I. Project Context

Country Context

Senegal is a stable democracy and a low-income country located in the western-most part of Africa. In 2015, its Gross Domestic Product (GDP) per capita was one thousand and forty-four dollars (USD1,044) with a relatively diversified economy compared to the sub-region. Sixty percent of GDP is accounted for by services (primarily telecommunications, finance and real estate), which also accounts for nearly a third of GDP growth. The industrial sector accounts for twenty-three percent of GDP growth, with manufacturing representing 12 percent of GDP. The primary sector (dominated by crops, livestock and fishing) accounts for fifteen percent of GDP, with recent significant expansions in the extractive sector. Economic growth has been relatively weak and volatile in Senegal in the past, but has significantly strengthened recently. Over the past 25 years, GDP growth in Senegal has been below the average of SSA and emerging and developing countries, with substantial annual variations associated chiefly with the country's significant vulnerability to external shocks. Because of relatively weak growth performance and population growth at about 2.8 percent annually in 1990-2015, real GDP per capita has only increased by 17 percent in Senegal since 1990, against 45 percent on average in SSA and 134 percent in emerging and developing countries. However, Senegal's growth performance has improved recently, with GDP growth reaching 6.5 percent in 2015, and is projected to stay around 6 percent for 2016. This recent positive trend has been largely driven by a healthy services sector, strong performance in agriculture (as a result of favorable rains in particular), as well as strong private consumption and
advantageous terms of trade. Exports contributed substantially to growth and increased by almost 16 percent in volume in 2015. However, this improved economic performance has not really translated into substantially higher job creation. Past moderate growth weighed heavily on the ability of the economy to create formal jobs in particular, and employment growth has not kept track with GDP growth. In 2015 for example, employment grew by 3.4 Percent while GDP growth hit a record 6.5 Percent. This modest employment growth rate has been consistent throughout the 2000-2015 period, when year-on-year employment growth averaged 3.2 Percent. In 2016, Senegal's estimated employment ratio was only 45 Percent overall, suggesting that less than one in two working age individuals were employed (including those with part-time employment only). This general figure also masks strong disparities between genders, with male employment ratio (59%) much higher than female employment ratio (33%). The long-term under-performance of the Senegalese economy reflects enduring structural constraints and persistent infrastructure gaps. The structural constraints arise from weaknesses in sector policies and the business environment, while there are infrastructure gaps including in energy, transport, and communications. While macroeconomic policy has been adequate, limited fiscal space and strict monetary arrangements provide little room to spur growth. Improving the business climate has been a priority for the government, and Senegal has scored as a top reformer twice recently, but the country still ranks in the lower part of global rankings for doing business.

To address these challenges, the government has adopted in 2014 a new and comprehensive national development strategy, the Plan Sénégal Émergent (PSE), that aims to accelerate its progress towards becoming an emerging economy by 2035 with the objective of sustaining high growth rates and a diversified economy, as well as becoming a center of attraction for investment (domestic and foreign). The PSE is formulated around three pillars: (a) higher and sustainable growth and structural transformation, (b) human development, and (c) governance, peace and security. The PSE is being rolled out and is expected to raise growth rates to 7 Percent by 2019, with economic activity expected to be driven by an expansion of globally competitive production allowing increased exports, investment in new sectors, and, recovery and expansion in tourism. In addition, the government launched in early 2017 its second Programme de Réforme de l'Environnement des Affaires et de la Compétitivité (PREAC2), which lays out reform priorities to improve the business environment over the next three years. This operation will be an important tool to deliver on these ambitious objectives.

Sectoral and institutional Context

As laid out in the PSE, Senegal is focusing on private sector-driven growth as a key driver to enhancing productivity and the competitiveness of the economy, and for which tourism, agriculture, export generation, construction, mining, and ICT, have been identified as critical sectors. These sectors are expected to be major contributors to boosting shared prosperity and reduction of extreme poverty, through increased production, employment and exports. To achieve these objectives, tackling key constraints to firm formation and growth, in particular among micro, small and medium enterprises (MSMEs), which are the main job creators, protecting economic investments and activities against climate impacts, identification and removal of other sectoral growth constraints will be necessary. Tourism, as the top foreign exchange earner, is a priority sector to contribute to job creation, especially for the youth, women and less skilled workers and drive economic growth. Senegal used to be a booming tourism destination, second only to Kenya in terms of arrivals, today it does not rank among the top ten destinations of SSA. In 2013, it generated an estimated sixteen percent of export earnings, eleven and sixth-tenths percent of GDP, and just over ten percent of all
employment. The sector faces a series of critical challenges due to a near absence of public sector
focus and resources that have collectively contributed to a reduction in the sector’s competitiveness and market presence. Challenges have included a lack of effective marketing and promotion, over dependence on a few markets, increases in taxes and charges, and limited capacity in key public agencies. Additionally, there has been a contraction in demand following severe beach erosion at the country’s main tourist destination of Saly and the 2014 Ebola threat, leaving a substantial component of the industry in near crisis.

The ongoing beach erosion in Saly and the other destinations along the Petite Cote, its current and future impacts on jobs in the tourism sector is a pressing issue, and taking strong actions on a coastal climate resilience strategy that addresses the ongoing erosion impacts on tourism will help a destination that has, among others, close proximity and known association with European markets. It must also be noted that global warming due to climate change is expected to bring increased storm damage along the coastline due to sea level rise and increased storm surge. It is anticipated to result in coastal sea level rises of 20cm by 2030 and 80cm by 2080, and for a coastal zone that is the main socio-economic driver for the country, and hosts eighty percent of economic activities (horticulture, seaside tourism, fishing, services, etc.), the degradation due to climate impacts has contributed to expose Senegal’s economic assets. Senegal needs to strengthen steps to address this coastal vulnerability due to climate change impacts and for the tourism industry to grow, it will need to expand its value proposition, including strengthening a sustainable ICZM, and a clear statement of intent to protect seaside tourism assets not only to secure investments, jobs and linked economic activities but also to underline Senegal as a competitive destination.

Aside the tourism sector, other exports represent a key driver of growth and source of job creation. This said, Senegal’s presence and performance in international markets have been relatively weak and below potential, in spite of having relatively productive enterprises, and having access to major export markets through partnerships. In fact, export products have shifted towards less sophisticated goods requiring lower levels of human capital and technological content, and non-commodity export performance is hampered by low firm level export intensity, defined as the share of export revenues in the firm’s total sales. Results from the 2016 Investment Climate Assessment (ICA) estimate that about fifteen percent of formal firms participate in exports, while direct exports only make up two and one-half percent of the country’s total sales. Efforts are needed to strengthen the country’s exports and help a larger pool of export-oriented business seize opportunities in international markets.

The government’s focus on sustaining reforms aimed at removing significant constraints in the investment climate, in infrastructure, in human capital, in innovation and technological readiness, and in the legal and regulatory environment is commendable. According to the 2016 ICA, major constraints facing firms, include competition from the informal sector (58% of firms), access to finance (55 percent), electricity (49%) and access to land (44%) Other key issues that hamper firms’ ability to grow, include the lack of information on international markets and of support to prospect new markets, small company size, overall unpreparedness, difficulties to upgrade product quality, internal organization, processes to access information on trading opportunities and establish dialogue with potential business partners. Infrastructural gaps are being addressed but lack of skilled human resources still impact ability and willingness to upgrade the informal sector.

As in most developing countries, the informal sector in Senegal accounts for a large portion of the economy. While robust data are not available, it is estimated that the informal sector generated close to 42 percent of the GDP in 2011. The same year, the informal non-agricultural sector was estimated to employ about 2.2 million persons or 49 percent of the active labor force (ANSD 2013). This sector thus provides the primary source of income for a large fraction of the population.
and is composed of about 776,000 informal production units [1] (IPU), mostly micro units of an average size of 2.9 employees. By contrast, the formal sector is limited and represented slightly more than 8100 registered businesses in 2012 and generated around 58 to 60 percent of GDP. In order to better understand the enterprise population in the country, the Government has launched at the end of 2016 a large scale business census (Recensement Général des Entreprises). This should provide valuable information to guide policies aimed at improving firm formalization. The project will provide support that would aim to reducing the levels of informality, through provision of risk capital, skills training, and a gender and youth employment focus to further open up the entrepreneurship space. In addition, the longer-term strategic focus of the project is to strengthen Senegal’s tourism value proposition and grow new markets and market segments that enhance the resilience and sustainability of the sector. The GoS recognizes the issues constraining tourism and enterprise development in facilitating its job creation goals. Together with donors such as the WBG, it is collaborating on a number of endeavors nationally, such as the Digital Entrepreneurship project, Sustainable and Inclusive Agribusiness project, Skills for Jobs and Competitiveness project. These efforts are also complemented at the regional level by programs such as the West Africa Coastal Areas management program (WACA) with which the project will establish synergies and contribute to knowledge sharing. In these efforts, several stakeholders play key roles in implementing its development agenda, including the Ministry of Economy, Finance and Plan (MEFP), Ministry of Tourism and Air Transport (MTAT), the Ministry of Commerce, Informal Sector, Consumption, Promotion of Local Products (MC), and the Ministry of Environment. The following institutions will be specifically involved with the project - the MC and its agency ADEPME (the SME support agency), the MTAT, and APIX, which has working relations and has good experience managing projects financed by international agencies.

II. Proposed Development Objectives
The Project Development Objective (PDO) is to increase private investment in tourism in the Saly area, and strengthen enterprise development in Senegal.

III. Project Description

Component Name
Improving tourism development
Comments (optional)

Component Name
Supporting enterprise creation and growth
Comments (optional)

Component Name
Project Implementation
Comments (optional)

IV. Financing (in USD Million)

| Total Project Cost: | 74.00 | Total Bank Financing: | 74.00 |
Financing Gap: 0.00

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V. Implementation

The project will be implemented over a period of five years. ADPME (SME Development Agency), MTAT (Ministry of Tourism) and APIX (Investment Promotion Agency) are the implementing agencies responsible for implementing specific components of the project. Another department in APIX will have project coordination responsibilities (including, fiduciary responsibilities and reporting). Project completion is expected on December 31, 2022, and a mid-term review would be carried out by June 2019, or 24 months after project effectiveness. Given the multi-ministry nature of the project, high-level oversight would be required to ensure consistency of interventions, the removal of occasional government bureaucracy blockages, and assure continued resonance of project objectives with client’s development objectives. This implies (a) establishment of and operationalization of fully functioning High-level Project Steering Committee (PSC) with agreed terms of reference, which would among others, provide strategic advice, and oversee project progress, clearance of the annual work program; (b) set-up and provision of the required support to assure a fully functioning Project Coordination and Monitoring Unit (PCMU) at APIX; (c) ensuring proper management of the Matching Grant and Business Plan Competition sub-components; (d) ensuring legal and proper structures are in place to assure that all WBG safeguards guidelines are strictly adhered to.

VI. Safeguard Policies (including public consultation)

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Comments (optional)

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