Program Information Documents (PID)

Appraisal Stage | Date Prepared/Updated: 30-Mar-2021 | Report No: PIDA242089

BASIC INFORMATION

A. Basic Program Data

Country	Project ID	Program Name	Parent Project ID (if any)
Senegal	P174757	Senegal Jobs, Economic Transformation & Recovery Program	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA WEST	18-Mar-2021	26-May-2021	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Program-for-Results Financing	The Ministry of Finance and Budget	Ministry of Economy, Planning and Cooperation, ADEPME, FONGIP, FONSIS	

Proposed Program Development Objective(s)

Improve the competitiveness of selected value chains, MSMEs capabilities, and private sector investment in Senegal

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	362.00
Total Operation Cost	125.00
Total Program Cost	125.00
Total Financing	125.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	125.00
World Bank Lending	125.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **The COVID19 crisis has significant economic, fiscal and social repercussions for Senegal, threatening to reverse half of the last decade's poverty reduction. According to the IMF,** Real GDP growth is projected to slow from 5.3 percent in 2019 to -0.7 percent in 2020, accompanied by rising external current account (8.8 percent of GDP) and fiscal deficits (6.1 percent of GDP). As a result, public debt will increase from 64.1 percent of GDP in 2019 to 69.3 percent in 2020. The poverty headcount was expected to increase to approximately 40 percent in 2020, up from 38 percent in 2019, undoing more than half the reduction since 41.5 percent in 2011.

2. **In addition to stringent containment measures, the Government has implemented a comprehensive support and recovery plan, the Economic and Social Resilience Program (PRES).** The main vehicle was FORCE-COVID19, a dedicated solidarity fund at the Central Bank of Western African States *(*BCEAO). The objectives of the PRES were to upgrade the health system and contain the economic fallout while providing targeted support to vulnerable households and firms. The International Monetary Fund (IMF) has provided significant financing to avoid liquidity pressures and many bilateral donors are providing support to FORCE-COVID19—though this is not enough to help support economic recovery and more inclusive growth. The World Bank is also providing support through a Development Policy Operation.

3. **The economic recovery could be stronger than envisaged.** Given very strong preliminary figures for the agricultural campaign 2020-2021, the recession of 0.7 percent initially projected in 2020 could be avoided. Economic activity is expected to rebound in 2021 and to continue on a new growth path. This growth momentum needs to be supported by a more favorable domestic environment, as well as by accelerated execution of investments under phase two of the adjusted and accelerated Priority Action Plan (PAP 2A) of the "Plan Sénégal Émergent" (PSE). Accordingly, growth is expected to recover to 5.2 percent in 2021, driven by the primary (+4.7 percent),secondary (+5.5 percent), and tertiary (+4.8 percent) sectors[1].

Sectoral and Institutional Context

4. **In spite of its recent growth acceleration (above 6% per year since 2014), Senegal needs to create better and more jobs to meet its growing labor supply and reduce poverty**. Senegal needs to strengthen its existing policies with a greater focus on inclusive productivity growth centered on technology adoption and start-up entrepreneurship, including supporting the unemployed and under-employed to engage in better work. Senegal's main job challenge is to sustainably reduce poverty through the creation of more than 300,000 jobs each year. Without necessary policy reforms, this number is projected to rise to 427,000 in 2030, and to 500,000 by 2050.[2]

5. **The formal private sector is small. So creating better jobs for more people needs to include**

[1] Extracts from SENEGAL SECOND REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF QUANTITATIVE TARGETS—PRESS RELEASE; AND STAFF REPORT. January 2021.
[2] See Cruz, Marcio, Mark Dutz and Carlos Rodriguez-Castelan, 2021, *Inclusive Digital Senegal: Technological Transformation for Better and More Jobs*, World Bank.

boosting the productivity of informal enterprises in addition to better and more private sector formal jobs. A small share (6%) of firms in Senegal have 5 or more employees and are responsible for 48% of workers and 81% of sales. The share of formal firms[3] with 5+ employees is even smaller, at 1.3% of the total number of firms. These formal firms with 5+ employees employ 28% of workers, account for 77% of all sales, and are about 7 times more productive (based on sales per worker) than the average establishment in the RGE database. Large and small enterprises alike, formal and informal, face a range of obstacles to adopt technologies and boost productivity and jobs growth—the most important being lack of finance, lack of capabilities, and lack of market demand (Figure 3).[4]

6. **Moreover, Senegal lags comparators in new entry dynamism of formal firms.[5] International evidence suggests that increasing the number and quality of new firms has significant effects on job creation**. Those firms also face significant challenges to enter and grow (Figure 4). The average formal firm after 20 years in operation has less than 70 employees, implying a low jobs growth rate.[6]

7. **Recent growth is largely due to an increase in exports, agriculture, services and Foreign Direct Investment (FDI). Senegal ranks 88th among 137 countries in terms of economic complexity[7].** In 2013-2017, Senegal benefitted from increased and more diversified exports, with a growth rate of 4.4% and comprising of 202 product categories in 2017 versus 131 at the end of the 1990s (Figure 6): gold, petroleum products, certain manufactured products and agro-industrial products (Figure 7). This is more than its neighbors but much less than countries like Morocco (237), Vietnam (249) and Malaysia (254). The agricultural sector has experienced rapid growth (+ 7.7% over the period 2014-17) as did the construction sector (+ 15.4% over 2014-2017). The tertiary sector increased by 6.2% thanks to financial services and insurance, and real estate. FDI inflows increased to reach 2.8% of GDP in 2017 (2.4% in 2014).

8. **Senegalese firms lag in the adoption of relevant technologies.** New measures of technology adoption at the firm-level recently obtained by the World Bank in Senegal, Vietnam, and Brazil show a correlation between technology adoption, productivity and inclusive job growth. Senegalese firms have an average technological gap of 36% and 30% relative to firms in the State of Ceará in Brazil, for extensive (whether firms use it at all) and intensive (the most frequently applied) uses, respectively, of better business technologies such as for accounting and marketing[8]. This technological gap is also observed with respect to firms in Vietnam, as well as across Senegalese regions and is robust when comparing similar firms in Senegal by size, sector, age, foreign ownership, and export status. Importantly, firms with more sophisticated levels of technology on average generate more jobs and increase the share of unskilled workers in their payroll.

[3] In Senegal, a formal firm possesses all registrations and licenses and the standardized West African Accounting Standard SYSCOHADA.
[4] For a complementary analysis of adoption of digital technologies by micro-sized informal firms and association with jobs, see Atiyas, Izak and Mark Dutz (2021). "Digital technology uses among informal micro-sized firms: Productivity and jobs outcomes in Senegal", mimeo, World Bank.
[5] Cruz, Marcio, Jesica Torres, Trang Tran. 2020. "Entrepreneurship ecosystems in Senegal: Challenges and Opportunities of Digital Technologies." Working Paper.
[6] Haltiwanger, John C., Jarmin, Ron S., Miranda, Javier. 2013. "Who creates jobs? Small vs. large vs. young." *Review of Economics and Statistics*.
[7] Atlas of Economic Complexity 2018. Senegal ranks higher than Cote d'Ivoire for instance. The ECI is a holistic measure of the productive capabilities of large economic systems and the accumulation of productive knowledge and its use in more complex industries. Countries improve their ECI by increasing the number and complexity of the products they successfully export.
[8] Cirera, Comin, Cruz and Lee (2020)

9. **Access to finance is restricted in Senegal, especially for MSMEs.** Only 22.6% of all firms have a bank loan or line of credit and when they get a credit, the collateral required is very high: 271.7% of the loan value. The micro-enterprises (99.8% of the total number of economic entities) obtain only 8% of the total financing. Obstacles to improving access to finance include:

a. Limited competition in the financial sector. A few innovative financial services were recently launched (electronic banking services) but most of the small businesses are excluded and there is no interoperability between e-payment providers. The quality of the services offered is problematic and there is a lack of information on the clarity and comparability of fees.

b. Financial infrastructure has certain limitations. Credit information coverage is limited (information available on only 27,834 companies or 6.7% of the number of companies in February 2020), the insolvency regime is restrictive (long recovery, limited recovery of assets, etc.), secured transactions are limited to very few pledge able assets, and the capital market is incipient.

c. Sector policies need to be improved. The government Has put in place several mechanisms to improve access to finance: FONGIP (a public partial credit guarantee scheme), FONSIS (a sovereign fund providing long term finance to the private sector), BNDE (a public SME bank), and Banque Agricole (a public agriculture bank), DER/FJ. The BCEAO has also established several years ago a refinancing window for banks in needs of resources to refinance they SME loan portfolios.

10. **Senegal has a relatively long history of private participation in infrastructure under various forms of public-private partnership**. Independent Power Producers (IPPs) have been present since the late 1990s, and collectively provide over 50% of the country's generation capacity. The national water utility has been privately-operating under a lease contract since 1996—this arrangement was recently re-tendered and renewed through to 2035; rural water services in several geographic clusters are also provided under affermage contracts. In Transport, PPPs have been used, albeit to a limited extent, in the ports, road, rail, and airports sub-sectors, while a PPP is now in advanced stages for operation of a new Bus Rapid Transit system, with ongoing WBG support. Many of these investments have benefitted from WBG technical and financial support. More recently, PPP-like structures have been used in education for vocational training centers, with support from the WB, and to deliver new healthcare investments (although in the latter case, the investor being the sovereign investment fund FONSIS, the partnership is more of a public-public nature).

PforR Program Scope

11. **In response to the COVID crisis, the GoS issued on September 5, 2020 a new version of the Priority Action Plan 2- Adjusted and Accelerated (PAP2-A)[9].** This ambitious development program aims to improve infrastructure, achieve economic reforms, increase investment in strategic sectors, and strengthen the competitiveness of the private sector. This action plan, spanning over 2021-2023, includes

[9] The PAP2-A was validated by the President during the week of September 28, 2020.

3 pillars and aims to implement the Plan Senegal Emergent Plan (PSE):

a. **Pillar 1**: Growth and structural economic transformation
b. **Pillar 2**: Human capital, social protection and sustainable development
c. **Pillar 3**: Governance, institutions, peace and security.

12. **The Pillar 1 of PAP-2A focuses on growth and structural economic transformation.** It includes both horizontal and vertical elements. The vertical elements relate to priority sectors: agricultural crops, livestock and fishery/aquaculture; industry, mainly agribusiness and pharmaceuticals; tourism; and the digital economy, by digitizing government services and fostering e-commerce. The horizontal elements of the government program include reforms related to competition policy, the local investment climate, access to land, commercial justice, the commercial code and the labor code. It also includes reforms of the PPP legal and institutional frameworks, with a view to using PPPs to mobilize private sector financing and resources to deliver efficiently on the PAP 2 A investment needs in a way that enables more private sector participation in the economy. Pillar 1 includes 6 strategic objectives:

d. OS1: Promote sectors with high growth, export and social inclusion potential
e. OS2: Increase the efficiency of investment
f. OS3: Develop high quality infrastructure
g. OS4: Improve access to energy and land
h. OS5: Increase productivity
i. OS6: Promote sustainable and inclusive industry.

13. **The government Program that this PforR is supporting is a subset of the wider PAP-2A and its Pillar 1 "Growth and Economic Transformation" and is titled "Accelerate Competitiveness and Job Creation Program"** or "Programme d'Acceleration Competitivité et Emplois" (PACE) in French. It has 3 strategic objectives which are described below. Its duration is 4 years.

14. **To support the government Program and maximize impact on economic transformation for recovery and job creation, the project will combine several types of interventions: macro-level, sector/market level and firm-level. More specifically, the project will finance these 3 types of interventions:**

i) **Firm-level interventions to address access to technology and finance bottlenecks** identified by the Country Private Sector diagnostics and other analytical work such as the Digital Sources of Growth:

a. **Access to technology—through matching grants** to address constraints to firms' increased productivity and technology adoption, i.e., lack of financing, capabilities and access to markets.
b. **Access to finance—through partial credit guarantees** covering 3 windows: micro finance for small firms, regular window for working capital, and medium-term financing for capital investments (a type of financing that is particularly lacking). During project implementation, the Government will design and execute an export credit guarantee scheme.
c. **Access to finance—through an SME acceleration fund** providing mezzanine financing to SMEs in the form of equity and quasi-equity.

ii) **Sector-level interventions through the Competitiveness Reinforcement component** which aims to address market failures at the sectoral or value chain level, something that cannot be achieved at the firm level alone. Information asymmetries, coordination failures, missing markets and other failures will be identified and addressed through sector or value chain-level policy reforms or investments (or incentives to investments by the private sector). This component will synergize with the firm-level and macro-level interventions of the project.

iii) **Macro-level interventions: Public-Private Partnerships** to ensure that quality projects are prepared and brought to market effectively, leading to more affordable and sustainable infrastructure and public services, and higher participation of the private sector in the associated investments. These PPP projects will complement as much as possible sectoral and firm-level interventions.

C. Proposed Program Development Objective(s)

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15. **The Program Development Objective (PDO) of this Program for Results (PforR) is to Improve the competitiveness of selected value chains, MSMEs capabilities, and private sector investment in Senegal.**

16. The PDO will be monitored through the following set of PDO level indicators:

- Increase in the total annual export value of one value chain -in a geographical area-supported by the Competitiveness taskforce

- Increase in the aggregate Firm-level Technology Adoption Index (intensive margin) for firms benefitting from the matching grants
  - of which for women-led businesses

- Amount of banks' and MFIs' loans to MSMEs guaranteed by the FONGIP's FOGADEV and FOGAEX guarantee funds
  - of which for women-led businesses
  - of which for exports

- Amount of private co-investments in investee-SMEs generated by the FONSIS SME acceleration fund

- Number of PPP transactions initiated (Requests for Proposals issued) for projects with low E&S risks (category 2 or 3 under the national risk categorization system) with support from the PPP Support Fund

D. Environmental and Social Effects

17. **The proposed rating for social risks is moderate and substantial for environmental risks.** The PforR will support the Government's Priority Action Program in agriculture, aquaculture, digital economy, and industrial and logistical platforms. The environment risk rating is substantial at this stage because of potential risks and impacts that can be induced by these sectors on the environment, forest and soil. These potential risks and impacts need to be managed adequately. An Environmental and Social System Assessment (ESSA) prepared by the Bank assessed the national framework (institutional, political) and proposed measures to enhance the capacity of managing risks that will be induced during project implementation by the country.

18. **The project will support competitiveness reinforcement, access to technology and finance**, and an enabling framework for PPPs through a combination of reforms, and investments. The project is expecting to have considerable positive environmental and social impacts. However, negative risks and impacts are expected especially under the support to improving value chains 'competitiveness, with agriculture and horticulture as priority sectors. The Program will incorporate measures to mitigate the possible negative environmental impact of these sectors.

19. **An Environment and Social Systems Assessment (ESSA) has been prepared to assess Senegal's regulatory authority and organizational capacity to achieve environmental and social (E&S) objectives and manage risks** against the range of E&S impacts that may be associated with the proposed Program. This assessment has been undertaken against a set of core principles set out in the Operational Policy on Program for Results Financing (OP/BP 9.00).

20. **This draft ESSA includes the national consultations done with the key Ministries, and stakeholders**. Taking into consideration COVID-19 context, and restriction measures, consultations were done via e-mail online. The ESSA will be published at national level and the World Bank external website.

E. Financing

21. **The Bank is the first development partner to commit to finance the Program**. Discussions are ongoing between GoS and KfW, the European Investment Bank and the African development Bank to mobilize funding for the rest of the Program, in addition to internal resources. Given the strategic importance of this Program and the PAP-2A overall for the economic recovery of the country and its social stability, GoS is committed to ensure its adequate funding.

Program Financing[10]

Sources	Amount (USD Million)	% of Total
Governement	**238**	**66%**
IDA	**125**	**34%**
Total Program Financing	**362**	**100%**

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[10] The Program amount stated in the table is a subset of the government Program, which includes only agencies eligible for World Bank financing. The Government Program total financing is $412m.

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