 2018. Some Eurobond proceeds were used for debt restructuring to improve the profile of future debt service, with the debt service to

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⁵ These transactions have no impact on central government revenues and expenditures (above the line), but they imply changes in its assets and liabilities (below the line), reducing treasury liquidity and forcing the Government to issue more debt.

⁶ Two bonds were issued: a US$ 1 billion bond over 30 years at 6.75 percent and EUR 1 billion bond over 10 years at 4.75 percent. This compares favorably with previous issues (US$ 1.1 billion 16 years Eurobond at 6.25 percent in May 2017).
revenue ratio estimated at 16.5 in 2019 and steadily declining from 2020.

18. **Inflation remains low thanks to prudent monetary policy despite high growth.** Senegal’s monetary and exchange rate policies are managed at the regional level by the BCEAO which maintains a fixed peg between the CFA Franc and the Euro. BCEAO’s international reserves stabilized in 2018, supported by significant Eurobond issuances by Cote d’Ivoire and Senegal. Pooled WAEMU reserves are estimated to cover 4.5 months of imports at end-August 2019, remaining at their end-2018 level. Despite tighter monetary policy in 2018, with BCEAO reducing its refinancing to banks by 24 percent, regional liquidity pressures were temporarily alleviated by the Eurobond issuances. The real effective exchange rate (REER) appreciated by 2.4 percent in 2018, after being stable in 2017, partly reflecting the strengthening of the Euro.

19. **The financial sector remains sound, and introduction of Basel II/III principles is expected to further increase the system’s resilience.** Gross Non-Performing Loans (NPLs) as a share of total loans decreased from 16.2 percent in 2017 to 13.1 percent in 2018 but remain above the WAEMU average (12.4 percent)\(^7\). Recovery rates have improved but write-offs have also increased. The introduction of Basel II/III principles – which will increase the resilience of the system and help improve credit quality – helps explain this increase of write-offs. Going forward, a new definition of NPLs is being introduced, which should lower the ratio of NPLs to total loans\(^8\). In terms of capital requirements, all banks comply with the CFAF 10 billion regional capital requirements. Also, the ratio of regulatory capital to risk weighted assets remains at a comfortable level (12.4 in 2018) and well above the regional average. The financial system has accompanied growth, as evidenced by the rise of intermediation ratios. The value of assets and deposits in the financial sector increased from 37.2 percent and 27.6 percent of GDP respectively in 2010 to 54.1 percent and 36.0 percent in 2018. Digital financial services are growing rapidly but remain very limited due to restrictions in the regulatory and institutional framework. Financial inclusion of households and small to medium sized enterprises (SMEs) is limited by low incomes and large guarantee requirements.

### 2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

20. **Senegal’s economic outlook remains favorable, but risks are tilted to the downside.** Fiscal vulnerabilities need to be contained and PSE reform implementation deepened for growth to remain robust. Growth is estimated at 6 percent in 2019, driven by agriculture and services but reflecting somewhat slower investment and government consumption due to needed fiscal consolidation. By 2021, growth should approach 7.0 percent, mostly due to strong private consumption – the largest share of GDP – and dynamic (private) investment. Oil and gas production coming onstream in 2022 should give a substantial boost to growth (Table 1). This baseline projection assumes sustained implementation of PSE-related reforms and significant crowding in of private investment (as expected under the current Priority Actions Plan (PAP) II *Plan d’actions prioritaires* 2019-2023), increasing Senegal’s productive capacity while supporting export growth. Services would remain the main contributor to GDP, and the primary sector (and agriculture in particular) the most dynamic growth driver. Potential GDP would grow at a similar rate as real GDP, thus avoiding the buildup of inflationary pressures. Inflation is expected to remain below 2

\(^7\) When provisions are considered, this number drops to 6.3 percent.

\(^8\) Among other changes, NPLs must be recognized as unrecovered losses after five years. Also, the new Dakar commercial tribunal is expected to help reduce NPLs.
percent, supported by exchange rate stability, prudent monetary policy and continued fiscal consolidation efforts.

21. **A one-off transfer to SENELEC will exceptionally increase the fiscal deficit to 3.7 percent of GDP, before stabilizing at the WAEMU target of 3 percent from 2020 onwards.** The Government remains committed to a medium-term fiscal deficit of 3 percent of GDP (WAEMU's fiscal convergence criterion, in effect since 2019). Originally in line with that target, the 2019 budget has been revised twice owing to revenue shortfalls, continued misalignment between energy prices and global oil prices, and pre-election spending. Under the second budget adjustment law, LFR2, the Government is expected to achieve the 3 percent deficit target when discounting the one-off payments to SENELEC of CFAF125 billion (CFAF100 billion is equivalent to 0.7 percent of GDP while CFAF25 billion had originally been budgeted). Substantial revenue mobilization and expenditure cutting measures have been considered to consolidate the 2019 budget and ensure a sound medium-term macro-fiscal framework. For 2020, the fiscal deficit target will be 3 percent of GDP, while making space (as part of above the line spending) for clearing a substantial part of pre-2019 unmet obligations. In support of these efforts, the authorities have recently reached staff level agreement with the IMF in preparation of a 3-year PCI.

22. **In the medium term, stronger revenue mobilization will be needed.** On tax administration, the Government is expected to focus on raising compliance levels (improving collection enforcement and tax audits, revising the advance value-added tax (VAT) payment on imports, and updating VAT registry) and the effectiveness of the internal revenue unit (for instance, completing the implementation of the M-Tax system for mobile tax payment and of ‘Mon Espace Perso’ or literally ‘my tax space’). On tax policy, the focus will remain on broadening the tax base – particularly bringing the informal sector into the system – and streamlining exemptions. To this effect, the Government is preparing a Medium-Term Revenue Strategy (MTRS) to be finalized by end 2019. Such measures would allow tax revenues to increase substantially over the forecasting horizon. Oil and gas production and exports from 2022 are expected to further boost fiscal revenues. However, these revenues are projected to remain relatively modest (around 0.6 percent of GDP per year in 2023 and 2024) and will need to be managed efficiently.

23. **Short term (capital) expenditure consolidation needs to give way to rationalizing energy-related subsidies and shoring up priority investment.** Current expenditures are expected to stabilize at around 14.2 percent of GDP until 2022, while capital expenditures recover from 7.9 percent of GDP in 2018 to 9.7 percent in 2022. The Government is exploring alternatives to align electricity tariffs with international prices. The World Bank is supporting the Government through technical analysis including incidence along the income distribution/impact on vulnerable households. The Government is also expected to continue its efforts to rationalize below-the-line operations, including restructuring La Poste, reforming the pensions system and reducing the carry-over of past appropriations in Comptes de Dépôt- deposit accounts. The expected volume of below-the-line operations in 2019 is around 0.3 percent of GDP, but the fiscal impact for the Central Government is expected to decrease to zero from 2020 onwards.

24. **Over the medium term, efforts to structurally reduce energy subsidies could enhance the quality of public spending and improve fiscal risk management.** Reducing the dependency on imported oil through the gas-to-power strategy promoted by this DPF Series should eliminate the need for providing electricity subsidies. In line with PAP II, the Government is also committed to let the private sector take
the lead in strategic investment projects and to rationalize its ambitious public investment program. Also, targeting of agriculture and education subsidies could be improved, while further efforts to enhance the quality of spending (investment planning and execution in particular) continue. Finally, following recent efforts to quantify explicit contingent liabilities, measures to enhance the management of fiscal risks are required to prevent unexpected shocks to the fiscal balance and public debt. These efforts would include setting up the institutional framework to monitor, evaluate, manage and reduce the fiscal risk from contingent liabilities, and incorporate budgetary provisions to cover the costs of contingent liabilities.

25. Overall, public debt is sustainable. When analyzing external debt, the debt service to exports ratio experiences a one-year breach of the debt sustainability framework (DSF) indicative threshold under the baseline, while all four of the DSF external debt indicators breach their indicative thresholds under stress tests. The Present Value of external debt to GDP is expected to significantly increase from 42.9 in 2018 to 47.3 in 2020, while starting to decrease only from 2022 supported by a reduction in the current account deficit and consistent foreign direct investment (FDI) flows.

Figure 2. Debt Sustainability Analysis

Source: World Bank and IMF (September 27, 2019).

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9 This may include, for instance, the substantial investments in the gas midstream sector (transport), were the government agreed to let the private sector take the lead as majority investor, contrary to previous announcements.
10 Contingent liabilities relevant to Senegal include (i) loan guarantees by the State; (ii) other types of financial guarantees (pensions, PPP contracts, and guarantees of commercial banks); (iii) claims under the agricultural insurance program; (iv) natural disasters resulting in emergency expenditures; (v) compensation granted by the State to ensure stable electricity and fuel prices; and (vi) capital increases for entities of which the State is a shareholder.
Table 4. Debt Composition

<table>
<thead>
<tr>
<th></th>
<th>External Debt Composition, 2018</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD (billion)</td>
<td>Share of total</td>
<td>% of GDP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Debt */</td>
<td></td>
</tr>
<tr>
<td>External Debt public sector</td>
<td>11.6</td>
<td>59.4</td>
<td>49.5</td>
</tr>
<tr>
<td>External Debt private sector</td>
<td>5.1</td>
<td>26.1</td>
<td>21.7</td>
</tr>
<tr>
<td>Total External Debt (public + private)</td>
<td>16.7</td>
<td>85.5</td>
<td>71.2</td>
</tr>
<tr>
<td>Medium- and Long-term Debt</td>
<td>16.5</td>
<td>84.7</td>
<td>70.6</td>
</tr>
<tr>
<td>Short term Debt</td>
<td>0.2</td>
<td>0.8</td>
<td>0.6</td>
</tr>
</tbody>
</table>

*/ Total debt does not include private sector domestic debt

Sources: Senegal authorities; IMF and WB staff estimates (as of September 2019).

26. Imports will continue outpacing exports, thereby widening the current account deficit before strong oil and gas exports would reverse this trend in 2022. Until 2021, the good performance of exports won’t be able to offset the substantial increase in imports stemming from investments in the gas and oil sector, higher oil prices and strong private consumption. Remittances are expected to stabilize in nominal terms but gradually decline as a percentage of GDP. New exports of oil and gas beginning in 2022 would help reverse the trend and substantially reduce the trade balance and current account deficits. As a result, the current account deficit is expected to widen to around 10 percent of GDP on average over 2019-21 and to drastically fall to 7.7 percent of GDP in 2022. This deficit is expected to be financed by rising inflows of FDI (partly related to the oil and gas sector), external credits and budget support (including from the World Bank) as well as borrowing on capital markets (including Eurobonds).

Table 5. Balance of Payments (BoP) Financing Requirements & Sources, 2015-2022 (in millions of US$)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing requirements (US$)</td>
<td>-1291.7</td>
<td>-1360.8</td>
<td>-2375.6</td>
<td>-2897.9</td>
<td>-2643.9</td>
<td>-3587.9</td>
<td>-4230.3</td>
<td>-3258.3</td>
</tr>
<tr>
<td>Current account deficit</td>
<td>-1003.7</td>
<td>-768.5</td>
<td>-1527.4</td>
<td>-2071.9</td>
<td>-2089.9</td>
<td>-3014.1</td>
<td>-3333.1</td>
<td>-2587.9</td>
</tr>
<tr>
<td>General government amortization (excl. IMF)</td>
<td>-165.1</td>
<td>-247.2</td>
<td>-258.1</td>
<td>-473.8</td>
<td>-328.2</td>
<td>-401.6</td>
<td>-726.0</td>
<td>-472.8</td>
</tr>
<tr>
<td>Private (net)</td>
<td>-70.8</td>
<td>-31.0</td>
<td>-210.4</td>
<td>-90.9</td>
<td>-225.8</td>
<td>-172.2</td>
<td>-171.2</td>
<td>-233.0</td>
</tr>
<tr>
<td>Assets</td>
<td>-300.9</td>
<td>-108.7</td>
<td>-233.5</td>
<td>-323.4</td>
<td>-215.8</td>
<td>-665.4</td>
<td>-563.7</td>
<td>-554.8</td>
</tr>
<tr>
<td>Private liabilities</td>
<td>230.1</td>
<td>77.6</td>
<td>23.1</td>
<td>232.5</td>
<td>-10.0</td>
<td>493.2</td>
<td>392.5</td>
<td>321.7</td>
</tr>
<tr>
<td>Other short term capital outflows</td>
<td>-52.1</td>
<td>-314.1</td>
<td>-379.8</td>
<td>-261.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>35.4</td>
</tr>
</tbody>
</table>

Financing Sources (US$)

| FDI and portfolio investments (net)                            | 641.5 | 119.4 | 1408.9 | 2251.6 | 864.4 | 1020.7 | 1663.1 | 1567.0 |
| Portfolio investment                                           | 263.7 | -129.1 | 903.3 | 1638.2 | -30.4 | 96.9 | 495.2 | 281.1 |
| Direct investment                                              | 377.8 | 248.5 | 505.6 | 613.4 | 894.9 | 923.7 | 1168.0 | 1285.9 |
| Capital grants                                                 | 347.9 | 359.0 | 381.5 | 449.7 | 433.1 | 467.1 | 496.5 | 540.0 |
| General government disbursement (excl. IMF)                    | 471.9 | 520.0 | 704.5 | 577.9 | 1930.2 | 1424.5 | 1631.7 | 1273.9 |
| Change in reserves                                             | -138.3 | 398.0 | -85.6 | -346.9 | -561.5 | 680.1 | 438.8 | -122.6 |
| IMF credit (net)                                               | -31.4 | -35.7 | -33.6 | -34.4 | -22.4 | -4.5 | 0.0 | 0.0 |

Sources: Senegal authorities; IMF and WBG staff estimates and projections (As of September 2019).
27. **Significant downside risks prevail on the fiscal front.** Resolute efforts are expected to increase revenues, control expenditures, rationalize below-the-line operations and avoid accumulation of arrears. However, lack or delay of energy price adjustments could lead to unexpected arrears, continued large (energy) subsidy payments and revenue shortfalls. This would undermine fiscal sustainability in the short and medium term. Despite commitment to rationalize the public investment program, massive investments (such as the second phase of the *Train Express Regional* – Regional Express Train - TER) may imply higher expenditures than expected. Delayed payments (or structural compensation deficits to SENELEC) may continue to lead to liquidity problems of SOEs and private entities.

28. **External risks are mainly stemming from oil price volatility, climate change and security challenges.** After decreasing at the end of 2018, oil prices have rebounded and may increase further. This implies a risk for domestic energy costs, the fiscal position, the external balance and growth. Tighter than expected financial conditions in international markets and additional tensions in international trade may put pressure on financing the Current Account Deficit. Growth in China may further decline, decreasing demand for Senegalese products. Senegal also remains vulnerable to environmental shocks and threats to its security. Climate shocks (coastal erosion, floods, droughts and associated health hazards) can reduce agricultural productivity and affect other key sectors such as tourism. Despite the increased counter-terrorism measures taken by the Government in terms of intelligence and coordination, terrorist attacks cannot be ruled out\(^\text{11}\). This situation can have repercussions on investment and tourism.

29. **Potential downside risks from oil and gas resource revenue flows (expected from end 2022) will need to be mitigated.** To transform natural resource wealth into productive assets for the economy, the challenge is to design macro-fiscal policies with the objective of supporting macroeconomic stability, shielding the economy from volatility and cycles, and preventing a loss of competitiveness or diversification (Dutch Disease). Making natural resources part of an economic development strategy will require taking choices on (i) how much resource wealth to allocate to growth-enhancing public investment in human and physical capital versus recurrent expenditures or savings (ii) where to invest surplus resource revenues (iii) how to calibrate macroeconomic and fiscal policies to reduce volatility and (iv) the mix of policies needed to promote economic diversification and job creation. Optimizing resource management will also require adopting measures to strengthen institutional capacity in the areas of resource revenue, public investment and budget management.

30. **Overall, the macroeconomic framework is deemed adequate for the proposed operation.** This assessment is based on important assumptions and conditions: first, the Government is committed to fiscal sustainability, as demonstrated by the second revised budget (LFR2) for 2019 and the draft budget (LDR) for 2020, presenting credible budgets in line with the 3 percent of GDP deficit target; second, fiscal policy is expected to be sustainable in the medium term through the implementation of a package of measures to increase revenues and rationalize spending; third, growth is expected to remain solid over the medium term driven by robust private consumption and rapidly growing investments; and fourth, monetary policy remains prudent and anchored in a credible monetary union framework. In that context, public debt is expected to remain on a declining path and external balances remain well financed. The macroeconomic policy framework is anchored on the IMF PCI program starting in January 2020.

\(^{11}\) Actually, the high-profile trials held in Dakar in 2018 against dozens of suspected terrorists shows the relevance of this threat.
2.3. IMF RELATIONS

31. The Government of Senegal and the IMF reached staff level agreement on a new PCI in September 2019, with an expected Board date in January 2020. In April 2019, the Government in consultation with the IMF, cancelled the previous IMF Policy Support Instrument (PSI) – which was to expire in June 2019 – and requested a three-year PCI. A September 2019 mission reached staff-level agreement with the authorities on a set of macroeconomic policies and reforms. The IMF’s executive board is expected to consider the request for a PCI in January 2020. The program is built around three pillars, namely: (i) achieving high, sustainable and inclusive growth; (ii) consolidating macro-economic stability through prudent fiscal policy and sound debt management; and (iii) managing oil and gas revenues in a sustainable manner. In this context, Senegal intends to boost private sector-led growth by updating labor legislation, improving the judicial system, and facilitating access to land as well as to credit, in line with commitments under the Compact with Africa. These reforms have the potential to substantially improve the business environment. Staff also recommends to better coordinate and possibly streamline private sector incentive schemes, including to limit fiscal costs and risks. Medium-term fiscal policy will be anchored by the WAEMU convergence criteria. Senegal is an intensive technical assistance user, particularly in the areas of public financial management, revenue administration, debt management, and the development of a sound framework to manage oil and gas revenues.

3. GOVERNMENT PROGRAM

32. Since 2014, the PSE, which is now in its second implementation phase, is the overarching strategic framework for the long-term economic and social development of the country, aimed at achieving an emerging market status for Senegal by 2035. The PSE, adopted in 2014, has three strategic axes: (i) transforming the structure of the economy to support strong and sustainable growth; (ii) expanding access to social services and social protection and preserving the conditions for sustainable development; and (iii) responding to the requirements of good governance, through institutional strengthening and promoting peace, security and African integration. The Government concluded the evaluation of the first five-year PAP for 2014-2018 (PAP1). The diagnostic highlighted important progress – particularly the return of growth in the context of strong macroeconomic fundamentals and high investment – but also pointed to persisting structural weaknesses resulting in modest competitiveness gains and an economy still dominated by services with underwhelming structural transformation. Weaknesses include a lower than expected role of exports, private investment still subdued due to heavy tax administration and labor market regulations, and lagging structural reforms, including in infrastructure. The PSE is now in its second implementation phase 2019-2023 (PAP2) that puts forward a new and ambitious results matrix along the same strategic axes. Key measures span from exports promotion, infrastructure expansion and sustainable management of natural resources to improved business environment, public administration and social services.

33. Energy and ICT sectors as well as downstream development of a broader digital economy are key ‘fundamentals for Emergence’ in the PSE and remain critical sectors for a competitive, more inclusive economy under PAP2. In the energy sector, the PSE identifies the high cost and poor quality of energy supply and the absence of comprehensive energy reform as key reasons for low growth and insufficient private sector development. The PSE also underlines the significant asymmetry in access to
electricity between urban and rural sectors as a constraint for ‘emergence’. Similarly, the PSE argues that further development of the existing ICT infrastructure and human capital would allow Senegal to become a regional leader in the sector, and to promote value-added and overall growth due to its important cross-sectoral impacts. However, poor access, high cost of internet and persistent digital divide between urban and rural areas restrict the driving effect of ICT and prevents the downstream development of digital public and private applications, that are deemed critical future drivers of growth in a world rapidly transformed by technological advancements. More recently, the PSE diagnostic that forms the base of the PAP2 has underlined the role of energy (including newly discovered gas and oil) and of digital development as key opportunities for future growth.

34. In the energy sector, the policy is defined by the Letter of Energy Sector Development Policy (LESDP) from 2012 but updated in 2019, which has been integrated into the PSE and other sector specific strategies. Following the energy crisis of 2011, the LESDP outlines ambitious medium- and long-term objectives to improve the reliability and affordability of access to electricity services for all, in a sustainable manner, by: (i) increasing energy security through reduced dependency on imported heavy fuel oil (HFO); (ii) achieving universal energy access by 2025; (iii) diversifying the country energy mix towards lower carbon options (such as solar and wind), leveraging indigenous resources, such as gas, and taking full advantage of the opportunities from regional interconnections to access low cost hydropower; and (iv) improving the overall competitiveness of the sector. The Government and SENELEC signed an extension of the Performance Contract for 2017-2019 with a performance incentive system focused on technical and financial performance and contractual obligations, as well as a working incentive system for top management.

35. In the ICT sector, the PSE focuses on enhancing access to broadband Internet and on increasing the impact of ICT on the overall economy. To this end, four strategic objectives are defined for the sector: (i) establishing an enabling legal, regulatory and institutional environment for the development of a digital ecosystem; (ii) implementing a national broadband plan, building on an innovative use of frequencies and leveraging the digital dividend resulting from the digital switch over; (iii) promoting the integration of digital technology in the public and private sectors, particularly amongst businesses, and of digital culture within the population, through training and spreading knowledge; and (iv) developing digital business centers in universities, as well as business parks equipped with adequate telecommunications (telecom) infrastructure to catalyze growth in jobs from exports and Business Process Outsourcing (BPO) activities.

36. In the broader emerging digital economy, the Government approved, in October 2016, under DPF1, a new Digital Senegal Strategy, Sénégal Numérique 2025, focused on facilitating access and reinvigorating Senegal’s regional leadership. The strategy is strongly aligned with the objectives of the DPF series. Its four main axes are: (i) enhancing broadband connectivity for all and promoting high-quality, affordable and reliable telecom services; (ii) digitally connecting public entities in order to dematerialize and facilitate administrative procedures, ensuring synergies, reduced costs and eliminated transaction delays; (iii) creating an enabling environment for the thriving local digital private sector, promoting investment and facilitating exports; and (iv) promoting the innovative use of digital resources to increase productivity and competitiveness in the overall economy.
4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

37. The focus of DPF3 follows from DPF2 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 program development objective (PDO) for DPF3 is to 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.

38. Driven by the content of the PSE, the DPF series has a strong focus on Maximizing Finance for Development (MFD). This means that the World Bank team has carefully considered advice and implementation support that aligns with the Government’s preference to increase private sector financing in these key sector focus areas. In energy, DPF2 included a prior action requiring the Government to publish a strategy that sets out a clear vision for the legal and institutional framework for the gas midstream and downstream subsectors that would give clarity to the private sector for investment in the midstream and downstream parts of the new gas-to-power value chain. DPF3 continues support for transition of the energy mix in a form that increases opportunity for competitive and efficient private sector involvement in provision of gas transportation and power generation. Under ICT, measures include the transformation of access by the private sector to the extensive public fiber optic network in a manner that is conducive to increasing competition and choice for consumers. Under the Digital Economy pillar, there are a number of reforms, including startup legislation, that significantly increase the potential for innovative private sector involvement in the economy.

39. The design of DPF3 integrates lessons learned from the implementation of previous DPF operations in Senegal, relevant World Bank and IFC engagements elsewhere and suggestions from the World Bank Board of Directors.

- In energy, the approach is built on lessons from a number of engagements. Previous experiences in Senegal, as well as in Tanzania and other countries, show that bailouts of the sector without a clear plan for transformation of sector fundamentals do not lead to sustainable solutions. Experience from Ghana shows that in a transition towards a cleaner energy mix involving the use of gas, there is a need for a focus on the entire Gas-to-Power value chain, and the need for legal and regulatory frameworks early in the process to ensure that gas can be delivered and used effectively in the power sector, and fully integrated in a cleaner energy mix. IFC expertise with gas ‘bridge’ solutions involving the private sector has informed the dialogue.

- In the digital infrastructure domain, the DPF3 program is based on past and ongoing DPF experiences in Senegal and other countries (e.g. Central African Republic, Morocco, Mauritania, Gambia), and is designed to focus on both ambitious and realistic reforms in three related and complementary areas (competition, regulation and universal access) so that the whole is greater than the sum of its parts. In addition, the DPF3 program is designed to be in full continuity with
DPF1/2 i.e. by focusing on those actions that are needed to maximize impacts and ensure full implementation of previously adopted DPF1/2 reforms. Last, the DPF3 program design is prioritizing critical areas with strong government ownership and technical maturity for reforms.

- In the digital economy domain, the design of prior actions has been informed by World Bank Group (WBG) operations in other countries in the region. For example, important lessons learnt from the IFC-funded project on mobile taxation roll-out in Rwanda and its impact on streamlining administrative processes and increasing tax compliance have been embedded in the Prior Action on e-taxation; while the development of a conducive legal and regulatory environment for start-ups has been underpinned by multiple exchanges with the WBG Global Entrepreneurship team and incorporates bottom-up consultative techniques of engaging an ecosystem in policy dialogue and formulation widely tested in other countries in the region.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

4.2.1 Pillar I: Energy

Main issues in the electricity sector and government priorities

40. The energy sector in Senegal requires profound transformation to make it affordable for the country. This is a national macroeconomic priority. This DPF series supports the Government’s efforts to achieve this transformation. The change required is anchored around changing the fuel mix from HFO to a significantly lower cost mix of natural gas and renewables. Predominantly driven by an increase in the costs of fuel, the cost of electricity supply in 2018 increased further to 25 US¢/kWh\(^{12}\). For 2019, the costs of supply are forecast to be 24 US¢/kWh, a slight decrease following a drop in international fuel prices. Still, this is significantly higher than the global benchmark of 10 US¢/kWh. The costs in Senegal are highly sensitive to global oil prices and could increase significantly, should oil prices increase. With the foreseen change in generation mix, the cost of electricity is expected to fall to about 21 US¢/kWh in 2022 with the liquified natural gas (LNG) ‘bridge’ solution and even fall below the current average tariff of 18 US¢/kWh, to about 17 US¢/kWh, once domestic gas is available (currently expected around 2026, and provided that the gas transport system (midstream) is in place and the fleet of power plants have been converted to gas (downstream)). This scenario is reflected by the orange line in Figure 3 below. The transformation also envisages a considerable increase in take up of renewables. Once this change to the generation mix has been made, the sector will no longer need a government subsidy and tariff reductions may be possible going forward. Several decisions need to be taken to ensure sector development is effective, encourages competition, is scalable and is implemented in a timebound period for earliest possible benefit to the economy (and thus earliest possible reductions in strains on the budget). This DPF series supports key tenets in the Government’s program to develop timely natural gas and renewables, including developments to the legal framework key decisions and improvements in governance to enable and support the transformation, and to do so involving the private sector where appropriate.

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\(^{12}\) The actual FX rate in 2018 was 556 FCFA/US$, which would mean average tariff of 27 US¢/kWh. Nevertheless, for better comparison between 2018 and 2019 we use 588 FCFA/US$ for both years.
41. **Ensuring that growth is inclusive puts an emphasis on ensuring services are made available to all the population.** The current access rate in Senegal is relatively high as per regional standards and improving (from 64 percent in 2016 to 68 percent in 2017), but access remains low in rural areas (32 percent in 2016, 40 percent in 2017), where poverty is the highest and inequality is deepening. Senegal has ambitions for universal access by 2025. Progress in scaling up rural access has been hampered, among other elements, by a complex institutional framework. Success of the private rural concessionaire model has been very limited. Therefore, measures need to be taken to ensure proper governance and regulatory arrangements for incentivizing effective investment in rural electrification. This DPF series includes specific measures in this area.

42. **During the transition to an affordable sector, SENELEC’s operational, financial and commercial performance is still fragile.** Despite recent measures, SENELEC’s financial situation remains difficult since tariffs are not cost reflective, and SENELEC relies on compensation from the Government to cover the gap. Delays in compensation payments since 2017 significantly undermined SENELEC’s cash flow position, leading to delays in the payments for fuel and to independent power producers (IPPs) and incurring additional interest costs for SENELEC. The company also had to resort to short-term borrowing to pay its suppliers in times of uncertainties around the timing of compensation payments. Delays in payments for electricity on the side of government and parastatals have further aggravated the weak cashflow situation. Other factors undermining the financial health of SENELEC include high but steadily declining technical and commercial losses, and structural issues related to VAT, which has not been neutral for SENELEC. Important advances concerning the cross-debt and arrears were obtained under DPF1 and DPF2, and are continued under DPF3 to ensure that short term finances are supported.

43. **The objective of this pillar is a financially self-sustaining power sector, which attracts private sector investment for well-planned interventions that are low-cost and affordable to the user.** While financial sustainability will only be achieved once there is a shift in the energy mix towards lower carbon technologies, this DPF series begins this transformation, and achieves concrete results.
Reform program supported by the operation and expected results

44. DPF3 will deepen the reforms contained in the Energy Pillar and follow the same structure as DPF2, proposing to address key policy and institutional bottlenecks, through the following policy areas addressed by the DPF series.

i. **Improving governance of the energy sector**: supports further unbundling of the sector as well as specific creation of a subsidiary for new SENELEC gas activities. Enabling SENELEC to function in a more transparent manner with clear separation of activities across the value chain increases opportunities for competition and private sector investment and for well-structured and sustainable financing arrangements, especially between the Government and SENELEC. For an existing vertically integrated utility, unbundling is a complex activity involving a number of steps. Technical assistance funded by the IDA Electricity Sector Support Project (P125565) has already supported accounting separation for SENELEC’s generation, transmission and distribution. Under this DPF3, the Government has formally required SENELEC to create a legal holding structure with subsidiaries, and to create a new subsidiary for gas. SENELEC’s Board (which was reinforced under DPF2) has met and approved these institutional changes. Assistance under the above IDA project will support further institutional and legal unbundling work. Accounting unbundling is a prior action for the program being supported by the Millennium Challenge Corporation (MCC) and will need to be fully complete during 2020.

ii. **Removing barriers to investment and competition in the energy sector**: supports the transformation of the energy mix through updating the least cost plan including significant renewables capacity, developing the legal framework for enabling gas fired power generation and the requisite regulatory and institutional framework. This will entail shifting the energy mix from the current dependency on HFO, towards a mix of low carbon technologies, consistent with Senegal’s commitment at the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP) 21 and, over time, significantly reducing both the cost and the carbon intensity of generation.

iii. **Facilitating equitable access to electricity**: expands access to electricity services in underserved rural areas by enhancing affordability. This will include the governance and institutional arrangements needed to enable progress with increasing access. A first priority is addressing 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. These policy reforms are addressed under this DPF.

45. DPF1 and DPF2 laid the foundation of the program in the energy sector, with the most significant achievements being:
   - An enhanced and actionable Performance Contract between the Government and SENELEC, including monitoring and corrective mechanisms; and nomination of independent Board members of SENELEC;
   - Substantial progress in solving SENELEC’s complex cross-debt and arrears issues with the Government, creating conditions for sustainably strengthening SENELEC’s financial situation and adequate financial support through budgetary allocation and promissory note;
   - Approval of a technically sound and comprehensive Strategic Master Plan for electricity generation, focused on enhancing the energy mix and reducing costs, with significant renewable
energy and private sector participation;

- Approval and publication of a gas-to-power strategy giving clarity to potential investors regarding key principles and timeline for development of the sector; and
- Rural tariff harmonization, noticeably lowering the average rural tariff in order to increase affordability and access.

The original Triggers under DPF2 have been adjusted into Prior Actions for DPF3 to deepen the reforms considered in DPF2 and initiated under DPF1.

Discussion of Expected Prior Actions by Policy Areas

4.2.1.1 Improving Governance of the Energy Sector

**Governance and Organization of SENELEC**

46. **DPF3 continues the support initiated under DPF2, further strengthening SENELEC’s corporate governance and management.** The Government is aware that, to be sustained, improvements in SENELEC’s performance and financial sustainability require structural changes to the governance arrangements.

- For enhanced transparency and commercial orientation, SENELEC has carried out the accounting separation and will carry out organizational separation of its activities, which is appropriate given the medium size of the grid. By unbundling the transmission activity, it will be easier to establish transparent wheeling tariffs that, in its turn, will facilitate third party access and greater competition and cost reduction in the sector. Third party access will also facilitate regional trade (and Senegal’s potential to become a power export hub for the West African Power Pool). In addition, the expectation is that SENELEC will be active in the gas-to-power value chain. The establishment of a natural gas subsidiary, working on gas aggregation (purchase/sale), separate from the role of gas transporter will be important to maintaining an unbundled value chain with opportunity for transparency and competition in prices. Indeed, under DPF 3, SENELEC has specifically created a new subsidiary (with the required statutes) to play the role of gas aggregator in the midstream/downstream. The Prior Action 1 of the DPF3 supports the initiation (through SENELEC Board decisions) of creation of (i) SENELEC holding company; (ii) separate subsidiaries for generation, transmission and distribution of electricity; and (iii) a subsidiary associated with the natural gas segment to carry out a gas aggregate role. (DPF3 Prior Action 1 and Letter of Development Policy (LDP)).

**Sector Financial Arrangements**

47. **DPF3 continues supporting the strengthening of SENELEC’s operational and financial performance, through cleaning-up financial relationships with the Government and putting them on a more sustainable basis.**

- Under a comprehensive electricity sector financial plan, Prior Action 2 of the DPF3 supports the

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Government in achieving financial sector equilibrium by: (i) modifying the maximum allowed revenue tariff formula to include an ex-post adjustment for the difference between forecast and actual achieved capital investments; (ii) modifying the décret sur le fond de préférence pour la compensation tarifaire des concessionnaires de l’électrification rurale - decree on the creation and organization of a preferential fund of energy to apply a “passthrough” element corresponding to the shortfall for rural concessionnaires as a result of tariff harmonization; and (iii) increasing the level of tariffs. (DPF3 Prior Action #2 and LDP).

48. The measures under this Policy Area ensure the sector’s short-term financial viability. The Ministry of Finance and Budget (MFB) has, through the course of the year, significantly increased budgetary allocation to cover compensation due to SENELEC for the year 2019 – totaling over FCFA 75 billion14. The Government has also made an upward adjustment of electricity tariffs. Specifically, according to the CRSE Decision N° 2019-48, dated November 19, 2019, tariffs for low voltage customers will be adjusted on December 1, 2019 by 10 percent on average while protecting poorer customers (i.e. tariff adjustment for consumption under tranche 1 will be below 1 percent). The tariff increase for MV and HV customers will be 6 percent. In order to improve the credibility of the regulatory process going forward, the actions also include regulatory changes to take account, ex-post, of actual investment by SENELEC.

Expected Results under this Policy Area

49. The policy and institutional measures to improve overall governance are expected to lead, by the end of the series, to improvements in the technical and financial performance of SENELEC. The selected indicators of better technical and financial performance are drawn from SENELEC’s Performance Contract and aim to demonstrate significant progress by the end of the series. These include a significant improvement in SENELEC’s financial sustainability, as expressed by the debt-coverage ratio, targeted to increase from 0.54 in 2018 to 1.00 by 2021. Overall electricity losses (technical plus commercial) are expected to fall from 21 percent in 2015 to 15 percent of total energy produced by 2021, as compared with a regional average performance of around 23 percent; a notable result given the fast expansion of the system. The hours of unserved energy, a proxy for blackouts and brownouts, already relatively low by regional standards, are projected to be reduced from 34 GWh in 2015 to 13 GWh per year by 2021.

4.2.1.2 Removing Barriers to Investment and Competition in the Energy Sector

Electricity Generation Expansion

50. Under DPF3, the Government makes critical and transformational advancements in making its energy mix financially sustainable and less carbon intensive. The Ministry of Petroleum and Energy updated the Strategic Master Plan for electricity generation to take into account natural gas and renewable energy developments to accelerate the transition of the energy mix. The implementation of the generation least cost development plan will reduce the financial vulnerability of the electricity sector to oil shocks, will reduce the supply costs (reducing the need for subsidies for the sector) and will reduce the electricity production carbon footprint. As part of the gas-to-power strategy, it is putting in place an adequate institutional, legal and regulatory framework for the development of midstream and

14 Information as at October 2019.
downstream gas. A new Gas Law was prepared, approved by the Council of Ministers and sent to parliament under DPF3. The adoption of a new natural gas legal and regulatory framework is critical to advancing the gas-to-power program and will provide comfort to the private sector to undertake the needed investments for the shift of the sector towards low cost and cleaner technologies. The natural gas legal and regulatory framework will also support the future development of third-party access to the gas network and competition to supply gas in the downstream gas market. Creation of the Special Purpose Vehicle (SPV) for the gas pipeline activity, definition of the public/private ownership shares and naming of the lead public institution constitute tangible and public implementation steps for the program as a whole.

- To enable development of the gas-to-power strategy, the Recipient’s Council of Ministers has adopted and submitted to the National Assembly the draft gas law, which provides for planning, regulation and institutional arrangements for the gas subsectors in their midstream and downstream segments. (DPF3 Prior Actions #3 and LDP)

- To further enable implementation of the gas-to-power strategy, the Government has ensured that:
  (i) PETROSEN has formed a company (Special Purpose Vehicle) that will build and operate the gas transportation system; (ii) the Council of Minister’s has discussed the gas-to-power implementation plan and the Ministry of Petroleum and Energy has published on its website the main points of implementation, notably the majority private sector ownership of the company and identifies PETROSEN as the principal public institution that will hold the public sector’s participation in the company; and the decision of the source of gas; and (iii) Ministry of Petroleum and Energy has approved an updated electricity masterplan to fully integrate planned use of gas generation and includes renewables forming at least 29 percent of the energy mix in 2025 (DPF3 Prior Action #4 and LDP). This will accelerate Senegal’s transition to low carbon technologies and deepen the diversification of the energy mix. (Please See Annex 5 for further details on the energy mix).

**Expected Results under this Policy Area**

51. **By the end of the series, the generation plan would rebalance the composition of the energy mix towards renewable energy and natural gas.** As the Strategic Master Plan is implemented, the energy mix is expected to see a steep decline from the current 83 percent reliance on expensive and polluting HFO, to 22 percent by 2021 and to close to zero by 2025. HFO is expected to be substituted mainly by renewables and gas. By 2026, once the effects of the DPF on the energy mix have been realized, the energy mix is expected to include up to 31 percent renewable energy (including solar, wind and hydro), 54 percent gas and 15 percent coal (corresponding to existing plant). The transformation of the energy mix would bring about three long-term benefits. First, the chronic financial vulnerability to oil price shocks would be dramatically reduced. Second, the cost of power generation will fall steadily. In 2026, the plan will reduce SENELEC’s average cost of production to under 18 US$c/kWh (based on a baseline oil price scenario). The overall cost reduction is expected to lead to a cost of 17 US$c/kWh from 2026 onwards (from about 24 US$c/kWh today). Third, the carbon intensity of electricity generated is expected to fall substantially, contributing to lower net GHG emissions over time, within the timeframe of Senegal’s voluntary contributions under the UN Intended Nationally Determined Contributions (2020-2030).

52. **Emissions factors will fall significantly as the energy mix is changed over time towards
renewable energy and natural gas. Greenhouse gas (GHG) emissions in the power sector are expected to be reduced by a million tonnes of CO\textsubscript{2} equivalent by 2022 and by 1.3 million tonnes per year by 2026 compared to a counterfactual without additional gas, solar PV, wind turbines or Karpower’s powership. This is equivalent to a GHG reduction of 30 percent in 2022 and also in 2026, compared to the counterfactual for the same years. This is a much more ambitious result than anticipated in Senegal’s Intended Nationally Determined Contributions (INDCs) pursuant to the Paris Accord, where it adopted an emissions reduction target of 4 percent in the unconditional scenario and 15 percent in its conditional plus scenario by 2025 (see Annex 4 for more details).

4.2.1.3 Facilitating Equitable Access to Electricity

Affordability and Availability of Rural Electricity

53. The World Bank’s intervention in rural areas supports the Government’s efforts to expand access to electricity services in underserved areas by simultaneously tackling a series of key barriers. The series addresses institutional barriers, such as the higher tariffs of private concessionaires compared with SENELEC tariffs (DPF1), and lack of clarity about the rural electrification model to be implemented for unserved areas (DPF2). With the harmonization of tariffs, Concessionnaires d’électrification rural – rural electrification concessions (CERs) in higher cost rural zones lose revenue due to the tariff harmonization. There is therefore lower incentive for operating in rural areas. The DPF3 (under Prior Action #2) includes change to the RMA calculation so that CERs are compensated for the higher cost through the regulatory mechanism. This will improve the long-term financial sustainability of the rural electrification model. There are also governance measures. The clarification of the institutional framework, by absorbing Agence senegalaise d’électrification rurale – Senegalese agency for rural electrification (ASER) into SENELEC operations, canceling the non-operational CERs and creating an affermage model outside the concession preferential areas, will boost the incentives for investments in rural electrification. In parallel, other investments are targeting densification and extension of networks, last mile connection and internal installations. These actions support the Government’s objective of achieving universal access by 2025.

- Under DPF3 the Government has: (i) modified the maximum revenue authorized formula of SENELEC to include a passthrough element that represents the loss revenue of rural concessions due to the tariff harmonization process (DPF3 Prior Actions #2); (ii) put in place an affermage system outside the concession preferential areas; (iii) subsumed ASER’s functions into a new rural electrification department in SENELEC; and (iv) canceled the contracts with the 2 non-operational rural concessions and transferred them to SENELEC (DPF3 LDP).

Expected Results under this Policy Area

54. Expected results under this policy area are focused on increased access to electricity in rural areas. The projected increase in the number of connections in rural areas due to improved financial situation and governance of the rural sector is expected to lead to increase from 29 percent in 2015 to 60 percent by 2021, doubling access.

55. Table 6 summarizes the original DPF2 Triggers and the text for the DPF3 Prior Actions in the
The World Bank
Senegal - Third Multi-Sectoral Structural Reforms Development Policy Financing (P170366)

energy sector. An update on the implementation status of each Prior Action is included. Annex 1 identifies advances to date in the Indicators defined under DPF2 related to these prior actions.

Table 6. Original Triggers and Proposed Prior Actions for the Energy Sector

<table>
<thead>
<tr>
<th>Original Trigger (DPF2)</th>
<th>Proposed Prior Action</th>
<th>Explanation of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pillar I - Energy</strong></td>
<td></td>
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<tr>
<td><strong>Policy Area I.1: Improving governance of the energy sector</strong></td>
<td></td>
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<tr>
<td><strong>Governance organization of SENELEC</strong></td>
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<tr>
<td><strong>Trigger 1:</strong> For enhanced transparency and commercial orientation, the Government has reorganized SENELEC in distinct generation, and transmission &amp; distribution subsidiaries.</td>
<td><strong>Prior Action 1</strong> To enhance transparency in the electricity sector, the Recipient’s Ministry of Petroleum and Energy has instructed SENELEC to reorganize through the creation of: (i) the SENELEC holding company; (ii) separate subsidiaries for the generation, transmission and distribution of electricity; and (iii) a subsidiary associated with the natural gas segment to carry out a gas aggregator role.</td>
<td>Trigger revised. The Government is advancing this measure through the reform program included in the MCC Compact. In addition to previous subsidiaries, the addition of subsidiaries consistent with future SENELEC role in gas-to-power is an important part of setting in place the institutional framework for switching to gas.</td>
</tr>
<tr>
<td><strong>Sector financial arrangements</strong></td>
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<tr>
<td><strong>Trigger 2:</strong> As part of a comprehensive electricity sector financial framework plan, the Government has taken the necessary budgetary and tariff measures to ensure that SENELEC can fully cover its maximum authorized revenues for 2019 as determined by the CRSE, and has strengthened the effectiveness of its regulatory system for cost recovery</td>
<td><strong>Prior Action 2.</strong> Under a detailed financial plan for the electricity sector that includes payment of public sector arrears and coverage of funds needed by SENELEC for tariff compensation, (i) the Recipient’s Ministry of Petroleum and Energy has requested the CRSE and the CRSE has agreed to modify the maximum allowed revenue tariff formula to include an ex-post adjustment of actual investment achievements; (ii) the Recipient has modified the decree (décret sur le Fonds de Préférence pour la compensation tarifaire des concessionnaires de l’électrification rurale) to apply a “passthrough” element corresponding to the shortfall for rural concessionaires as a result of tariff harmonization; and (iii) the CRSE has increased the level of tariffs.</td>
<td>Trigger revised. Measures to cover the maximum authorized revenues for 2019 have been separated out for clarity. A number of the financial measures are set out in the LDP.</td>
</tr>
<tr>
<td><strong>Sector regulation</strong></td>
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<tr>
<td><strong>Trigger 3:</strong> In view of the expiration of SENELEC’s purchase monopoly,</td>
<td>The Government is taking on board this measure through the reform</td>
<td></td>
</tr>
</tbody>
</table>
and to further promote competition and private sector participation, the Government has implemented an action plan and regulatory framework, including grid code and transmission charges calculations, allowing eligible customers to purchase directly from power producers, while preserving the financial equilibrium of the power sector.

<table>
<thead>
<tr>
<th>Trigger 4. To strengthen the sector’s supervision governance, the Government has revised the mandate and the legal &amp; regulatory framework and capacity of sector regulator (CRSE), which will include both electricity and gas for midstream and downstream gas sectors.</th>
<th>Program included in the MCC Compact. Therefore, more urgent and impactful measures have been prioritized for prior actions.</th>
</tr>
</thead>
</table>

Policy Area I.2: Removing barriers to investment and competition in the energy sector

**Electricity generation expansion**

<table>
<thead>
<tr>
<th>Trigger 5: To further advance on the diversification of the energy mix, the Government has: (i) updated its electricity masterplan to fully integrate planned use of gas generation, identifying the priority least cost generation and transmission projects to accelerate the transition to low-carbon technologies; (ii) adopted legal and regulatory texts for planning, regulation, coordination and institutional arrangements for the upstream, midstream and downstream gas sub-sectors.</th>
<th>Prior Action 3. To enable development of the gas-to-power strategy, the Recipient’s Council of Ministers has adopted and submitted to the National Assembly the draft Gas Law, which provides for planning, regulation and institutional arrangements for the gas sub-sectors in their midstream and downstream segments.</th>
</tr>
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</table>

Prior Action 4. To enable development of the gas-to-power strategy, (i) PETROSEN has formed a company (special purpose vehicle) that will build and operate the gas transportation system; (ii) the Council of Ministers has discussed the gas-to-power implementation plan and the Recipient’s Ministry of Petroleum and Energy has published on its website the main points of implementation, notably the percentage of private/public ownership of the company, Trigger revised. It has been expanded to include a deeper reform that requires the creation of the new natural gas transport company (special purpose vehicle), clarifying its public/private ownership and critical high-level decisions needed to advance the implementation of the gas-to-power strategy.
identified PETROSEN as the principal public institution that will hold the public sector’s participation in the company; and the decision on the source of gas; and (iii) the Recipient’s Ministry of Petroleum and Energy has approved an updated electricity masterplan to fully integrate planned use of gas generation and includes renewables forming at least 29 percent of the energy mix in 2025.

| Policy Area I.3: Facilitating equitable access to electricity | Adjusted. Governance reforms have been adjusted on the basis of deeper discussions in the sector. They are included in the LDP. |
| Affordability and availability of rural electricity | Trigger 6: To increase competitiveness in rural areas, the Government has restructured CERs contracts to eliminate the exclusivity of providing electricity services in concessions outside priority areas |

### 4.2.2 Pillar II: ICT Sector

56. The proposed operation is directly aligned with the Digital Economy for Africa (DE4A) initiative, which is supporting the operationalization of the African Union’s Digital Transformation Strategy for Africa. The Digital Transformation Strategy for Africa sets out a bold vision to ensure that every African individual, business and government is digitally enabled by 2030; the goal is to drive the digital transformation of Africa and ensure its full participation in the global digital economy. The DE4A initiative recognizes that the digital economy can help achieve the UN Sustainable Development Goals (SDGs) and the WBG’s twin goals.

**Main Issues in the Sector and Government Priorities**

57. Access to Internet broadband services remains limited and unequal, by regional standards, despite Senegal’s relatively well-developed fiber infrastructure. Senegal has a bandwidth of 23 Gigabytes/second (Gb/s) through its three submarine cables and its satellite connections, and its telecom infrastructure ranks among the most developed in West Africa. However, the mobile broadband penetration rate (in percentage of the population) in 2017 was estimated at only 26 percent, against 43 percent in Côte d’Ivoire, 54 percent in Nigeria, 68 percent in Cape Verde, 71 percent in Ghana, 76 percent in South Africa and 88 percent in Romania or Bulgaria (ITU, 2017). Moreover, the country is still facing a persistent digital divide between rural and urban areas, as well as between main and secondary cities, and within cities, which is undermining the country’s potential for inclusive transformation and growth. In the digital divide gender gaps are also apparent, with only 29 percent of women, compared to 43 percent of men, reporting the use of internet in the past 12 months nationally in Senegal. This divide is even more pronounced in the rural areas, where 12.1 percent of women, compared to 28.7 percent of
men, report the use of Internet in the past 12 months (DHS, 2017).

58. An outdated governance and regulatory environment, coordination failures, and the lack of consistent policy implementation are the main reasons for these poor outcomes. Senegal has transposed relevant Economic Community of West African States (ECOWAS) and WAEMU sector provisions into national law through the 2011 Telecommunications Code, amended belatedly in 2017 and recently replaced by a new Law covering electronic communications adopted in 2018, which was immediately followed by adoption of three key decrees. Until 2018, the Government had not developed a set of implementation decrees for the 2011 Code, leaving the sector to operate under an incomplete legal framework. The situation was exacerbated by a multiplicity and an instability of decision centers, rendering the application of law and the sector oversight erratic, and by the ability of the historic operator to resist policy outcomes that limit its monopolist status. Overall, in a rapidly evolving environment, the lack of a modern legal and regulatory framework, compounded by a difficult political economy context and vested interests, has prevented an effective reform implementation to boost sector competition and efficiency. As a result, the quality and coverage of services remain low, while costs continue to be persistently high.

- Insufficient competition in the broadband market affects accessibility, affordability and quality of internet services, while inhibiting private sector investment and innovation. There are three main telecom operators in Senegal, of which one has a dominant position, accounting for 58 and 65 percent of the mobile telephony and mobile Internet markets by value respectively, owning the largest fiber optic network, being the only provider of fixed internet services, and having benefited from a monopoly situation on 4G services for more than two years until December 2018. The entry in 2017 of three new Internet access providers has boosted competition in fixed internet services, but the situation remains fragile, due to existing restrictions on the provision of certain highly demanded services, such as Voice over IP and IPTV services, and a lack of a complete regulation on dominant operators. The experience with 4G license allocation in Senegal also reflects uncompetitive practices and non-transparent sector regulation\(^\text{15}\). Largely as a result, even mobile broadband pre-paid services remain relatively expensive and of low quality\(^\text{16}\), representing 8.6 percent of the average monthly revenue per capita in 2017 versus 2.2 percent in Ghana and Morocco, 1.64 percent in South Africa, and 1.44 percent in Cape Verde (ITU, 2018). In Senegal, fixed broadband (post-paid) services represented 32 percent of the average monthly revenue per capita (ITU, 2018). Following the recent announcement that Free (new brand name of Tigo) will be launching broadband services in Senegal (including 4G), the broadband retail market structure is likely to be impacted\(^\text{17}\). It is expected that this change in the market structure will rapidly translate into lower prices and higher quality of services (i.e. internet speed). Further information on market structure is set out in Annex 6.

- Senegal’s large public fiber optic network is largely underused, despite significant potential demand. The strategic network, under the responsibility of the State Informatics Agency (Agence de l’Informatique de l’État - ADIE), includes close to 4,000 kilometers of optical fiber deployed across the

\(^{15}\) In effect, in 2017, the regulator (ARTP) only allocated 4G frequencies to the dominant operator following direct bilateral negotiations, discouraging new entry. It is only at the end of 2018 that the market became competitive after ARTP eventually allocated 4G frequencies to TIGO, just after its restructuring.

\(^{16}\) According to ITU, Internet bandwidth per user in Senegal stands at 5 compared to 12 on average in Africa.

\(^{17}\) See: https://www.lemonde.fr/afrique/article/2019/10/03/telecoms-free-vient-concurrencer-orange-au-senegal_6014049_3212.html
country, in urban and rural areas. ADIE lacks the technical and financial resources needed to manage and commercialize this network effectively. This strategic asset is thus severely underused creating a shortfall for government revenues and constraining telecom operators who are interested in leasing access to the network for the purpose of carrying rapidly growing data traffic. Due to the poor quality of the ADIE’s network, the public administration is obliged to purchase services from telecom operators at higher prices.

- **The Senegalese Universal Service Fund (USF) for Telecommunications is severely mismanaged, inactive, and marked by opacity over its resources and activities.** As in other countries, USF is supposed to play a key role in democratizing access to digital services by financing digital infrastructure/services in underserved areas that are not profitable for the private sector. However, USF resources are limited, and in absence of annual audits there is limited transparency over their size and management. Similarly, there is no universal access strategy and no obligation to prepare annual activity reports for the USF. In addition, USF’s ability to implement universal access projects is constrained by insufficient technical capacity and weak governance structures, as the Telecommunications and Postal Services Regulator (Autorité de Régulation des Télécommunications et des Postes, ARTP) is de facto controlling the management of the USF without government coordination. The situation has recently changed following adoption of the new sector Law and related decrees under DPF 2, but a new governance model for the USF is still not in place. In this context, no significant digital projects have been financed by the USF to date.

**Reforms supported by the program**

59. **Under DPF1, the Government managed to achieve early reform gains and laid the foundations for a deeper transformation of the sector.** The Government adopted a new sector strategy (Stratégie Sénégal Numérique 2016-2025, SSN 2025), aligned with international best practices and focused on improving competition, access, and governance. SSN 2025 seeks to democratize access to Internet through enhanced competition permitted by the entry of new players and by the reinforced regulation of essential infrastructure owned by dominant players. Main priorities of SSN 2025 include the adoption of a new law on electronic communications and the creation of the National Consultative Council (Conseil National du Numérique, CNN). Under DPF 1, the Government has also amended the 2011 Telecom Code and adopted key decrees to increase competition in retail Internet service provision and to strengthen infrastructure sharing.

60. **Under DPF2, the Government profoundly reshaped the legal and regulatory framework.** The Government adopted a new sector Law on electronic communications and of three key implementation decrees and the concomitant creation of the CNN, an umbrella high-level consultative structure for the ICT sector. Under the DPF2, the Government fully operationalized the authorization regime for Internet Service Providers (ISPs) and wholesale infrastructure operators, introduced under DPF1, as well as introduced more competition in the monopolistic 4G market segment. The Government has also taken steps to support access to broadband services in under-served areas mainly by selecting a concession arrangement for leveraging the excess capacity of the ADIE public infrastructure network, which covers (but does not operate in) underserved areas.

61. **Overall, the trajectory of reforms implemented under DPF1 and DPF2 has allowed to initiate a deep turnaround of the telecommunications sector with the new Law approved in 2018 and its key
decrees. This already generated strong results with the entry of three new Internet Service Providers and one new strong 4G player (Free) who bought the second mobile operator, the adoption of aggressive regulations against Sonatel’s dominance over strategic infrastructure, a deep restructuring of the sector regulator toward more efficiency and transparency, and the government decision to exit from the management of the ADIE public network. Annex 6 further discusses the strategic approach adopted under the program to address market dominance and the importance of ensuing continuity of reforms beyond DPF3.

62. The fragmented and complex institutional governance fabric of the sector as well as strong vested interests have necessitated significant consultations and negotiation efforts to advance the reforms. Progress to implement reforms in the second phase of the program slowed down due to the following factors: (i) weak coordination and unequal capacity between ARTP, ADIE and the Ministry of Communication, Telecommunications, Posts and Digital Economy (Ministère de la Communication, des Télécommunications, des Postes et de l’Economie Numérique, MCTPEN), all of which have different reporting lines; and (ii) a complex political economy environment with strong and diverse vested interests. In this context, key processing steps and decisions took more time than anticipated. However, strong presidential support and the involvement of MFB helped overcome those challenges.

Prior Actions by Policy Areas

63. The reform program implemented by the Government is robustly in line with what was anticipated under DPF1 and DPF2 and is addressing key remaining sector challenges. Similarly, the prior actions under DPF3 are fully in line with the initial design of the program and the trajectory of the reforms implemented under DPF1 and DPF2. The remaining four prior actions have been reinforced in substance in order to maximize the impact of the program on the expected results indicators. These reforms are addressing key remaining sector challenges to (i) ensure that the new competitors can sustainably operate in the market and face Sonatel’s dominance; (ii) to implement the concession model for the public ADIE network; and (iii) to activate the USF so that it can immediately finance digital connectivity projects in order to reduce the digital and gender divide.

64. The DPF 3 reform program supports four prior actions: (i) the adoption of a decree that will significantly decrease frequency prices paid by new competitors, and especially in rural areas where Sonatel is the only provider; (ii) the adoption of regulation decisions imposing obligations on Sonatel to provide open and non-discriminatory access to its essential infrastructure; (iii) the publication of a call for tenders to implement a private sector concession model to manage the public ADIE fiber optic network; and (iv) the activation of the USF that is to be used to use for expanding access to broadband services in underserved and rural areas.

4.2.2.1 Improving Governance of the ICT Sector

65. Following adoption of the new Electronic Communications Code and given the extensive spectrum needs for providing high quality 3G and 4G services, DPF3 supports the adoption of a decree that will significantly decrease prices. Affordable frequency fees are critical for the expansion of mobile broadband services, especially in remote areas where fixed broadband service cannot be provided due to their excessive cost. Yet, Senegal is charging frequencies fees to telecom operators that are on average
ten times higher than those charged in the sub-region. This situation not only affects the Senegalese operators’ incentive to expand their mobile networks (whose functioning requires frequencies), but also the quality of mobile internet services. For the three new ISPs entered in the market in 2018, the current level of frequency fees is unsustainable for their business model and is a major threat to their market presence. To increase incentives for all telecom operators and new ISPs to expand mobile networks, through the Prior Action #6 of the DPF3, the Recipient has adopted a decree on radio frequency introducing a 20 percent decrease in the total amount of fees payable by all telecom players and including discount rates for the use of frequencies by ISPs and in underserved areas. This will allow optimization of spectrum management through a higher frequency usage rate (improving operators’ quality of services) and will increase incentive for the private sector to invest in mobile networks expansion. There will be a negative short-term impact on government’s revenues which will be more than compensated in the medium/long term due to the expected volume effect resulting from a higher frequency usage rate.

**Expected Results under this Policy Area**

66. The measures taken under this policy area aim to improve the quality of the legal and regulatory environment for broadband Internet provision. Such improvement will be measured by the ranking of Senegal in the Network Readiness Index of the World Economic Forum (WEF).

4.2.2.2 Removing Barriers to Investment and Competition in the Internet Broadband Market

67. The measures taken under this policy area 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 their essential infrastructure. Under DPF1, the Government adopted a decree on infrastructure-sharing. Implementation of this decree requires three regulation decisions (or decrees) to be adopted by the regulator’s College and published on the regulator’s website. Under DPF2, the regulator completed a market analysis that provides key underlying parameters for these regulatory decisions and adopted two regulation decisions (i.e. list of relevant markets and list of dominant operators on those markets for the 2018-2021 period) that are aligned on international best practices and especially aggressive towards the dominancy of the incumbent operator. To open access to dominant players’ essential infrastructure, the Recipient’s ARTP has adopted regulatory decrees strengthening regulation obligations of the dominant operators for the years 2018 and 2019 through Prior Action #5 in DPF3. A ‘dominant operator’s service catalogue’ is a list of regulated wholesale telecom services to be offered by a dominant operator to other telecom players. For each service, the catalogue sets out the minimal technical and financial conditions at which the service must be offered by the dominant operator. Opening the access to dominant players’ essential infrastructure for new and existing non-dominant operators will promote competition and decrease non-dominant operators’ costs, due to efficiency gains in infrastructure usage.

18 Although a 30 percent decrease in frequency fees was the team “high target”, and due to its fiscal impact, the Government negotiated a 20 percent decrease which is already a significant achievement. More important than the reduction of fees amount is the introduction of coefficients reducing the fees amount depending on type of operator (ISP, global operator) and geographical areas (rural/ urban).
**Expected Results under this Policy Area**

68. The regulatory measures taken under this policy area are expected to lead to an expansion of overall broadband Internet access. The indicators to measure progress include a larger number of facility-based ISPs and wholesale infrastructure operators providing services in Senegal, leading to an increase in the Internet penetration rate (which is different to Internet access rate) from 60 percent in 2016 to 75 percent in 2021.

**4.2.2.3 Facilitating Equitable Access to ICT Services**

*Leveraging the State-Owned Fiber Network*

69. DPF3 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. Under DPF2, the Government developed a consensus on using a concession model for the management of the ADIE public fiber optic network excess capacity. This was formalized in July 2018 through a joint order of the MCTPEN and MEFP that established an inter-ministerial committee to work out the details of the concession model. To promote open access to ADIE’s fiber optic network, the Recipient has published a competitive tender process (*avis d’appel à pré-qualification*) to select a private concessionaire to operate and expand said network in the Recipient’s territory through Prior Action #8 in the DPF3. The new management model is consistent with the MFD approach and will improve the management of the public telecom infrastructure, allowing private operators to access the network in both urban and rural areas, thus avoiding duplication and saving costs. Having open access to the ADIE network would allow private operators to direct their infrastructure investments to areas previously deemed insufficiently profitable across the territory. The Government is working with an international firm on the ADIE technical audit and bidding document for the concession. In parallel, the Government is establishing a national holding company for the ADIE assets who will be mandated to launch the international call for tenders.

70. DPF3 also supports the implementation of the universal service policy with a view to activate the USF and to use it especially for expanding access to broadband services in underserved areas. Under DPF2 Prior Action 7, the decree on Universal service was adopted and its dispositions regarding the governance of the USFs, the preparation and adoption of universal strategy, and the mechanisms for disbursing the USF’s resources (representing an annual amount of 0.75 percent of the telecom operators’ annual turnover) need to be executed. To activate the USF pursuant to the Universal Service Decree, the Recipient has: (i) established the new governance bodies namely a strategic committee and a fund coordinator; (ii) adopted the Universal Service strategy’s action plan with a focus on closing the digital divide and gender gap in women’s access to Internet; and (iii) had its first consultation with private operators to cover rural areas through Prior Action #7 in DPF3. Activating the USF would significantly contribute to the reduction of the persistent digital divide between urban and rural areas. The universal service will also focus on ensuring that female internet users are not left behind through targeting of female internet users’ access and use and by tailoring products and services to their preferences, e.g. through examining affordability constraints, tiered payment via mobile payments for Internet access. These actions will be embedded in the strategy and action plan and requirements outlined in the tenders to deploy new digital infrastructure projects in universal service areas. The target is to reach 20 percent of females living in rural areas.
Expected Results under this Policy Area

71. Expected results by the end of the series include an increase in the availability of ICT services in currently underserved areas and for underserved populations. More specifically, it is expected that the digital divide gap between rural and urban areas (as measured by Gallup survey), as well as between men and women, (as measured by Agence nationale de la statistique et de la démographie) will start decreasing. The share of rural households reporting access to the Internet is expected to increase from 23 percent in 2016 to 30 percent in 2021.

Table 7. Original Triggers and Proposed Prior Actions for the digital infrastructure Sector

<table>
<thead>
<tr>
<th>Original Trigger (DPF2)</th>
<th>Proposed Prior Action</th>
<th>Explanation of Change</th>
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<tbody>
<tr>
<td><strong>Pillar II – ICT Sector</strong></td>
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<tr>
<td><strong>Policy Area II.1: Improving governance of the ICT sector</strong></td>
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<tr>
<td>Trigger 7: To enhance the operational efficiency in the sector, the Cabinet has adopted a legal and regulatory framework to promote inter-sectoral coordination for civil works related to telecom infrastructure projects.</td>
<td></td>
<td>Due to the process-oriented nature of this reform and the need to prioritize. The Government has started taking this measure onboard through the ongoing institutional reform. This measure will be supported by the upcoming FY20 Digital economy technical assistance.</td>
</tr>
<tr>
<td><strong>Policy Area II.2: Removing barriers to investment and competition in the internet broadband market</strong></td>
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<tr>
<td>Trigger 8: To further strengthen the sector’s regulatory framework, based on the updated market study, the Regulator, ARTP, has approved the supply service catalogues of the dominant players operating in the relevant markets.</td>
<td>Prior Action #5: To open access to dominant players’ essential infrastructure, the Recipient’s ARTP has adopted regulatory decrees strengthening regulation obligations of the dominant operators for the years 2018 and 2019.</td>
<td>Trigger revised. The action has been expanded to cover both 2018 and 2019.</td>
</tr>
<tr>
<td>Trigger 9: To reduce the costs to operators on the use of frequencies, the Government has defined a new cost structure for the spectrum, based on a market study of its economic value.</td>
<td>Prior Action #6: To increase incentives for all telecom operators and new ISPs to expand mobile networks, the Recipient has adopted a decree on radio frequencies introducing a 20 percent decrease in the total amount of fees payable by all telecom players and including discount rates for the use of frequencies by ISPs and in underserved areas.</td>
<td>Trigger revised. The action has been expanded to allow for a significant reduction in spectrum cost.</td>
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<tr>
<td><strong>Policy Area II.3: Facilitating equitable access to ICT services</strong></td>
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<tr>
<td>Trigger 10: To further promote universal access to ICT services, the</td>
<td>Prior Action #7: To activate the Universal Service Fund pursuant to</td>
<td>Trigger revised. The action has been expanded to activate the</td>
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Government has implemented the decrees of the new Telecom Act related to the Universal Telecommunications Services and has adopted a fully-funded investment plan for universal access to ICT services.

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<thead>
<tr>
<th>Trigger 11: To promote access to ICT services, the Government has operationalized the concession model for the management of the excess capacity of state-owned digital network of ADIE, according to criteria of open access and competitive bidding.</th>
<th>Prior Action #8: To promote open access to ADIE’s fiber optic network, the Recipient has published a competitive tender process (avis d’appel à pré-qualification) to select a private concessionaire to operate and expand said network in the Recipient’s territory.</th>
<th>Trigger revised. The action has been expanded to specify the most efficient procurement method to select a private concessionaire.</th>
</tr>
</thead>
</table>

### 4.2.3 Pillar III: Digital Economy

#### Main Issues in the Sector and Government Priorities

72. The main issues and Government priorities in the Digital Economy sector are as follows:

- **Digital Infrastructure:** The cost of ICT, particularly broadband Internet, remains elevated, access constrained, and the quality of services weak. These fundamental issues are addressed under the second pillar of this program supported by the DPF series.

- **Sector institutional framework, legal framework and governance:** The development of public platforms is hampered by a complex institutional and governance architecture with coordination failures and weak strategic oversight. At the institutional level, the sector is currently characterized by a complex governance fabric, in which the multiplicity and instability of decision centers, as well as the lack of clarity over roles and responsibilities of various institutions, result in initiatives that lack strategic steering or day-to-day advancement. Cognizant of these challenges, the Government has undertaken a number of measures – for example, realigning the institutional positioning of the key sector agency – ADIE, placing it under the tutelage of the Ministry of Digital Economy and ICT. Moreover, the Government is planning to establish an overarching Inter-ministerial Committee in charge of Digital Economy, tasked with coordinating, harmonizing and rationalizing government policies in this domain.

- **E-Government Platforms and Payments:** Through e-government solutions, state actors play an anchoring role in bringing innovation to scale and demonstrating how digital technologies can

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19 Context for this pillar is provided in Annex 7.

20 As per Presidential Decree N 2019-769 on the Repartition of State Services adopted on 11 April 2019.
resolve long-standing issues, such as reducing administrative burden, tackling informality and strengthening domestic revenue mobilization. The Government of Senegal has made the digitalization of government services a priority, in particular regarding business-facing services. Efforts are underway across multiple administrations to digitize and streamline business registration, paying taxes and customs duties, obtaining permits, among others. In particular, paying taxes and dealing with informal competitive practices constitute key issues for addressing constraints to the development of a vibrant private sector, including digital economy, in Senegal. While Senegal has made much progress in investment climate reforms in the last few years, it is still lagging key comparators, especially with regards to paying taxes, where the country ranks 166/190 in the Doing Business in 2020 study. The weakness of Senegal’s business environment and regulatory framework are de facto incentives for companies to opt for the informal sector. Thus, it is important, especially for the micro and small businesses, to reduce compliance costs as well as the direct interactions with tax authorities by strengthening the ability of enterprises to make and receive electronic payments (both online and mobile). Recognizing this problem, the Government is investing in modernizing its information systems with the objective of allowing for both inbound and outbound e-payments.

- **Digital Entrepreneurship:** Start-ups in the digital world are not yet adequately supported at the regulatory and eco-system level. Unlike, most economies with environments conducive to the development of startups (examples include the USA, the European Union (EU), Israel, Tunisia), Senegal lacks a startup-specific regulatory framework, which leaves several issues, such as taxation and access to public procurement, unaddressed. At the eco-system level, the assistance provided by incubators or accelerators is often insufficient and unsustainable, while funding options are still missing (business angels) or limited (venture capital), translating into startups’ low survival rate. Only US$10.7 million was mobilized by Senegalese startups in 2017, against US$147 million in Kenya (i.e. 14 times more for a population that is only 3 times larger) and US$247 million in Malaysia (i.e. 23 times more for a population that is only twice its size). Overall, the Government does not act as an anchor client for entrepreneurs, due to the limited use of government e-payments and startups’ lack of access to public procurement.

**Reform Program Supported by the Operation and Expected Results**

73. In line with Government priorities, as elaborated in the Digital Senegal Strategy (SSN 2025) and the PAP2, this third operation will maintain the support of critical policy actions under the two policy areas: *(i)* strengthening the roll-out of e-Government solutions; and *(ii)* strengthening the start-up ecosystem to create an environment conducive to digital entrepreneurship and innovation.

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22 See: PREAC 2: Second Programme de Réforme de Environnement des Affaires et de la Compétitivité for example.
23 According to the 2017 General Survey of Enterprises in Senegal (Recensement General des Entreprises), 97 percent of economic entities in Senegal are considered informal.
25 This is corroborated by tax administration being respectively the 3rd and 4th most important constraints to doing business according to the WEF’s Global Competitiveness Report (2017) and the World Bank’s Enterprise Survey (2014).
26 According to ANSD’s Recensement General des Entreprises (2017), 97 percent of the approx. 400,000 business entities surveyed were informal.
74. The most significant achievements of DPF2 in the Digital Economy sector include the following:

- To generalize online tax and customs payments, the Government has: (i) reduced the mandatory threshold for the use of electronic filing from FCFA 500 million to FCFA 100 million of annual turnover\(^{28}\); and (ii) established the threshold of FCFA 50 million for the mandatory online payment of customs duties and fees; and

- To harmonize and expand the use of digital payments by public administrations, the MFB has: (i) updated and consolidated the rules governing digital payments received by the recipient’s Treasury, Customs and Tax Administrations; (ii) expanded the range of payment options to include mobile money, payment by cards, as well as payment service aggregators, among others; and (iii) established an open selection process for providers of digital payment services and defined the modalities for interoperability, data security, and protection of personal data.

4.2.3.1 Strengthening the Roll-out of e-Government Solutions

Rolling Out Digital Tax Solutions and Introducing Risk-Based Audits

75. DPF3 is continuing the measures taken under DPF2 aiming at extending the benefits of online declaration and payment options to a larger number of taxpayers. In 2019, the Tax Administration Direction Générale des Impôts et Domaines (DGID) has operationalized a web-based “Mon Espace Perso” (My Personal Space) application, which targets individual taxpayers and allows them to access their accounts online (including information on the status of their tax liabilities, payments, and key compliance milestones). Similar solutions have been successfully rolled out in other countries, such as Rwanda\(^{29}\), where they helped to substantially increase small taxpayers’ compliance. This is a critical tool that imposes discipline on the tax administration to keep taxpayers’ accounts accurate and up-to-date, while empowering taxpayers in potential situations of abusive inspection practices. This also constitutes an important step both to improve the investment climate, particularly for small businesses\(^{30}\), but also to modernize the tax administration towards a data- and evidence-based model, as transactions are increasingly processed digitally. It also helps taxpayers build a track record of compliance, which is critical for businesses, when it comes to accessing finance or public procurement.

76. To improve targeting, reduce discretion, and level the playing-field between taxpayers, the DGID has embarked on a bold reform of its audit function, by introducing risk-based audit case selection. This reform modernizes its information and intelligence collection process, and leverages taxpayer data drawn from third-party sources, such as customs records or company registry. Until recently, audit case selection and planning were left to the discretion of tax inspectors. Since 2018, DGID has been piloting a diversification of its audit case selection methods, complementing discretionary decisions with random - and risk-based-selection. In the latter, the risk score is based on a list of 15 indicators that consider "inconsistencies" between tax returns and third-party data, such as customs and public procurement, and "anomalies" in the comparison between taxpayers in the same center and sector of activity. This allows tax audits to target taxpayers\(^{31}\) based on objective and transparent criteria. This

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\(^{28}\) The Doing Business in 2020 study recognizes this reform, which made the eTax platform available to SMEs. This helped Senegal improve its “Paying Taxes” indicator from 171 last year to 166 out of 190 in this year’s study.


\(^{30}\) ANSD’s Recensmenet General des Entreprises highlights that tax compliance is the number 1 constraint for formal businesses and the number 2 top constraint for informal businesses.

\(^{31}\) At the same time, a smaller number of audits follow random selection, both to increase audit coverage and to obtain reliable
measure is critical in terms of leveling the playing field between compliant and non- or under-compliant taxpayers, who may operate below the tax administration’s radar. This approach also helps curb fraud and under-compliance, as well as unfair competition practices from informal businesses, which have been identified by formal companies as their primary constraint to doing business in Senegal\textsuperscript{32}. To enhance efficiency and transparency of e-government services, reduce compliance costs for taxpayers and strengthen domestic resource mobilization, the Recipient’s MFB has: (i) operationalized digital consultation of taxes (through the MFB’s personalized taxpayer webpage, "my personal space"), which covers at least 10 percent of eligible taxpayers\textsuperscript{33}; and (ii) operationalized a risk-based audit selection system, which encompasses at least 50 percent of relevant verifications though Prior Action 9 in DPF3.

**Expected Results under this Policy Area**

77. Expected results include reduction in compliance costs and obstacles to formalization, improved transparency and increased voluntary tax compliance. This should lead to the broadening of the tax base and strengthened domestic revenue mobilization\textsuperscript{34} in the medium-term. The roll out of digital tax solutions will also reduce the number of physical interactions between taxpayers and the DGID and empower compliant taxpayers against potential abuse from tax inspectors. In addition, the operationalization of the risk-based audit system should improve the target of tax audits towards high-risk taxpayers and limit discretion in tax audit planning, thus levelling the playing field between compliant and non-compliant taxpayers. These results will be measured by the following indicators:

- An increase by at least 10 percent of the number of micro, small and medium-sized enterprises (MSME) taxpayers registered at Direction des Services Fiscaux from 65,534 (baseline in 2019) to 72,088 (target by 2021);
- A reduction in the number of tax payments, as measured by the Doing Business Paying Taxes indicator, dropping from 58 (baseline in 2018) to an expected 40 (target by 2021).

4.2.3.2. Strengthening the Start-up Ecosystem

78. While considered to be one of the most vibrant in francophone West Africa, the Senegalese entrepreneurship ecosystem\textsuperscript{35} is still nascent, and in need of more structure and scale. This operation seeks to strengthen some of the core foundational elements of this ecosystem by (i) improving the legal and regulatory environment for startup companies; and (ii) simplifying the tax regime applicable to MSMEs.

**Creating Favorable Regulatory Environment for Young and Innovative Enterprises (Start-ups)**

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\textsuperscript{32} World Bank (2014). Senegal Enterprise Survey.

\textsuperscript{33} The eligible taxpayers for “Mon Espace Perso” are all taxpayers registered under the Direction des Services Fiscaux, which means small businesses and individual taxpayers declaring an income. They amount to 65’534 taxpayers.

\textsuperscript{34} See for example: IMF Fiscal Monitor (2018). “Simulation analysis indicates that reducing the distance to the digitalization frontier by 50 percent could raise the median VAT revenue by 1.7 percent of GDP for low-income developing countries”.

\textsuperscript{35} The entrepreneurship ecosystem is constituted by a set of interconnected entrepreneurial actors, entrepreneurial organizations, institutions, and processes that formally and informally coalesce to connect, mediate, and govern the performance within the local entrepreneurial environment. It constitutes one of the foundational pillars of a dynamic digital economy, allowing for ideas and innovation to materialize into startups, who mature into businesses through their various stages of growth.
79. The Government recognizes that startups face unique challenges that require specific legal and regulatory attention. While this field remains relatively new and the available evidence, through robust impact evaluations are limited, international practices suggest that a dedicated legal and regulatory framework tailored to the needs and challenges of startups, including digital entrepreneurs, can play an important role in stimulating the digital economy. Countries as diverse as Brazil, France, India, Israel, Italy, India, Tunisia and the United States have all adopted, if not specific legislation, at least dedicated programs and institutions to support the development of startups. Recognizing this global trend and specific challenges, the Government has demonstrated a strong commitment to make Senegal an emerging Start-Up Nation and has launched an open participatory process to create a dedicated and enabling regulatory and policy framework. Following the 2018 “Dakar Policy Hackathon” that involved ecosystem actors to jointly formulate the first draft of the regulatory text, and subsequent extensive consultations between key public and private stakeholders, the Council of Ministers has adopted and submitted to the National Assembly a draft law on the creation and promotion of start-ups in Senegal to create and promote an environment conducive to entrepreneurship and innovation (DPF3, Prior Action #10 (i)).

Introducing Simplified Fiscal Regime for MSMEs

80. A simple, coherent and easy to administer fiscal regime for MSMEs plays an important role for startup development, formalization of the economy, and tax revenue mobilization. As highlighted in private sector consultations (including, but not limited to those held to inform the Systematic Country Diagnostic (SCD) in 2017 and 2018, the Country Partnership Framework and Dakar Policy Hackathon among others), the current tax regime applicable to MSMEs is burdensome and can be simplified to better match taxpayers’ capacity and improve administrative efficiency. In addition, disincentives for start-ups should be reconsidered, including fixed rights of the minimum lump-sum tax on enterprises (Impôt Minimum Forfaitaire sur les Sociétés, IMF), complexity of the turnover tax ‘single global contribution’ (Contribution Globale Unique, CGU), and the limited use of the investment tax credit (Credit d’Impôt a l’Investissement, CII). In this context, to create a business environment conducive to entrepreneurship and innovation, the Recipient’s Council of Ministers has adopted and submitted to the National Assembly amendments to the “General Tax Code” to streamline tax obligations for MSMEs through the draft finance law 2020 (DPF3 Prior Action #10 (ii)). In particular, the Government has substantially simplified the CGU by reducing the number of business categories down to two and replacing the complex rate structure with a single rate system by category. In addition, the Government is removing the minimum lump-sum payment of the IMF for all businesses under 100 million FCFA. These measures do not only reduce the tax burden on small businesses, but they also make it easier and more attractive to comply with, without threatening revenue collection. This tax policy reform is further reinforced by

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38 Fixed in the range of 500,000 FCFA and 5,000,000 FCFA depending on the turnover of the company.
39 The CGU is already a simplified regime in that it aggregates already six different taxes into just one turnover tax. It applies to small taxpayers under the 50 million FCFA annual turnover threshold. Before the reform, it had a complex structure of three categories of business activities, each of which had a progressive set of tax rates depending on the level of turnover. The rates were also high in international comparison, the highest band reaching up to 8 percent of turnover.
40 Static simulations suggest that both reform options combined are likely to generate a 0.04 percent reduction in total revenues. This does not take into account the potential increase in voluntary compliance likely to follow the reform.
the digital taxation reform under Prior Action #9, which makes compliance with the new tax regime easier for taxpayers.

**Improving Access to Public Markets**

81. Due to a small market size and insufficient financing options available to startups, Government action to more proactively engage in innovative procurement can help make the startup ecosystem more resilient. Senegalese startups, like their peers elsewhere, lack financing options tailored to their specific circumstances, being burdened by high initial investments and protracted development periods to break even. Even though a handful of private equity / venture capital investment funds have recently launched in Senegal, none of them is yet able to finance a significant number of startups at the seed stage due to inadequate incentives to attract them to this type of risky tickets, such as management fee subsidies or subscription to the capital. In the absence of alternative financing mechanisms that can provide the capital required by nascent companies to take-off, more proactive public intervention is necessary. One effective approach of engaging with startups is adjusting public procurement regulations to enable the administration to contract startups who have developed solutions to specific public services challenges, using innovative tools such as business reverse pitches or hackathons. To create a business environment conducive to entrepreneurship and innovation, the Recipient’s Council of Ministers has adopted and submitted to the National Assembly: (i) a draft law on the creation and promotion of start-ups in Senegal (DPF3 Prior Action #10 (i)). This will be providing start-ups with a preferential margin in accessing public procurement.

**Expected Results under this Policy Area**

82. The measures taken under this policy area aim to strengthen the startup ecosystem by mainstreaming innovative approaches for Government agencies to engage with young and innovative enterprises, providing them with an enabling regulatory environment and boosting available support services. The development of the digital economy is expected to help bridge the gender divide in the workplace, in particular through the development of digital platforms which may help, among others, reduce barriers to entry in the labor market for women, allow more time flexibility to balance traditional home duties and work duties, while at the same time helping with the family income. The main expected result by the end of the series include a more resilient and independent start-up ecosystem and can be measured by the following indicator:

- Number of firms registered as startups by licensed private or public support structure (as defined in the startup law) from zero (baseline in 2019) to 150 (target 2021).

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41 For their part, international funds, such as Partech Ventures and Orange Digital Ventures, start investing in more mature, series A level, companies and are more focused on more developed African markets, such as South Africa, Kenya and Nigeria that have already registered solid progress in digital technologies.


43 ANSD’s Recensement General des Entreprises (2017) is the 8th most constraining factor for formal businesses in Senegal.


45 This indicator is based on the new startup law adopted in 2019 in the context of this DPO. Hence a startup is defined here in the same terms as defined in the law: “An innovative and agile company, legally incorporated for less than eight years, with strong growth potential, operating based on a disruptive business model in order to deploy its exceptional capacity to create value.”
Table 8. Original Triggers and Proposed Prior Actions for the Digital Economy

<table>
<thead>
<tr>
<th>Original Trigger (DPF1)</th>
<th>Proposed Prior Action</th>
<th>Explanation of Change</th>
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<tbody>
<tr>
<td><strong>Pillar III – Digital Economy</strong></td>
<td></td>
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<tr>
<td><strong>Policy Area III.1: Enhancing Digital Economy Institutional and Legal Framework</strong></td>
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<tr>
<td><strong>Trigger 12:</strong> Establishment of an institutional framework for strategic management and coordination of the digital economy through: (i) the adoption of an inter-ministerial steering and coordination framework; (ii) the alignment of the institutional positioning of agencies to the adopted institutional framework; (iii) establishment of a steering committee for the regulation and interoperability of public data, including civil registry and e-identity, and cybersecurity.</td>
<td></td>
<td>The Government has started taking this measure onboard through the ongoing institutional reform. More specifically, alignment of the institutional positioning of the key sector agency – ADIE – has already been achieved by placing it under the tutelage of the Ministry of Digital Economy and ICT (as per Presidential Decree N 2019-769 on the Repartition of State Services adopted on 11 April 2019).</td>
</tr>
<tr>
<td><strong>Policy Area III.2: Strengthening the Roll-out of e-Government Solutions</strong></td>
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<tr>
<td><strong>Trigger 13:</strong> To reduce compliance costs for small and large taxpayers, the tax administration (DGID) has (i) operationalized an MSME mobile tax declaration and payment system (“m-tax”), achieving a coverage of at least 10 percent of eligible individuals and MSMEs; (ii) implemented: a transparent risk-based audit case selection system (which encompasses at least 50 percent of all tax audit planned), and an automatic monitoring of audit performance.</td>
<td><strong>Prior Action #9:</strong> To enhance efficiency and transparency of e-government services, reduce compliance costs for taxpayers and strengthen domestic resource mobilization, the Recipient’s MoF has: (i) operationalized digital consultation of taxes (through the MoF’s personalized taxpayer webpage, &quot;my personal space&quot;), which covers at least 10 percent of eligible taxpayers; and (ii) operationalized a risk-based audit selection system, which encompasses at least 50 percent of relevant verifications.</td>
<td>Trigger revised. Following discussions with MFB and DGID, the measure (i) on m-tax has been replaced by a similar measure on the “My Personal Space” application, given its importance in terms of transparency, compliance and cost reduction. In addition, the language of sub-actions (ii) has been adjusted to reflect the state of development and targeting of the risk-based audit system.</td>
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<tr>
<td><strong>Policy Area III.3: Strengthening the Startup Ecosystem</strong></td>
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<td><strong>Trigger 14:</strong> To create an environment conducive to entrepreneurship and innovation, the MFB, jointly with other key ministries, have adopted a dedicated StartUp regulatory framework, as a result of the consultative Dakar Policy Hackathon.</td>
<td><strong>Prior Action #10:</strong> To create a business environment conducive to entrepreneurship and innovation, the Recipient’s Council of Ministers has adopted and submitted to the National Assembly: (i) a draft law on the creation and promotion of startups in Senegal; and (ii) amendments to the General Tax Code to Trigger revised. This Prior Action has been expanded to encompass the objectives of former Trigger 15 (public procurement), and to specify that tax regime simplification will take place within the tax code, separately, but in parallel to the adoption of the startup law. Improvements in public</td>
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<tr>
<td>Trigger 15. To create the conditions for startups to provide solutions to administrative challenges, the Government adopts a revision of the Public Procurement Code, in line with &quot;public procurement for innovation&quot; principles.</td>
<td>streamline MSME taxation, through the draft finance law 2020.</td>
<td>procurement are introduced though provisions in the startup law.</td>
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Table 9: DPF Prior Actions and Analytical Underpinnings

<table>
<thead>
<tr>
<th>Prior Actions</th>
<th>Analytical Underpinnings</th>
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<tbody>
<tr>
<td><strong>Operation Pillar I: Energy</strong></td>
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<tr>
<td><strong>Prior Action #1:</strong> To enhance transparency in the electricity sector, the Recipient’s Ministry of Petroleum and Energy has instructed SENELEC to reorganize, through the creation of: (i) the SENELEC holding company; (ii) separate subsidiaries for the generation, transmission and distribution of electricity; and (iii) a subsidiary associated with the natural gas segment to carry out a gas aggregator role.</td>
<td>• A meaningful separation of SENELEC’s different key roles will improve financial transparency. Separating transportation activities will make it easier to establish transparent third-party access fees, which will result in increased competition and lower costs in the sector. Third party access to transmission lines also facilitates regional trade.</td>
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<td><strong>Prior Action #2:</strong> Under a detailed financial plan for the electricity sector that includes payment of public sector arrears and coverage of funds needed by Senelec for tariff compensation, (i) the Recipient’s Ministry of Petroleum and Energy has requested the CRSE and the CRSE has agreed to modify the maximum allowed revenue tariff formula to include an ex-post adjustment of actual investment achievements; (ii) the Recipient has modified the decree (décret sur le fond de préférence pour la compensation tarifaire des concessionnaires de l’électrification rurale) to apply a &quot;passthrough&quot; element corresponding to the shortfall for rural concessionaires as a result of tariff harmonization; and (iii) the CRSE has increased the level of tariffs.</td>
<td>• The World Bank accompanied the Government in the financial analysis of SENELEC in the previous DPF2 and continued so in DPF3. This gave the basis for the figures to be considered to establish the financial balance of SENELEC in 2019.</td>
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<td><strong>Prior Action #3:</strong> To enable development of the gas-to-power strategy, the Recipient’s Council of Ministers has adopted and submitted to the National Assembly the draft gas law, which provides for planning, regulation and institutional arrangements for the gas subsectors in their midstream and downstream segments.</td>
<td>• In addition, the World Bank collaborated with SENELEC and CRSE to review the regulatory process and organized a workshop (in April 2019) to discuss the regulatory treatment of SENELEC’s investment program.</td>
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<td><strong>Prior Action #4:</strong> To enable development of the gas-to-power strategy, (i) PETROSEN has formed a company (special purpose vehicle) that will build and operate the gas</td>
<td>• More recently, the World Bank has conducted an analysis of the effects of rate increases to understand the distributive impact of a change in the price of electricity with the objective of determining the most appropriate scenario.</td>
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<td></td>
<td>• The World Bank is funding a study to develop a detailed financial plan for the electricity sector.</td>
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<td>• In general, countries try to reduce the need for tariff compensation over time and bring tariffs closer to the level reflecting total costs. This was accompanied by a low-cost production plan to minimize the need for tariff increases in the absence of subsidies.</td>
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<td></td>
<td>• The World Bank has prepared an analysis of the situation of rural electrification and has produced a policy note which gives some options for reform to improve the situation of the sub-sector. This note was disseminated during a workshop in April 2019 with government stakeholders.</td>
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<td>• SENELEC has updated its least cost production plan.</td>
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<td>• In 2018, the World Bank conducted a major analysis to determine the benefits of replacing oil-based production with gas and renewable energy production. This study was discussed with the Government.</td>
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<td>• The adoption of a new legal and regulatory framework for gas will help to make the private sector comfortable enough to undertake the investments needed to transition the electricity sector to use lower-cost and cleaner production technologies. The legal and regulatory framework for gas will also support the future development of competition in the gas sector, as far as possible.</td>
</tr>
</tbody>
</table>
| | • Several legal frameworks have been reviewed – Egypt, after having been a net importer of gas due to rising local demand, adopted in 2017 a new law
on the intermediate and downstream gas sector allowing the participation of the private sector, providing for third-party access to infrastructure and establishing an independent regulatory body. Although it is early to estimate the results, the adoption of the law is an important step in the reform of the Egyptian gas sector to reduce the inefficient use of gas.

### Operation Pillar II: ICT Sector

**Prior Action #5:** To open access to dominant players’ essential infrastructure, the Recipient’s ARTP has adopted regulatory decrees strengthening regulation obligations for the dominant operators for the years 2018 and 2019.

- DE4A Diagnostic in Senegal (FY19) and ICT Policy Note for FY19 (P168261), with IFC inputs/cooperation.

*Senegal is charging frequencies fees to telecom operators that are on average 10 times higher than those charged in the sub-region.*

**Prior Action #6:** To increase incentives for all telecom operators and new ISPs to expand mobile networks, the Recipient has adopted a decree on radio frequencies introducing a 20 percent decrease in the total amount of fees payable by all telecom players and including discount rates for the use of frequencies by ISPs and in underserved areas.

- ARTP market analysis conducted in 2018, and ICT Policy Note for FY19 (P168261), with IFC inputs/cooperation.

*Access to essential infrastructures owned by dominant players is not sufficiently regulated.*

**Prior Action #7:** To activate the Universal Service Fund pursuant to the Universal Service Decree, the Recipient has: (i) established the new governance bodies namely a strategic committee and a fund coordinator; (ii) adopted the Universal Service strategy’s action plan with a focus on closing the digital divide and gender gap in women’s access to internet; and (iii) had its first consultation with private operators to cover rural areas.

- World Bank lessons learned from the experiences of USFs in the Africa region (P161229) and the review of the Senegalese case.

*The USF is inactive and marked by opacity.*

**Prior Action #8:** To promote open access to ADIE’s fiber optic network, the Recipient has published a competitive tender process (avis d’appel à pré-qualification) to select a private concessionaire to operate and expand said network in the Recipient’s territory.

- Comparative analysis of the PPP options of the ADIE network (P157222), with IFC inputs/cooperation.

*The concession option is the most adequate for ADIE given the Senegalese legal framework, similar international best practices, and investment needs in ADIE.*

### Operation Pillar III: Digital Economy
Prior Action #9: To enhance efficiency and transparency of e-government services, reduce compliance costs for taxpayers and strengthen domestic resource mobilization, the Recipient’s Ministry of Finance has: (i) operationalized digital consultation of taxes (through the Ministry of Finance’s personalized taxpayer webpage, “my personal space”), which covers at least 10 percent of eligible taxpayers; and (ii) operationalized a risk-based audit selection system, which encompasses at least 50 percent of relevant verifications.

- World Bank (2018). Rwanda Case Study: Introduction of M-Declaration (unpublished); and

Prior Action #10: To create a business environment conducive to entrepreneurship and innovation, the Recipient’s Council of Ministers has adopted and submitted to the National Assembly: (i) a draft law on the creation and promotion of start-ups in Senegal; and (ii) amendments to the General Tax Code to streamline MSME taxation through the draft finance law 2020.

- Carapaces (2019). Strategic Audit Report: Developing the Legal Framework for the Promotion of Innovative Companies with High Growth Potential (Start-ups) in Senegal (unpublished);
- World Bank (2019). Analysis of Regulatory Reforms Focused on Start-ups in Africa and MENA (forthcoming);
- World Bank (2019). Digital Sources of Growth Study, including Entrepreneurship Ecosystem Assessment Advisory Servcies and Analytics (ASA) (forthcoming); and

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

Link to Country Partnership Framework

83. 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 II on ICT reforms and initiating the development of a digital economy through Pillar III, 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 I) 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 CPF’s third pillar focused on increasing resilience and sustainability in the context of growing risks.

Link to WBG strategy

84. The multi-sector focus on better public services and digital transformation are key to achieving the WBG’s twin goals of ending extreme poverty and promoting shared prosperity in a sustainable manner in Senegal. According to the SCD for Senegal, the top three constraints to poverty reduction and shared prosperity in Senegal are: (i) the lack of level playing field in the private sector; (ii) insufficient
structural reforms in key input markets, such as energy, land and labour; and (iii) weak human capital exacerbated by inequitable and inefficient public policies. By focusing on energy, ICT and digital technologies, the proposed DPF will serve as a critical contribution to attaining the CPF objectives by ensuring adequate and private-sector friendly policy, institutional and financial arrangements in sectors that are key economic enablers for Senegal.

**Complementarity with Other WBG Operations**

85. **In the energy sector, the proposed operation is a key element of a suite of WBG instruments supporting the power sector value chain in Senegal and SENELEC’s performance.** The focus is on achieving a reduction in costs of generation as part of the energy sector financial (recovery) framework. The proposed new *Project to Promote a Shift towards Lower Carbon Power Generation in Senegal (P169744)*, aims to reduce SENELEC’s costs of generation and improve service reliability by supporting the implementation of the Government’s program supported by this DPF – and in particular, the Government’s gas-to-power program. To date, the WBG has played an important role in supporting the power sector to diversify. The IDA-supported *Organization for the Development of the Valley of River Gambia Interconnection Project (P146830)* will link Senegal to Guinea, providing access to its extensive hydropower at lower cost, and connecting the Casamance and Senegal Oriental regions to the national grid. The *OMVS Transmission Expansion Project (P147921)* to extend the Organization for the Development of the Valley of River Senegal system is under preparation to enable hydropower capacity (from the Manantali and Gouina plants) to be utilized by interconnecting the OMVS and OMVG systems. The WBG is supporting the Scaling Solar Program to qualify and support private sector players able to implement up to 100 MW of greenfield solar IPPs. IFC has offered to support the Government with advancing the midstream gas pipeline and gas import ‘bridge’ options with technical assistance, a potential joint development agreement with IFC Infraventures and further services for potential private sector investors. *Multilateral Investment Guarantee Agency (MIGA)* is supporting the 150 MW Taiba Ndiaye Wind Project. In relation to supporting future conversion to gas, the 105 MW, dual fuel private power investment at Taiba Ndiaye, online since mid-March 2016, will be converted to run on gas.

86. **The World Bank has been engaged in an ICT policy dialogue for the last three years.** In FY2016, this dialogue was supported by ICT policy notes (P157222), encouraging policy makers to endorse policy and regulatory reforms aimed at increasing competition in the broadband market, while improving the readiness of public agencies to implement these reforms. This policy dialogue has provided much of the technical and policy input for the DPF.

87. **The policy dialogue has expanded to cover the broader Digital Economy agenda, as the World Bank has decided to allocate significant resources to elucidate critical analytical gaps in this domain.** In FY18 *Digital Transformation Agenda TA (P166386)* was launched with the aim of helping the Government gain a holistic perspective on its readiness for a digital transformation in line with the recently adopted Digital Senegal Strategy SSN 2015. In this context, a comprehensive Digital Economy Country Assessment (DECA) and Digital Government Readiness Assessment (DGRA) have been completed as inputs into the Report on “*Unleashing Senegal’s Digital Economy Potential*”, which covers foundational Digital Economy components, namely: (i) enabling institutions, governance and digital skills; (ii) quality digital infrastructure; (iii) appropriate government digital platforms; (iv) adequate digital financial services; and (v) digital entrepreneurship and innovation. A complementary joint World Bank-IFC Digital Country Private
Sector Diagnostic (CPSD) is under preparation and will help elucidate specific private-sector constraints related to digitalization across selected economic sectors. To fill the emerging data gaps and provide further insights on both growth and inclusion impacts of Digital Economy, a Digital Sources of Growth Study “Productivity and Inclusion Opportunities from Adoption of Digital Technologies in Senegal” has been launched with an aim of identifying the extent of digitization across enterprises in main economic sectors and measuring the existing and potential impact of digital technologies adoption on productivity growth, jobs and inclusion. This policy dialogue provided analytical inputs to the Digital Economy pillar of the program.

88. *The program strongly supports the WBG’s approach to MFD:*

- **Energy pillar:** The DPF series has promoted a Strategic Electricity Generation Master Plan with a strong emphasis on private sector participation aimed at energy mix diversification. In fact, all new power generation endeavors are currently provided by IPPs. Similarly, the DPF is supporting the implementation of an ambitious program to switch to gas for power generation. These are based on principles that will maximize the likelihood for private sector investment in opportunities arising from the shift to a cleaner and more affordable energy mix. The midstream gas pipeline will have majority private sector investment.

- **ICT pillar:** Changes in the regulatory framework through the Telecom Law and accompanying legal decrees have boosted competition and private investment, as evidenced in the recent entry of three new ISPs. To further open the market, new standard guidelines have been promoted by the DPF for ISPs and infrastructure operators, and dominant player regulatory decisions have been introduced. The DPF also supports the entry of a second operator in the critical 4G market, which has a strong potential for development in the near future.

- **Digital Economy pillar:** enhancing the enabling environment and the pro-activeness of Government institutions in using digital technologies is expected to foster the development of a more resilient and competitive private sector start-up ecosystem.
Box 2: Working as One WBG

This operation has benefited from IFC technical inputs in key areas of the substantive issues, supporting the World Bank’s dialogue with the Government of Senegal.

Regular discussions with IFC industry specialists have allowed for integration of private-sector perspectives and IFC global experience in key elements of the policy dialogue. This was particularly so with regards to development of the Gas-to-Power strategy in DPF2 and key next steps in operationalizing the strategy – including steps to enable private sector investment under DPF3 dialogue. For Pillar II, there were discussions around the 4G market opening. All World Bank missions de-briefed the IFC team. This has led to further joint work in developing World Bank and IFC operations and IFC was part of a recent study tour on gas-to-power issues organized for the Government by the World Bank. In terms of analytical work, policy notes on PPP-related reforms in the ICT sector, Digital Country Private Sector Diagnostic, etc., were worked on jointly and these served as an analytical underpinning of the program. IFC and MIGA participated in all the World Bank review meetings for the DPF.

The close coordination has allowed the World Bank’s work for this DPF series to benefit from key recent experience and IFC staff expertise. The World Bank staff and management has remained in charge of the ultimate policy dialogue and processing of this operation, which remains IDA supported.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

Consultations

89. The DPF series played an important role in triggering or facilitating inter-agency dialogue in Senegal between sectoral players. For example, in the Digital Economy domain regular and effective dialogue was established between the Ministry of Economy, Finance and Planning; the Ministry of ICT and Digital Economy; the General Directorate of Taxes and Domains; the General Directorate of Customs; the Public Procurement Regulatory Authority; the General Delegation for Rapid Entrepreneurship as well as key start-up ecosystem players, including incubators, entrepreneurs and investors. During the preparation phase, a two-day consultative workshop, co-organized by the World Bank and MFB in close collaboration with Microsoft and IFC, was held to reflect on “Digital Economy for Inclusive Growth in Senegal”. It helped to inform measures pertaining to digital taxation and entrepreneurship.

Collaboration with other Development Partners

90. On all three sectors – energy, ICT and Digital Economy – the World Bank collaborates closely with key bilateral and multilateral development agencies in Senegal. Under the Energy pillar, the World Bank has an intense dialogue with other development partners on the reform agenda, notably with MCC, EU, (Agence Francaise de Developpement, AFD) and German Development Bank (Kreditanstalt für Wiederaufbau, KfW). MCC, under the new energy compact has a reform component that is focused on the electricity sector. A close coordination is allowing to provide a common support to the Government in the ongoing reforms, especially on the unbundling process and the reinforcement of the regulatory functions. Under the ICT sector pillar, the reform program is building on technical studies financed by other development partners, especially the draft universal service strategy and national broadband plan financed by the African Development Bank (AfDB). Under the Digital Economy pillar, close collaboration
has been ongoing with the AfDB and even more so with the EU representation in Senegal, considering the latter’s upcoming budget support linked to the Digital Economy development to avoid overlap and exchange technical expertise and sector diagnostic.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

91. The policies supported by this operation are expected to have positive net welfare effects by reducing poverty and improving social outcomes. Access to services and infrastructure—including electricity and telecommunications—can significantly improve the living conditions of the population by enabling human capital accumulation and improving access to jobs and markets. Moreover, improving the business environment through enhanced competition and fairer taxation will remove constraints to private sector job creation. A Poverty and Social Impact Assessment (PSIA) was carried out to analyze and provide empirical estimates of the expected distributional social impacts of the policy reform program.

92. Under this series of three programmatic development policy operations (DPOs), the resulting net lower tariffs have benefitted 80 percent of the poorest consumers and have marginally reduced poverty incidence. Only 37 percent of the poor and 18 percent of the extreme poor have access to a SENELEC connection, and the spatial incidence of access remains highly unequal with low connectivity in rural areas. Accordingly, the poverty impacts of tariff adjustments are marginal. Two-thirds of the poor are Tranche 1 consumers of electricity and have benefitted from a net price reduction of 14 percent since 2017 and over one-tenth of the poor are Tranche 2 consumers who have benefited from a 1 percent net reduction. Together almost 60,000 people were lifted out of poverty, including more than 15,000 out of extreme poverty, and reduced poverty and extreme poverty incidence by about 0.6 percent. On the other hand, the approximately one fifth of the poor that are Tranche 3 consumers will lose from a net price increase of 6 percent from December 2019. However, the majority of these are connected via “group” meters and while facing the higher kilowatt usage Tranche 3 tariff, their individual consumption levels and bills will only be marginally affected. The Social Registry which includes all poor households in the country can be utilized to reach the latter including via the existing conditional cash transfer program. Lower implicit electricity subsidies will release fiscal resources that will far exceed the costs of possible targeted compensatory measures.

93. Poverty incidence could decline by up to 5 percent as a result of the cumulative reduction in tariffs of 30 percent over the medium term. Almost a fifth of establishments in 2017 reported difficulties in accessing energy as one of the three major constraints to operate (ANSD, 2017). Informal and small firms outside of Dakar are the most affected, with 44 percent of those located in rural areas reporting

46 The empirical analysis to estimate the potential distributional effects of these reforms is based mostly on the latest available household survey, 2011 Senegal Poverty Monitoring Survey 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.

47 Indeed, a recent fiscal incidence analysis conducted in 2017 by the World Bank shows that electricity implicit subsides are among the most regressive interventions of the fiscal system in Senegal.
such difficulties versus 27 percent in urban areas. The efficiency gains expected from the planned reform (for this operation, under Prior Actions 1 and 2) in the sector are expected to improve the service and reduce the costs also for firms, leading to productivity gains, job creation and lower product prices. Tariff reductions are also expected to narrow existing gender gaps, by increasing access to electricity amongst female entrepreneurs, which significantly lags that of males.\footnote{Among small informal firms (Informal sector survey - ANSD, 2010) lack of electricity is more pronounced when a woman is the owner: 60 percent among them have no access, compared to 46 percent for men. (Breaking out of the poverty trap, Marzo and Atuesta 2017).} The expected social benefits associated with more and better provision of electricity, including public lighting, include declines in street violence as well as negative perceptions of insecurity, that often prevent women and vulnerable users from becoming users of public space. Taken together, the positive social benefits and efficiency gains largely offset the marginal temporary negative effects.

94. **Organizational changes** (Prior Action 1) and **shifts in the energy mix** (Prior Actions 3 and 4) are expected to **contribute to the overall tariff decrease in the long term, by significantly increasing efficiency**. Organization-wise, the restructuring of SENELEC (Prior Action 1) is not expected to generate any jobs losses, as it is purely functional, while the employees of the ASER are expected to be hired back by SENELEC in the newly created Directorate of Rural Electrification. The progressive shift of the energy mix from oil to gas facilitated by Prior Actions 3 and 4 is expected to generate positive durable effects in the mid to long term. Such shift will contribute to generate tariff decreases, resulting from reductions in underlying costs of the sector due to the change in the fuel mix (from oil to gas). In the medium term, changes in the energy mix from oil to gas will also lead to the elimination of temporary fluctuations in prices, and to sustained gains.

95. **Efforts to expand rural electrification are expected to increase access to electricity in rural areas from 29 percent (2015) to 60 percent in 2021.**\footnote{Khandker, Barnes, and Samad (2009) \cite{Khandker2009}.} More particularly, international evidence shows that rural electrification helps to reduce time allocated to fuelwood collection by household members, leading to increases in the labor supply of men and women, schooling (particularly of girls), household per capita income and expenditure.\footnote{Shahidur R. Khandker, Hussain A. Samad, Rubaba Ali, Douglas F. Barnes. (2012); Chaurey, Ranganathan and Mohanty (2004) (Bernard and Torero, 2011); Van de Walle et al. (2013).} Preliminary results suggest that increasing coverage in rural areas to about 62 percent would increase convergence between urban and rural areas, bringing the national level Human Opportunity Index (HOI), measuring the increase in equitable access to electricity, from 36 (in 2011) to 67. While the rural level HOI will increase substantially from 18.8 (in 2011), to 59.3. Importantly, rural electrification may reduce the use of solid fuels for cooking, lighting, and heating, hence contributing to reduce air pollution. There is extensive evidence that indoor air pollution is strongly linked to human health, especially among children, and that the presence of pollutants related to kerosene in the environment is also related to human health. In addition, kerosene lamps have important environmental consequences. It is estimated that these devices are responsible for 7 percent of annual global black carbon emissions. Finally, Prior Action 3 is expected to boost direct job creation in the energy sector as well as indirect job creation in labor intensive sectors highly dependent on electricity, such as tourism and retail. The shift of rural employment out of agriculture and into more productive non-farm jobs is a necessary step towards inclusive structural transformation in the country.
96. All income groups will benefit from higher competition in the ICT sector outlined under Pillar II (Prior Action 5, 6 and 8), mainly due to lower prices and more access to mobile and fixed broadband internet, and to a lesser extent through direct and indirect job creation. Specifically, under certain conditions, Prior Actions 5, 6 and 8 aim to continue expanding market competition in the ICT sector, and may achieve a combined lower-bound impact on poverty reduction in the medium to long term of 0.58 percentage points, lifting about 80,000 people above the poverty line. Lower prices of ICT services are also expected to increase access and enhance connectivity for individuals and firms which are currently left out of fixed broadband and 4G services. Furthermore, in a context of rising inequalities, particularly in rural areas and between urban and rural areas, the Prior Actions 7 and 8 are expected to decrease the digital divide and better connect currently remote areas. Although the ICT sector is capital intensive, promoting higher competition in the telecommunications market may create direct jobs, as well as unleash the economic potential of other economic sectors that will benefit from lower prices, better quality of service and enhanced connectivity to markets.

97. Expansion of broadband internet access is also expected to reduce poverty through better labor market outcomes, worker productivity and financial inclusion. Based on data from 14 African countries, including Senegal, a recent study shows that increased internet capacity and speed have a significant 3.1 to 13.2 percent increase in employment, which likely occurs both through responses affecting firm entry, productivity and exporting. Other research shows that internet adoption can improve labor market outcomes and worker productivity. Using data from the World Bank Enterprise Surveys for Kenya, a study finds that computer ownership, internet use, cellphones and generators lead to growth in value-added per worker in female-owned firms. The use of mobile broadband has also been linked with positive financial inclusion outcomes in Sub-Saharan countries. Internet availability, in conjunction with mobile phones and tablets, can lead to the emergence of innovative financial inclusion instruments. An assessment in Ethiopia uses these technologies to predict the likelihood of loan repayment, eliminating collateral requirements for underbanked borrowers.

98. Policies under Pillar III on Digital Economy is expected to have positive indirect social effects by creating a better environment for firms to grow and create jobs. Although Prior Action 9, aimed at

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51 This specific scenario assumed increasing competition from three to six firms for the mobile broadband market, and increasing competition from a de facto monopoly to six firms in the fixed-broadband market, representing a 16.6 percent market share for each firm. Moreover, the price elasticity of demand (PED) utilized to run these simulations were: for the mobile market a PED of -0.558 (Iimi, A. (2007), “Price Structure and Network Externalities in the Telecommunication’s Industry: Evidence from Sub-Saharan Africa”. The World Bank Group), and; for fixed-broadband market a PED of -1.1 (Grzybowski et al, (2014). “Market definition for broadband internet in Slovakia – Are fixed and mobile technologies in the same market?”).

52 These results should be interpreted as a lower bound effect on poverty reduction since the reform scenarios are estimated on the latest available household survey corresponding to 2011, for which the number of users of mobile phone with internet access is lower than the number of users in 2019 (WDI). These findings were produced with the WELCOM (Welfare and Competition) simulation tool developed by the Poverty and Equity GP at the World Bank. For more information please refer to: Rodriguez-Castelan, C., et al. 2019. “Distributional Effects of Competition: A Simulation Approach”. World Bank Policy Research Working Paper No. 8838, Washington, DC. http://dasp.ecn.ulaval.ca/webwel/welcom.html

53 Expenditures in 4G service are not covered by the ESPSII 2011 household survey and therefore the welfare effects of increasing competition on 4G service cannot be estimated.


expanding the tax base by using digital technologies to reduce compliance costs, is not expected to have any direct effects on poverty reduction, positive indirect social effects are expected via the increase in fiscal revenue which in turn could be targeted for social and productive investments, as well as improved and expanded service delivery across the country. On the other hand, Prior Action 10 envisages to strengthen the entrepreneurship ecosystem, making it easier for entrepreneurs to create formal start-ups or small firms and facilitating their growth: this positive evolution is likely to result in an increase in the number of such firms and, possibly, in a business environment more conducive to job creation and income increases. In fact, reforming the tax regimes for MSMEs may encourage them to formalize, lifting some of the constraints currently firms in the informal sector face, including access to credit, and allow them to grow and create more good quality jobs for the population. Finally, the strong complementarity between policies covered under Pillars I and II with the two prior actions under Pillar III, should enhance the positive social effects expected from reforms associated with the Digital Economy, particularly since factors such as access to a computer, internet, and a bank account, typically limit the take-up of e-taxation and digital payments to public agencies. Implementing electronic filing and online payment systems can allow for lower transaction costs for MSMEs paying taxes, which in turn could have a positive impact in their profitability and reduce the gap with larger firms.

5.2. ENVIRONMENTAL ASPECTS

99. The reforms and policy actions supported by the proposed operation are not likely to have significant impact on environment, forests, and natural resources. Over the last 18 years, the Government has made significant strides in developing a framework for environmental management and mainstreaming environmental sustainability in projects, starting first with the environmental decree no. 2001/182 of April 12, 2001 and the ministerial order no. 9470 of November 28, 2001 establishing the conditions governing the granting of approval to carry out environmental impact assessments. Public consultation and information disclosure are compulsory at the initial stage of the Environmental Impact Assessment (EIA) process in conformity with the ministerial order no. 9468 of November 28, 2001. The Directorate of Environment and classified establishments (DEEC) in the Ministry of Environment and Sustainable Development is institutionally saddled with reviewing and clearing EIA documents.

100. 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 because emissions factors will fall significantly as the energy mix is changed over time from higher GHG emitting oil fired generation towards lower GHG emitting renewable energy and natural gas. Details of the climate change benefits are provided in Annex 4.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

101. PFM Performance in Senegal is satisfactory and a self-assessment of Public Expenditure Framework Assessment (PEFA) was conducted in 2017. This assessment rated the credibility of the budget and the planning and budgeting execution processes as globally satisfactory. In particular, treasury
management and public investment have been improved; income regulatory framework is well structured to allow for regular centralization of revenue; the internal audit is revitalized; and the transparency of fiscal information has been improved with the regular publication of quarterly budget appropriations and their execution on the MFB website; country adoption of the BOOST instrument to improve the availability of budget data and its partial publication. In addition, a new Tax Code came into force in 2013 and the application of the Common External Tariff (CET) of ECOWAS from January 2015 expanded the tax base. The development of a Single Taxpayer Identification number (NINEA) has also been critical for enforcement and cross checking of taxes, in customs and tax directorates.

102. **In addition, the Government is progressing on the agenda of performance-based budgeting.** A noticeable progress has been made in the implementation of program and performance budgeting, in particular with regards to (i) Commitment Authorizations (AE) and Payment Appropriations (CP) in relation to multiyear programming and budgeting of investment funds; and (ii) improvement of budgetary information related to program. Also, program managers are being appointed in each line ministry to strengthen their capacity to prepare and manage budget programs. From January 2020, multiyear budgeting will be operational in line ministries and SIGIF will be fully operational in 2020. The following aspects will also be developed including institutional arrangements for devolution of commitment to line ministries; identification of program; and updating of internal controls.

103. **According to 2018 IMF Safeguard Assessment of BCEAO, the foreign exchange control environment is satisfactory, and therefore the fiduciary risk of the operation is moderate.** The BCEAO is the common central bank of the West African States including Senegal. Given the below observations from 2018 IMF Safeguard Assessment, the foreign exchange risk is at an acceptable level and risks to debt sustainability remain moderate to low. BCEAO publishes a full set of audited financial statements. Improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). The external auditors have issued an unqualified opinion (clear opinion) on the 2018 financial statements of BCEAO. According to the IMF’s Safeguards Assessment (2018), the BCEAO had improved the explanatory notes to the financial statements and further changes are scheduled, with a view toward gradual alignment with International Accounting Standards (IAS). Furthermore, the internal audit charter is in place, and follow-up on internal and external audit recommendations has been strengthened. In addition, following IMF previous recommendations, BCEAO external audit process has been improved by adopting a formal rotation policy; entirely adopting IFRS, hence improving financial statements transparency; further strengthening internal audit reporting to BCEAO management.

104. **The credit will follow IDA’s disbursement procedures for development policy financing.** Upon effectiveness of the Credit Financing Agreement, the proceeds of the credit will be disbursed by IDA into a dedicated account designated by the Borrower that is part of the country’s foreign exchange reserves accounts at the BCEAO. The dedicated account will be used exclusively for the DPF credit proceeds. Disbursement will not be linked to specific purchases, however the proceeds of the credit will not be used to finance expenditures excluded under the Agreement. The Borrower shall ensure that upon the deposit of the credit into said account, an equivalent amount is credited in the Borrower’s budget management system, in a manner acceptable to IDA. Based on previous experience, the execution of such a transaction from the Central Bank (BCEAO) to the Treasury (Ministry of Economy and Finance) does not require more than four days. The Borrower will report to the World Bank on the amounts deposited in the foreign currency account and credited in local currency to the budget management system. Assuming that the withdrawal request is in foreign currency, the equivalent amount in CFAF reported in the budgetary system will be based on the market rate at the date of the transfer. The Borrower will promptly notify the
World Bank by fax or email that such transfer has taken place, and that proceeds have been credited in a manner satisfactory to the World Bank.

105. **The Borrower will have to comply with the following reporting procedures:** (a) report the exact sum received into the Dedicated Account; (b) ensure that all withdrawals from the Dedicated Account are for budgeted public expenditures, except for purposes such as military expenditures or for other items on IDA’s negative list; and (c) provide to IDA evidence that the CFAF equivalent of the credit proceeds were credited to the Dedicated Account and disbursements from that account were for budgeted public expenditures. IDA reserves the right to seek an audit of the dedicated account by independent auditors acceptable to IDA. If, after being deposited in this account, the proceeds of the credit are used for excluded expenditures as defined in the IDA General Conditions for IDA Financing, DPF, IDA will require the Borrower to refund the amount directly to IDA. Amounts refunded to the World Bank upon such a request will be cancelled.

### 5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

106. **Strengthening monitoring and evaluation is critical for the successful implementation of the Government’s priorities.** The institutional framework for the evaluation of public policies is still evolving and focused on procedural and expenditure control. Monitoring and Evaluation (M&E) functions in the Senegalese public administration are characterized by weakness in line ministries, and the need to coordinate and strengthen central government actors. The current institutional link between the head of the executive, the head of government, the Ministries of Finance Planning and Economy, and sector M&E units has not been clear. On May 2015, the Government adopted through decree a new M&E framework called CASE (*Cadre Harmonisé de Suivi-Evaluation*) in order to assure coordinated monitoring across sectors of strategic objectives, projects and programs in the PSE. The CASE supports an M&E unit based in both Bureau of Operations and Method (BOM) and Bureau of Monitoring (BoM), located in the Office of the President, a unit to follow up on the PSE implementation and priority programs, the BoS (*Bureau Operationnel de Suivi*), also located in the Office of the President, while the MFB still has responsibility for the overall monitoring of budget spending. An inter-agency committee has been established between these three entities to define clearly an integrated M&E system based on the CASE decree and clarify operational division of responsibilities. It is expected that M&E reporting will improve based on the work of this committee over the period of the program.

107. 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.

108. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank
Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org."

6. SUMMARY OF RISKS AND MITIGATION

109. 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 of the DPF series. 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 DPF2. 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.

110. Political and governance risk is rated high. The political situation is subject to the pressures of a coalition in a lively democracy, in which the ruling party requires support from numerous smaller parties. While good economic results help support the President’s popularity there is also a perception that the benefits of growth are not being evenly distributed. Key sectors – in particular, health and education – visibly increased their mobilizations during 2018 asking for additional public resources. Given the positive response from the Government, other sectors may be tempted to follow suite. Hence, policy decisions risk becoming increasingly politicized.

111. Macroeconomic risks remain high. Unexpected changes challenging macro stability and fiscal sustainability may jeopardize attaining the objectives of the operation. Should further pressures on fiscal balances arise due to revenue shortfalls or unexpected expenditures (e.g. through rising oil prices and continued fixed energy tariffs), the Government may accumulate further arrears and miss the WAEMU fiscal deficit target. This may also negatively affect SENELEC’s financial situation – a key element of the program. Similarly, fiscal constraints may prevent the Government to reduce the cost of frequencies that are paid by ICT operations. This would deter further competition and the entry of new operators in the sector, as envisioned by the program. Also, fiscal incentives that are expected to be included in the new Startup Law may be lower than expected, thus reducing the impact on the development of startup firms. Increased risk of debt distress should not have any significant impact on access to international markets. Ultimately, external pressures may arise from oil price volatility, potential insecurity, and inadequate management of resource revenues, while weather and climatic shocks could derail (agricultural) growth prospects. The DPF team seeks to mitigate these risks through strong coordination with the IMF, in the
context of (1) a new PCI program, particularly on resource mobilization, quality of spending, budget transparency and debt issues, and of (2) TA programs on resource revenue management. The World Bank will also continue its direct policy dialogue on PFM issues under existing World Bank ASA and lending instruments. Prior Actions aiming at revised revenue determination and increased collection for SENELEC will directly contribute to the mitigation of this risk.

112. **Risks associated with sectoral strategies and policies remain high.** The electricity sector reforms have a long history of failed attempts, and their leadership has often lacked a sense of urgency, or they have been captured by vested interests. Also, emerging fiscal vulnerabilities reduced the Central Government’s responsiveness to pay arrears to SENELEC and to solve this SOE’s complex financial situation, and the sector remains highly vulnerable to eventual further increases in the international oil prices. The experience from previous operations underscores the need to balance a realistic, more focused but substantive reform agenda with enough flexibility to adapt to the political decision making in the country, and to ensure Government’s ownership. Similarly, the reforms in the ICT sector affect powerful vested interests in this growing and highly profitable sector, which have been able to delay or dilute reform attempts in the past. The experience of DPF1 and DPF2 implementation (with delays in the implementation of the financial operation for SENELEC in DPF2) in both sectors ratifies the need for close monitoring and permanent coordination among all stakeholders, including from the private sector. The reforms promoted through this series are backed by continuous policy dialogue and monitoring efforts by a field-based team, including the IFC, active involvement by management, and regular discussions with the IMF and other Development Partners on structural and sector reforms. This provides for prompt addressing of emerging issues, and the Government so far has proved responsive to instances of potential policy misalignments with the program.

113. **Risks related to institutional capacity for implementation and sustainability have been increased to high.** Bureaucratic inertia, poor coordination between the MFB, sector ministries and regulating agencies, and bottlenecks at the decision-making level, frequently result in delays in implementation and, at times, policy stalling or partially reverting altogether – as observed during implementation of DPF1 and DPF2. The programmatic nature of this series, its close supervision by field-based staff, as well as complementary investment and technical assistance operations in the same sectors, help mitigate this risk.

114. There are no direct climate-related risks linked to the project since it is focused on policy interventions and not physical infrastructure. Further information is provided in Annex 4 on climate co-benefits.

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**Table 10: Summary Risk Ratings**

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<tr>
<th>Risk Categories</th>
<th>Rating</th>
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<tr>
<td></td>
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<tr>
<td>1. Political and Governance</td>
<td>⚫ High</td>
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<td>2. Macroeconomic</td>
<td>⚫ High</td>
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<tr>
<td>3. Sector Strategies and Policies</td>
<td>⚫ High</td>
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<tr>
<td>4. Technical Design of Project or Program</td>
<td>⚫ Moderate</td>
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<tr>
<td>5. Institutional Capacity for Implementation and Sustainability</td>
<td>⚫ High</td>
</tr>
<tr>
<td>6. Fiduciary</td>
<td>⚫ Moderate</td>
</tr>
<tr>
<td>7. Environment and Social</td>
<td>⚫ Moderate</td>
</tr>
<tr>
<td>8. Stakeholders</td>
<td>⚫ Moderate</td>
</tr>
<tr>
<td>9. Other</td>
<td>⚫ Moderate</td>
</tr>
<tr>
<td><strong>Overall</strong></td>
<td>⚫ High</td>
</tr>
</tbody>
</table>
## ANNEX 1: POLICY AND RESULTS MATRIX

<table>
<thead>
<tr>
<th>Prior Actions under DPF1</th>
<th>Prior Actions under DPF2</th>
<th>Prior Actions under DPF3</th>
<th>Indicator Name</th>
<th>Baseline</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PILLAR I --- ENERGY</strong></td>
<td></td>
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</tr>
<tr>
<td><strong>Policy Area I.1 - Improving governance of the energy sector</strong></td>
<td></td>
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</tr>
<tr>
<td><strong>Governance and organization of SENELEC</strong></td>
<td></td>
<td></td>
<td>Improved performance and financial viability of SENELEC (aligned with SENELEC performance indicators):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior Action #1: In order to improve the management of SENELEC, the Government has entered with SENELEC into a focused Performance Contract, which includes a monitoring and corrective mechanism, and incorporates a functional performance incentive system.</td>
<td></td>
<td></td>
<td>Results Indicator #1: Unserved energy (total) per year (GWh) as proxy for blackouts and brownouts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior Action #1: To further strengthen SENELEC’s governance, the Recipient has established, for SENELEC’s independent Board members, their profiles, reflecting competences in private sector management and auditing, as well as the procedures for their selection and appointment.</td>
<td>Prior Action #1: To enhance transparency in the electricity sector, the Recipient’s Ministry of Petroleum and Energy has instructed SENELEC to reorganize, through the creation of: (i) the SENELEC holding company; (ii) separate subsidiaries for the generation, transmission and distribution of electricity; and (iii) a subsidiary associated with the natural gas segment to carry out a gas aggregator role.</td>
<td></td>
<td>Results Indicator #2: Overall electricity losses as percentage of electricity produced</td>
<td></td>
<td></td>
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</table>

| Prior Action #2: In order to enable the board of directors of SENELEC to better perform its corporate governance role, (i) SENELEC’s General Assembly has adopted the modifications to SENELEC’s statutes to ensure compliance with Article 416 of the OHADA Revised Uniform Act of 2014, allowing the appointment of directors to its board of directors that are not | | | | | |
Prior Action #3: In order to sustainably resolve the sector issues on cross debt and financial arrears, the Government has entered with SENELEC into a cross-debt and arrears clearance agreement covering the period August 2012 - February 2016, (ii) the Government has agreed to pay SENELEC’s 2017 VAT credits within the statutory three months while SENELEC has agreed to honor 100 percent of its tax commitments by 2019; and (iii) the Minister of Finance has issued a circular instructing all central government autonomous institutions and entities to include in their yearly budgets separate

Prior Action #2. To further strengthen the financial viability of SENELEC, the Recipient: (i) through its MFB, has agreed to settle its arrears to SENELEC in terms of tariff compensation and electricity bills for fiscal years 2017 and 2018 through additional funding for tariffs compensation in its 2018 budget, and the issuance of a promissory note to SENELEC for the remaining amount of arrears which first repayment instalment has been included in the 2019 Draft Budget Law submitted to Parliament; (ii) has made the payment of EPAFs’ electricity expenditures to the service providers mandatory, and (iii) has streamlined the processing of SENELEC’s VAT refund applications.

Prior Action #2. Under a detailed financial plan for the electricity sector that includes payment of public sector arrears and coverage of funds needed by SENELEC for tariff compensation, (i) the Recipient’s Ministry of Petroleum and Energy has requested the CRSE and the CRSE has agreed to modify the maximum allowed revenue tariff formula to include an ex-post adjustment of actual investment achievements; (ii) the Recipient has modified the decree (décret sur le Fonds de Préférence pour la compensation tarifaire des concessionnaires de l’électrification rurale) to apply a "passthrough" element corresponding to the shortfall for rural concessionaires as a result of tariff harmonization; and (iii) the CRSE has increased the level of tariffs.

Results Indicator #3: SENELEC debt coverage ratio (EBIDTA adjusted⁵⁷/debt service)

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Latest value:</strong></td>
<td>0.54 (2018)</td>
<td>1.0 (2021)</td>
</tr>
</tbody>
</table>

⁵⁷ Earnings before interest, taxes, depreciation and amortization. We adjust EBIDTA to take account of the fact that compensation payments have not been paid on time, creating a significant gap between ‘s revenues and cash received and hence the ability of  to meet their debt service obligations. We also adjust the EBIDTA for actual CAPEX. The deterioration of the baseline indicator from 2015 to 2018 is driven by the fact that while in 2015 and 2016 tariffs were sufficient to cover ‘s overall costs, the situation has changed considerably with the increase in the fuel costs and international markets, and hence the amount of compensation needed to be paid to  to cover any tariff revenue shortfall (given tariffs stayed unchanged).
Prior actions

**Results**

allocations for covering electricity and water bills.

**Policy Area I.2: Removing barriers to investment and competition in the energy sector**

**Electricity generation expansion**

<table>
<thead>
<tr>
<th>Prior Action #4: In order to diversify the country energy mix towards less expensive sources including renewables, the Council of Ministers has approved a Strategic Master Plan for Electricity Generation setting forth the Government’s priorities in energy diversification and private sector participation in power generation, including related project development modalities.</th>
<th>Prior Action #3: To accelerate the diversification of the Recipient’s energy mix towards less expensive and cleaner technologies, the Recipient’s Council of Ministers has approved and published a national strategy describing the key features of its institutional and legal framework for midstream and downstream gas subsectors.</th>
<th>Prior Action #3. To enable development of the gas-to-power strategy, the Recipient’s Council of Ministers has adopted and submitted to the National Assembly the draft gas law, which provides for planning, regulation and institutional arrangements for the gas subsectors in their midstream and downstream segments.</th>
<th>Prior Action #4. To enable development of the gas-to-power Strategy, (i) PETROSEN has formed a company (special purpose vehicle) that will build and operate the gas transportation system; (ii) the Council of Ministers has discussed the gas-to-power implementation plan and the Recipient’s Ministry of Petroleum and Energy has published on its website the main points of implementation, notably the percentage of private/public ownership of the company, Increase in the current least-cost production, as indicated by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results Indicator #4: Percentage of generation capacity that is not HFO-based</td>
<td>Results Indicator #5: Installed capacity of renewable energies</td>
<td>10 percent (2015) Latest value: 17 percent (2018)</td>
<td>45 percent (2021)</td>
</tr>
</tbody>
</table>
Prior actions identified PETROSEN as the principal public institution that will hold the public sector’s participation in the company; and the decision on the source of gas; and (iii) the Recipient’s Ministry of Petroleum and Energy has approved an updated electricity masterplan to fully integrate planned use of gas generation and including renewables forming at least 29 percent of the energy mix in 2025.

**Policy Area I.3: Facilitating equitable access to electricity**

**Affordability and availability of rural electricity**

<table>
<thead>
<tr>
<th>Prior Action #5:</th>
<th>In order to improve access to affordable electricity services in rural areas, the Minister of Energy has instructed the electricity national regulator to lower rural concessions’ electricity user tariffs to SENELEC’s national tariffs.</th>
<th>Increased access to electricity in rural areas.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Result indicator #6: Share of rural population with access to electricity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latest value: 43 percent (2017)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>29 percent (2015)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>60 percent (2021)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**PILLAR II---ICT SECTOR**

**Policy Area II.1 - Improving governance of the ICT sector**

<table>
<thead>
<tr>
<th>Sector legal, policy and institutional framework</th>
<th>Results indicator #7: Ranking of Senegal with respect to the A.1.02 sub-index of the Network Readiness Index (which</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior Action #4: To strengthen the ICT’s overall legal and institutional framework, the Recipient: (i) has submitted to the National</td>
<td>Latest value: 73rd (2016)</td>
</tr>
<tr>
<td>65th (2021)</td>
<td></td>
</tr>
<tr>
<td>Prior Action #7:</td>
<td>In order to facilitate the entry of a wider range of Internet Service Providers (ISP) into the retail internet broadband segment, the Government has: (i) enacted the amendments to Articles 29 to 32 of the Telecom Law No 2011-01 of February 24, 2011, providing that ISPs are subject to the lighter and less expensive general “authorization” regime instead of the “licensing” regime, and are allowed to deploy and operate their own infrastructure; (ii) issued an implementation decree of the amended Articles 29 to 32 of the Telecom Law No 2011-01 of February 24, 2011, which includes a provision converting already attributed ISP licenses into authorizations.</td>
</tr>
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</tr>
<tr>
<td>Prior Action #5:</td>
<td>To strengthen competition in the ICT market, the ARTP has adopted: (i) a decision listing the relevant markets for market dominance in the ICT sector; and (ii) a decision listing the dominant operators and their respective obligations in the relevant markets.</td>
</tr>
<tr>
<td>Prior Action #6:</td>
<td>To strengthen the competition in the broadband market, the ARTP has published on its website, the standard model and guidelines to be used for: (i) granting of internet service providers authorizations which contain only limited and reasonable restrictions to internet service provision and geographic coverage; and (ii) granting of authorizations to wholesale telecom infrastructure operators.</td>
</tr>
<tr>
<td>Prior Action #5:</td>
<td>To open access to dominant players’ essential infrastructure, the Recipient’s ARTP has adopted regulatory decrees strengthening regulation obligations of the dominant operators for the years 2018 and 2019.</td>
</tr>
<tr>
<td>Prior Action #6:</td>
<td>To increase incentives for all telecom operators and new ISPs to expand mobile networks, the Recipient has adopted a decree on radio frequencies introducing a 20 percent decrease in the total amount of fees payable by all telecom players and including discount rates for the use of frequencies by ISPs and in underserved areas.</td>
</tr>
</tbody>
</table>

**Policy Area II.2: Removing barriers to investment and competition in the internet broadband market**

<table>
<thead>
<tr>
<th><strong>Overcoming barriers to entry for new internet service providers and wholesale infrastructure operators</strong></th>
<th><strong>Results indicator #8: Internet penetration rate (source ARTP)</strong></th>
<th><strong>Results indicator #9: Number of facility-based Internet providers</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prior Action #6:</strong></td>
<td><strong>75 percent</strong> (2021)</td>
<td><strong>6 (2021)</strong></td>
</tr>
<tr>
<td>Policy Area II.3: Facilitating equitable access to ICT services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Prior Action #8:</strong> In order to increase competition in the wholesale internet broadband segment, the Government has adopted and implemented a decree specifying the rules for granting authorizations to wholesale telecommunications infrastructure operators, in accordance with Telecom law no 2011-01 of February 24, 2011.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Prior Action #7:</strong> To strengthen the competition in the 4G market, the Recipient, through its MPTEN, has established a Committee to engage in negotiations with interested mobile operators for the provisions of 4G telecom services.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Prior Action #9: With a view to reduce infrastructure roll-out costs for telecom operators, the Government has adopted and implemented a decree clarifying the technical and financial rules for infrastructure sharing among telecommunication operators in accordance with Articles 10 and 25 of the Telecom law no 2011-01 of February 24, 2011.

Prior Action #7: To activate the Universal Service Fund pursuant to the Universal Service Decree, the Recipient has: (i) established the new governance bodies namely a strategic committee and a fund coordinator; (ii) adopted the Universal Service strategy’s action plan with a focus on closing the digital divide and gender gap in women’s access to Internet; and (iii) had its first consultation with private operators to cover rural areas.

Prior Action #8: To promote open access to ADIE’s fiber optic network, the Recipient has published a competitive tender process (avis d’appel à pré-qualification) to select a private concessionaire to operate and expand said network in the Recipient’s territory.

Result indicator #10: Percentage of rural households reporting access to the Internet (Source: Gallup survey)

<table>
<thead>
<tr>
<th>Latest value: 23 percent (2016)</th>
<th>20 percent (2021)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of females reporting access to the Internet (rural) (Source: Gallup survey or update of the 2017 Enquête démographique et de santé continue)</td>
<td>12.1 percent (2017)</td>
</tr>
<tr>
<td>Sub-indicator: 30 percent (2021)</td>
<td>20 percent (2021)</td>
</tr>
</tbody>
</table>

PILLAR III: DIGITAL ECONOMY

Policy Area III.1: Enhancing Digital Economy Institutional and Legal Framework

Policy Area III.2: Strengthening the roll-out of e-Government solutions

<table>
<thead>
<tr>
<th>Prior Action #8: To generalize online tax and customs payments, the MFB has: (i) reduced the</th>
<th>Prior Action #9: To enhance efficiency and transparency of e-government services, reduce compliance costs for taxpayers and</th>
<th>Result indicator #11: Increase by 10 percent of</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior Action #9: To harmonize and expand the use of digital payment options, the MFB has: (i) updated and consolidated the rules governing digital payments received by the Recipient’s Treasury, Customs and Tax administrations; (ii) expanded the range of payment options to include mobile money, payment by cards, as well as payment service aggregators, among others; and (iii) established an open selection process for providers of digital payment services and defined the modalities for interoperability, data security, and protection of personal data applying to such services.</td>
<td>mandatory threshold for the use of electronic filing from FCFA 500 million to FCFA 100 million of annual turnover to ensure coverage of all medium-sized companies in the e-tax platform in 2019; and (ii) established the threshold of FCFA50 million for the mandatory online payment of customs duties and fees.</td>
<td>strengthen domestic resource mobilization, the Recipient’s MoF has: (i) operationalized digital consultation of taxes (through the MoF’s personalized taxpayer webpage, “my personal space”), which covers at least 10 percent of eligible taxpayers; and (ii) operationalized a risk-based audit selection system, which encompasses at least 50 percent of relevant verifications.</td>
</tr>
</tbody>
</table>
Prior Action #10: To create a business environment conducive to entrepreneurship and innovation, the Recipient's Council of Ministers has adopted and submitted to the National Assembly: (i) a draft law on the creation and promotion of start-ups in Senegal; and (ii) amendments to the General Tax Code to streamline MSME taxation through the draft finance law 2020.

Result indicator #13: Number of firms registered as ‘startups’ by a licensed private or public support structure (as defined in the startup law).

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>0</td>
</tr>
<tr>
<td>2021</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: MENT/licensed support structures (incubators, accelerators, etc.)
ANNEX 2: LETTER OF DEVELOPMENT POLICY

RÉPUBLIQUE DU SÉNÉGAL
MINISTÈRE DES FINANCES
ET DU BUDGET

Dakar, le 18 NOV 2019

LE MINISTRE

A Monsieur David Malpass
Président de la Banque Mondiale
Washington D.C

OBJET : Troisième Crédit d’appui aux Réformes Structurelles Multisectorielles (CPF III)

Monsieur le Président,

Je voulais, au nom du Gouvernement de la République du Sénégal, solliciter un Crédit d’Appui aux Réformes Structurelles Multisectorielles d’un montant équivalent à 180 millions de dollars US pour soutenir notre programme de réformes.


Par ailleurs, l’ensemble des actions préalables convenues avec les services de la Banque Mondiale ont été entièrement réalisées.

En vous remerciant pour l’appui constant que vous nous apportez, je vous prie d’agréer, Monsieur le Président, l’assurance de ma haute considération.

[Signature]

[Signature]
REPUBLIQUE DU SENEGAL

Un Peuple - Un But - Une Foi

MINISTERE DES FINANCES ET DU BUDGET

LETTER DE POLITIQUE DEVELOPPEMENT

(novembre 2019)

I. Introduction

1. Le Sénégal a élaboré et adopté, avec l'appui de ses partenaires techniques et financiers sa Stratégie de développement économique et social, le Plan Sénégal Emergent (PSE II). Il s'agit de politiques et programmes intégrés qui traduisent la volonté politique du Gouvernement, d'inscrire le Sénégal sur la voie du développement et la prise en compte des préoccupations de base des populations. L'objectif consiste à assurer les conditions d'une croissance soutenue, inclusive et durable à même de réduire significativement la pauvreté et d'atteindre les Objectifs de Développement Durable (ODD).

2. Le développement économique et social du Sénégal nécessite la mise en œuvre d'une stratégie conduisant à une croissance économique à fort impact positif sur les conditions de vie des populations mais prenant en compte la nécessité de redresser les finances publiques et de maintenir la dette publique à des niveaux soutenables. A cet égard, le défi majeur porte essentiellement sur la relance de l'économie dans un contexte de gouvernance vertueuse, efficace et efficiente. Le PSE II s'articule autour de trois axes : (i) Croissance, Productivité et Création de richesses ; (ii) Capital humain, Protection sociale et Développement durable et (iii) Gouvernance, Institutions, Paix et Sécurité.

3. Par ailleurs, en vue de renforcer le dialogue sur les politiques publiques avec ses partenaires au développement, et de rationaliser les interventions de ces derniers pour un meilleur alignement et une meilleure prévisibilité, le Gouvernement tient des rencontres périodiques avec le groupe des partenaires techniques et financiers et une revue annuelle conjointe. En outre, le Gouvernement vient d'arrêter un nouveau programme économique et financier qui vise le développement du secteur privé, la stabilisation macroéconomique et la gestion transparente et efficace des ressources en pétrole et gaz sur les prochaines années.

Ce document résume les récentes performances économiques et sociales et les perspectives du Sénégal.

II. Les résultats préliminaires pour 2018

4. L'année 2018 marque la fin de la première phase de mise en œuvre du Plan Sénégal Emergent (PSE), caractérisée par une croissance forte et soutenue, dans un contexte de faible inflation et des efforts pour atteindre l'objectif de déficit budgétaire. En effet, pour la cinquième année consécutive, l'économie sénégalaise a enregistré en 2018 un taux de croissance
de plus de 6% l’an, largement au-dessus des 3% enregistrés sur la période 2009-2013. Sur la période 2014-2018, la croissance a été en moyenne de 6,6% par an. Elle a été tirée principalement par les contributions de la consommation finale (3,5%) et de l’investissement privé (2,1%). Pour sa part, le secteur public a contribué à hauteur de 1,4% (0,7% pour la consommation finale et 0,7% pour l’investissement).

5. L’année 2019, première année de mise en œuvre du Plan d’actions prioritaires pour la seconde phase (PAP II, 2019-2023) du PSE, est caractérisée par la poursuite du dynamisme de l’économie. Au premier semestre de 2019, l’activité économique non agricole, mesurée par l’indice Général d’Activité (IGA) est ressortie en hausse de 5,7%, reflétant la bonne tenue du secteur primaire (+9,4%), de l’administration publique (+9,6%) et dans une moindre mesure des secteurs secondaire et tertiaire, qui se sont inscrite en hausse de (-4,9%) et (-3,9%), respectivement. Pour ce qui est du niveau général des prix, mesuré par l’indice national harmonisé des prix à la consommation (INHPC), l’inflation est ressortie à 1,0% sur les six (06) premiers mois de 2019 comparativement à la même période en 2018. Globalement, le taux de croissance du PIB est estimé à 6,0% pour l’année 2019. Un transfert unique vers la SENELEC augmentera exceptionnellement le déficit budgétaire à 3,7% du PIB avant de se stabiliser autour de l’objectif de 3% prévu par l’UEMOA à partir de 2020.

III. Politique macroéconomique et réformes structurelles pour 2019-2023

A Politique macroéconomique


9. L’ambition du Gouvernement est surtout de répondre à la question de savoir à qui profite la croissance. Pour y arriver, il faut d’abord une croissance de qualité, qui génère de l’emploi et des revenus, et favorise un développement solidaire et inclusif. À ce titre, les différentes initiatives lancées au cours de la première phase du PSE devraient être renforcées. Il s’agit du Programme d’Urgence de Développement Communautaire (PUDC), dédié aux zones rurales les plus défavorisées ; du Programme d’Urgence de Modernisation des Axes Frontaliers (PUMA), dédié à nos localités enclavées et démunies ; du Programme de Modernisation des
Villes (PROMOVILLES), axé sur des travaux à haute intensité de main d’œuvre (assainissement, voie et éclairage public) ; du Programme National de Bourse de Sécurité Familiale (PNBSF) qui consiste en un transfert monétaire aux familles pauvres ayant des enfants en âge scolaire dont la scolarisation et le suivi sanitaire sont une conditionnalité ; et du Programme National de « Couverture Maladie Universelle CMU », avec comme axe stratégique prioritaire le développement et la promotion des mutuelles de santé.

10. Le Gouvernement s’engage à élabore une Stratégie de développement du secteur privé. Celle-ci a pour objectif d’établir un cadre propice au déploiement et au développement du secteur privé. La stratégie est articulée autour de trois axes : (i) le renforcement des bases à long terme du développement ; (ii) l’amélioration de l’efficacité de l’intervention de l’État ; (iii) la mise en place d’un cadre juridique et institutionnel favorable au développement des PPP avec une plus forte implication du secteur privé national et communautaire.

11. Le renforcement des bases à long terme du développement reposera sur l’amélioration de la couverture et la qualité des infrastructures physiques, la gestion durable des ressources naturelles, la valorisation et le renforcement du capital humain.

12. L’amélioration de l’intervention de l’État passera par un ensemble de réformes concernant : le cadre juridique et judiciaire, le financement, la simplification des procédures, la promotion de la concurrence, la législation du travail, la réforme de l’administration publique, la politique fiscale et la gestion des ressources publiques.


14. Le Gouvernement entend mieux gérer son endettement en mettant davantage l’accent sur le PPP, tout en veillant à leur impact budgétaire. A cet égard, la loi PPP de 2014 sera revue en profondeur ; le Comité national d’appui aux PPP sera mis en place ; la loi sur le Conseil des infrastructures (organe de régulation) sera révisée. L’implication du secteur privé national et communautaire dans la réalisation et le développement des PPP sera renforcée à travers un niveau de sous-traitance plus important et selon l’expertise et les capacités évaluées des entreprises locales classées. Aussi, les seuils seront revus pour permettre aux nationaux de pouvoir faire des offres spontanées dont leurs procédures de traitement seront revisitées dans le cadre de la révision de la loi PPP.


16. Sur la base d’une évaluation participative de la législation du travail, des réformes visant à créer une administration du travail plus efficace, un droit du travail plus équilibré et des réglementations du droit du travail plus adaptées à la situation des PME seront élaborées et appliquées. Dans le cadre du Partenariat pour les réformes, le Sénégal bénéficiera d’un Appui-
conseil stratégique dans l’identification des besoins de réforme, l’élaboration du projet de réforme et sa mise en œuvre ; la réalisation d’analyses thématiques comparatives ; le soutien à la conduite d’un dialogue partenaire continu sur l’emploi et sa formalisation. Un autre volet de l’appui concernera l’optimisation des processus au niveau des Inspections du travail pour plus d’efficacité et de transparence ; (i) Analyse du rôle des Inspections du travail dans le paysage institutionnel de l’emploi ; (ii) Analyse des processus au sein des Inspections du travail pour accroître le niveau de transparence, de redevabilité et d’efficacité au sein de ces structures ; (iii) Mesures de renforcement de capacités et de digitalisation.

17. L’accès au foncier est également identifié comme un obstacle majeur pour l’amélioration du climat des affaires. Les réformes dans ce domaine concerneront (i) l’accélération de l’attribution des affectations de terres (droit d’usage) et des titres fonciers dans les zones rurales ; (ii) la dématérialisation du cadastre, et (iii) l’introduction d’un cadastre universel.

18. Par ailleurs afin d’accompagner la sécurité des investissements dans le domaine de l’agrobusiness, l’État a décidé de mettre en place, avec l’accompagnement de ses partenaires techniques et financiers et en rapport avec les collectivités territoriales, des bureaux fonciers, prioritairement dans les collectivités territoriales présentant un enjeu dans ce domaine.

19. Le PSE souligne explicitement la nécessité d’améliorer l’accès au financement des entreprises privées afin d’atteindre l’objectif global de dynamiser le secteur privé. L’accent sera mis sur : a) le soutien au processus de transformation institutionnelle de FONGIP, b) le soutien à FONSS pour la création du fonds PME, y compris les aspects de gouvernance, c) le soutien aux institutions de microfinance (MF), pour développer de nouveaux produits de prêts et améliorer l’analyse du crédit et du risque pour les PME et d) le soutien aux banques commerciales partenaires du Fonds africain de garantie (AGF) pour développer des produits de crédit adaptés aux PME et améliorer l’analyse du crédit et du risque pour les PME. De même le Gouvernement mettra en œuvre dès 2020 la loi sur le développement des PME qui sera adoptée par le parlement avant la fin de l’année.

20. Le Gouvernement du Sénégal s’est fixé pour objectif de réduire les disparités économiques et sociales entre zones urbaines et rurales et de renforcer les perspectives économiques en particulier pour les jeunes et les femmes. A cet égard, l’offre de formation et de qualification du système de formation technique et professionnelle sénégalais doit être plus adaptée aux besoins des entreprises et de la société. Les réformes envisagées porteront notamment sur (i) la finalisation et l’application de la loi d’orientation de la formation professionnelle et technique ; (ii) le renforcement des mécanismes de concertation et coordination entre les secteurs public et privé ; (iii) l’amélioration des processus d’assurance qualité de la formation professionnelle ; (iv) l’amélioration de l’accès à la formation professionnelle et à la certification des compétences ; (v) l’appui à l’actualisation des annexes de classification des conventions collectives de branche.
B. REFORMES STRUCTURELLES

B.1. Renforcer la mobilisation des recettes domestiques

21. À compter de 2020, le Gouvernement mettra en œuvre une Stratégie de Mobilisation des Recettes à Moyen Terme (SRMT) dont une première version sera disponible en décembre 2019. Cette stratégie aura pour objectif d’améliorer significativement et de manière durable le recouvrement des recettes budgétaires, pour atteindre un taux de pression fiscale de 20% à l’horizon 2023, permettant à la fois de financer des programmes de développement inscrits dans le PSE II et de maintenir la stabilité macro-budgétaire du Sénégal.

22. Pour mettre en œuvre la stratégie de mobilisation des recettes, le Gouvernement s’appuiera sur 4 axes principaux : (i) l’achèvement de la transformation numérique des administrations en charge des recettes (ii) l’adaptation des ressources humaines aux enjeux actuels et futurs pour la maitrise de l’assiette et le contrôle et (iii) les réformes institutionnelles et du système de gouvernance du programme de mobilisation des recettes et enfin (iv) les mesures de législation, notamment celles de politique fiscale.

23. La SRMT est essentiellement articulée autour de mesures administratives. Le diagnostic du système fiscal montre un faible trop faible nombre de contribuables et d’importateurs qui paient leurs impôts. Pour renverser cette situation, la SRMT vise les objectifs spécifiques suivants :
   (i) élargir l’assiette fiscale et douanière, en centralisant et en exploitant des données sur des contribuables inconnus des services en charge des recettes ;
   (ii) contrôler la cohérence des déclarations ;
   (iii) maîtriser la valeur en douane et en réduisant les détournements de destination et de régimes économiques ;
   (iv) améliorer la productivité des services de recettes par l’optimisation de leurs processus ;
   (v) réduire les coûts supportés par les contribuables pour se conformer à leurs obligations fiscales et douanières.

24. Les principales mesures de politique fiscale de la SRMT viseront à faciliter la formalisation des entreprises et à élargir l’assiette fiscale. Elles incluront entre autres une réforme du régime fiscal des petites entreprises, de l’impôt des sociétés et de l’impôt minimum forfaitaire, de même qu’une diminution des dépenses fiscales, notamment par un meilleur ciblage des incitations à l’investissement. L’impôt foncier sera réformé afin de contribuer à terme à l’identification des contribuables et de leurs actifs, la simplification des droits de timbre et d’enregistrement sera poursuivie et le système de remboursement de la TVA sera amélioré afin d’éviter qu’elle ne pèse sur les entreprises. À court terme, les acomptes en douane sur les impôts sur le revenu seront majorés pour les contribuables non maîtrisés afin de les inciter à se formaliser.

25. La DGID mettra en œuvre les actions suivantes pour maitriser et élargir l’assiette :
   - dématérialisation des déclarations ainsi que des procédures fiscales et douanières qui sont riches en données sur des entités économiques qui sont en dehors du portefeuille existant ou qui contribuent peu aux recettes ;
   - centralisation et lecture des données financières par les différentes administrations ;
- accès des services de la DGD aux données de fiscalité intérieure (détails des transactions et charges intérieures, états financiers etc.) de la DGD pour une meilleure optimisation des travaux de la direction en charge des enquêtes douanières ; et finalisation de l’interconnexion de la DGD et DGID y compris un rapport trimestriel sur l’exploitation des données issues de l’interconnexion et des échanges d’information Mise en œuvre d’une stratégie de « recrutement » et de fidélisation de nouveaux contribuables ou de primo-déclarants. Un dispositif d’accompagnement sera mis en place pour identifier les acteurs non immatriculés et les acteurs du secteur informel pour une durée d’au moins deux ans, en fournissant un appui/accompagnement dans le processus de déclaration et une procédure de rappel des échéances ;
- immatriculation, identification et géolocalisation des unités économiques pour renforcer les activités de contrôle et de recouvrement ;
- amélioration de l’efficacité des missions de contrôle et l’intensification de la fonction de renseignement.


27. L’extension du périmètre des téléprocédures et des paiements d’autres contribuables et à d’autres procédures fiscales. Dans le cadre de la SRMT, le Gouvernement adoptera des initiatives visant à renforcer les paiements électroniques dans l’économie. En ce sens, elle adoptera un cadre légal et réglementaire pour accompagner les tendances actuelles de réduction des transactions en numéraire qui favorisent l’informalité, afin de développer l’assiette fiscale. En outre, le Gouvernement mettra en service le M-tax pour permettre aux contribuables de déclarer et de payer leurs impôts par téléphone mobile.


29. La maîtrise et l’élargissement de l’assiette sera également renforcé au cordon douanier par le biais des actions suivantes :

- renforcement du contrôle sur les opérations commerciales en mettant l’accent sur les éléments de taxation (valeurs, espèces et poids) et la suppression du dédouanement forfaitaire ;
- optimisation de l’utilisation du scanner ;
- généralisation de GAINDE dans les bureaux intérieurs ;
- démécanisation des formalités du transit et extension du suivi électronique des expéditions de marchandises à tous les corridors ;
- consolidation de la réforme du dédouanement de proximité ;
- démécanisation intégrale des procédures de dédouanement et des formalités administratives ;
- automatisation de la gestion de la TVA suspendue ;
- extension de l’application informatique de gestion des exonérations et des régimes économiques douaniers (RED) aux autres régimes, en dehors du code minier.

3.0. Pour un suivi efficace des exonérations et un renforcement de la lutte contre la fraude, le recouvrement et le contrôle de cohérence entre les activités de l'importateur bénéficiaire, le montant des exonérations obtenues et la nature des biens bénéficiaires seront renforcés au niveau de l'analyse des risques et au stade du contrôle après dédouanement.

B2. Efficacité et transparence de la dépense publique

31. L’amélioration de la qualité de la dépense publique financée sur ressources internes reste un défi majeur. Ainsi, le Gouvernement entend, à partir de la deuxième année d’exécution d’un projet dont le coût global est supérieur ou égal à un milliard de francs, subordonner l’inscription de crédits de paiement dans la loi de finances, à la production, par le ministère concerné, d’un rapport d’exécution physique et financière portant sur l’année antérieure. Par ailleurs, en, vue de favoriser l’orientation des dépenses vers la formation brute de capital fixe, le Gouvernement s’engage à réviser le décret n°2012-673 du 4 juillet 2012 portant nomenclature budgétaire de l’État. Le Gouvernement entend accroître l’efficacité de l’investissement. À cet effet, il va mettre au point des critères rigoureux pour la sélection et la hiérarchisation des projets. Toute proposition de projet serait inscrite dans une banque de projets et une analyse rigoureuse serait demandée avant de pouvoir l’inclure dans le budget. Les projets étudiés seront désormais prioritaires dans le Budget Consolidé d’Investissement (BCI). La banque intégrée de projets sera opérationnelle et un Comité de sélection des investissements publics sera mis en place. Un plan d’actions sera mis en place pour intégrer, dans la plateforme, le cahier des charges des projets significatifs en termes d’impact sur la croissance. L’amélioration de l’efficacité des investissements en actifs financiers et non financiers est également une priorité pour le PNUD et le FMI. Le Gouvernement entend mettre en œuvre les recommandations de la récente évaluation PIMA effectuée par une équipe technique du FMI.

32. Mise en œuvre des directives PFM de l’UEMOA des janvier 2020. Le Sénégal a transposé sept des huit (8) directives du cadre harmonisé des finances publiques, à l’exception de la directive portant régime financier et comptable des collectivités territoriales. En particulier, la loi organique portant lois des finances consacre les principes qui sous-tendent les nouvelles pratiques budgétaires et comptables : le passage d’un budget de moyens à un budget axé sur les résultats, de la comptabilité de caisse à une comptabilité patrimoniale en droits constants, ainsi que le renforcement des pouvoirs de contrôle de l’Assemblée nationale et de la Cour des comptes.

34. Le Gouvernement procédera à l’évaluation préalable de tous les projets financés sous forme de Partenariat Public-Privé (PPP) en application de la loi relative aux contrats de partenariat et de son décret d’application. Le Gouvernement utilisera les meilleurs critères d’analyse des implications budgétaires pour tous les projets de ce type et s’assurera de leur soutenabilité budgétaire. Le Ministère de l’Economie du Plan et de la Coopération prendra les dispositions nécessaires pour fixer les modalités de financement des PPP et veillera à ce que les risques d’exploitation de ces projets soient supportés par les opérateurs privés attributaires de conventions. A cet effet, le Gouvernement a sollicité le soutien de la Banque mondiale pour l’évaluation des passifs contingents.


B3. Autres réformes structurelles

36. Le Gouvernement entend améliorer considérablement l’environnement des affaires afin de promouvoir le secteur privé, vecteur de valeur ajoutée et d’émergence par : (i) la création dans une ZES d’un espace économique avec une réglementation favorable à l’entreprise y compris un régime fiscal avec un taux d’imposition modéré et des dépenses fiscales minimales ; (ii) la poursuite de la dématérialisation des procédures administratives et la facilitation dans les meilleurs délais possibles de la circulation dans la zone industrielle ; l’examen des contraintes liées au processus d’établissement de textes juridiques dans les secteurs concernés, etc., (iii) l’accompagnement ou la contribution des services de l’Apix, de la Douane, des Impôts et des Domaines, de l’Urbanisme et de la législation du travail dans l’amélioration de l’environnement du climat des affaires se poursuivrepar l’opérationnalisation du projet du guichet unique et également le registre des garanties.

37. Également pour faciliter l’accès aux services financiers, le Gouvernement s’engage à ; i) mettre en œuvre intégralement le programme d’éducation financière pour les PME ; ii) poursuivre les discussions avec le secteur privé et les syndicats des travailleurs pour le paiement, par domiciliation dans les comptes bancaires ou par tout moyen de paiement électronique, des salaires supérieurs à 100,000 FCFA ; iii) poursuivre, en collaboration avec les partenaires techniques et financiers et la BCEAO, les efforts visant la promotion de l’inclusion financière à travers l’élaboration d’une stratégie nationale d’inclusion financière et la digitalisation de certains paiements Gouvernementaux.

C. Reformes sectorielles

C1. Secteur de l’Énergie

Option stratégique 1 : La sécurisation de la production et de l'approvisionnement en hydrocarbures pour assurer la disponibilité et l'accessibilité à des hydrocarbures de qualité à un juste prix ;

Option stratégique 2 : Accès à l'électricité avec une qualité et une continuité de service à moindre coût. Cette option s'inscrit dans le cadre d'une politique de renforcement du système d'offre d'électricité pour une disponibilité de l'électricité à moindre coût. Ainsi, le Gouvernement ambitionne de faire passer la puissance installée de 896 MW en 2017 à au moins 1970 MW en 2023. Dans ce cadre une stratégie « Gas To Power » a été élaborée avec un double objectif (réduire le coût de l'électricité et assurer la transition avec le gaz naturel qui une énergie plus propre conformément à l'objectif de développement durable n°7). En attendant la production des champs gaziers du Sénégal, la transition sera assurée par l'importation de gaz naturel liquéfié (GNL) pour la production d'électricité (prévue à partir de 2022). Pour y parvenir d'importants jalons devront être posés pour :
- Identifier et concevoir les infrastructures de réception et de transport du gaz naturel pour l'alimentation des centrales électriques;
- Mettre à niveau les infrastructures de production électrique à travers la conversion des centrales thermiques actuelles en dual-fuel et l'implantation de nouvelles centrales thermiques utilisant le gaz naturel comme énergie primaire.


39. Afin d’assurer l’accès universel à l’électricité en 2025, l’État opte pour le développement d’un important réseau de transport et de distribution. Pour accroître le taux d’électrification (60% en milieu rural en 2019 et 75% en 2022) et des zones urbaines (95% en 2023) l’accent est mis sur la densification et l’extension des réseaux électriques et le développement de projets hors réseaux pour les zones non interconnectées. En outre le Gouvernement poursuit la promotion de l’exploitation du potentiel d’œnergies renouvelables avec un taux de pénétration hors hydroélectricité dans le système électrique d’au moins 18% en 2023. Par ailleurs le Gouvernement continuera de soutenir l’autoproduction à partir d’énergies renouvelables et l’utilisation des systèmes individuels solaires (SHS).

49. Dans le cadre de la maîtrise de l’énergie, les efforts de vulgarisation et de sensibilisation pour développer une conscience nationale de l’économie d’énergie seront poursuivis. De plus, il est prévu le renforcement du cadre légal et réglementaire qui prévoit l’élaboration et l’application de principes et règles adaptés d’efficacité énergétique qui garantit la qualité des lampes et autres équipements efficaces.

Option stratégique 3 : L’accès durable des populations aux combustibles modernes de cuisson surtout pour les populations rurales en combustibles domestiques dans un souci de préservation de l’environnement.

Option stratégique 4 : Renforcement de la gouvernance, du financement, de la régulation et du suivi-évaluation. Porte essentiellement sur la modernisation des structures, la capacitation et la valorisation des ressources humaines, l’articulation intelligente des
 différents programmes et la promotion d’un processus participatif autour des objectifs et des actions. Les réformes en cours visent à:
- Structurer Senelco en holding avec quatre filiales dont une en charge de l’achat et de la vente de gaz, qui assurera le rôle d’agrégateur ;
- Mettre en place d’une société de transport du gaz avec la participation du secteur privé local et étranger;
- Renforcer le système de régulation du secteur par l’élargissement des missions de la CRSE au sous-secteur intermédiaire et aval gazier;
- Adopter une loi dite code gazier qui encadre les activités intermédiaire et aval de la filière gaz est en cours d’adoption;
- Rendre plus viable le secteur de l’énergie en particulier la Senelco et les concessionnaires d’électrification rurale en leur garantissant l’intégralité de leurs revenus.

41. Pour réaliser cette ambition, le Gouvernement du Sénégal renforcera sa coopération avec ses partenaires techniques et financiers en particulier le Groupe de la Banque mondiale, le MCC, la coopération allemande et française.

42. Afin de rendre le coût plus abordable et d’améliorer la situation de la trésorerie de l’Etat et de la SENELCO, la solution évidente consiste à réduire de toute urgence les coûts de production de l’électricité au Sénégal en passant de la forte dépendance à la production basée sur le HFO à une production d’électricité moins coûteuse, surtout à travers les centrales au gaz et l’énergie renouvelable.

43. Le Gouvernement s’est engagé à élaborer un plan financier pour le secteur de l’énergie afin d’assurer sa viabilité à long terme. Le plan sectoriel comprend les éléments clés suivants: (i) la diversification du mix énergétique du pays vers des technologies moins polluantes, en particulier les énergies renouvelables et le gaz; (ii) la viabilité financière du secteur à court terme, visant notamment à rassurer les investisseurs du secteur privé; (iii) la gouvernance du secteur, la réforme et le renforcement des institutions.

44. Spécifiquement, le Sénégal vise à augmenter la part de la production d’énergie renouvelable dans son mix énergétique en forme de l’énergie solaire, éolienne, ainsi que de l’exploration du potentiel hydraulique et vise à remplacer, au fil du temps, la production d’électricité à base de pétrole par le gaz naturel liquéfié (GNL), puis par le gaz domestique (dans le cadre de la stratégie approuvée « Gas-to-Power »). En plus, la construction des connexions internationales permettra d’importer l’énergie hydraulique à moyen terme.

- Le Gouvernement sénégalais a élaboré et approuvé (par le Conseil des ministres et soumis au Parlement) une nouvelle loi sur le gaz (Code Gazier) couvrant le transport en aval, la réglementation, la commercialisation et la livraison de gaz.
- En outre, dans le cadre de la mise en œuvre de la stratégie au titre de DPP3, le Gouvernement a décidé de développer les importations de GNL à l’aide d’une unité de regazéification à stockage flottant (FSRU) à partir de 2022, puis de développer les sources de gaz domestique. Le Gouvernement a également formé la société (entité juridique ad hoc/SPV) qui possédera et exploitera le système de transport de gaz et a défini et annoncé que la majorité de ce gazoduc appartiendra au secteur privé. L’actionnaire du secteur public sera PETROSEN, avec une participation minoritaire de Senelco. La Senelco a créé une filiale qui sera le premier agrégateur de gaz.
45. Pour soutenir la stratégie «Gas to Power», Senelec doit choisir les centrales à convertir pour brûler du gaz et procéder à la conversion au plus tôt possible. Le Gouvernement doit également prendre une décision sur le trajet final du gazoduc (conduite de gaz) et poursuivre son développement afin de faciliter le passage vers le gaz domestique le plus tôt possible.

46. La diversification de mix de production doit être soutenue par un plan de production au moindre coût mis en œuvre en utilisant les processus de passation des marchés concurrentiels, dans la mesure du possible.

42. Pour Assurer une gestion soutenable et transparente du secteur des Hydrocarbures, le Sénégal dispose depuis 2019, d’une loi portant code pétroler et qui régit les activités d’exploration, d’exploitation et de partage de production. Une autre loi relative au contenu local est entrée en vigueur la même année afin de faire bénéficier le secteur privé local des externalités positives induites par l’exploitation des hydrocarbures. Ce dispositif juridique sera complété ultérieurement par deux autres lois en cours de préparation et traitant d’une part de la répartition, de l’encadrement et de la gestion des recettes issues de l’exploitation des hydrocarbures et d’autre part des modalités de contributions des ressources gazières à la réduction des coûts de l’énergie et au renforcement de la compétitivité de l’économie. Par ailleurs, le Gouvernement et PETROSEN participent aux activités de contractualisation avec le secteur privé et mettent en œuvre les orientations et recommandations issues du COS-PETROGAZ. Il est envisagé dans ce cadre d’inculquer dans la prochaine loi traitant de la répartition et de la gestion desdites ressources, la création d’un Fonds intergénérationnel dont la gestion sera assurée par le FONSIS et d’un fonds de stabilisation.

47. Le processus de changement du mix énergétique prendra du temps (2-3 ans). Pendant la période initiale, le Gouvernement continuera à soutenir le financement du secteur par le biais de subventions afin de compenser SENELEC pour tout l’écart entre les coûts (le Revenue Maximum Autorisé) ou bien par les recettes tarifaires, en prenant compte des tarifs en vigueur. Le Gouvernement veillera à ce que des mesures soient mises en place pour garantir des paiements de la compensation ponctuels et suffisants à la SENELEC afin que celle-ci puisse à son tour respecter ses obligations vis-à-vis de ses fournisseurs, notamment la SAR (la Société africaine de raffinage), des fournisseurs d’achat d’énergie (les PIBs) et de pouvoir payer ses obligations envers les institutions de crédits.

48. De plus, le Gouvernement confirme son engagement à faire payer les arriérés du secteur public envers la SENELEC relatifs à la consommation d’électricité par les entités publiques :

- Quant à l’administration centrale et l’éclairage public, il y aura des lignes budgétaires dans la LFI 2020 pour apurer tous les arriérés accumulés restant à payer pour les années 2016 jusqu’en 2019.
- Concernant les arriérés de paiement par les EAPF (Établissements Publics d’Autorisation Financière), des énoncés seront signés spécifiant le plan d’apurement de la dette. Ces accords d’apurement des arriérés devront inclure les arriérés passés sur une période de 3 ans et seront signés entre la SENELEC et les EAPFs.

49. Le Gouvernement, la Commission de Régulation du Secteur de l’Electricité (CRSE) et SENELEC ont pris un certain nombre de mesures structurelles pour améliorer la confiance dans le processus de réglementation et de collecte des revenus par la SENELEC. Celles-ci incluent :
La modification (par CRSE) de la méthodologie et de la formule de contrôle des revenus (la RMA) afin d’inclure un ajustement ex-post de la RMA prenant en compte les réalisations des investissements chaque fois que les investissements réalisés par SENELEC sont différents des investissements prévus qui entrent dans le base d’activités réglementaires (RAH).

Une modification des tarifs pour annuler partiellement l’effet de la réduction tarifaire qui a été effectuée au début de l’année 2017. A cette époque, l’ajustement suivant était appliqué : pour T1, la diminution était de 15%, pour T2, la diminution était de 11% et pour T3, la diminution était de 4%. Pour les tarifs de la tension moyenne (MT) et de haute tension (HT), les tarifs étaient ajustés à la baisse de 4%. Afin de réduire l’écart entre le RMA et les recettes tarifaires (donc le besoin de la compensation). À partir du 1er décembre 2019, les tarifs doivent être ajustés à la hausse de 10% pour les clients résidentiels (selon la proposition, le même ajustement sera appliqué aux tranche T2 et T3 et de 6% pour les clients MT et HT).

Le Gouvernement a également mis en place un plan de paiement pour les arriérés de consommation existants. Conformément au DPP2, le Gouvernement a pris un décret sur l’extension de la taxe TCO au secteur industriel afin de financer au moins 61% des dépenses d’éclairage public ; le Gouvernement a promulgué un décret rendant obligatoires les dépenses en électricité des EAPF et n’a approuvé que les budgets de ces EAPF qui disposaient d’allocations suffisantes pour couvrir ces dépenses.

50. D’autres actions sont nécessaires afin de garantir un bon fonctionnement du secteur d’ici 2026 quand le besoin de la compensation sera éliminé. Celles-ci incluent :

- **Le besoin de compensation dans les années à venir.** L’engagement par le Gouvernement de mettre en place un plan pour garantir des paiements ponctuels de la compensation et d’intégrer le montant correspondant au besoin de compensation dans le processus de préparation de la loi de finance initiale. Le besoin de compensation doit être suivi en rapport avec les rapports périodique de la CRSE et être intégré dans la Loi de Finances Rectificatif (LFR).

- **Elimination d’accumulation des arriérés de paiement liés à la consommation d’électricité par le secteur public.** Chaque année, le Gouvernement doit s’assurer que le budget approuvé des entités publiques incluent des dotations suffisantes sur la ligne consommation d’électricité mais également pour l’éclairage public à moins qu’il y ait un autre moyen en place qui permettrait à Senelec d’être remboursé pour l’électricité livrée (par exemple une taxe qui permettrait à SENELEC de récupérer le coût sous-jacent auprès des clients existants).

51. **Le Gouvernement compte adopter dans les meilleurs délais un projet de loi de répartition et de gestion des revenus qui reflète les meilleures pratiques en la matière.** Le Gouvernement entend adopter une règle d’ancrage budgétaire à long terme qui sera défini autour d’un cadre garantissant le partage des recettes avec les générations futures. Le Gouvernement compte adopter une règle budgétaire d’opérationnalisation à court terme (hors ressources pétrolières et gazières) afin d’avoir une meilleure appréciation de sa politique budgétaire. Cette approche tiendra compte des risques budgétaire des incertitudes liées au recouvrement (prix, quantités etc.) des recettes attendues du secteur.

52. **Le Gouvernement entend mettre en place un dispositif cohérent et transparent de gestion des ressources issues de l’exploitation des hydrocarbures.** Pour cela, le projet de texte législatif relatif à la répartition à l’encadrement et à la gestion des recettes issues de l’exploitation des hydrocarbures (objectif de réforme, juin 2020) a retenu entre autres principes directeurs pour son élaboration : (i) la budétisation intégrale des recettes fiscales et non-fiscales tirées de l’exploitation des hydrocarbures ; (ii) la planification de la gestion des ressources issues de l’exploitation des hydrocarbures et son arrimage aux documents budgétaires ; (iii) le renforcement des mécanismes de surveillance de la gestion des finances publiques ; (iv) l’interdiction de toute
cession anticipée des réserves d’hydrocarbures. Dans le cadre de la préparation de la loi et du cadre institutionnel, le Gouvernement réalisera un diagnostic sur les mesures législatives et réglementaires nécessaires pour une gestion qui répond aux meilleures pratiques internationales.

53. Le Gouvernement sépare la SENELEC des activités de production, de transport et de distribution, ainsi que de la mixité de la propriété pour les sous-segments du secteur. Alors que le sous-segment de transport restera public, la production devrait devenir principalement privée via des fournisseurs indépendants de services (bien que la SENELEC souhaite conserver une part importante de production) et le segment de distribution devrait être restructuré selon un modèle d’affermage.

54. Electrification rurale : Le programme national d’électrification rurale (PNER) décrit la stratégie du Gouvernement visant à étendre l’accès sur la base d’activités visant à étendre le réseau principal MT, à densifier le réseau afin de connecter les ménages, à étendre les systèmes de mini-réseaux et de maisons solaires dans les zones isolées et à promouvoir l’utilisation universelle des compteurs prépayés avec soutien à l’investissement pour le câblage interne et une utilisation productive. Compte tenu de la multitude de parties prenantes de l’électrification rurale et du chevauchement inefficace de leurs mandats (ASER, concessionnaires, ministère du Pétrole et de l’Énergie, SENELEC, ANER), un effort stratégique a été déployé pour revoir le modèle de concession et le cadre institutionnel et réglementaire plus large pour le développement rural. Les tarifs et les frais de connexion élevés par rapport aux tarifs de SENELEC et la faible capacité de gestion au sein de l’agence de gestion ASER constituent les principaux obstacles. Pour y faire face, le Gouvernement a décidé d’harmoniser les tarifs avec ceux de SENELEC pour améliorer l’adoption de l’offre par les clients, d’attribuer les quatre concessions restantes à SENELEC, d’annuler les deux concessions non performantes et de les attribuer à SENELEC pour accélérer les progrès en matière d’électrification rurale. La mise en œuvre de ces réformes est soutenue dans le cadre de cette opération. Ainsi, le Gouvernement a : (i) mis en place un système d’affermage concessif hors des PPÉR afin de faciliter l’investissement public dans les zones non couvertes par les PPÉR et (ii) éliminé l’ASER et ses fonctions en mettant en place une nouvelle direction d’électrification rurale à la SENELEC avec comme objectif un processus d’électrification rurale plus efficace au bénéfice d’une seule institution à long terme en charge de la distribution dans l’ensemble du pays.

C2. SECTEUR DES TECHNOLOGIES DE LA COMMUNICATION

55. Le numérique constitue un domaine déterminant dans le développement économique et social du Sénégal. Il est un levier essentiel de démultiplication des gains de productivité et d’accroissement de la compétitivité de tous les secteurs de l’économie, à travers l’offre des biens et des services numériques. Son impact se ressent notamment sur l’amélioration des services administratifs et d’autre part, sur l’amélioration de la productivité dans les secteurs-clés (agriculture, santé, éducation, commerce, services financiers, e-Gouvernement).

56. Au Sénégal, le secteur est porté par le sous-secteur des Télécommunications qui s’est développé à la faveur de la privatisation de l’opérateur historique, la Société Nationale des Télécommunications (SONATEL), de la mise en place d’une autorité de régulation mais
également, de l’ouverture du marché à deux (2) autres opérateurs globaux, FREE et EXPRESSO, à un (1) opérateur de service universel, le Consortium du Service Universel (CSU), ainsi qu’à trois fournisseurs d’accès internet titulaires d’autorisation.

57. Le secteur représente un des principaux moteurs de développement du Sénégal par sa contribution à la croissance du PIB et sa part effective dans celui-ci. Le poids de l’internet dans le PIB sénégalais reste en 2013, le plus fort de tout le continent africain, se rapprochant davantage de la moyenne des pays développés.

58. Au niveau continental, le Sénégal est classé 1er pays africain pour le poids d’internet dans l’économie (I-PIB) estimé à 3,3%, du fait notamment d’une très bonne connectivité internationale et d’un bon réseau national de transmission. Toutefois, la décomposition de l’I-PIB du Sénégal montre que 91% de sa valeur est due à la consommation privée tandis que les autres dimensions telles que la contribution des investissements privés, publics et l’exportation sont plus faibles.

59. Concernant l’accès à Internet et aux capacités des câbles transatlantiques, la bande passante est de 201,7 Gbps fournie par 3 câbles sous-marins en fibre optique (ATLANTIS 2, SAT-3/WASC/SAFE, ACE) et l’arrivée d’un quatrième câble sous-marin, en accès ouvert et non discriminant à tous les opérateurs, est considéré comme une priorité nationale.

60. Il s’agira d’accélérer la diffusion du numérique dans les secteurs prioritaires identifiés dans le PSE pour d’une part, favoriser l’accès aux services sociaux de base (santé, éducation, services financiers) et d’autre part accroître sensiblement la productivité en se focalisant sur l’usage accru du numérique dans l’agriculture, l’élevage, la pêche et le commerce.

61. Les progrès attendus à l’horizon 2025, pourront se mesurer à travers les classements internationaux à partir des indices suivants :

- D’une part, pour le Network Readiness Index (NRI) du World Economic Forum (WEF), l’objectif visé est d’atteindre au moins la 70\textsuperscript{me} place dans le monde, et le 4\textsuperscript{er} rang en Afrique à l’horizon 2025. Tandis que l’indice NRI comporte plusieurs sous indices, la réalisation de cet objectif impliquera notamment d’améliorer le score du Sénégal sur l’indice A.1.02 qui mesure l’ampleur avec laquelle le cadre légal et réglementaire favorise la pénétration des TIC et le développement des initiatives privées en prenant en compte notamment l’adoption de nouvelles lois relatives aux télécommunications et à l’économie numérique.

- D’autre part, concernant l’Indice de Développement des TIC (IDI) de l’Union internationale des télécommunications (UIT), l’objectif visé est d’atteindre au moins la 90\textsuperscript{me} place mondiale et le 4\textsuperscript{er} rang en Afrique à l’horizon 2025.

62. Le Sénégal a défini une nouvelle stratégie de développement du numérique à l’horizon 2025 et alignée sur les orientations du PSE. En effet, dans la vision du Sénégal Emergent, le numérique joue un rôle déterminant, car considéré comme un facteur essentiel de démultiplication des gains de productivité et d’accroissement de la compétitivité de tous les secteurs. Avec l’ambition de faire du numérique un moteur de développement économique et social à l’horizon 2025, la stratégie vise à apporter « le numérique pour tous et pour tous les usages avec un secteur privé...
dynamique et innovant dans un écosystème performant ». Cette vision traduit l’option de s’appuyer sur le numérique comme catalyseur pour une transformation structurelle de l’économie nationale et de s’inscrire dans la société du savoir et de la connaissance de manière inclusive et durable. Elle traduit également une véritable prise de conscience que l’enjeu des politiques publiques du secteur consiste aujourd’hui à élargir l’accès et l’usage de l’internet au-delà des principaux centres urbains du pays afin d’éviter le creusement d’une fracture numérique entre zones rurales et urbaines et par conséquent un accroissement des inégalités économiques et sociales. Afin d’atteindre les objectifs visés, la stratégie fournit les fondations en matière de politique sectorielle, en particulier pour le parachèvement de l’ouverture du marché des télécommunications au secteur privé dans la lignée des meilleures pratiques internationales.

63. Afin d’atteindre les objectifs ambitieux de sa stratégie nationale et d’assurer la continuité des réformes réalisées dans le cadre du troisième appui budgétaire (DPF – 3) le Gouvernement s’engage à mettre en œuvre les réformes suivantes :

- Afin de réguler l’accès ouvert aux infrastructures des opérateurs dominants, le Gouvernement s’engage à travers cette Lettre de Politique sectorielle à veiller à l’application effective des catalogues 2018 et 2019 publiés par les opérateurs dominants suite aux décisions de régulation de l’ARTP.
- Afin de réduire davantage le coût des fréquences radioélectriques, le Gouvernement s’engage à travers cette Lettre de Politique sectorielle à poursuivre la baisse des redevances de fréquences durant les prochaines années via l’adoption de nouvelles réductions des montants des redevances.
- Afin de veiller à l’utilisation effective du Fonds de service universel, le Gouvernement s’engage à travers cette LPD à pleinement installer le nouveau Coordinateur en lui octroyant les pouvoirs qui lui reviennent, à publier la liste des projets prioritaires et à lancer les appels d’offres pour le cofinancement de ces projets avec l’objectif prioritaire de réduire la fracture numérique territoriale et du genre.
- Afin d’opérationnaliser la mise en concession du réseau fibre optique ADIE, le Gouvernement s’engage à travers cette Lettre de Politique sectorielle à finaliser un processus d’appel d’offres international ouvert et transparent afin de recruter un opérateur privé dans le cadre d’un contrat de concession.

64. Dans le cadre de sa stratégie de numérisation du Gouvernement (e-gouvernement) et de mobilisation des ressources à moyen terme, le Gouvernement s’engage à :

- Poursuivre ses efforts de dématérialisation des procédures douanières et fiscales, notamment en développant la palette de services offerts au travers de « mon espace perso » (en facilitant également la déclaration et le paiement électronique pour les contribuables concernés) et en opérationnalisant son programme de paiement mobile des impôts (mTax);

- Généraliser la gestion du contrôle par le risque, en développant l’algorithme et en automatisant les échanges d’information entre les principales administrations concernées (impôts, douanes, marchés publics, registre du commerce et du crédit mobiler, etc)

- Réformer son dispositif d’incitations fiscales à l’investissement, afin de mieux maîtriser la dépense fiscale et de rendre le dispositif plus efficace (notamment renforcement du crédit d’impôt à l’investissement).
65. Afin d’encourager le développement de l’économie numérique et de l’innovation, le Gouvernement a adopté une nouvelle loi d’orientation pour le développement des startups et s’est engagé à :

➢ Adopter rapidement les décrets d’applications relatifs à la loi sur les startups, afin d’opérationnaliser les dispositifs de stimulation des startups qu’elle prévoit, notamment le renforcement des structures d’accompagnement, la mise à disposition d’un fonds dédié au financement d’amorçage ouvert à une participation du secteur privé, etc.

➢ Prendre les mesures nécessaires pour appuyer les réformes de la réglementation régionale relative aux fonds d’investissement et de capital-risque, afin de favoriser l’établissement de ces derniers au Sénégal et dans l’espace UEMOA plus généralement.
I. Introduction

1. Senegal has developed and adopted, with the support of its technical and financial partners, its Economic and Social Development Strategy, the Emerging Senegal Plan (PSE II). These are integrated policies and programs that reflect the political will of the Government, to put Senegal on the path of development and to take into account the basic concerns of the people. The goal is to ensure the conditions for continued, inclusive and sustainable growth that can significantly reduce poverty and achieve the Sustainable Development Goals (SDGs).

2. The economic and social development of Senegal requires the implementation of a strategy leading to economic growth with a high positive impact on people’s living conditions but taking into account the need to restore public finances and maintain debt at sustainable levels. In this respect, the major challenge is essentially to revive the economy in a context of virtuous, efficient and effective governance. The PSE II focuses on three areas: (i) Growth, Productivity and Wealth Creation; (ii) Human Capital, Social Protection and Sustainable Development; and (iii) Governance, Institutions, Peace and Security.

3. In addition, with a view to strengthening the public policy dialogue with its development partners, and streamlining their interventions for better alignment and predictability, the Government holds periodic meetings with the Technical and Financial Partners Group and conducts a joint annual review. In addition, the Government has recently adopted a new economic and financial program aimed at private sector development, macroeconomic stability and the transparent and efficient management of oil and gas resources over the coming years. This document summarizes the recent economic and social performance and prospects of Senegal.

4. The year 2018 marks the end of the first phase of implementation of the PSE, characterized by strong and sustained growth in a context of low inflation and efforts to reach the budget deficit target. Indeed, for the fifth consecutive year, the Senegalese economy recorded in 2018 a growth rate of over 6% per year, well above the 3% recorded over the 2009-2013 period. Over the 2014-2018 period, growth averaged 6.6% per year. It was driven mainly by contributions from final consumption (3.5%) and private investment (2.1%). For its part, the public sector contributed 1.4% (0.7% for final consumption and 0.7% for investment).

5. The year 2019, the first year of implementation of the PSE Second Phase Action Plan (PAP II, 2019-2023), is characterized by the continued dynamism of the economy. In the first half of 2019, non-agricultural economic activity, measured by the General Activity Index, was up 5.7%, reflecting the good performance of the primary sector (+ 9.4%), public administration (+ 9.6%) and to a lesser extent the secondary and tertiary sectors, which rose by (+ 4.9%) and (+ 3.9%), respectively. As for the general price level, as measured by the Harmonized National Consumer Price Index, inflation stood at 1.0% over the first six (06) months of 2019 compared to the same period in 2018. Overall, the GDP growth rate is estimated at 6.0% for 2019. A single transfer to SENELEC will exceptionally increase the budget deficit to 3.7% of GDP before stabilizing around the target of 3% set by WAEMU from 2020.
III. Macroeconomic Policy and Structural Reforms for 2019-2023

A. Macroeconomic Policy

6. The new program, backed by the PSE Priority Action Plan (PAP 2019-2023), is articulated around the Sustainable Development Goals (SDGs) and the African Union Agenda 2063. To consolidate the performances recorded since 2015, an ambitious reform program will be implemented. It focuses on the consolidation of the sustainability of public finances through a better mobilization of public revenues, a greater efficiency of the expenditure and a prudent debt management, improving the business environment conducive to private sector development, and developing human capital.

7. The growth of the economy should stand at 7% over the 2020-2022 period. It will be supported later by the production of oil and gas resources but also the new investments expected in the mining sector.

8. To maintain the long-term performance of the Senegalese economy, the Government placed the private sector at the heart of Phase II of the PES, demonstrating its confidence in its know-how and commitment. For the period 2019-2023, Senegal is banking on a massive acceleration of private investment through a robust pipeline of strategic, mature, bankable and developed projects with a dedicated seed capital fund.

9. The Government's ambition is above all to answer the question of who benefits from growth. To achieve this, we need quality growth, which generates employment and income, and promotes inclusive and cohesive development. As such, the various initiatives launched during the first phase of the PSE should be strengthened. It is the Community Development Emergency Program (PUDC), dedicated to the most disadvantaged rural areas; the Emergency Program of Modernization of the Border Axes (PUMA), dedicated to our remote and deprived localities; the Town Modernization Program (PROMOVILLES), focusing on labor-intensive works (sanitation, roads and street lighting); the National Family Security Scholarship Program (PNBSF) which consists of a monetary transfer to poor families with school-aged children whose schooling and health monitoring is a conditionality; and the National Program for ‘Universal Health Coverage / CMU’, with the strategic priority of developing and promoting mutual health insurance.

10. The Government is committed to developing a Private Sector Development Strategy. It aims to establish a framework conducive to the deployment and development of the private sector. The strategy is articulated around three axes: (i) strengthening the long-term bases of development; (ii) improving the effectiveness of state intervention; (iii) the establishment of a legal and institutional framework favorable to the development of PPPs with greater involvement of the national and community private sector.

11. Building the long-term basis for development will be based on improving the coverage and quality of physical infrastructure, the sustainable management of natural resources, the development and enhancement of human capital.

12. The improvement of state intervention will involve a series of reforms concerning: the legal and judicial framework, financing, the simplification of procedures, the promotion of competition, labor legislation, reform of the public administration, tax policy and public resource management.

13. With regard to fiscal policy, the management of fiscal risks will be a central challenge. In the medium term, more revenue will be needed to rationalize energy-related subsidies and reinforce priority investment spending.

14. The Government intends to better manage its debt by putting more emphasis on the PPP, while ensuring their budgetary impact. In this respect, the 2014 PPP law will be thoroughly reviewed; the National PPP Support Committee will be established; the law on the Infrastructure Council (regulatory
body) will be revised. The involvement of the national and community private sector in the realization and development of PPPs will be strengthened through a greater level of outsourcing and according to the assessed expertise and capacities of local classified companies. Also, the thresholds will be revised to allow the nationals to be able to make spontaneous offers whose procedures of treatment will be revisited within the framework of the revision of the law PPP.

15. The "Compact with Africa" initiative, launched under the German G20 presidency in 2017 to promote and strengthen private investment in Africa, is an opportunity to accelerate the implementation of business environment reforms in Senegal. The action plan supported by Germany under the Partnership to Encourage Reforms, focuses on four (04) priority areas: (i) labor legislation, (ii) access to land, (iii) access to finance and SME development, and (iv) vocational training.

16. On the basis of a participatory evaluation of labor legislation, reforms aimed at creating a more efficient labor administration, a more balanced labor law and more adapted labor law regulations to the situation of SMEs will be developed and applied. Under the Partnership for Reforms, Senegal will receive Strategic Support in identifying reform needs, drafting the reform project and implementing it; the production of comparative thematic analyzes; support for the conduct of a continuous partnership dialogue on employment and its formalization. Another component of the support will be the optimization of processes at the level of the Labor Inspectorate for more efficiency and transparency: (i) Analysis of the role of Labor Inspectorates in the institutional employment landscape; (ii) Process analysis within the Labor Inspectorates to increase the level of transparency, accountability and efficiency within these structures; (iii) Capacity building and digitization measures.

17. Access to land is also identified as a major obstacle to improving the business climate. Reforms in this area will include (i) accelerating the allocation of land allocations (user rights) and land titles in rural areas; (ii) the dematerialization of the cadastre, and (iii) the introduction of a universal cadastre.

18. In addition, in order to support the security of investments in the field of agro-business, the State has decided to set up, with the support of its technical and financial partners and in relation with local authorities, land offices, primarily in local authorities with a stake in this area.

19. The PSE explicitly stresses the need to improve access to finance for private companies in order to achieve the overall objective of boosting the private sector. The focus will be on: a) support to FONGIP's institutional transformation process, b) support to FONSIS for the creation of the SME fund, including governance aspects, c) support to microfinance institutions (MFIs) to develop new loan products and improve credit and risk analysis for SMEs; and (d) support to the African Guarantee Fund (AGF) commercial banks to develop SME-friendly credit products and improve the quality of loans, credit and risk analysis for SMEs. Similarly, the Government will implement the SME Development Act as early as 2020, which will be adopted by parliament before the end of the year.

20. The Government of Senegal has set itself the goal of reducing economic and social disparities between urban and rural areas and strengthening the economic prospects, especially for young people and women. In this respect, the training and qualification offer of the Senegalese technical and vocational training system must be more adapted to the needs of enterprises and society. The envisaged reforms include (i) the finalization and application of the Vocational Training and Technical Guidance Act; (ii) strengthening mechanisms for consultation and coordination between the public and private sectors; (iii) improvement of the quality assurance processes of vocational training; improving access to vocational training and skills certification; (iv) support for the updating of the classification annexes of the branch collective agreements.

B. STRUCTURAL REFORMS
B.1. Strengthen domestic revenue mobilization
21. Starting in 2020, the Government will implement a Medium-Term Revenue Mobilization Strategy (SRMT), a first version of which will be available in December 2019. This strategy will aim at significantly and sustainably improving the recovery of budget revenue, to reach a tax rate of 20% by 2023, allowing both to finance development programs included in the PSE II and to maintain the macro-fiscal stability of Senegal.

22. To implement the revenue mobilization strategy, the Government will focus on four main areas: (i) the completion of the digital transformation of revenue administrations (ii) the adaptation of human resources to the challenges and (iii) the institutional and governance reforms of the revenue mobilization program; and (iv) legislative measures, including tax policy measures.

23. The SRMT is essentially based on administrative measures. The diagnosis of the tax system shows a low number of taxpayers and importers who pay their taxes. To reverse this situation, the SRMT has the following specific objectives:
   (i) broaden the tax and customs base, by centralizing and exploiting data and information on unknown taxpayers in revenue services;
   (ii) check the consistency of the declarations;
   (iii) controlling the customs value and reducing diversions of destination and economic regimes;
   (iv) improve the productivity of revenue services by optimizing their processes;
   (v) reduce the costs borne by taxpayers to comply with their tax and customs obligations.

24. SRMT's main tax policy measures will be aimed at facilitating the formalization of businesses and broadening the tax base. These will include, among other things, reform of the small business tax, corporate income tax and tax systems, as well as a reduction in tax expenditures, in particular by better targeting of investment incentives. The property tax will be reformed in order to contribute ultimately to the identification of taxpayers and their assets, the simplification of stamp and registration duties will be continued and the VAT refund system will be improved in order to avoid that it does not weigh on companies. In the short term, the tax advances on income taxes will be increased for uncontrolled taxpayers to encourage them to formalize their status.

25. The DGID will implement the following actions to master and broaden the base:
   - dematerialization of declarations as well as tax and customs procedures that are rich in data on economic entities that are outside the existing portfolio or that contribute little to revenue;
   - centralization and reading of financial data by the different administrations;
   - DGD services access to internal tax data (details of domestic transactions and charges, financial statements, etc.) of the DGD for better optimization of the work of the Directorate responsible for customs investigations; and finalization of the interconnection of the DGD and DGID including a quarterly report on the exploitation of data from interconnection and information exchanges Implementation of a strategy of "recruitment" and retention of new taxpayers or first-time registrants. A support mechanism will be put in place to identify unregistered actors and informal sector actors for at least two years, providing support / accompaniment in the reporting process and a deadline call-back procedure;
   - registration, identification and geolocation of economic units to strengthen control and collection activities;
   - improving the effectiveness of control missions and intensifying the intelligence function.

26. The special program for the mobilization of land taxes will contribute to the broadening of the tax base for internal taxation. The deployment of application solutions for the real estate census (geolocation of buildings and addressing in Dakar) will provide a better basis. The first actions of this strategy of census and taxation of real estate properties will be carried out in the Dakar region in 2020.

27. The extension of e-procedures and e-payments to other taxpayers and other tax procedures. Under the SRMT, the Government will introduce initiatives to strengthen electronic payments in the economy. In this sense, it will adopt a legal and regulatory framework to support current trends in reducing cash
transactions that promote informality, in order to develop the tax base. In addition, the Government will activate the M-tax to allow taxpayers to declare and pay their taxes by mobile phone.

28. Measures will be taken to strengthen the fiscal efficiency of VAT. The Directorate General of Customs will strengthen its staff dedicated to the monitoring, control and recovery of suspended VAT. Through the completion of its digital strategy, the Directorate General of Customs will also develop solutions for monitoring the suspended VAT inventory. In the same vein, the Directorate General of Taxes and Domains will adopt digital solutions (electronic billing machines, e-VAT system etc.) for the real-time control of invoices in order to reinforce the control over the turnover and the deductions.

29. Control and broadening of the base will also be reinforced at the customs border through the following actions:
- strengthening control over commercial operations by focusing on the elements of taxation (values, cash and weight) and the abolition of lump sum customs clearance;
- optimizing the use of the scanner;
- generalization of GAINDE in the interior offices;
- dematerialization of transit formalities and extension of electronic tracking of shipments of goods to all corridors;
- Consolidation of the reform of local customs clearance;
- complete dematerialization of customs clearance procedures and administrative formalities;
- automation of the management of suspended VAT;
- Extension of the computer application for the management of exemptions and customs economic regimes (GRED) to other schemes, outside the mining code.

30. For effective monitoring of exemptions and strengthening of the fight against fraud, cross-checks and consistency checks between the activities of the recipient importer, the amount of exemptions obtained and the nature of the beneficiary properties will be reinforced at the level of risk analysis and at the stage of post clearance audit.

B2. Efficiency and transparency of public spending

31. Improving the quality of public expenditure financed from internal resources remains a major challenge. Thus, from the second year of implementation of a project whose total cost is greater than or equal to one billion francs, the Government intends to make the registration of payment appropriations in the budget law conditional upon production by the Ministry concerned, a physical and financial implementation report for the previous year. In addition, in order to encourage the orientation of expenditures towards gross fixed capital formation, the Government undertakes to revise the decree n° 2012-673 of 4 July 2012 on the budgetary nomenclature of the State. The Government intends to increase the efficiency of the investment. To this end, it will develop rigorous criteria for the selection and prioritization of projects. Any project proposal would be placed in a project bank and a rigorous analysis would be requested before it can be included in the budget. The projects studied will now be prioritized in the Consolidated Investment Budget (BCI). The integrated project bank will be operational and a Public Investment Selection Committee will be set up. An action plan will be put in place to integrate, in the platform, the path of significant projects in terms of impact on growth. Improving the efficiency of investments in financial and non-financial assets is also a major concern. The Government intends to implement the recommendations of the recent PIMA evaluation conducted by an IMF technical team.

32. Implementation of the UEMOA PFM directives of January 2020. Senegal has transposed seven out of the eight (8) directives of the harmonized public finance framework, with the exception of the directive on the financial and accounting system of local and regional authorities. In particular, the Organic Law on Finance Law enshrines the principles underlying the new budgetary and accounting practices: the shift from a budget of means to a budget based on the results, from the cash accounting to a patrimonial accounting in established rights, as well as the strengthening of the supervisory powers of the National
Assembly and the Court of Auditors.

33. The budget reforms provided for in the LOLF will be fully implemented as from 1 January 2020. In order to ensure the success of the program budget shift, the Government intends to pursue the coherence of the legal framework for public finances by reviewing the decree n° 2011-1880 of November 11, 2011 relative to the general regulation on the public accountancy and by elaborating a decree relating to budget management framework of the State which comes to specify the rules of management of the budgetary authorizations. The Government will adopt a new system of financial information of the State (Integrated Financial Information Management System - SIGIF), integrating at the same time the operations relating to the preparation of the budget, its execution, its control and its surrender at the end of the year. The Government will put in place a mechanism for monitoring multi-year commitments, with a schedule of Payment Credits (PCs) associated with the Commitment Authorizations (CAs) for all projects (new and ongoing).

34. The Government will carry out the prior assessment of all projects financed through the Public-Private Partnership (PPP) under the Partnership Contracts Act and its implementing decree. The Government will use the best criteria for analyzing the budgetary implications for all projects of this type and will ensure their fiscal sustainability. The Ministry of the Economy of Planning and Cooperation will take the necessary steps to set the financing modalities for PPPs and will ensure that the risks of exploitation of these projects are borne by private operators awarded agreements. To this end, the Government has requested the support of the World Bank for the evaluation of contingent liabilities.

35. A budget orientation debate between the Government and the National Assembly always precedes the presentation of the budget. All WAEMU directives are now internalized and their effective implementation will begin in 2020.

B3. Other structural reforms

36. The Government intends to significantly improve the business environment in order to promote the private sector as a vector of added value and emergence through: (i) the creation of an economic space in a SEZ with favorable regulations for the enterprise including a tax system with a moderate tax rate and minimal tax expenditures; (ii) the continuation of the dematerialization of administrative procedures and the facilitation as soon as possible of circulation in the industrial zone; the examination of the constraints related to the process of drafting legal texts in the sectors concerned, etc., (iii) the accompaniment or the contribution of the services of the Apix, the Customs, the Taxes and Domains, the Urban planning and labor legislation in improving the business climate environment will continue through the operationalization of the single window project and also the register of guarantees.

37. Also to facilitate access to financial services, the Government is committed to: (i) fully implement the financial literacy program for SMEs; ii) to continue discussions with the private sector and the workers’ unions for the payment, by domiciliation in the bank accounts or by any means of electronic payment, of salaries above 100,000 FCFA; iii) continue, in collaboration with technical and financial partners and the BCEAO, efforts to promote financial inclusion through the development of a national financial inclusion strategy and the digitization of certain Government payments.

C. SECTORAL REFORMS

C1. ENERGY SECTOR

38. The Government of Senegal, through the Emerging Senegal Plan has defined a Letter of Energy Sector Development Policy (LPDSE) with priorities for action by the sector by 2023 and which revolves around the vision: "quality energy, available and accessible to all, at a lower cost and respectful of the environment". Thus with the development of the energy sector is considered a key pillar of emergence.
The objectives are divided into four strategic options, which are the main priority areas of intervention formulated to respond to the major challenges identified.

Strategic Option 1: Securing hydrocarbon production and supply to ensure availability and accessibility of quality hydrocarbons at a fair price;

Strategic option 2: Access to electricity with quality and continuity of service at lower cost. This option is part of a policy to strengthen the electricity supply system for electricity availability cheaper. Thus, the Government aims to increase the installed capacity from 896 MW in 2017 to at least 1970 MW in 2023. Within this framework a “Gas To Power” strategy has been developed with a twofold objective (to reduce the cost of electricity and transition to natural gas as a cleaner energy in line with Sustainable Development Goal 7). Pending the production of Senegal's gas fields, the transition will be ensured by the import of liquefied natural gas (LNG) for the production of electricity (planned from 2022). To achieve this, important milestones will have to be laid for:
- Identify and design natural gas reception and transmission infrastructures for power plant power;
- Upgrade the electricity generation infrastructure by converting existing thermal power plants into dual fuel and installing new thermal power plants using natural gas as primary energy.

These measures, combined with investment incentives, improved financial sustainability and clarification of the institutional framework of the electricity sub-sector, will facilitate the achievement of the objectives of universal access to electricity in 2025 and the structural transformation of the economy.

39. In order to ensure universal access to electricity in 2025, the State opted for the development of an important transmission and distribution network. To increase the electrification rate (60% in rural areas in 2019 and 75% in 2022) and in urban areas (95% in 2023), the focus is on densification and extension of electricity networks and the development of off-grid projects for non-interconnected areas. In addition, the Government continues to promote the exploitation of the potential of renewable energies with a non-hydroelectricity penetration rate in the electricity system of at least 18% by 2023. In addition, the Government will continue to support self-generation from renewable energies and the use of individual solar systems (SHS).

40. In the context of energy management, extension and awareness-raising efforts to develop a national awareness of energy conservation will be pursued. In addition, it is planned to strengthen the legal and regulatory framework that provides for the development and application of appropriate principles and rules of energy efficiency that guarantees the quality of lamps and other efficient equipment.

Strategic option 3: Sustainable access of populations to modern cooking fuels, especially for rural populations, for domestic fuels in order to preserve the environment.

Strategic option 4: Strengthening governance, financing, regulation and monitoring and evaluation focuses on the modernization of structures, the empowerment and development of human resources, the intelligent articulation of the various programs and the promotion of a process participatory around goals and actions. Ongoing reforms aim to:

- Structure SENELEC as a holding company with four subsidiaries, including one in charge of the purchase and sale of gas, which will act as aggregator;
- Establish a gas transportation company with the participation of the local and foreign private sector;
- Strengthen the sector's regulatory system by expanding CRSE's role to the intermediate and downstream gas subsectors
- Adopt a so-called 'gas code' law which regulates the intermediate and downstream activities of the gas sector is in the process of being adopted;
- Make the energy sector more viable, especially SENELEC and rural electrification concessionaires, by guaranteeing their full income.

41. To achieve this ambition, the Government of Senegal will strengthen its cooperation with its technical and financial partners, in particular the World Bank Group, the MCC, the German and French cooperation.
42. In order to make the cost more affordable and improve the state and SENELEC cash position, the obvious solution is to urgently reduce the costs of generating electricity in Senegal by strong reliance on HFO-based production for lower-cost electricity generation, especially through gas-fired plants and renewable energy.

43. The Government is committed to developing a financial plan for the energy sector to ensure its long-term sustainability. The sector plan includes the following key elements: (i) diversification of the country's energy mix towards cleaner technologies, particularly renewable energies and gas; (ii) the financial viability of the sector in the short term, in particular to reassure private sector investors; (iii) sector governance, reform and institution building.

44. Specifically, Senegal aims to increase the share of renewable energy production in its energy mix in the form of solar energy, wind power, as well as exploration of hydropower potential and aims to replace, over time, the production of petroleum-based electricity by liquefied natural gas (LNG), and then domestic gas (as part of the approved Gas-to-Power strategy). In addition, the construction of international connections will make it possible to import hydropower in the medium term.

45. To support the gas-to-power strategy, Senelec must choose the plants to be converted to burn gas and convert as soon as possible. The Government must also make a decision on the final course of the pipeline (gas pipeline) and continue its development to facilitate the transition to domestic gas as soon as possible.

46. Production mix diversification should be supported by a least cost production plan implemented using competitive contracting processes, where possible.

47. The process of changing the energy mix will take time (2-3 years). During the interim period, the Government will continue to support the financing of the sector through subsidies to compensate SENELEC for the entire difference between the costs (the Maximum Allowable Revenue) and the tariff revenue, taking into account the tariffs in question. The Government will ensure that measures are put in place to guarantee timely and sufficient compensation payments to SENELEC so that SENELEC can in turn meet its obligations towards its suppliers, notably the SAR (The African Refining Company), suppliers of energy purchase (the PIEs) and to be able to pay its obligations to credit institutions.
48. In addition, the Government confirms its commitment to pay public sector arrears to SENELEC for electricity consumption by public entities:

- As for the central administration and public lighting, there will be budget lines in the LFI 2020 to clear all outstanding arrears still to be paid for the years 2016 until 2019.
- Concerning arrears of payments by the EPAFs (Public Establishments with Financial Autonomy), agreements will be signed specifying the plan of clearance of the debt. These arrears clearance agreements will have to eliminate these arrears over a period of 3 years and will be signed between SENELEC and the EPAFs.

49. The Government, the Regulatory Commission for the Electricity Sector (CRSE) and SENELEC have taken a number of structural measures to improve confidence in the regulatory and revenue-gathering process by SENELEC. These include:

- The modification (by CRSE) of the methodology and income control formula (the RMA) to include an ex-post adjustment of the RMA taking into account the achievements of the investments whenever the investments made by SENELEC are different planned investments that form part of the Regulatory Asset Base (RAB).
- An amendment to the tariffs to partially cancel the effect of the tariff reduction that was made at the beginning of 2017. At that time, the following adjustment was applied: for T1, the decrease was 15%, for T2 the decrease was 11% and for T3 the decrease was 4%. For medium voltage (MV) and high voltage (HV) tariffs, rates were adjusted downward by 4%. In order to reduce the gap between the RMA and tariff revenue (hence the need for compensation). As of December 1, 2019, rates must be adjusted upwards by 10% for residential customers - the same adjustment will be applied to tranches, 2 and 3 and by 6% for MV and HV customers.
- The Government has also put in place a payment plan for existing consumption arrears. In accordance with DPF2, the Government has issued a decree on the extension of the TCO tax to the industrial sector in order to finance at least 61% of public lighting expenditure; the Government promulgated a decree mandating EPAF electricity expenditure and approved only those EPAF budgets that had sufficient allocations to cover these expenses.

50. Further action is needed to ensure the smooth operation of the sector by 2026 when the need for compensation is eliminated. These include:

- The need for compensation in the years to come. The commitment by the Government to put in place a plan to guarantee one-time compensation payments and to integrate the amount corresponding to the need for compensation into the process of preparation of the initial finance law. The need for compensation must be monitored in relation to the periodic report of the CRSE and be incorporated into the Correcting Finance Act (LFR).
- Elimination of accumulation of payment arrears related to electricity consumption by the public sector. Every year, the Government must ensure that the approved budget of the public entities include sufficient appropriations on the line electricity consumption but also for public lighting unless there is another way in place that would allow Senelec to be reimbursed for the electricity delivered (eg a tax that would allow SENELEC to recover the underlying cost from existing customers).

51. The Government intends to adopt as soon as possible a distribution and revenue management bill that reflects the best practices in this area. The Government intends to adopt a long-term fiscal anchoring rule that will be defined around a framework to ensure revenue sharing with future generations. The Government intends to adopt a short-term operating budget rule (excluding oil and gas resources) in order to have a better appreciation of its fiscal policy. This approach will take into account the budgetary risks of the uncertainties related to the recovery (price, quantities, etc.) of the expected revenues of the sector.
52. The Government intends to put in place a coherent and transparent system of management of the
resources resulting from the exploitation of hydrocarbons. To this end, the draft legislative text relating to
the allocation to the management and management of revenue from the exploitation of hydrocarbons
(reform objective, June 2020) retained among other guiding principles for its elaboration: (i) full budgeting
of tax and non-tax revenues from hydrocarbon exploitation; (ii) resource management planning for
hydrocarbon development and its alignment with budget documents; (iii) strengthening of public financial
management oversight mechanisms; (iv) the prohibition of any anticipated transfer of hydrocarbon
reserves. As part of the preparation of the law and the institutional framework, the Government will carry
out a diagnosis on the legislative and regulatory measures necessary for a management that responds to
the best international practices.

53. The Government separates SENELEC from the production, transmission and distribution activities, as
well as the mixed ownership of the sub-segments of the sector. While the transmission sub-segment will
remain public, generation is expected to become mainly private through independent service providers
(although SENELEC wishes to retain a significant share of production) and the distribution segment
should be restructured according to a leasing model.

54. Rural electrification: The National Rural Electrification Program (PNER) describes the Government's
strategy to expand access based on activities to extend the main MV network, to densify the network to
connect households, to expand mini-grid and solar house systems in remote areas and to promote
universal use of prepaid meters with investment support for internal cabling and productive use. Given the
multitude of stakeholders in rural electrification and the inefficient overlap of their mandates (ASER,
concessionaires, Ministry of Oil and Energy, SENELEC, ANER), a strategic effort was made to revise the
model of concession and the broader institutional and regulatory framework for rural development. High
tariffs and connection fees in relation to SENELEC tariffs and weak management capacity within the
ASER management agency are the main obstacles. In response, the Government decided to harmonize
tariffs with those of SENELEC to improve the adoption of the offer by customers, to allocate the remaining
four concessions to SENELEC, to cancel the two non-performing concessions and to assign them to
SENELEC to accelerate progress in rural electrification. The implementation of these reforms is
supported by this operation. Thus, the Government has: (i) set up a concessional leasing system outside
the PPERs to facilitate public investment in areas not covered by the PPERs and (ii) eliminated ASER
and its functions by implementing establishes a new rural electrification department at SENELEC with the
aim of a more efficient rural electrification process led by a single long-term distribution institution in the
whole country.

C2. COMMUNICATION TECHNOLOGY SECTOR

55. Digital technology is a key area in Senegal's economic and social development. It is an essential lever
for multiplying productivity gains and increasing the competitiveness of all sectors of the economy,
through the supply of digital goods and services. Its impact is felt in particular on improving administrative
services and on the other hand, improving productivity in key sectors (agriculture, health, education,
trade, financial services, e-Government).

56. In Senegal, the sector is supported by the telecommunications sub-sector, which developed as a
result of the privatization of the incumbent operator, the National Telecommunications Company
(SONATEL), of the establishment of a regulatory authority but also, from the opening of the market to two
(2) other global operators, FREE and EXPRESSO, to one (1) universal service operator, the Universal
Service Consortium (CSU), as well as holders of authorization to three suppliers of Internet access.

57. The sector represents one of Senegal's main development drivers through its contribution to GDP
growth and its effective share in it. The weight of the Internet in Senegalese GDP remains in 2013, the
strongest of all the African continent, getting closer to the average of the developed countries.
58. At the continental level, Senegal ranks as the 1st African country for the weight of the Internet in the economy (I-GDP) estimated at 3.3%, due in particular to a very good international connectivity and a good national transmission network. However, the decomposition of Senegal's I-GDP shows that 91% of its value is due to private consumption while the other dimensions such as the contribution of private, public investment and exports are lower.

59. With respect to Internet access and transatlantic cable capacity, the bandwidth is 201.7 Gbps provided by 3 optical fiber submarine cables (ATLANTIS 2, SAT-3 / WASC / SAFE, ACE) and the arrival of a fourth submarine cable, open and non-discriminatory access to all operators, is considered a national priority.

60. The dissemination of digital technology in the priority sectors identified in the PSE will be accelerated to promote access to basic social services (health, education, financial services) and to increase significantly productivity by focusing on the increased use of digital technology in agriculture, livestock, fisheries and trade.

61. The progress expected by 2025, can be measured through the international rankings from the following indices:
- On the one hand, for the World Economic Forum (WEF) Network Readiness Index (NRI), the goal is to reach at least 70th place in the world, and 4th in Africa by 2025. The NRI index includes several sub-indices, the achievement of this objective will include improving the score of Senegal on the index A.1.02 which measures the extent to which the legal and regulatory framework promotes the penetration of ICT and the development of private initiatives, taking into account the adoption of new laws on telecommunications and the digital economy.

- On the other hand, with regard to the International Telecommunication Union’s (ITU) ICT Development Index (IDI), the aim is to reach at least 90th place worldwide and 4th in Africa in the 2025 horizon.

62. Senegal has defined a new strategy for digital development by 2025 and aligned with the PSE guidelines. Indeed, in Emerging Senegal vision, digital technology plays a decisive role, since it is considered as a key factor in multiplying productivity gains and increasing the competitiveness of all sectors. With the ambition to make digital a driver of economic and social development by 2025, the strategy aims to bring “digital for all and for all uses with a dynamic and innovative private sector in a high-performance ecosystem.” This vision reflects the option of relying on digital as a catalyst for a structural transformation of the national economy and to enter the knowledge and knowledge society in an inclusive and sustainable way. It also reflects a real awareness that the challenge of public policies in the sector today is to expand access and use of the Internet beyond the main urban centers of the country in order to avoid the proliferation of a digital divide between rural and urban areas and consequently an increase in economic and social inequalities. In order to achieve the desired objectives, the strategy provides the foundations for sectoral policy, particularly for completing the opening of the telecommunications market to the private sector in line with international best practices.

63. In order to achieve the ambitious objectives of its national strategy and to ensure the continuity of the reforms carried out under the third budget support (DPF-3), the Government undertakes to implement the following reforms:
- In order to regulate the open access to the infrastructures of the dominant operators, the Government undertakes through this Sector Policy Letter to ensure the effective application of the 2018 and 2019 catalogs published by the dominant operators following the regulatory decisions of the ARTP.
- In order to further reduce the cost of radio frequencies, the Government undertakes, through this Sector Policy Letter, to continue lowering frequency fees over the next few years through the adoption of further reductions in royalties.
In order to ensure the effective use of the Universal Service Fund, the Government undertakes through this LDP to fully install the new Coordinator by granting him the powers that he deserves, to publish the list of priority projects and to launch the calls for tenders for the co-financing of these projects with the priority objective of reducing the territorial and gender digital divide.

In order to operationalize the concessioning of the ADIE fiber optic network, the Government undertakes through this Sector Policy Letter to finalize an open and transparent international tendering process in order to recruit a private operator within the framework of a concession contract.

64. As part of its strategy of enumeration of the Government (e-government) and resource mobilization in the medium term, the Government undertakes to:
   - Continue efforts to dematerialize customs and tax procedures, in particular by developing the range of services offered through "my personal space" (by also facilitating the declaration and electronic payment for the taxpayers concerned) and operationalizing its payment program mobile taxes (mTax);
   - Generalize risk control management by developing the algorithm and automating the exchange of information between the main administrations concerned (taxes, customs, public contracts, trade and furniture credit register, etc.)
   - Reform its system of tax incentives for investment, in order to better control tax expenditure and make the system more efficient (including strengthening the investment tax credit).

65. In order to encourage the development of the digital economy and innovation, the Government has adopted a new orientation law for the development of startups and has committed to:
   - Rapidly adopt the decrees for applications relating to the law on startups, in order to operationalize the startup stimulation measures it provides, in particular the reinforcement of support structures, the provision of a fund dedicated to seed funding open to private sector participation, etc.
   - Take the necessary measures to support the reforms of the regional regulation of investment funds and venture capital, in order to promote the establishment of these in Senegal and in the WAEMU area more generally.
## ANNEX 3: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS

<table>
<thead>
<tr>
<th>Prior Actions</th>
<th>Significant positive or negative environment effects</th>
<th>Significant poverty, social or distributional effects positive or negative</th>
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<tbody>
<tr>
<td><strong>Operation Pillar I: Energy</strong></td>
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<tr>
<td><strong>Prior Action #1</strong>: To enhance transparency in the electricity sector, the Recipient’s Ministry of Petroleum and Energy has instructed SENELEC to reorganize, through the creation of: (i) the SENELEC holding company; (ii) separate subsidiaries for the generation, transmission and distribution of electricity; and (iii) a subsidiary associated with the natural gas segment to carry out a gas aggregator role.</td>
<td>No. This Prior Action relates to organizational restructuring of SENELEC that does not have direct environmental effects. Indirect environmental effects are captured within Prior Action 3 and 4.</td>
<td>No. This Prior Action relates to organizational restructuring of SENELEC that does not have direct effects in this area. Indirect effects are captured within Prior Action 2, 3 and 4.</td>
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<td><strong>Prior Action #2</strong>: Under a detailed financial plan for the electricity sector that includes payment of public sector arrears and coverage of funds needed by SENELEC for tariff compensation, (i) the Recipient's Ministry of Petroleum and Energy has requested the CRSE and the CRSE has agreed to modify the maximum allowed revenue tariff formula to include an ex-post adjustment of actual investment achievements; (ii) the Recipient has modified the decree (décret sur le fond de préférence pour la compensation tarifaire des concessionnaires de l'électrification rurale) to apply a &quot;passthrough&quot; element corresponding to the shortfall for rural concessionaires as a result of tariff harmonization; and (iii) the CRSE has increased the level of tariffs.</td>
<td>No. This Prior Action does not affect the energy mix and therefore has no direct environmental effect.</td>
<td>Small/negligible negative due to the increased level of tariffs. The tariff increase for the poorest consumers is mitigated by limiting the tranche 1 tariff increase to below 1 percent, compared to an increase of 11 percent for consumption under higher consumption tranches.</td>
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| **Prior Action #3:** To enable development of the gas-to-power strategy, the Recipient’s Council of Ministers has adopted and submitted to the National Assembly the draft gas law, which provides for planning, regulation and institutional arrangements for the gas subsectors in their midstream and downstream segments. | Positive. This Prior Action enables the midstream and downstream gas sectors to be developed which is a necessary condition for changing the generation mix from high GHG emitting oil fired generation to include lower GHG emitting gas generation. | Large positive. This Prior Action enables the midstream and downstream gas sectors to be developed which is a necessary condition for changing the generation mix from high GHG emitting oil fired generation to include lower GHG emitting gas generation.  
Large positive. This Prior Action enables the generation mix to be changed from high GHG emitting oil fired generation to lower GHG emitting gas generation and renewable generation.  
Large positive. This Prior Action enables the generation mix to be changed from expensive oil fired generation to lower cost gas fired generation and renewable generation – thus lowering costs of the sector as a whole. |
|---|---|---|
| **Prior Action #4:** To enable development of the gas-to-power strategy, (i) PETROSEN has formed a company (special purpose vehicle) that will build and operate the gas transportation system; (ii) the Council of Ministers has discussed the gas-to-power implementation plan and the Recipient’s Ministry of Petroleum and Energy has published on its website the main points of implementation, notably the percentage of private/public ownership of the company, identified PETROSEN as the principal public institution that will hold the public sector’s participation in the company; and the decision on the source of gas; and (iii) the Recipient’s Ministry of Petroleum and Energy has approved an updated electricity masterplan to fully integrate planned use of gas generation and includes renewables forming at least 29 percent of the energy mix in 2025. | Positive. This Prior Action enables the generation mix to be changed from high GHG emitting oil fired generation to lower GHG emitting gas generation and renewable generation.  
Large positive. This Prior Action enables the generation mix to be changed from expensive oil fired generation to lower cost gas fired generation and renewable generation – thus lowering costs of the sector as a whole. |
| **Operation Pillar II: ICT Sector** |
| **Prior Action #5:** To open access to dominant players’ essential infrastructure, the Recipient’s ARTP has adopted regulatory decrees strengthening regulation obligations for the dominant operators for the years 2018 and 2019. | No | Positive |
**Prior Action #6:** To increase incentives for all telecom operators and new ISPs to expand mobile networks, the Recipient has adopted a decree on radio frequencies introducing a 20 percent decrease in the total amount of fees payable by all telecom players and including discount rates for the use of frequencies by ISPs and in underserved areas.

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**Prior Action #7:** To activate the Universal Service Fund pursuant to the Universal Service Decree, the Recipient has: (i) established the new governance bodies namely a strategic committee and a fund coordinator; (ii) adopted the Universal Service strategy's action plan with a focus on closing the digital divide and gender gap in women’s access to internet; and (iii) had its first consultation with private operators to cover rural areas.

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**Prior Action #8:** To promote open access to ADIE’s fiber optic network, the Recipient has published a competitive tender process (*avis d'appel à pré-qualification*) to select a private concessionaire to operate and expand said network in the Recipient’s territory.

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**Operation Pillar III: Digital Economy**

**Prior Action #9:** To enhance efficiency and transparency of e-government services, reduce compliance costs for taxpayers and strengthen domestic resource mobilization, the Recipient’s Ministry of Finance has: (i) operationalized digital consultation of taxes (through the Ministry of Finance’s personalized taxpayer webpage, "my personal space"), which covers at least 10 percent of eligible taxpayers; and (ii) operationalized a risk-based audit.

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selection system, which encompasses at least 50 percent of relevant verifications.

**Prior Action #10:** To create a business environment conducive to entrepreneurship and innovation, the Recipient’s Council of Ministers has adopted and submitted to the National Assembly: (i) a draft law on the creation and promotion of start-ups in Senegal; and (ii) amendments to the General Tax Code to streamline MSME taxation through the draft finance law 2020.

| No | Positive |
ANNEX 4: CLIMATE CHANGE ADAPTATION CO-BENEFITS

I. CLIMATE VULNERABILITY CONTEXT

1. **Senegal faces a number of climate-related hazard risks.** Droughts, floods, sea level rise, and coastal erosion are currently the natural hazards that pose the greatest threat to the country’s development goals.

2. **Droughts.** Floods occur more frequently than droughts, but the latter have more severe consequences and affect many more people per event. Droughts in Senegal are concentrated mostly in the arid and semi-arid Sahelian regions of the country, located in northern and center Senegal. Between 1977 and 2002, six major drought events affected the country. If current warming trends continue, the performance of agriculture in Senegal will be further eroded as higher temperatures (combined with the expected decrease in rainfall) will aggravate the country’s water deficit.

3. **Floods.** Both urban and rural areas are vulnerable to floods. However, most at risk are the areas in and around Dakar, Saint Louis, Matam, Kaolack, Thies, Diourbel, Kolda, Kafrrine, and Tambacounda. Floods in the country are the result of river overflows (particularly in the Gambia and Senegal rivers due to heavy rains) - a combination of heavy rains and insufficient drainage infrastructure (in Kaolack and Dakar especially) - and storm surges leading to salt-water intrusion into agricultural lands (particularly in the Saloum Delta). Floods can affect the power production. For example, the transportation lines for fuel can be interrupted by local flood, or distribution networks can be disturbed by excessive rainfall and flooding.

4. **Sea-level rise and coastal erosion.** Sea-level changes and increased intensity of storm surges are known to lead to coastal erosion, which poses a major threat to the population and economy of Senegal. Sea-level rise is exacerbated by the country’s geology (including sediment deficits, natural instability of slopes, and surface runoff) and threatens 74 percent of households living in coastal areas.

5. **Climate change risks have major implications for the energy sector, which is covered by the DPF.** On one side, global energy production is a strong contributor to the drivers of climate change, namely through the emission of greenhouse gases. On the other side, it is also exposed to the diverse impacts of climate variability and change through changes in energy supply (e.g. disruption of operations and distribution) and demand (e.g. evolving power needs linked to climate-related migration). For example, rise in sea levels that results in storms surges and inundation makes energy infrastructure such as transmission lines, substations, fuel storage, and some generation vulnerable, particularly those in coastal areas. The majority of Senegal’s power generation fleet is situated in coastal locations, as is the major demand center – Dakar.

6. **The climate change risks will not affect the DPF directly, since it focuses on policy interventions, rather than financing of infrastructure.** Indirectly however, the DPF is expected to stimulate the development of new energy and ICT infrastructure that could be affected by climate change hazards, such as flooding. Increase in temperature and severity of droughts can lead to stresses on energy operations, gradual increases in demand, wild fires that damage energy infrastructure, and limited options that can be reliably cultivated for biomass/biofuels.
II. MEASURES TO ADDRESS CLIMATE-RELATED VULNERABILITIES

7. The WBG remains committed to support the change in the energy mix in Senegal from the current dependency on heavy fuel oil, towards a mix of cleaner energy technologies, including renewables, within the DPF timeline and beyond. The main objective of the DPF series in the energy sector is to strengthen the governance and management to reduce costs, improve reliability and facilitate equitable access. It recognizes the important role of the shift towards cleaner energy to achieve these objectives. Senegal is on track to meet the DPF indicator of 30 percent of installed capacity of renewable energy by 2021. As part of the DPF series, Senegal also adopted a renewable energy target to increase installed domestic capacity from 0 percent in 2015 to 33 percent by 2030. Further technical work is required to confirm that the grid in Senegal can absorb more than 33 percent variable energy from renewables.

8. The DPF series supports the design of Senegal’s gas-to-power strategy, which – once implemented – is expected to reduce GHG emissions in the power sector by a million tonnes of CO₂ equivalent by 2022 and 1.3 million tonnes by 2026 compared to a counterfactual without additional gas, solar PV, wind turbines or Karpower’s powership. This is equivalent to a GHG reduction of 30 percent in 2022 and also in 2026, compared to the counterfactual for the same year. This is a much more ambitious result than anticipated in Senegal’s Intended Nationally Determined Contributions (INDCs) pursuant to the Paris Accord, where it adopted an emission reduction target of 4 percent in the unconditional scenario and 15 percent in its conditional plus scenario by 2025. These emission reductions relative to the counterfactual are achieved through: (i) the decision by the Government of Senegal to refrain from investing in further coal fired plants; and (ii) the substitution of HFO from the grid in favor of a mix of gas and renewable energy.

9. Selected prior actions in the DPF series have a direct link to the identified climate vulnerabilities of Senegal. This is the case of the prior action for adoption of the least cost generation plan in DPF1 and the adoption of the gas-to-power strategy in DPF2, reinforced by the WBG’s engagement in the Senegal Scaling Solar. GHG emissions per MWh are expected to fall from 0.62 tCO₂/MWh in 2018 to 0.44 tCO₂/MWh in 2026, which represents a 29 percent reduction in carbon intensity. The current DPF3, specifically its Prior Actions 2 - 4, will build upon the strategic Master Plan for electricity generation, which will be updated under the program, to integrate the use of gas production and to identify least-cost priority projects for power generation and transmission. The Plan’s impact on air pollution is expected to be positive or neutral (and clearly positive in rural areas), as it will reduce the high use of heavy fuel while significantly increasing renewable sources – which would compensate for the higher production of coal. The HFO to gas switch will improve air quality by reducing energy-related emissions, thus improving air pollution and reducing its impacts on human health. Also, increased electricity supply in the rural areas will reduce indoor air polluting sources, such as wood and charcoal, compounding the effect of the new energy mix.

10. While the long-term projections were not the focus of the DPF series, which sought to initiate the clean energy transition to achieve cost reductions in the short term, the WBG is fully committed to further scale-up

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58 The estimate is based on comparison of two scenarios for power station investment and production: One scenario starts with the existing and committed generation fleet, assumes some existing thermal plants are converted from burning HFO to allow gas burn and introduces LNG imports in 2022 and domestic gas in 2026. The counterfactual scenario assumes no solar PV or wind generation has been developed, does not introduce Karpower’s powership and assumes no LNG imports and no domestic gas. In both scenarios, the simulation model chooses investments from among candidate generation projects and electricity production from new and existing power plants so as to minimize the cost of meeting electricity demand from now until 2030.
the shift towards renewable energy in the medium to long term beyond current commitments. The global effort to decarbonize the power sector will surely result in further innovations over time. Similarly, WBG initiatives like the new global program to accelerate investments in battery storage for energy systems is expected to help developing countries ramp up their use of renewables. The WBG will continue to work with the Government on refining the regulatory framework to maximize the use of renewable energy over time, and to implement any innovation and cost reductions that may become available, for instance on the viability of solar with storage and cost reductions that would enable it to replace baseload technologies such as gas. The World Bank will also work regionally to improve the viability of the West Africa Power Pool to ensure a greater regional optimization of energy produced to enhance the use of renewable energy sources.
ANNEX 5: WORLD BANK STRATEGY IN THE ENERGY SECTOR IN SENEGAL

Context

1. **Senegal has one of the highest electricity access rates in West Africa, but there are considerable inequalities in access between urban and rural areas and across regions.** The access rate is estimated at around 68 percent in comparison to 55 percent in Côte d’Ivoire, 58 percent in Nigeria, 43 percent in Mali and around 26 percent in Guinea. Whereas urban access in Senegal stands at around 92 percent, rural access remains at about 43 percent (2017) in large part due to the lack of infrastructure and high tariffs. In regions closer to Dakar, such as Diourbel and Thies, access rates are relatively high at over 50 percent, whereas regions that are further such as Kaffrine, Kolda and Kedougou are estimated at around 9 percent.

2. **In 1998, the Government adopted an innovative and unique concession model for rural electrification through public private partnership which has not delivered expected results.** The country was divided into 10 concessions tendered to the private sector for a period of 25 years. SENELEC’s expansion was then limited to the geographic area within which its distribution and transmission grid was confined at that time. Public participation included 51 percent of capital investments and fiscal incentives. Unfortunately, progress was slow and although tenders were launched in 2005, the first concession became operational in 2011 and of the six that have been awarded since, only four are operational. The concessions’ electrification results are mixed but generally well below targets and contractual obligations (only 21,333 consumers against a target of 49,401).

3. **Senegal aims to achieve universal access to electricity by 2025 but in order to do so, certain root causes of unsatisfactory expansion of electrification must be addressed.** The high cost of power generation is a critical bottleneck. This manifests itself not only in terms of low affordability for consumers, but also in deteriorating the finances of SENELEC (given the GoS’s inability to pay adequate compensation in a timely manner, as discussed below). Poor finances in the sector have significant knock on negative effects on SENELEC’s ability to operate, maintain and expand the power system to deliver reliable and affordable power to all. Senegal, like many other countries in West Africa, faces among the highest electricity tariffs in the world. Current tariffs average US$0.18 per kilowatt-hour (kWh), compared with a rule of thumb global benchmark of US$0.10/kWh. Not only will the utility’s operational and financial performance be essential for success, but its capacity and access to financing will need to be strengthened and tailored to the challenges of rural electrification. As discussed in the sections below, current and planned capacity expansion will be sufficient to address the forecast demand growth and achieve access targets but SENELEC’s financial viability is key to ensure that financing can be secured to build the distribution network needed with adequate operations and maintenance over time.

4. **The sector has a structural operating financial deficit that needs to be covered by the Government on an annual basis.** SENELEC’s costs are assessed for each regulatory control period by the Senegalese Regulatory Commission for the Electricity Sector, CRSE, who calculates the maximum

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59 On a quarterly and annual basis, the sector regulator (CRSE) publishes maximum allowed revenues (RMA) for SENELEC based on current and projected economic conditions. The GoS then chooses whether to adjust consumer tariffs or subsidize the revenue gap through provision of ‘compensation’. The process is formalized in the law and SENELEC’s concession contract. The regulatory mechanism worked adequately over the years since the energy crisis in 2011. During 2012-16, the special energy fund (FSE) played a key financial stabilization role and decreasing global oil prices helped to reduce the burden of the electricity sector on the national budget.
allowed revenue (RMA) that can be recovered by SENELEC. Despite electricity tariffs being high (around 18 USc/kWh, as discussed above), tariffs are below cost, and substantial subsidies have been needed to cover the tariff revenue shortfall since 2017 (i.e. coinciding with a substantial increase in fuel costs). The subsidy requirement amounted to FCFA 57 billion in 2017 (0.5 percent of the nation’s GDP), FCFA 157 billion in 2018 (1.2 percent of GDP) and is expected to amount to FCFA 115 billion in 2019 (0.8 percent of GDP), which represents a very high and unsustainable burden on the Government’s budget. The gap between SENELEC’s costs and revenues deteriorated not only because of the considerable increase in oil prices but also due to a 10 percent reduction in electricity tariffs that took place in early 2017, and a relatively ambitious investment plan. SENELEC’s cost base is mostly driven by fuel costs and electricity purchases from IPPs and significant subsidies are forecast to be required in the coming years. Most of the costs in the RMA are outside SENELEC’s control (over 70 percent of costs are direct operating costs). Tariffs are already high by international standards and while further increases may be possible, they are not seen as a long-term sustainable solution. The clear solution is seen as reducing operating costs by switching from HFO to lower cost power generation.

5. The Government is committed to work on an energy sector financial framework plan to ensure the long-term sustainability of the sector. The sector plan includes the following key components (being supported by the World Bank through the DPF and other complementary interventions): (i) diversification of the country energy mix towards lower carbon technology especially renewables and gas; (ii) short-term sector financial sustainability, especially aimed at giving private sector investors comfort; and (iii) sector governance, reform and institutional strengthening. Successful implementation of the plan would allow Senegal to realize its vision of a country with affordable and sustainable universal access to electricity. Each component of the plan is described below, including WBG support.

Diversification of the energy mix to reduce costs

6. Senegal aims to increase the share of renewable generation and to substitute, over time, oil based power generation with LNG and later with domestic gas, when it comes online. Since 2016, Senegal has put into service about 140 MW of grid-connected solar capacity. However, the solar projects undertaken by the Government thus far have been negotiated deals with prices in the range of 0.12 US$/kWh, which have only had a limited impact on decreasing overall costs of supply. An additional 83 MW are forecast to enter service in 2020. The successful solar auction under the WBG Scaling Solar initiative reduced the benchmark price for solar projects significantly (c. US$0.05/kWh). Together with the 150 MW expected from wind energy by the end of 2021, the World Bank view is that the country will surpass 23 percent of capacity from solar and wind powered generation relative to total installed generation capacity by the end of 2021.\textsuperscript{60}

\textsuperscript{60} Total installed generation capacity includes power plants located in Senegal that are connected to the main grid and those connected to the isolated grids that are expected to be interconnected with the main grid in 2021. In addition, total installed generation capacity includes Senegal’s allocation of the capacity from regional hydro projects, i.e. Manantali, Felou, Kaleta and Souapiti.
Table 11: Expected renewable energy installed capacity

<table>
<thead>
<tr>
<th>Installed capacity (MW)</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
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<tr>
<td>Solar PV</td>
<td>143</td>
<td>143</td>
<td>226</td>
<td>226</td>
<td>226</td>
<td>226</td>
</tr>
<tr>
<td>Wind</td>
<td>0</td>
<td>50</td>
<td>100</td>
<td>150</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>Hydro</td>
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<td>85</td>
<td>133</td>
<td>236</td>
<td>271</td>
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<tr>
<td>PV+Wind</td>
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<td>193</td>
<td>326</td>
<td>376</td>
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<td>376</td>
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<tr>
<td>PV+Wind+Hydro</td>
<td>228</td>
<td>278</td>
<td>459</td>
<td>612</td>
<td>647</td>
<td>708</td>
</tr>
</tbody>
</table>

Note that for hydro, the capacity is not physically located in Senegal. Senegal is part of inter-country arrangements developing hydro generation in neighboring countries. The values of hydro capacity shown are those available to Senegal through these inter-country agreements.

7. Grid stability and a smooth integration of such a large share of renewable energy generation in the grid requires consideration of dispatch issues related to the flexibility of conventional plants (ramp rates, part-load, etc.) to manage the variability of Renewable Energy (RE) plants; and stability issues, related to the ‘inertia’ of the grid (measured in seconds or fractions of seconds). Without sufficient inertia, the system will reach critical levels of under-frequency which may cause the system to collapse. Recent stability studies on RE integration concluded that due to weak spinning reserves/frequency regulation capacity, significant curtailment of RE would be necessary to maintain grid stability. To reduce RE curtailment, ensure grid stability and a smooth integration of such a large share of RE generation in the grid, it is key for the Government to carry out critical investments in the short-term. Examples include battery storage solutions and grid/dispatching upgrades. SENELEC will also need to improve its planning capacity and define new dispatch rules with real time dispatching of renewable resources. In the long run, the development of natural gas-based electricity together with a larger share of imported hydro-based electricity will help the integration of RE developments as it will provide enough spinning reserves to the system. It is key for the Government to prioritize studies and carry out critical investments in dispatching and grid upgrades in the short-term. The World Bank, KfW, AFD and MCC are in discussion with SENELEC to provide financing of these investments. See Box 3 for the case with increased renewables take up.

8. The World Bank is co-financing the OMVG Interconnection Project (P146830) and the OMVS Transmission Expansion Project (P147921). These projects will enable Senegal to increase power trade with the countries in the West Africa Power Pool (WAPP) by importing low cost hydropower, and potentially exporting power in the future. Including Senegal’s allocation of existing and committed hydro generation capacity from regional projects, renewable generation capacity is expected to reach 40 percent of total installed generation capacity by the end of 2021. By 2026, the energy mix, in terms of power, is expected to comprise 31 percent renewable energy (including solar, wind and hydro), 54 percent gas and 15 percent coal. This takes account of no new coal fired generation being envisaged, in additional to what is already operational (Figure 4).
Note: There is no additional coal capacity beyond capacity already commissioned. The variation in coal capacity is due to technical difficulties being experienced by the existing coal plant Sendou 1.

9. Analysis by the World Bank shows that a switch from using HFO to indigenous gas would reduce costs in the power sector by the order of US$150-200 million per annum – eliminating the need for the Government to subsidize the sector. There are significant gas finds off the coast of Senegal. Sangomar (being developed by Cairn/Woodside), Tortue and Yakaar/Teranga (being developed by BP) could deliver gas to the Senegal power sector. There is some uncertainty as to the timing of availability of sufficient quantities of gas to power the sector. Our assessment is that this would be 2026. In the meantime, gas could also be imported as LNG. Such a ‘bridge’ solution could potentially lead to savings of the order of US$20-60 million per annum (this is highly sensitive to pricing assumptions and the development of international fuel prices). As part of DPF3, the Government has taken the decision to develop an LNG import option for delivery of gas by 2022 and to develop indigenous gas for delivery by 2026. This would be the orange scenario in Figure 5.
10. **The Government is advancing the important area of institutional arrangements for the gas midstream and downstream.** Developing the midstream\(^{61}\) and downstream\(^{62}\) gives comfort to the operators that there is a sufficient market for gas and allows the Government to pass-on payment risks to downstream users. To accelerate development of gas resources, the Government has taken specific actions to date as part of the DPF2 (Prior Action 3), by adopting (at the level of Council of Ministers) and publishing a *strategy note on Gas-to-Power including the institutional framework for the gas midstream and downstream subsectors, a description of the content of the necessary legal instruments, a timetable for their implementation, and a timetable for the conversion of production units from heavy fuel oil to gas on the basis of a cost-benefit study.* Subsequently, as part of DPF3, the GoS has developed and approved (by the Council of Ministers and submitted to Parliament) a new gas law covering the midstream transport, regulation, marketing and delivery of gas. Also, as part of operationalizing the strategy under DPF3, it has published a decision on the source of gas with liquid natural gas (LNG) imports using a floating storage and regasification unit (FSRU) from 2022, and subsequently from indigenous gas sources. The Government has also set out the form of the SPV that will own and operate the midstream gas pipeline and has announced the percentage of public and private sector investment that will be allowed in the SPV, with the private sector having majority ownership and being selected through an international competitive process. Further, it has announced the public entity that will own the public share of the SPV – and the different public entity (SENELEC) that will play the role of gas aggregator. All these measures show credible advancement in the program to transform the energy mix and reduce costs.

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\(^{61}\) The midstream refers to the pipeline system that will deliver gas from the shore to the power stations. Approximately 300 kms of pipeline will be required, costing in the region of Euro 200m.

\(^{62}\) The downstream refers to the users of gas, predominantly power stations. HFO engines are currently owned and operated by both SENELEC and private sector IPPs. Whilst some of the fleet is old and uneconomic to convert, at least 400 MWs of gas-engines will need to be converted and will cost in the region of US$ 110m to convert. Most of these conversions relate to IPPs, though some may involve SENELEC. SENELEC will also need to determine what to do with engines that are too old to convert. There are early discussions regarding development of a new combined-cycle plant.
Box 3: Increased Renewables Take-up

This document presents the World Bank’s analysis of a lower bound scenario on the penetration of renewable energy in the Senegalese grid based on economic dispatch, and the effect on the tariff shortfall of gas becoming available in that context. The effective integration of a large share of renewable energy generation in the grid requires dispatch issues to be addressed, related to the flexibility of conventional plants (ramp rates, part-load, etc.) to manage the variability of RE plants; and to the ‘inertia’ of the grid (measured in response times of fractions of a second) to maintain a stable frequency. Unless addressed, significant curtailment of RE would be necessary to maintain grid stability.

In the longer term, beyond the timeline of this DPF series, the World Bank expects that the global effort to decarbonize the power sector will result in further innovations over time to allow greater penetration of renewable energy. For example, the World Bank’s global program to accelerate investments in battery storage for energy systems is expected to help developing countries ramp up their use of renewables, enabling them to replace baseload technologies such as gas. The World Bank is also working regionally to improve the viability of the West Africa Power Pool to ensure a greater regional optimization of energy produced to enhance the use of renewable energy sources.

To reduce renewable energy curtailment and ensure effective integration of a large share of intermittent renewable energy onto the grid, SENELEC will need to invest in battery storage and grid management/generation dispatch upgrades. SENELEC will also need to define new dispatch rules with real time dispatching of renewable resources. The development of natural gas-based generation and imported hydro based generation will also help to provide the inertia and spinning reserves required to integrate a larger share of intermittent renewable generation.

With that in mind, the World Bank has developed projections of the penetration of renewable energy in Senegal taking account of the following developments: (a) a power system with the flexible generation and corresponding transmission and distribution infrastructure that will enable the grid to absorb more than 31 percent of intermittent renewable energy; (b) further substantive cost reductions in solar PV and solar with storage; (c) significant improvements in the cost and performance of storage batteries under developing country conditions; and (d) evolution of the Western Africa Power Pool that will allow further dispatch of renewable energy across participating countries.
The process of switching the energy mix will take time (2-3 years). During the interim period, the Government will continue to support funding the sector’s costs through subsidies for any tariff revenue shortfall. The Government will need to make sure that measures are in place to ensure on time and sufficient payments to SENELEC so that SENELEC can in turn meet its obligations vis-à-vis its suppliers, notably SAR and IPPs. For 2018, an amount of FCFA 70 billion was included in the initial budget to cover for the tariff revenue shortfall. The initial budgeted amount was, however, not sufficient to cover for the

**Table 12: Increased Renewable Energy Installed Capacity**

<table>
<thead>
<tr>
<th>Installed capacity (MW)</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td>PV+Wind+Hydro</td>
<td>228</td>
<td>278</td>
<td>459</td>
<td>643</td>
<td>695</td>
<td>820</td>
<td>894</td>
<td>1038</td>
<td>1123</td>
</tr>
</tbody>
</table>

*Note that for hydro, the capacity is not physically located in Senegal. Senegal is part of inter-country arrangements developing hydro in neighboring countries. The hydro capacity shown is that available to Senegal through these inter-country agreements.*

**SENELC short-term financial sustainability**

The process of switching the energy mix will take time (2-3 years). During the interim period, the Government will continue to support funding the sector’s costs through subsidies for any tariff revenue shortfall. The Government will need to make sure that measures are in place to ensure on time and sufficient payments to SENELEC so that SENELEC can in turn meet its obligations vis-à-vis its suppliers, notably SAR and IPPs. For 2018, an amount of FCFA 70 billion was included in the initial budget to cover for the tariff revenue shortfall. The initial budgeted amount was, however, not sufficient to cover for the
compensation amount due of FCFA 158 billion, and even in January 2018 the expected tariff revenue shortfall was estimated at FCFA 116 billion, suggesting that insufficient amounts were available from the start of the year. As the gap between costs and revenues increased following a further increase in the costs of fuel, the GoS approved an additional FCFA 28 billion for compensation (i.e. FCFA 98 billion were budgeted in total). In 2018, a total amount of FCFA 82 billion was paid to SENELEC as compensation payment. The remaining amount was covered by the Government’s budgetary operation through which SENELEC received FCFA 125 billion to cover a considerable part of 2017 and 2018 arrears, although arrears have not been paid in full (please refer to Box 1 for details on arrears).

11. **International oil prices have decreased and the corresponding decrease in the costs of fuel has reduced the need for tariff compensation in 2019, significantly improving the outlook for 2019 compared to 2018.** The Brent crude oil price increased from the annual average of 54 US$/bbl in 2017 to 71 US$/bbl in 2018, leading to a substantial increase in the compensation amount (from FCFA 57 billion to FCFA 158 billion in 2018). Driven by the recent decrease in the costs of fuel — in 2019, the Brent price has averaged around 65 US$/bbl as at September 2019 – the expected compensation amount has fallen to FCFA 115 billion. To date, an amount of FCFA 75 billion has been paid in terms of compensation for 2019. This includes funds that were in the original Loi de finances as well as sums discussed during the preparation of DPF3 and added to the *Loi de finances rectificative* (LFR). Allowing for an adjustment of the compensation amount downwards in view of a lower than expected investment plan, the remaining amount to be paid is FCFA 14.4 billion, which is being covered by a combination of tariff revenues stemming from increased tariffs that shall take effect on December 1, 2019 and compensation payment in a LFR2. The expected compensation amount for the next couple of years is estimated at FCFA 84 billion in 2020 and FCFA 65 billion in 2021, provided that several measures are taken to decrease costs, including LNG becoming available at Karpower in 2020, hydro and other renewable generation expanding from 2020, and Sendou re-entering service in 2021, reducing the overall reliance on expensive oil base generation.

12. **The sector financial situation has been undermined by consumption arrears.** Based on current information, overdue electricity bills from the side of the Government and parastatals amount to FCFA 56 billion. The largest unpaid amounts for electricity consumption are owed by public institutions with an autonomous budget, such as universities and hospitals (FCFA 22 billion), public lighting (FCFA 17 billion), central government (FCFA 12 billion) and municipalities (FCFA 6 billion). These arrears of unpaid electricity bills as well as a clear strategy so that these arrears do not accumulate in future are being addressed by this operation together with the settlement of arrears that relate to compensation for the years 2017 and 2018 (also part of DPF2).

13. **SENELEC has been experiencing liquidity issues – which are being addressed through payments from the Government agreed under the DPF program.** In 2018 and further in 2019, SENELEC’s cash flow situation deteriorated, and SENELEC found it difficult to meet obligations to strategic suppliers on time. The accumulated overdue debt to SAR (Société Africaine de Raffinage) amounted to over FCFA 55 billion as at September 2019, accruing additional interest cost on the overdue amounts – that are ultimately passed on to the Government. For example, in July 2019 SENELEC owned FCFA 5 billion to SAR as

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63 The FCFA 158 billion of compensation amount due reflects the CRSE final decision No. 2019-01. It is worth noting that once accounted for the effect of k-factor adjustments, the effective tariff revenue shortfall for the year 2018 was FCFA 140 billion (i.e. FCFA 18 billion lower than the compensation amounts due – See Table 10-1 for further details).

64 Fuel prices are determined based on projections in the World Bank’s CMO April 2019.

65 As on September 13, 2019.
additional costs resulting from late payments. SENELEC had found itself needing to resort to short-term financing to cover its obligations vis-à-vis suppliers, significantly increasing its short-term debt funding. The cash flow situation significantly improved following the disbursement of FCFA 125 billion by the Government on 12th September 2019 to cover for the compensation and most of the arrears for the years 2017 and 2018.

14. Going forward, as part of DPF3 Prior Action 2 and LDP, the Government has taken a number of structural measures to improve confidence in the regulatory process and revenue collection by SENELEC. These include: modification (by CRSE) of the regulatory tariff formula for the Maximum Allowed Revenue (abbreviated as RMA in French) to include an ex-post adjustment addressing the realization of projected investment by SENELEC. The lack of this adjustment is frequently used as a reason for stakeholders to cast doubt on the credibility of the RMA figures being published by CRSE. The effect of this adjustment is shown in Box 1. Secondly, an upward adjustment to tariffs shall take place to partially undo the effect of the tariff reduction in 2017. At that time, there was the following adjustment: for T1 the decrease was 15 percent, for T2 the decrease was 11 percent and for T3 the decrease was 4 percent. The tariff adjustment will take effect from 1st December 2019 and correspond to a 10% average adjustment for LV customers while protecting the poorest customers (i.e. the adjustment for tranche 1 tariff will be limited to below 1%, while the adjustment for consumption under higher consumption tranches will be 11%), and 6% tariff adjustment for medium and high voltage customers. The Government has also established a payment plan for existing consumption arrears (see Box 1 for figures). As per DPF2, the Council of Ministers has also issued a decree on the expansion of the TCO tax to the industrial sector in order to finance at least 61 percent of the public lighting expenses; the Government has issued a decree to make EPAFs' electricity expenditures mandatory and has only authorized EPAFs budgets with enough allocations to cover these expenses.

Sector Governance, Reform and Institutional Strengthening

15. As the sector transforms to lower cost fuels, newer technologies and increased private sector investment, there is a need for high level decisions around sector roles and institutional arrangements. The Gas-to-Power Strategy set out key tenets of the sector: that there would be separation of ownership of gas and ownership of pipeline, to allow for future competition to supply gas, majority private sector ownership of the pipeline and scalability for the entire energy sector – including to support exports to the region in the future.

16. Per DPF2, the Government has established the profiles and the criteria for the appointment of independent directors to SENELEC’s Board, and the Government appointed a new SENELEC Board based on the new rules. To become ready for an increased private sector participation, the Government has committed to improve SENELEC performances and governance. A Performance Contract was signed (per DPF1). The goal is to ensure that SENELEC provides quality of service to customers in full compliance with applicable regulations and commitments: losses reduced, all amounts of energy being consumed permanently billed and collected (including from public consumers) and costs incurred reflect efficiency in operations in all business areas. Improvement of performance requires effective implementation of identified performance plans addressing operations in all business areas of SENELEC. These include timely implementation of investments and programs for reducing losses, major scale-up of pre-paid meters, adequate implementation of accounting separation, HR plans, etc. Governance should also be improved: description of functions and responsibilities of positions at all levels (including Board members), competitive and transparent selection of staff to occupy positions at all levels. The Ministry of Petroleum and Energy should monitor more closely ongoing work aiming at improving SENELEC corporate
17. **Strengthen other sector institutions to ensure they are well equipped to address the sector challenges.** Ministry of Petroleum and Energy leadership on sector strategies and systematic optimized (least-cost) planning and implementation for all segments of the sector supply chain (including access) is needed as part of the turnaround plan. The Ministry of Petroleum and Energy needs to reinforce its leadership and become the originator of sector policies, including for the upstream oil and gas sector, gas-to-power, electrification policies, strategies and yearly targets. The turnaround plan also includes measures aimed at improving sector regulation and enhancing the institutional capacity of the regulator CRSE. As the sector is undergoing significant changes, the capacity and mandate of the sector regulator needs to be strengthened, for it to be better equipped to face current and future regulatory challenges in a highly politicized environment. These challenges pertain in particular to the regulation of SENELEC and the monitoring of its Performance Contract, as well as the regulation of new concessions for rural electrification, the downstream hydrocarbon sector, and IPPs.

18. **The National Rural Electrification Program (PNER) outlines the Government’s strategy to increase access based on activities to extend the MV backbone, undertake grid densification to connect households, expand mini-grid and solar home systems in isolated areas and promote universal use of prepaid meters along with investment support for internal wiring and productive use.** With the multitude of stakeholders for rural electrification and inefficient overlap of mandates amongst them (ASER, Concessionaires, Ministry of Petroleum and Energy, SENELEC, ANER), a strategic effort has been made to review the concessional model and broader institutional and regulatory framework for rural electrification and address the root causes of poor results to date. The main obstacles are high tariffs and connection charges in comparison to SENELEC’s rates and low capacity within the managing agency ASER. In response, the Government has decided to harmonize tariffs with SENELEC for improved customer adoption, award the remaining four concessions to SENELEC, and cancel the two non-performing concessions and awarding to SENELEC in order to accelerate progress on rural electrification. The implementation of these reforms is supported under this operation.

19. **SENELEC will continue to be a key player to achieve that objective as grid electrification remains the least cost solution for over 95 percent of rural households.** An SE4ALL funded geospatial analysis of optimal least-cost electrification to achieve universal access by 2025 indicates that grid electrification will be optimal for most rural households, with mini-grids likely to cover 4 percent of households and individual solutions optimal for 1 percent. Nevertheless, mini-grid and off-grid solutions are critical transition solutions to stimulate rural loads while needed infrastructures are put in place. SENELEC has demonstrated its capacity to connect rural customers in its concession perimeter, with an average of 30,000 rural connections per year, and can efficiently expand this role through the four new concessions recently attributed.

20. **The successful implementation of the energy sector financial framework plan will steer the sector over time back to a sustainable path and pave the way for deeper reforms and private sector participation.** The following table sets out a scenario for this recovery path.
Table 13: Scenario for progression of sector with energy financial framework

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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<th>2028</th>
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<tr>
<td>Senelec (GWh)</td>
<td>2,057</td>
<td>2,064</td>
<td>1,458</td>
<td>110</td>
<td>169</td>
<td>224</td>
<td>228</td>
<td>644</td>
<td>959</td>
<td>968</td>
<td>976</td>
<td>981</td>
<td>983</td>
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<tr>
<td>Oil</td>
<td>2,057</td>
<td>2,064</td>
<td>1,458</td>
<td>110</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Gas</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>169</td>
<td>224</td>
<td>228</td>
<td>644</td>
<td>959</td>
<td>968</td>
<td>976</td>
<td>973</td>
<td>976</td>
<td>977</td>
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<tr>
<td>IPPs (GWh)</td>
<td>1,930</td>
<td>2,210</td>
<td>2,938</td>
<td>4,562</td>
<td>4,767</td>
<td>5,135</td>
<td>5,603</td>
<td>5,543</td>
<td>5,655</td>
<td>6,073</td>
<td>6,492</td>
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<td>Hydro</td>
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<td>1,280</td>
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<tr>
<td>Other RES</td>
<td>263</td>
<td>378</td>
<td>647</td>
<td>762</td>
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<td>762</td>
<td>801</td>
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<tr>
<td>Oil</td>
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<td>LNG</td>
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<tr>
<td>Gas</td>
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<td>0</td>
<td>945</td>
<td>1,119</td>
<td>1,587</td>
<td>2,526</td>
<td>2,638</td>
<td>3,056</td>
<td>3,475</td>
<td>3,858</td>
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<tr>
<td>Coal</td>
<td>119</td>
<td>119</td>
<td>119</td>
<td>975</td>
<td>975</td>
<td>975</td>
<td>975</td>
<td>975</td>
<td>975</td>
<td>975</td>
<td>975</td>
<td>975</td>
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</tr>
<tr>
<td>Total power supplied (GWh)</td>
<td>3,987</td>
<td>4,274</td>
<td>4,397</td>
<td>4,672</td>
<td>4,936</td>
<td>5,359</td>
<td>5,830</td>
<td>6,188</td>
<td>6,614</td>
<td>7,041</td>
<td>7,468</td>
<td>7,895</td>
<td>8,322</td>
</tr>
<tr>
<td>Technical and commercial losses</td>
<td>662</td>
<td>606</td>
<td>603</td>
<td>611</td>
<td>630</td>
<td>664</td>
<td>703</td>
<td>743</td>
<td>787</td>
<td>831</td>
<td>875</td>
<td>920</td>
<td>964</td>
</tr>
<tr>
<td>Exports</td>
<td>11</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In country sales (GWh)</td>
<td>3,314</td>
<td>3,668</td>
<td>3,794</td>
<td>4,061</td>
<td>4,306</td>
<td>4,695</td>
<td>5,127</td>
<td>5,445</td>
<td>5,828</td>
<td>6,210</td>
<td>6,593</td>
<td>6,975</td>
<td>7,358</td>
</tr>
<tr>
<td>Allowed revenues (FCFA m)</td>
<td>355,057</td>
<td>389,055</td>
<td>433,175</td>
<td>459,306</td>
<td>485,332</td>
<td>526,504</td>
<td>572,698</td>
<td>609,356</td>
<td>652,447</td>
<td>695,538</td>
<td>738,630</td>
<td>781,721</td>
<td>824,812</td>
</tr>
<tr>
<td>Total costs (FCFA m)</td>
<td>521,118</td>
<td>510,738</td>
<td>517,194</td>
<td>524,727</td>
<td>530,765</td>
<td>568,046</td>
<td>601,192</td>
<td>617,069</td>
<td>594,806</td>
<td>621,966</td>
<td>650,481</td>
<td>680,062</td>
<td>710,606</td>
</tr>
<tr>
<td>Variable costs</td>
<td>337,844</td>
<td>373,782</td>
<td>377,378</td>
<td>382,005</td>
<td>385,091</td>
<td>419,352</td>
<td>449,387</td>
<td>462,088</td>
<td>436,583</td>
<td>460,432</td>
<td>485,568</td>
<td>511,698</td>
<td>538,719</td>
</tr>
<tr>
<td>Average cost of supply (FCFA/kWh)</td>
<td>149</td>
<td>139</td>
<td>136</td>
<td>129</td>
<td>123</td>
<td>121</td>
<td>117</td>
<td>113</td>
<td>102</td>
<td>100</td>
<td>99</td>
<td>97</td>
<td>97</td>
</tr>
<tr>
<td>Average cost of supply (USc/kWh)</td>
<td>25</td>
<td>23.7</td>
<td>23.2</td>
<td>22.0</td>
<td>21.0</td>
<td>20.6</td>
<td>19.9</td>
<td>19.3</td>
<td>17.4</td>
<td>17.0</td>
<td>16.8</td>
<td>16.6</td>
<td>16.4</td>
</tr>
<tr>
<td>Tariff revenue shortfall (US$m)</td>
<td>286</td>
<td>207</td>
<td>143</td>
<td>111</td>
<td>77</td>
<td>71</td>
<td>48</td>
<td>13</td>
<td>-98</td>
<td>-125</td>
<td>-150</td>
<td>-173</td>
<td>-194</td>
</tr>
<tr>
<td>FX rate (FCFA/USD)</td>
<td>588</td>
<td>588</td>
<td>588</td>
<td>588</td>
<td>588</td>
<td>588</td>
<td>588</td>
<td>588</td>
<td>588</td>
<td>588</td>
<td>588</td>
<td>588</td>
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</tr>
</tbody>
</table>

Note: The projected tariff shortfall is dependent on the development of the costs of fuel on the international markets, the timing of availability of LNG and domestic gas and gas prices, as well as realized demand. We note that SENELEC has other unregulated revenues, which are not captured in this analysis. The tariff revenue shortfall here excludes the effect of k-factor adjustment to better reflect the underlying cost of supply (the compensation due based on the CRSE Decision No.2019-01 was FCFA 158 billion).
21. In the longer term, the Government is considering moving ahead with the unbundling of SENELEC along the business lines of generation, transmission and distribution and mix ownership for sector sub-segments. While the transmission sub-segment will remain public, generation is expected to become mostly private through IPPs (although SENELEC would like to retain a large share of generation, up to 40 percent) and the distribution segment is expected to be restructured following an affermage model.

The table below shows the above objectives and activities as articulated in the WBG portfolio of projects in Senegal.

**Table 14: WBG Portfolio in Senegal**

<table>
<thead>
<tr>
<th>Existing</th>
<th>Security of Supply/Shift to Less Carbon Intensive Technologies</th>
<th>Universal Access</th>
<th>Develop the Enabling Policy Environment</th>
<th>Improve Utility Performance to Lower the Cost of Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Electricity Sector Support Project (P125565 - US$85 million) and its Additional Financing (US$70 million – IDA SUF financing)</td>
<td>Resolving transmission and distribution bottlenecks to ensure electricity produced is delivered to end consumers</td>
<td>235,000 new connections to be financed under the project</td>
<td>Substantial investments and TA in improving sector performance and governance</td>
<td>Substantial investment in losses reductions programs, pre-paid and intelligent meters and new Client Information System, and TA in improving SENELEC operational performance and separation into distinct subsidiaries</td>
</tr>
<tr>
<td>Taiba Ndiaye IPP IDA guarantee (P143605 - US$40 million guarantee)</td>
<td>Supported the development of 115 MW of additional power</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFC investments in Tobene Power, Cap de Biches and Kounoune Power</td>
<td>Supported the development of about 270 MW of additional power</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainable Energy for All Technical Assistance Program (P145845 - US 1.2 million)</td>
<td>Supported the development of the electrification Master Plan and prospectus</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second Sustainable and Participatory Energy Management Project (P120629 - US$15 million) and US$4.9 from NDF</td>
<td>Contributes to increasing the availability of diversified household fuels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural Electrification Carbon Finance Project (US$8 million)</td>
<td>Supports increased access to electricity and reduce greenhouse gas emissions in rural</td>
<td></td>
<td></td>
<td>Improving financial sustainability of sector through result-based carbon finance</td>
</tr>
</tbody>
</table>
| Project Title and Code | Supporting actions | Policy actions | Substantial leverage  
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OMVG Interconnection Project (P146930)</strong></td>
<td>Supports the potential of additional imports of low-cost and clean hydro power</td>
<td>Supports financial viability for the sector by promoting less expensive generation</td>
<td></td>
</tr>
<tr>
<td><strong>Enhancing Gas Market Governance Technical Assistance (P160652 – US$20 million – IDA 17)</strong></td>
<td>Will support the development of gas resources to provide gas-to-power options</td>
<td>Supports financial viability for the sector by promoting less expensive generation</td>
<td></td>
</tr>
<tr>
<td><strong>OMVS interconnection project (IDA 17)</strong></td>
<td>Will support the potential of additional imports of cheap hydro power</td>
<td>Supports financial viability for the sector by promoting less expensive generation</td>
<td></td>
</tr>
<tr>
<td><strong>Senegal Structural Reform Development Policy Operation Series (P159023 - US$60 million – IDA 17)</strong></td>
<td>Supports the approval of the energy sector Master Plan</td>
<td>Supports policy actions to foster access in rural areas</td>
<td>Substantial leverage to take reform actions to improve SENELEC governance, operational performance and reform</td>
</tr>
<tr>
<td><strong>Scaling Solar Program (P153826- US$20 million)</strong></td>
<td>Aiming at developing additional 100MW of solar power through IPP</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Regional Off-grid Electrification Project</strong></td>
<td></td>
<td>Will support off-grid access in rural areas (especially where grid densification is not feasible)</td>
<td></td>
</tr>
<tr>
<td><strong>MIWA Taiba Ndiaye Wind Project</strong></td>
<td>Aiming at developing additional 150MW of wind power through IPP</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pipeline</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Project to Promote a Shift towards Lower Carbon Power Generation in Senegal (P169744 – US$150 million)</strong></td>
<td>Supporting shifting towards lower carbon generation by enabling the development of the NG midstream and downstream segments and the integration of RE</td>
<td>Improving the capacity of key institutions of the sector to handle the development of natural gas midstream and downstream</td>
<td>Reducing the cost of electricity of supply by shifting from HFO to NG and RE</td>
</tr>
<tr>
<td><strong>ECOWAS - Regional Electricity Access Project - Phase 2 (P170599 – US$130 million for SN)</strong></td>
<td>Will support grid access in rural areas from OMVG and OMVS substations</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Third Sustainable and Participatory Energy Management Project (P120629 – US$50 million)</strong></td>
<td>Will contribute to scaling up the availability of diversified household fuels</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 6: CONTEXT ON ICT SECTOR

1. Following a liberalization program conducted in the late 1990s, the telecommunications sector has become one of the main contributors to the country’s GDP, accounting for 3.7 percent in 2018 (MEPC, 2019). This contribution has been driven by the development of mobile telephony, which allowed Senegal to be among the African champions with a mobile phone penetration rate (percent of population) that increased from 102 percent in 2016 to 105 percent in 2018 (ARTP, 2019).

2. However, today the growth of the sector is running out of steam and its potential is largely untapped. Whereas, as everywhere else, the broadband internet sector represents the main growth potential of the ICT sector in the years to come, Senegal’s market has lagged behind leading countries in Africa over the last 10 years. Due to much lower subscriber growth, mobile broadband penetration rate (ITU, 2018) in Senegal is only 26 percent compared to 71 percent in Ghana, 68 percent in Cape Verde and 76 percent in South Africa. However, the recent launching of broadband internet services by Free (new brand name of TIGO) and the three new ISPs will boost competition which should rapidly translate into higher access rates through lower prices and higher quality of services (i.e. internet speed).

3. The broadband internet market, consisting of 98 percent of mobile internet access, is not sufficiently developed and falls short of the country’s development ambitions. There are three main reasons for this:

   i. The structure of the broadband market (fixed and mobile) is weakly competitive:
      
      - SONATEL’s dominance on the fixed and mobile broadband market is mainly due to its endowment in international and national connectivity. SONATEL (which shareholders are: 42 percent Orange, 22 percent floating, 27 percent Government, 8 percent Sonatel staff) is a shareholder in all three submarine cables (ACE66, SAT3 and Atlantis2) supplying Senegal and operates the entire network of landing stations in the country. As per national connectivity, the SONATEL fiber network is estimated at 3,972 km compared to 1,500 km for its competitor TIGO and 1,000 for EXPRESSO.

      - Fixed broadband (ADSL, FTTx) and the 4G markets are still de facto monopolistic with 100 percent of access held by SONATEL. Due to the absence of competition on these markets, SONATEL is limiting its investments in the most profitable areas. The 4G market structure is expected to change rapidly though given recent launching (in October 2019) of 4G+ services by Free with very competitive offers.

      - 3G market is characterized by substantial dominance of the incumbent operator Orange / SONATEL with a 65 percent market share in 3G mobile broadband subscribers against TIGO with 26 percent and EXPRESSO holding 9 percent. As a result, the concentration index, Herfindahl-Hirschman (IHHI), is extremely high in the Senegalese mobile market: 4,982. Market concentration becomes problematic when the concentration index is above 2,000.

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66 The Expresso group is also a shareholder of the ACE consortium and it established its subsidiary Dolphin to manage its participation in the ACE landing station in Dakar. The ACE landing station in Dakar is selling (either through Sonatel or Dolphin) international capacity to Tigo/Free, the new ISPs and the ADIE.
Recent entry of three ISPs in 2018 has not yet materialized into a significantly higher level of competition: ISPs market share on the overall internet market (i.e. fixed and mobile) went from 0.01 percent in June 2018 to 0.02 percent in September 2018. While these actors are not facing any artificial barriers to entry, these actors have three major problems that DPF3 reforms will address: (i) high frequency fees charged to ISPs; (ii) difficulty of access to the essential infrastructures owned by dominant operators (SONATEL, especially); and (iii) unjustified restrictions on the range of services that ISPs are allowed to provide under their terms of reference (e.g. Voice over internet and TV on internet).

The program under Prior Actions 5 and 6 of DPF3 covers regulatory reforms required to ensure success of the entry of facilities-based ISPs in the internet market. Recent achievement of Prior Action 5 has now forced Sonatel to provide a regulated open access to its infrastructure. In addition, recent achievement of Prior Action 6 will immediately and significantly decrease the frequency fees charged to all operators, with a special discount rate for ISPs. In parallel of the DPF3 reforms, the restrictions imposed on ISPs in their ToR have been removed.

Figure 7: Operators Market Shares on the Mobile Internet Market in 2018 (ARTP, 2019)

ii. This leads to high cost of mobile broadband services which is an obstacle to their growth. Despite a decline, the prices of mobile broadband services remain too high for most of the population: the cost of mobile broadband services represents 12 percent of the average monthly gross income per capita compared to 6 percent in Kenya, 5 percent in Ghana / Morocco, 2 percent in Cape Verde and 1 percent in South Africa / Mauritius. According to the International Telecommunications Union (ITU), a fast takeoff of broadband internet is only possible when this proportion is equal to or less than 5 percent. Despite the current difficulties of ISPs, two of them (WAW and ARC) have begun to market services, which has helped to break the prices hitherto: the retail prices of the internet have dropped by more
than 50 percent since the entry of the ISPs. Maintaining ISPs on the market is critical for boosting competition and improving broadband affordability.

Figure 8: Cost of Mobile Broadband Services (% of average monthly income per capita – (World Bank, 2017/2018)

iii. Coverage of broadband networks is insufficient and characterized by three persistent digital divides: (i) rural – urban divide: the 3G coverage (introduced in 2007) is much lower than the 2G network and is limited to the main urban centers located in the Dakar region; (ii) inter-urban divide: there are significant inequalities in terms of Dakar connectivity and secondary cities (Pikine, Touba, Saint Louis, Thies, etc.); and (iii) intra-urban divide: there are significant inequalities in terms of neighborhood connectivity within the city of Dakar, which concentrates the bulk of internet subscribers.

4. The digital divide has also a gender dimension with only 29 percent of women, compared to 43 percent of men, reporting the use of internet in the past 12 months. This difference can be observed in both the highest quantile of households in terms of income (60 percent of women against 75 percent of men) and the lowest (2 percent of women against 12 percent of men). The gender divide is even starker in the rural areas of Senegal, where 12.1 percent of women, compared to 28.7 percent of men, report the use of Internet in the past 12 months (DHS, 2017). Considering that 98 percent of internet use is through a mobile device, a considerable decrease in cost of mobile broadband subscription, would increase the capacity of households to afford a second internet-connected mobile phone and might hence increase the use of internet among women. Moreover, given that 42 percent of women (compared to 13 percent of men) work in sales and services, where internet is a particularly important tool for increasing productivity and developing business, they might benefit particularly from an increase in coverage and quality of broadband services in the country.

5. As a continuation of reforms carried out in 2017 and 2018 under DPF1 and DPF2, the Government has prepared in 2019 a third series of reforms (DPF3) that will (i) significantly improve regulation of market dominance (Prior Action 5); (ii) lower the amount of frequency fees to be paid by operators/ISPs (Prior Action 6); (iii) activate the universal service policy towards the reduction of the digital divide between urban and rural (Prior Action 7); and (iv) establish an open access to the strategic

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67 Agence nationale de la statistique et de la démographie (ANSD), Enquête Démographique et de Santé Continue 2017
ADIE fiber optic network (Prior Action 8). These four measures will boost competition and private investment in infrastructure. This will materialize into lower prices, higher internet speed and improved coverage of internet services over the territory.

6. **There is a need to ensure continuity of reforms implementation beyond DPF3.** Although the DPF3 Letter of Development Policy provides some guarantees that the Government is committed to continue the reforms covered under DPO3, an additional reforms package would be critical to ensure continuity of the reforms initiated under the program as well as their maximum impacts. Regarding Prior Action 5, and if the reform proves to be ineffective, the Government would have to use the last resort regulation option which is the structural separation or divestiture of Sonatel’s activities. However, and in view of international best practices, this type of reform has only taken place once the ex-ante significant market power (SMP) measures have proven ineffective or through an ex-post decision of the competition authority. In Senegal the success of the reform implemented under Prior Action 5 will depend on the regulator ability to make sure its adopted decrees are implemented in practice. Under DPF3 the intensity of the regulatory capture has been significantly reduced and the regulator has been transformed into real technical regulation agency. However, and following its deep restructuring as well as the entry of several new competitors, the regulator is now facing the need to conduct an organizational audit to ensure its capacity to effectively regulate a more competitive market. Regarding Prior Action 6, the government will have to decide additional reductions of frequency fees so as to be aligned with regional standards. On Prior Action 7, the Government will have to implement the universal strategy’s action plan by effectively launching calls for tenders to co-finance connectivity projects in rural areas. For transparency reasons and in light of the legal obligations imposed by the new sector law, the Government will also have to make sure that external audits if the USFs are conducted and published on an annual basis. On Prior Action 8, it is critical to ensure that the Government finalize the international call for tender process and concludes a contract arrangement with a private concessionaire so that the ADIE network is effectively commercialized under the open access principle.

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68 The former CEO was removed, the decision-making power of the regulator has been transferred to a collegial entity, and the budget of the regulator was significantly reduced.
ANNEX 7: CONTEXT ON DIGITAL ECONOMY IN SENEGAL

1. Reform momentum to unleash the potential of the Digital Economy. While it has long been hampered by legal, regulatory and governance issues, the development of the digital economy has found new impetus in recent years. As highlighted in the Digital Economy For Africa (DE4A) Country Diagnostic, the adoption of the Digital Senegal Strategy (SN2025) in late 2016 and adoption (December 2018) of the Code on Electronic Communications end a long period of regulatory uncertainty. These milestones, combined with high-level engagements such as the Digital Days led by the President of the Republic, mark a turning point for the sector and demonstrates the willingness of the Government to implement the reforms needed to seize new economic opportunities and cope with the fast pace of change in technologies and business models. Recent evolutions in terms of digital government platforms (or e-government) and digital entrepreneurship help illustrate this.

Digital Government Platforms

2. Senegal is making progress in developing e-government, in key functions such as tax administration and electronic identification, yet deeper reforms are needed to drive transformational change69. Notable improvements have materialized to date, such as the establishment of a government-wide digital network, a wireless WiMAX network as well as multiple data centers. Senegal has also been a regional pioneer when it comes to e-identification. Along with Ghana, Senegal is the only ECOWAS Member State to have rolled out digital identification systems with the deployment of National Biometric Identity Card (ENBIC). This e-ID system is mandatory for all citizens and is used for identification to access several services. The unique number generated by the Files Automation Department (DAF) can serve as a basic identifying reference. However, 25 percent of Senegal’s population remain not yet registered and do not have any identification. As for digital taxation, one of the main achievements to date has been the operationalization of e-Tax, an online platform where SME’s and large taxpayers can both file and pay their taxes. This reform, which has been recognized in the Doing Business in 2020 report, is making a significant impact on reducing taxpayer’s compliance costs and improving administrative efficiency. Senegal aims to expand the coverage of e-Tax and introduce additional services to make the regular interactions between taxpayers and the tax authority paperless. Such interventions serve a dual purpose of strengthening revenue collection and administration to properly monitor taxpayers’ compliance, as well as encouraging voluntary taxpayers’ compliance. However, despite such positive examples, the DGRA notes that digitization of government services remains unequal. Most government platforms are not interlinked to facilitate, or even allow, data-sharing, even when they use common data on persons or goods. The fact that neither operational reference standards nor a government-wide enterprise architecture exists makes sharing significantly challenging. Deeper reforms and investment to increase the whole-of-government efficiency and enhance the services delivery to citizens and businesses will be needed. This requires simplifying processes, ensuring interoperability, developing shared services, and securing existing government platforms. The DE4A Country Diagnostic further concurs with the government that both taxation and unique identification will need further progress as priority platforms.

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69 This section draws from the results of the Digital Government Readiness Assessment (DGRA) conducted as part of the as part of the DE4A Country Diagnostic.
3. **Prioritizing reforms in digital taxation.** In order to align with government priorities and existing reform momentum described above, this operation opted to focus particular attention on digital taxation, among other critical digital government platforms. A number of elements justify this focus: First, a more effective, efficient and transparent tax administration will help the government’s effort in revenue mobilization. It also helps improve transparency and good governance, in one of the most critical areas of government-to-business and government-to-citizens interactions. Secondly, taxation significantly impacts the private sector and a reduction in compliance costs with business taxes will make a significant impact on the business environment. Finally, the tax administration is among the pioneering administration when it comes to digitization and is expected to play a leadership and demonstration role towards other government services in showing the transformative impact of e-government reforms.

**Digital Entrepreneurship**

4. **Senegal has a small but vibrant digital entrepreneurship ecosystem**, considered to be one of the most dynamic in francophone West Africa. The Senegalese environment is relatively favorable to entrepreneurship and is characterized by a young (62 percent of the population is under 25 years old) and growing urban population (+3.6 percent per annum) as well as a large and active diaspora that provides skills, networks in developed markets, and financial support. These favorable conditions are amplified by three important factors. First is a widespread use of technologies – at 35.6 percent, Senegal’s smartphone adoption rate is among the highest in West Africa (with the regional average standing at 28 percent). Second is a high entrepreneurial activity rate - 39 percent of the Senegalese population aged 18 to 64 is either setting up or heading a new company (Figure 9). The third factor is a recently accelerated speed of the innovation ecosystem development, as it now comprises more than 15 incubators, accelerators, and co-working spaces that serve the needs of a community of over 2,500 start-ups and entrepreneurs. In 2015, Senegal counted 63 start-ups per million inhabitants, ranking 13th of 107 classified countries versus 43 in France and 7 in India. Over the past two years, this number in Senegal has been steadily increasing further, largely coming on the back of business climate improvements. Indeed, the country has implemented 21 reforms in the last five years (since Doing Business 2015), some of which (ranging from reducing notary fees to start a business to facilitating property registration and contract enforcement) particularly eased doing business for start-ups.

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70 The country’s entrepreneurship ecosystem is constituted by a set of interconnected entrepreneurial actors, organizations, institutions, and processes that formally and informally coalesce to connect, mediate, and govern the performance within a local entrepreneurial environment, as defined by OECD (2013) *Entrepreneurial Ecosystems and Growth Oriented Entrepreneurship: Background paper prepared for the workshop organized by the OECD LEED Program and the Dutch Ministry of Economic Affairs* (available here). This ecosystem is one of the foundational pillars of a dynamic digital economy. It enables ideas and innovation to materialize into start-ups, which in turn mature into businesses, while creating jobs, facilitating access to goods and services, and fostering the development of other economic sectors.


73 In 2018, Senegal made enforcing contracts easier by adopting a law that regulates all aspects of mediation as an alternative dispute resolution mechanism.
5. **Nevertheless, the Senegalese start-up ecosystem remains fragile and embryonic and its further development is inhibited by a number of critical constraints**. Despite important incipient progress, Senegal still ranks 141st of 190 economies in DB 2019 and 103rd of 137 countries in the 2018 Global Entrepreneurship Index (GEI), suggesting that deeper reforms and additional investments are warranted to fully transform the country’s business environment and entrepreneurship ecosystem. Specific policy measures are necessary to support start-ups that face significant and, in many ways, unique challenges and market failures that inhibit scale-up opportunities. These challenges include high initial investments, long development periods to break even, the necessity to protect intellectual property, insufficient material assets, problematic access to external financing (equity or borrowing) due to information asymmetries, and weak access to markets. To overcome these challenges start-ups often require external support from mentors, investors, incubators or accelerators, which is often insufficient in Senegal, where funding options are still either missing (business angels) or limited (venture capital). In fact, almost 40 percent of Senegalese entrepreneurs consider lack of access to finance as the main factor constraining their growth, while the availability of risk capital is one of the lowest scored components of GEI for Senegal. This lack of financing is starkly reflected in the fact that only US$10.7 million was mobilized.

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74 The insufficient regulatory support comes on top of the other constraints related to public digital platforms, personal data protection, and digital skills that are beyond the scope of this Operation.


77 One of the most important market failures arises, when the private sector is underinvesting in socially beneficial innovation activities. In these cases, positive externalities in the form of information dissemination or utility gains for consumers generate a social rate of return on innovative entrepreneurship that exceeds the private rate of return. In general, companies introduce a new product only if the resulting benefits exceed the fixed entry costs. From a social point of view, however, the introduction of a new product is desirable as long as the profits of the enterprise plus the utility for the consumer exceed the fixed costs. For further details refer to Guceri, I., Zolotarev, A., and Aridi, A. (2017). *Fiscal Incentives for Science, Technology, and Innovations Activities: Good Practice Review Report*. World Bank Group. Available [here](https://doi.org/10.1596/978-1-4648-0373-0).

by Senegalese start-ups in 2017 versus US$147 million by Kenya (14 times more for a population only three times larger) and US$247 million in Malaysia (23 times more for a population only twice Senegal’s size). Moreover, the Government does not act as an anchor client for entrepreneurs, due to the limited use of government e-payments and the lack of access of startups to public procurement.

**Start-Up Ecosystem: Creating a Favorable Environment for Young & Innovative Enterprises**

6. Although this field remains relatively new, good international practices suggest that a dedicated legal and regulatory framework tailored to the needs and challenges of young and innovative entrepreneurs can play an important role in unlocking the potential of a digital economy. A wide range of countries -- such as Israel (1991), US (2011), Italy (2012), France (2013), Argentina (2016), India (2016), and Tunisia (2018) -- are opting for start-up specific legislation, which is a relatively new approach to supporting innovative entrepreneurship hoped to deliver significant employment, productivity and broader economic and societal gains. Policy models are quite diverse with direct and indirect support measures ranging from special access to patents (India) to simplified customs procedures (Tunisia), to innovation-focused tax incentives (Brazil). As demonstrated in Table 13 below, start-up acts are separate from individual entrepreneurship support initiatives, however they can be an enabler for individual initiatives by providing the authorizing legislation, while combining them in a marketable package. Although this is a relatively new policy instrument and more rigorous empirical evidence is needed to adequately assess its effectiveness, the single full evaluation of the Italian Start-up Act (adopted in 2012) by OECD experts is pointing to a positive impact. The Italian policy introduced several complementary instruments, including “fast-track” and zero cost incorporation, simplified insolvency procedures, tax incentives for equity investments, and a public guarantee scheme for bank credit. The OECD evaluation found that beneficiary firms have a higher level of investment in intangible assets, report higher investment rates and stronger growth in sales and assets. Their financial structures are characterized by higher capitalization and greater availability of liquid assets, with it appearing that start-ups in the policy raise more external funding, both debt and equity. On top of positive effects noted in the Italian Start-up Act evaluation, such start-up specific policy and legislative measures can have two other important beneficial consequences. First, they can act as a strong signal to entrepreneurs (both current and prospective) as well as overseas investors and the diaspora of the Government’s support and its openness to business. And second, if run inclusively, the development process for acts can help develop the local entrepreneurship ecosystem itself (as was the case in Senegal, where the elaboration process was anchored in an innovative bottom-up policy hackathon approach). These effects should not be

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81 The evaluation also noted that the policy is causally and positively linked to an increase in several balance sheet variables including revenues, assets, value added, and intangible assets. The estimated magnitude of this effect is sizeable: for instance, firms that benefit from the policies on average increase their value-added by 11 percent. These positive real effects are accompanied by better access to credit markets, as measured by the probability that credit applications are accepted by banks, and to the equity markets, as start-ups who participated in the policy are more likely to receive VC support and at an earlier time than non-participants (although the investment quantity is not different).

82 Policy hackathons borrow from the hacker and start-up community’s proven dynamic and collaborative problem-solving format, which uses the brain power of an invested group of people over a limited time (typically one day) to collectively and creatively tackle issues of common interest or concern. The participants of policy hackathons normally adopt a format of an
dismissed, particularly in countries, where broader reform has proven difficult (and may remain unrealistic) and where the entrepreneurial community is small and lacking influence.

Table 13. Start-ups Policy Support Instruments

<table>
<thead>
<tr>
<th>Country</th>
<th>Startup Law (National, unless otherwise stated) or Specialized Entrepreneurship Legal</th>
<th>Public Entrepreneurship Strategy/Policy or Start-up focused</th>
<th>Clear Startup Definition</th>
<th>Start-up Specific Tax Incentives (Corporate income tax exemption or Start-up Specific Tax Incentives For Investors)</th>
<th>Start-up Specific Tax Incentives</th>
<th>Broad SME Tax Exemptions</th>
<th>Innovation-focused tax incentives</th>
<th>Start-up Specific Regulatory Reforms</th>
<th>Public support/sponsorship for incubators</th>
<th>Specialized Access to Visas for Startups/Entrepreneurs</th>
<th>Direct Financial Support (grants, investments, wage reimbursement, etc.)</th>
<th>Specialized access to patents for Startups</th>
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7. At the same time, challenges in developing effective start-up regulations persist. First and foremost, there is a fundamental challenge of defining start-ups. Such definitions usually include restrictions on age, size, legal status, plus a more subjective assessment differentiating start-ups from any other new business usually based on innovation/technology intensity/growth potential – criteria that are not easily verifiable by ex-ante judgement. The effectiveness of the system in this context depends on a

interactive policy workshop, which requires them to become policy-makers for a day with a mandate to create legislation aimed at breaking the constraints to innovative entrepreneurship. Dakar Policy Hackathon 2018 united 60 players of the start-up ecosystem to develop a draft of a Start-up Act. The hackathon was followed by a week-long online consultation (facilitated by social media and a dedicated web portal) that reached nearly 500 entrepreneurs and collected more than 100 comments on specific legal provisions.

83 Refer to Peter Cook (2019), Report on “Start-Up Acts International Benchmarking” for further details on a range of approaches to defining start-ups for dedicated legislative initiatives.
sound administrative system capable of independently assessing initial applications, arbitraging any disputes and auditing companies that have been classified as ‘start-ups’ over time. It is therefore important to embed an experimental design into start-up legislative initiatives and combine them with rigorous ex-post impact evaluations and flexibility to adapt provisions based on lessons learned as well as envisage administrative capacity building measures to ensure their effective implementation. Another concern is that the creation of a separate class of companies can be potentially distortionary, as it can, for instance, attract companies that are not really start-ups to rebrand themselves (e.g. by spinning off larger firms) to obtain the benefits, or stifle the natural growth of companies who artificially constrain themselves to stay eligible. Generally, any type of legislative intervention, such as a start-up act, that provides specific regulatory or tax benefits to a set of firms can be viewed as a second-best measure, while improving the business environment for all companies should be a higher-order priority.

8. In this context, discussions with the Government and other stakeholders on start-up legislation and specifically its fiscal provisions have evolved towards a consensus that a broader tax policy reform – covering all MSMEs including startups – would be a more beneficial and less distortionary option, with positive implications for the digital economy and beyond. As in many other African countries and other developing economies, the fabric of the private sector in Senegal is characterized by a large number of micro and small enterprises, mostly informal, that offer an important (and largely untapped) potential for job creation and economic growth. In fact, it is estimated that as many as a third of informal firms have the potential to grow and create jobs but are constrained by the business environment. Taxation is one of the main obstacles to formalization and growth, in particular when it comes to small or new businesses. As a result, the Government is designing a revenue strategy that aims at encouraging formalization and voluntary compliance through streamlining of the tax regime and administrative simplification – leveraging digital technologies (see Prior Action #9). In the context of the DPF3, the Government opted to focus on tax reforms that affect MSMEs in response to proposals from the entrepreneurship ecosystem through both the Dakar Policy Hackathon and many consultations with SMEs over the last few years. They are aimed at complementing the improved business environment the Startup legal and regulatory framework will deliver. Combined with a mainstreaming of digital tax administration tools such as eTax, Mon Espace Perso, mTax, etc. these policy reforms are expected to lead to a substantial increase in the number of registered taxpayers. From the business’ perspective, too, such reforms are expected to make a big difference, as formalization is critical when it comes to obtaining finance, accessing public procurement, or recruiting skilled human resources. This is particularly true for startups, whose business model is generally anchored in convincing investors to take equity in their project.

9. Another important measure to support the ecosystem of innovative start-ups is to facilitate access to public procurement, particularly important given a small market size, limiting the demand for start-ups’ solutions, and insufficient financing options to sustain them outside the protected incubators’ environment. One effective approach to engage with start-ups through adjusting public procurement regulations is letting them develop solutions to specific public service challenges through business reverse

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84 According to the National Statistics Agency, more than 90 percent of economic units (enterprises) in Senegal are considered informal (i.e. not compliant with OHADA accounting standards, as per ANSD definition).


86 The GoS is currently launching a Mid-Term Revenue Strategy process, supported by the IMF and the World Bank, as its main tax policy and administration reform planning instrument for the coming cycle.
pitches or hackathons. Such an innovative approach to procurement opens the door to higher quality and more efficient solutions as well as better cost-effectiveness and vital business opportunities for SMEs and new innovative enterprises who may have solutions to unmet public needs, but face difficulties in bringing them to the market. International examples include the 2011 United Nations Commission on International Trade Law (UNCITRAL) Model Law on Public Procurement\(^87\), which provides for new procurement procedures to facilitate dialogue between procuring entities and suppliers to enable procuring innovative products. Another example is the 2014 EU public procurement directives\(^88\), which make extensive provisions for procuring innovation and establish an online platform to facilitate this method\(^89\) as well as 2018 European Commission Guidance on Innovative Procurement setting forth a policy framework for innovation procurement and bringing tangible examples from around Europe on how this could be implemented and what could be achieved. As one such example, half of the solutions developed as part of EU-funded pre-commercial procurements\(^90\) were deployed within a year, opening a route to the market for start-ups and innovative SMEs (71 percent of contracts are awarded to SMEs/start-ups). OECD has reflected the trend in its 2017 Report on good practices and strategies for public procurement for innovation\(^91\) which highlighted that 50 percent of responding countries have developed an action plan for innovation procurement, either as part of broader procurement strategies or as stand-alone initiatives.

Following the Dakar Policy Hackathon, held in the context of the preparation of DPF2, startups and actors in the ecosystem made several recommendations to improve their access to public procurement. These recommendations were well received by the regulator (Autorité de Régulation des Marchés Publics – ARMP) and the administration (Direction Centrale des Marchés Publics – DCMP) who had also started exploring internally options to improve the existing framework to allow greater use of public procurement for innovation, in particular with regards to domestic startups. Through the adoption of the startup law (Art. 10.3), two main improvements will be made to the existing framework:

(a) Certified startups will benefit from a 5 percent preferential margin in any bidding process related to public procurement, public service delegation and partnership contracts. This preferential margin can add to other potential advantages up to a maximum of 25 percent.

(b) Companies which are competing for a public procurement, public service delegation or partnership contracts, who subcontract at least 30 percent of the value of the contract to one or more certified startups may also benefit from the 5 percent preferential margin.


\(^89\) For further details refer to www.innovation-procurement.org.


10. **Finally, it is important to highlight the critical role that the digital economy can play to bridge the gender divide.** As shown in OECD’s publication\(^{92}\) *Bridging the Digital Gender Divide: Include, Upskill, Innovate*:

“The platform economy or gig economy has grown recently with ever increasing demand for online services. Platforms are important for women because they may help reduce barriers to participation in the labor market and enhance the opportunity to work for different clients and/or projects. Particularly for less developed countries, platforms can help all, and women in particular, to transit from the informal, “shadow” economy to standard work, but policy needs to ensure that online platforms do provide real opportunity, rather than substituting a traditional sweat shop for a digital one\(^{93}\).”

“Digital platforms may help women in many ways, in both emerging and industrialized economies. They can facilitate more efficient labor market searches and skills matches and increase the range of customers reached worldwide, without investing in traditional marketing. Also, by means of enabling access to and participation in wider ranges of customers and projects, platforms may allow women to improve their skill sets. This, in addition to their potential role in integrating women in the labor force and complementing household income. [In addition], many women join the gig economy because it allows for more time flexibility, more job variety and more time with their family, while at the same time helping with the family income.”

“Platforms may reduce barriers to entry in the labor market for women. Data suggest that more than the majority of women working for labor platforms find it easier to be hired for a job online while working for multiple clients than to compete for a full-time job in a traditional fashion\(^{94}\) (Elance, 2013). Women in the ride-sharing economy confirm that low barriers to entry via the app make it relatively easy for women to enter this traditionally male-dominated industry, albeit the proportion of female drivers remains lower\(^{95}\). Women may find in platforms a way to make it through the “glass-ceiling”. [...]. A survey by Facebook, OECD and the World Bank shows that digital businesses may help decrease access barriers since cultural norms can be avoided and customers reached worldwide\(^{96}\).”

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\(^{92}\) The following paragraphs are excerpts cited from OECD (2018), *Bridging the Digital Gender Divide: Include, Upskill, Innovate*, OECD, Paris.


