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*The petroleum ministry considers raising royalties and taking a larger stake in oil and gas projects as part of its oil code reform. Former concession holder **Sénégalaise des Eaux (SDE)** contests the decision of Senegal's water and sanitation ministry to grant France-based utility company **Suez** the concession for the management of the production and distribution of water in urban and semi-urban areas. Senegal drops from 140 to 141 in the 2019 World Bank Doing Business rankings. The United States (US) bilateral aid agency, the Millennium Challenge Corp, approves a five-year \$550m loan to increase access to electricity in Senegal.*

Senegal considers raising royalties and increasing stake in oil and gas projects

The Senegalese government is considering raising royalties and taking a bigger stake in oil and natural gas projects as part of Senegal's overhaul of its petroleum code.¹ The new code could significantly affect the investments of both current and future players in Senegal's oil sector. According to the new draft code, state-owned oil producer **Société des Petroles du Senegal (Petrosen)** will take a stake of between 10%-30% in operational fields and a carried interest of the same size when projects are being developed.² Currently, Petrosen is limited to 20% holding share in oil and gas projects.³

The current petroleum code is two decades old and was adopted when Senegal was trying to attract investment for largely untested resources.⁴ However, Senegal is revising the existing code in anticipation that it will become an oil and gas exporter in the coming years.⁵ However, the draft for the new petroleum code does not state whether the revised code will apply retroactively to firms already present in Senegal.⁶ The petroleum ministry says it has agreed to a stability clause with existing licence holders.⁷ According to **Edinburgh (United Kingdom)(UK)**-based **Wood Mackenzie** analyst **Lennert Koch**, the new petroleum code reduces uncertainty and will accelerate investments in the oil and gas sectors in Senegal.⁸ In addition to proposing an increase in royalties, the new code provides for the allocation of funds for social projects, the compulsory participation of domestic private investors, and the signature of bonuses.⁹

Several big players have already committed significant investments in Senegal's oil sector. Senegal is forecast to produce from 200,000 to 300,000 barrels of oil per day, when it starts

¹ Bloomberg, 8 Nov 2018

² Bloomberg, 8 Nov 2018

³ Bloomberg, 8 Nov 2018

⁴ Bloomberg, 8 Nov 2018

⁵ Bloomberg, 8 Nov 2018

⁶ Bloomberg, 8 Nov 2018

⁷ Bloomberg, 8 Nov 2018

⁸ Bloomberg, 8 Nov 2018

⁹ Bloomberg, 8 Nov 2018

production in 2021.¹⁰ UK-based **British Petroleum** announced in December 2016 that it would invest \$916m in an offshore gas field between Senegal and **Mauritania**.¹¹ In May 2017, **France**-based **Total** signed two exploration and exploitation agreements with the Senegalese government, which will require an investment of \$100m.¹² These big players, as well as companies that intend to invest in Senegal in the future, will pay significant attention to the development of the new petroleum code.

President **Macky Sall** (2012-present) has committed to making the oil and gas sectors the cornerstone of Senegal's economic development in collaboration with the private sector.¹³ To this end, Sall aims to establish a legal framework that attracts investors and enables Senegal to benefit optimally from its resource endowment.¹⁴ Senegal is also taking steps towards making the oil and gas sector transparent.

Petrosen announced on 2 October that Senegal would be launching a licensing round for the exploration for oil & gas in two blocks, namely the **Senegal Offshore South** and **Deep Offshore Senegal** blocks.¹⁵ President Sall had indicated the government's desire to launch the licensing round in June.¹⁶ Petrosen CEO **Mamadou Faye** said Senegal intends to sell 12 additional blocks in 2019, and the sale will be in line with the new petroleum code.¹⁷

The final draft of the new code will be submitted to lawmakers in December.¹⁸ From all indications, the process will have a significant impact on the oil sector, which Senegal seeks to capitalise on to foster its economic prosperity.

France-based Suez granted concession for production and distribution of water

The water and sanitation ministry's decision to grant France-based utility company **Suez** the concession for managing the production and distribution of water in urban and semi-urban areas has raised questions about transparency and corruption in **Senegal's** tender processes. The ministry made its decision on 23 October following an international call for tenders launched in May 2016.¹⁹ The contract award comes at the expense of **Sénégalaise des Eaux (SDE)**, a branch of France-based **Erano**, which has had the contract for producing and distributing water in Senegal since 1996.²⁰

The replacement of SDE came as a surprise to management.²¹ In January, the government had shortlisted SDE alongside Suez and France-based **Veolia** as one of three firms that had met the technical criteria stipulated in the tender call.²² According to the terms of the tender offer, the ministry would give preference to the candidate with the best offer in the selection process.²³ Veolia and Suez reportedly presented better technical offers than SDE but water and sanitation minister **Monsour Faye** announced on 10 June that SDE had presented the

¹⁰ La Tribune Afrique, 2 Oct 2018

¹¹ Jeune Afrique, 19 December 2016

¹² Le Parisien, 2 May 2017

¹³ La Tribune Afrique, 6 July 2018

¹⁴ La Tribune Afrique, 2 Oct 2018

¹⁵ Africa Oil and Power, 4 Oct 2018

¹⁶ La Tribune Afrique, 2 Oct 2018

¹⁷ La Tribune Afrique, 2 Oct 2018

¹⁸ World Oil, 9 Nov 2018

¹⁹ Jeune Afrique, 24 Oct 2018

²⁰ Jeune Afrique, 24 Oct 2018

²¹ Jeune Afrique, 24 Oct 2018

²² Jeune Afrique, 19 June 2018

²³ Jeune Afrique, 19 June 2018

best financial offer amongst the three finalists.²⁴ SDE CEO **Abdoul Ball** told *Jeune Afrique* in an interview on 14 October that he was confident of SDE's chances of being retained by the government, particularly since it had twice renewed SDE's contract:²⁵

*"From 1996-2017, SDE increased the number of clients from 3 million to 7 million and raised access to 80% of urban inhabitants to its current rate of 98%. SDE has been reaping significant financial rewards for the Senegalese economy."*²⁶

Ball also noted that SDE has a mutually beneficial partnership with the state-owned asset holding company, **Société Nationale des Eaux du Senegal (SONES)**, which invests in water infrastructure.²⁷ However, Ball said since 2014, SDE has itself allocated 17 billion FCFA (\$29.1m) towards three emergency water supply programmes.²⁸

SDE's majority shareholder is Eranove (57.85%), which is owned by **Washington DC (US)** headquartered **Emerging Capital Partners**.²⁹ Local Senegalese private actors own 32.15% of SDE's share capital while the Senegalese government owns 5% and SDE employees the remaining 5%.³⁰ In 2017, SDE generated \$176m in profits and transferred \$42.8m to the government via SONES.³¹ Eranove won concessions for water and energy projects in both **Gabon** and **Togo** in October.³²

The water and sanitation ministry had indicated it would make a decision in June.³³ In a communiqué released on 17 October, Ball noted with concern that the ministry's delay in announcing the successful bidder was *"not a good sign with respect to transparency and is having a negative impact on the activities of SDE"*.³⁴

There was strong reaction in Senegal to the declaration of Suez as the successful contract bidder. Ball expressed his disappointment, reiterating SDE's track record over the past 22 years as well the fact that SDE's financial offer was the most advantageous.³⁵ Ball denied that the water shortages that plagued **Dakar** in July, and necessitated the intervention of prime minister **Mohamed Diome** to calm consumers, were the cause of SDE losing the concession.³⁶ Ball said the shortages were due to a 12 million cubic metre per day production deficit that resulted from the state's lack of investment.³⁷

Momar Ndao, president of the **Association des Consommateurs du Senegal** (association of Senegalese consumers), claims that granting the concession to Suez will cost the state an additional 50 billion FCFA (\$85.6m) over the next 15 years.³⁸ Ndao claims that these costs

²⁴ Jeune Afrique, 2 Nov 2018

²⁵ Jeune Afrique, 14 Oct 2018

²⁶ Jeune Afrique, 14 Oct 2018

²⁷ Jeune Afrique, 14 Oct 2018

²⁸ Jeune Afrique, 14 Oct 2018

²⁹ Jeune Afrique, 14 Oct 2018

³⁰ Jeune Afrique, 19 June 2018

³¹ Jeune Afrique, 14 Oct 2018

³² Jeune Afrique, 29 Oct 2018

³³ RFI, 18 Oct 2018

³⁴ RFI, 18 Oct 2018

³⁵ Jeune Afrique, 24 Oct 2018

³⁶ Jeune Afrique, 14 Oct 2018

³⁷ Jeune Afrique, 14 Oct 2018

³⁸ RFI, 27 Oct 2018

will be transferred to consumers.³⁹ In its bid, SDE had offered to sell water at 286.9 FCFA (49 cents) per cubic metre, compared to Suez, which intends to sell for 298.5 per cubic metre.⁴⁰

The water and sanitation ministry has maintained the contract attribution process was fair and transparent.⁴¹ The ministry's director of general administration and equipment, **Mamadou Dioukhane**, said the objective of the candidate evaluation process was to select a proposal that provided a balance between a good financial and technical offer.⁴²

SDE laid an appeal at the water and sanitation ministry on 26 October against its award to Suez.⁴³ Veolia also lodged an appeal on 31 October.⁴⁴ Water and sanitation minister Monsour Faye has rejected both appeals.⁴⁵ Veolia has not made a counter appeal⁴⁶ but SDE laid a further complaint at the **Agence de Regulation des Marches Publics (ARMP)** (public contracts regulatory agency) on 5 November.⁴⁷ SDE claims it had a better financial offer than Suez and that Suez may have a monopoly in the provision of water.⁴⁸ This refers to the fact that Suez is under contract to construct a water treatment plant to provide water for the **Thies-Dakar-Dianmadio** urban triangle.⁴⁹

Although it appears the Senegalese government tried to be transparent during the contract attribution process, questions remain about the process. Faye announced the financial offers of the competing parties on national television in June.⁵⁰ The postponement of announcing the final decision until October rather than June, when it was initially slated, may be a cause of concern. The ministry's failure to provide an explanation for the delay raises questions about transparency while its admission that SDE had the best financial offer continues to provide SDE a reason to contest the decision.

If the government retains Suez as the contracting authority for water production and distribution, it is not likely to reduce investor confidence in Senegal. The ministry appears to have followed due process. Suez is an internationally renowned firm, despite not having experience in public-private-partnership ventures in **Africa**.

Senegal has a reputation as one of **sub-Saharan Africa's** least corrupt countries. Senegal ranked 66 out of 180 countries in the 2017 **Transparency International Corruption Perceptions Index**.⁵¹ Transparency International also rates Senegal as the least corrupt member of the **Economic Community of West African States (ECOWAS)**, placing it ahead of its nearest counterpart, **Ghana**, which is ranked 70th.⁵² Transparency International acknowledged Senegal as one of the countries that has made significant progress with respect to reducing corruption since 2012.⁵³ Irrespective of the government's final decision, this reputational advantage should enable Senegal to keep attracting large-scale investors.

³⁹ RFI, 27 Oct 2018

⁴⁰ RFI, 10 Nov 2018

⁴¹ RFI, 10 Nov 2018

⁴² Jeune Afrique, 24 Oct 2018

⁴³ Jeune Afrique, 2 Nov 2018

⁴⁴ Jeune Afrique, 2 Nov 2018

⁴⁵ Jeune Afrique, 2 Nov 2018

⁴⁶ Jeune Afrique, 2 Nov 2018

⁴⁷ RFI, 10 Nov 2018

⁴⁸ RFI, 10 Nov 2018

⁴⁹ Jeune Afrique, 19 Jun 2018

⁵⁰ Corruptions Perception Index 2017

⁵¹ Corruptions Perception Index 2017

⁵² Corruptions Perception Index 2017

⁵³ Corruptions Perception Index 2017

Senegal drops one place in 2019 World Bank Doing Business rankings

Senegal fell one place from 140 to 141 in the **2019 World Bank Doing Business** rankings, published on 31 October.⁵⁴ The rankings use a variety of indicators to assess the business environments of World Bank member states. These indicators include starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.⁵⁵ Despite its one-place drop, Senegal experienced an improvement in its overall score from 53.78 in 2018 to 54.15 in the 2019 rankings and made notable reforms in two domains.⁵⁶ In the area of registering property, where it is now ranked 118 out of 190, Senegal has reduced the time it takes to transfer and register property.⁵⁷ With respect to enforcing contracts, Senegal has adopted a law that regulates all aspects of mediation as an alternative to already existing dispute resolution mechanisms.⁵⁸

Senegal may be a victim of its past success. In 2017 and 2018, it made reforms in four and five domains respectively. In 2018, Senegal moved up 8 places overall from 148 to 140.⁵⁹ This enabled Senegal to attain the status of one of **sub-Saharan Africa's** top five business environments. However, in the latest rankings Senegal trails ECOWAS counterparts Ghana, **Cote d'Ivoire, Cape Verde** and **Togo**.⁶⁰

	2018 Ranking	2019 Ranking
Burkina Faso	148	151
Cape Verde	127	131
Côte d'Ivoire	139	122
Ghana	120	114
Mali	143	145
Nigeria	145	146
Senegal	140	141

Improving access to electricity may help Senegal to improve its business climate. Currently, Senegal is ranked 127th in obtaining this service.⁶¹ The World Bank notes that it takes 75 days for a new business to obtain electricity.⁶² This is despite Senegal increasing its production capacity from 898 megawatts (MW) in 2015 to 1,168 MW in 2016.⁶³ The decision on 7 November of US bilateral foreign aid agency **Millennium Challenge Corporation** to allocate \$550m in aid (see below) will be beneficial as the funds will go towards the electricity sector

⁵⁴ World Bank, 31 Oct 2018

⁵⁵ World Bank, 31 Oct 2018

⁵⁶ World Bank, 31 Oct 2018

⁵⁷ World Bank, 31 Oct 2018

⁵⁸ World Bank, 31 Oct 2018

⁵⁹ Le Quotidien, 2 Nov 2018

⁶⁰ World Bank, 31 Oct 2018

⁶¹ World Bank, 31 Oct 2018

⁶² Jeune Afrique, 8 Nov 2018

⁶³ African Economic Outlook, 2018

and improving the technical capacity of the **Société Nationale d'Electricité (SENELEC)** (national electricity company).⁶⁴ The funds will also go towards the modernisation of transport infrastructure in Dakar.⁶⁵

One of Senegal's weakest rankings, at 139, was in trading across borders. The opening of **Aéroport International Blaise Diagne (AIBD)** in **Diass**, outside of the Senegalese capital **Dakar**, in December 2017 may help to improve this ranking. The AIBD has registered over 2 million passengers since it became operational.⁶⁶

Senegal's economy and prospects appear positive. The **2018 African Investment Index**, released in April, rated Senegal as a top 10 investment destination.⁶⁷ The **African Development Bank** reported on 17 January that Senegal experienced a gross domestic product economic growth rate of 6.8% in 2017 and 7% in 2018.⁶⁸ If Senegal is able to improve its business climate and capitalise on its current positive economic outlook and reputation as a politically stable country, it will continue to attract investors.

Millennium Challenge Corp approves \$550m loan to increase access to electricity

The board of directors of the US bilateral foreign aid agency, the **Millennium Challenge Corporation (MCC)**, announced on 4 November that the agency will allocate \$550m in aid to Senegal.⁶⁹ The MCC support was a result of negotiations between MCC and the Senegalese government that were held from 24-28 September.⁷⁰ The aid will be provided over a period of five years and will go towards improving access to an ever-increasing demand for electricity. The funds will benefit three core projects under the **Senegal Connect Program** including the modernisation of the SENELEC transmission network and increasing electricity access to rural and semi-urban areas.⁷¹ In addition, support will be given towards building capacity and improving governance in the electricity sector.⁷²

MCC chief operating officer and head of agency **Jonathan Nash** believes the aid will catalyse private sector development, spur economic growth and reduce poverty by improving Senegal's power sector.⁷³ The Senegalese government will contribute an additional \$50m to support the MCC aid.⁷⁴ The combined efforts of the MCC and Senegalese government are in line with the **Plan Senegal Emergent (PSE)**.⁷⁵ This plan intends to improve access to electricity especially in rural areas.⁷⁶ Senegal has also been receiving support from the US in the electricity domain through the **Power Africa initiative**.⁷⁷

⁶⁴ La Tribune Afrique, 4 Nov 2018

⁶⁵ La Tribune Afrique, 4 Nov 2018

⁶⁶ Agence Presse Senegalaise, 8 Nov 2018

⁶⁷ African Investment Index, 2018

⁶⁸ African Economic Outlook, 2018

⁶⁹ MCC.gov, 7 Nov 2018

⁷⁰ La Tribune Afrique, 4 Nov 2018

⁷¹ Jeune Afrique, 8 Nov 2018

⁷² Jeune Afrique, 8 Nov 2018

⁷³ MCC.gov, 7 Nov 2018

⁷⁴ MCC.gov, 7 Nov 2018

⁷⁵ USAID, 14 Nov 2018

⁷⁶ USAID, 14 Nov 2018

⁷⁷ USAID, 14 Nov 2018

Planner

December 2018 **Dakar (Senegal) Bloomberg**. Parliament to vote on new petroleum code;
February 2019 **Dakar (Senegal)** Presidential elections;

Chronology

12 Nov 2018 **Dakar (Senegal) GT Review**. **Germany**-based **KfW Ipex-Bank** provides \$146m in funding for an electrification project in Senegal;

8 Nov 2018 **Dakar (Senegal) Bloomberg**. The **United States** state-run **Millennium Challenge Corp** approves a five-year \$550m loan to increase access to electricity in **Senegal**;

8 Nov 2018 **Dakar (Senegal) Bloomberg**. Senegal considers raising royalties and taking a larger stake in oil and gas projects as part of its oil code reform;

4 Nov 2018 **Dakar (Senegal) RFI**; Senegal host the 5th Dakar International Forum from 5-6 November;

31 Oct 2018 **Berlin (Germany) AllAfrica.com**; President **Macky Sall** attends **G20-Africa** summit and meets German chancellor **Angela Merkel**;

31 Oct 2018 **Washington D.C (United States) World Bank**; Senegal drops from 140 to 141 in the 2019 **World Bank Doing Business** rankings;

24 Oct 2018 **Dakar (Senegal) Jeune Afrique**; Water and sanitation ministry grants **France**-based utility company **Suez** the concession for the management of the production and distribution of water in urban and semi-urban areas;

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