I. Project Context

Country Context

1. The stable political climate that Senegal has enjoyed over the past years has increased after the 2012 presidential elections that conducted to another transition after the historical one in 2000. This peacefully change at the highest level of the State has demonstrated the maturity of the Senegalese democracy. The Senegalese people seem more demanding for transparency and accountability from their elected leaders and are more and more confident on their capacity to defend their right for better governance in all sectors.

2. In the decade since 1995, Senegal enjoyed robust per capita GDP growth, but, starting in 2006, the economy was buffeted by a series of domestic and external shocks. Unfavorable rains prompted a sharp decline in agriculture output during 2006-07. The international food and oil price shocks over 2007-08 slowed the economy down, increased inflation, and resulted in a significant deterioration of Senegal’s external and fiscal positions. Weaknesses in fiscal policy and public financial management compounded the fiscal costs of ineffective and untargeted subsidies for electricity and food. As a result, by the end of 2008 the Government had accumulated domestic arrears to the private sector equivalent to more than 3 percent of GDP, forcing a strong corrective response that tightened fiscal policy. The onset of the global financial crisis in 2008 and its deepening in 2009, together with continued electricity shortages, further contributed to the general slowdown of the country’s economic activity. Real annual GDP growth averaged 3.4 percent in 2006-09, down from an average of 4.4 percent in 2000-05.

3. In 2011, real GDP growth slowed again to 2.6 percent, due to a large contraction in agricultural output. Overall GDP decelerated to 2.6 percent, down from 4.1 percent in 2010 and at the same pace as population growth. Agricultural output declined drastically in the fourth quarter when more than 50 percent of the annual production is harvested, leading to a fall in annual output of 21 percent. The rains were insufficient and erratic, but there also were problems in input supply. Production of groundnuts declined by 59 percent and production of cereals fell by 36 percent. In contrast, nonagricultural activities continued their momentum and grew by 5.0 percent. However, electricity supply improved in the last semester, thanks to the implementation of the emergency plan, which helped a recovery in manufacturing. Dynamism in the telecommunication, transport, and financial sectors contributed to the good performance of the tertiary sector. On the demand side, public investment, private consumption, and exports were the main drivers of economic growth in 2011. Inflation rose in early 2011 reflecting increasing international food and petroleum prices, but this trend reversed in the second half of the year, yielding an annual average of 3.4 percent.

4. In 2011, Senegal’s fiscal stance remained consistent with the authorities’ goal of preserving macroeconomic stability, though the deficit widened. Budget approved in December 2010 was broadly in line with the macroeconomic framework supported by the IMF PSI. The fiscal deficit stood at 6.7 percent of GDP up from 5.2 percent of GDP in 2010 reflecting an increase by 2 percent of GDP in subsidies to the energy sector as part of the Senegalese Energy Recovery Plan. The postponement of a few investment projects in the energy and road sectors initially programmed for 2011 to 2012 due to delays in their implementation did not offset the increase in subsidies. The financing of the fiscal deficit is ensured by both concessional and non-concessional external resources while domestic bank financing fell to its lowest level since 2006. The recourse to domestic financing (0.2 percent of GDP in net) and concessional borrowing (1.6 percent of GDP) were complemented by an emission in May 2011 of a USD500 million Eurobond (3.2 percent of GDP) designated for the financing of big public investment in the energy and road sectors. Performance in domestic revenue collection improved thanks to economic recovery as well as greater efficiency in tax administration. The tax revenue to GDP ratio increased to 19.5, up from 18.0 percent in 2011 and 18.8 percent in 2010.

5. Over the medium term, Senegal is expected to regain economic momentum and return to its historical growth trajectory. Assuming that the turbulent global economic environment will stabilize, growth is projected to reach 3.9 percent in 2012, or about 1.4 percent in per capita GDP. As the effects of the downturn in the global economy dissipate and the authorities deepen structural reforms, growth is projected to accelerate to 5.0 percent by 2015. GDP growth is expected to be driven by continued momentum in domestic demand (rising consumption, investment, and public spending) while external demand is expected to build-up gradually as structural constraints are addressed. On the supply side, output growth will be pulled by the secondary and the services sectors in the medium term while the agricultural sector is expected to quickly and mechanically recovery from the drought in 2012. Production in the secondary sector will be backed by growth in cement with the entry in the market of a third company, an upturn in chemical production and a boost to construction and public works related to the large
investment projects aimed at extending and modernizing the country’s transport infrastructure. The authorities have also given renewed attention to addressing the poor performance in the electricity sector, though the scale of the challenges implies that a significant improvement will take time. Inflation is expected to return to its historical trend of about 2 percent per year in the medium term, provided global fuel and food prices do not rise above current levels.

II. Sectoral and Institutional Context

6. The development of energy infrastructure represents a key component of the Government’s strategy to support economic development. Electricity is a fundamental block for economic growth and the price, reliability and quality of electricity service affect most economic activities directly or indirectly. Aligned with the February 2008 “Letter for Energy Sector Development Policy” (LPDSE), several institutional reforms have been conducted and significant financial resources have been invested in the energy sector. Nevertheless, the energy sector and particularly the electricity sector have been facing a major crisis over the last four years. This crisis has gained in intensity in 2010 and 2011, causing widespread load shedding.

7. The dramatic surge in oil prices in 2008 and the 2008-09 financial crises resulted in government budget slippages and various disruptions in fuel supply to SENELEC in 2009 and 2010. In addition, despite several tariff adjustments between 2007 and 2009, the authorities were unable to improve SENELEC’s revenues and performance because of concerns regarding customer affordability constraints and political economy considerations. The government found it politically difficult to pass the full cost increase on to consumers through tariffs. Weakened by the food and economic crisis, many consumers would have found it difficult to cope with the price shock. The government was itself equally affected by the escalating fuel cost and the reduction in fiscal revenues because of the economic crisis. It was therefore not in a position to effect budgetary transfers of the magnitude required to compensate SENELEC for fuel and other costs it incurred.

8. In October 2010, the intensity of the energy crisis and the widespread load shedding conducted the Government to a major restructuring and recovery plan for the whole energy sector, based on a 360 degree diagnostic and several technical and financial audits.

Electrical sector diagnostic: a severe crisis both on generation capacity and finance.

9. The diagnostic pointed to two main issues of the power sector in Senegal: one is the growing gap between fast growing demand and an insufficient, costly and unreliable supply of electricity and the other is SENELEC’s persistent financial difficulties with a significant operating deficit and high indebtedness. Figure 1 below shows this double downward spiral.

10. The Government’s most immediate effort has been to prepare a 2011-2015 electricity emergency and recovery plan aimed at (a) removing the electricity supply bottlenecks by securing sufficient additional power generation capacity prior to the commissioning of a 125 MW coal-fired power plant IPP in 2014/2015; and (b) addressing SENELEC’s cash-flow and financing constraints.

11. As mentioned above, the sector crisis is characterized by a large gap between supply and demand on the one hand, and on the other, by the critical financial situation of SENELEC.

The emergency answer of the Government of Senegal to the energy crisis.

12. To tackle both technical and financial imbalances, the government designed in November 2010, an emergency and recovery plan for the period 2011-2015, named “Takkal Plan”. The goal of this plan is to restore stability in the electricity sub-sector with two clear objectives: (i) bring back a 10% minimum strategic safety margin on the supply-demand balance (generation capacity / demand); and (ii) reestablish SENELEC’s financial equilibrium through a mix of recapitalization, debt restructuring, tariff compensation, fuel purchase by Government and operational improvements (cost and loss reductions, commercial improvements, etc). The plan was developed in close cooperation between the Government, SENELEC, consultants and donors (principally with the World Bank Energy team and the AFD).

First visible results.

13. Since November 2011, the first visible results of the implementation of the Emergency plan were seen, with the arrival on line of rental generation and the securing of fuel purchase through the FSE, load shedding has significantly decreased in Dakar as shown in Figure 2 above. However, progress remains limited and insufficient in some areas such as the operational turnaround of SENELEC, the demand side management program and SENELEC’s financial restructuring.

Assessment of the Emergency Plan by the new Government.

14. Through a recently organized workshop to: (i) evaluate the progress made in the implementation of the government recovery program for the energy sector; (ii) assess the different activities of the recovery plan (also known as the Takkal Plan); and (iii) make proposals for its improvement, the newly democratically elected government of Senegal has confirmed that it is determined to strengthen, re-orient et widen the strategic outlook of the recovery plan. The government also confirmed that it intends to follow up on the financing and implementation of investments that will be vital to the recovery and expansion of the country’s energy with a particular emphasis on transmission and distribution networks (including those in the Bank’s proposed project).

15. All projects in the recovery plan have been assessed and relevant alternatives to some of them, notably in generation, are being examined such as the introduction of natural gas in power generation, hydroelectricity and renewable energy with the view of improving the energy mix. These energy options are considered complements to the coal option. On the basis of this analytical work, SENELEC’s five year generation master plan is being updated.

16. The government has also made it clear that is keen on accelerating the implementation of activities that have lagged behind such as the financial restructuring of SENELEC and the implementation of demand management measures.

17. A re-examination of the institutional reform and the governance of the implementation of the recovery plan are also underway, notably concerning the respective roles of APIX and SENELEC in the implementation of projects. Nevertheless, SENELEC has been designated as the...
executing agency of the proposed Electricity Sector Support Project (ESSP) supported by the Bank with a confirmation of the oversight and supervisory roles of the Ministry of Energy and the Permanent Secretariat for Energy (SPE).

III. Project Development Objectives
The project development objectives are to contribute to (i) reducing SENELEC’s technical and commercial losses; and (ii) improving the reliability of electricity services in selected areas focusing primarily on Greater Dakar.

IV. Project Description

Component Name
Component 1: Upgrading and modernization of the Transmission and Distribution Network: (US$48 million)
Component 2. Improve SENELEC’s commercial performance (US$33.75 million)
Component 3. Long-term strategic outlook US$ 8.25 million)
Component 4. Project implementation, Communication and Monitoring and Evaluation: (US$3.50 million)

V. Financing (in USD Million)

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<th>For Loans/Credits/Others</th>
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<tr>
<td>BORROWER/RECIPIENT</td>
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<td>International Development Association (IDA)</td>
<td>85.00</td>
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<td>Total</td>
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</table>

VI. Implementation

18. The implementation arrangements mainly involve: (i) the Ministry in charge of Energy, (ii) the Permanent Secretary for Energy (SPE), and (iii) SENELEC. The Recipient, through the Ministry in charge of Energy (ME) will be responsible for the overall coordination and implementation of the Project. The SPE, within the ME will have a supervisory role. SENELEC will be the Project Implementing Entity of the project. To facilitate project implementation and to simplify coordination, a small Project Implementation Unit (PIU) will be set up within SENELEC whose main purpose is to coordinate the work being done on the project by various departments within the utility. This PIU will be under the responsibility of the General Manager (Direction Générale) of SENELEC to give it the necessary authority to ensure an orderly project implementation within time and budget.

19. The Project Implementation Unit (PIU), headed by a Project Coordinator (PC), would carry out the day-to-day implementation/administration of the project and would be the main contact for IDA. The PIU would consist of one technical assistant and one administrative and monitoring evaluation assistant. The technical assistant will be coordinating with task managers in the relevant operational departments within SENELEC. The administrative and monitoring & evaluation assistant will assist the project coordinator to ensure that the reporting, M&E, fiduciaries and safeguards responsibilities are conducted efficiently and timely. The PIU will be coordinating for these activities with SENELEC’s (a) procurement division, (b) financial management and accountability division and (c) the social and environmental safeguards division.

20. The PIU would carry out and consolidate day-to-day overall project activities including preparation of annual work/implementation plans, consolidation of quarterly project and financial reports, and monitoring of the project progress in accordance with the time bound action plan presented in the Project Implementation Manual (PIM). The preparation and adoption of the Project Implementation Manuel (PIM), including procurement and financial management procedures will be a condition of effectiveness. The PIM will be in line with the implementation arrangements and will clearly define the roles and responsibilities of the various stakeholders (SENELEC, Ministry of Energy and SPE).

Implementation period

21. The Project is expected to be made effective by September 30, 2012 and its implementation Period is expected to end on March 31, 2016, the effective closing date of the Project is expected to be September 30, 2016, a total of 48 months.

VII. Safeguard Policies (including public consultation)

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<th>Safeguard Policies Triggered by the Project</th>
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<tr>
<td>Environmental Assessment OP/BP 4.01</td>
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</table>
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