**PROGRAM INFORMATION DOCUMENT (PID)**

**APPRAISAL STAGE**

AB7484

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| **Operation Name** | Third Shared Growth Grant |
| **Region** | AFRICA |
| **Country** | Niger |
| **Sector** | Central government administration (50%); Public administration- Industry and trade (20%); Irrigation and drainage (10%); Agricultural extension and research (10%); Vocational training (10%) |
| **Operation ID** | P145251 |
| **Lending Instrument** | Development Policy Lending |
| **Borrower(s)** | Republic of Niger |
| **Implementing Agency** | Ministry of Planning, Land Management and Community Development |
| **Date PID Prepared** | January 15, 2014 |
| **Estimated Date of Appraisal** | February 10, 2014 |
| **Estimated Date of Board Approval** | March 21, 2014 |
| **Corporate Review Decision** | Following the corporate review, the decision was taken to proceed with the preparation of the operation. |

1. **Country and Sector Background**

Niger is a large, landlocked country in the arid Sahel-Saharan region with a population of about 16 million people who are primarily engaged in semi-subsistence agriculture. The country’s total land area is 1.27 million square kilometers, but most of the population is concentrated in the areas around the Niger River in the southwestern corner of the country and along its long southern border with Nigeria. The central and northeastern regions of the country are largely desert and sparsely populated, with the exception of a few smaller cities along the northern route to Algeria. About 80 percent of the population derives its livelihood from agriculture and livestock, despite frequent droughts. Uranium mining and, more recently, oil production play an increasingly important role in the Nigerien economy, and extractable resources now make up about a third of its merchandise exports. Much of Niger’s non-mining economic activity takes place in the informal sector. Overall productivity is low, value addition is generally modest, and exports consist mainly of unprocessed products from the extractive industries, as well as livestock and agricultural goods. Most of the country’s growth potential is associated with the oil and mining sectors, thought there are also opportunities in the livestock sector and new possibilities arising from increased regional trade within the West African Economic and Monetary Union (WAEMU) and with the rapidly growing economy of Nigeria.

The population growth rate was recently revised upward to 3.9 percent, which puts the growth of per capita income at risk over the longer term. The estimated population growth rate is based on a recently completed demographic and health survey (DHS) that reported a total fertility rate of 7.6 children per woman in 2012, well above the rate of 7.1 recorded in 2006. The reasons for the acceleration in the population growth are not yet well understood, and the apparent change may merely reflect better demographic measurement. It is also possible that the observed increase in children per woman is the effect of declining infant and child mortality rates, which may be obscuring a stable or even declining fertility rate. However, if the increase recorded in the DHS were genuine, it would present cause for serious concern. The urban fertility rate is lower than the rural rate and declining, at 5.6 children per women in 2012 compared to 6 children per women in 2006. The highest fertility rates in urban areas are for the 25-29 year old group, while in rural areas the highest rates are found among the 20-24 year old group. Urbanization is projected to accelerate, which should help to moderate population growth.

Poverty is declining, but in 2011 the national poverty headcount rate stood at 48 percent; based on current trends Niger is unlikely to meet the World Bank’s 2030 poverty-rate target. The poverty rate declined by approximately 5 percentage points from 2006-2011, though survey data for this period are not strictly comparable. Poverty is primarily a rural phenomenon, and its decline is largely attributable to increased agricultural productivity. If the 2013 economic growth rate of 5.8 percent (2 percent per capita) were to continue over the remaining PDES period, and if the returns to growth were evenly distributed between income groups, Niger’s poverty rate would remain at over 45 percent in 2015. The PDES optimistically envisages an annual GDP growth rate of 8 percent (4 percent per capita) during 2013-15; if this growth rate were achieved, and if the returns to growth were evenly distributed among income groups, the poverty rate would fall to just over 40 percent by 2015. The authorities recognize that a growth strategy based on natural-resource development presents particular challenges, and the PDES works to address these through redistributive policies; investments in infrastructure, public services and human capital; improvements in PFM systems and expenditure-execution efficiency; and structural economic reforms designed to facilitate broad-based growth by establishing a more hospitable business and investment climate. The proposed SGG-3 supports the government’s policies as presented in the PDES while remaining cognizant that economic growth may be significantly lower and more volatile than the strategy envisions.

Niger currently has an unprecedented opportunity to accelerate economic development and poverty reduction. Since 2000 only modest progress has been observed in social and economic indicators, due in large part to recurrent droughts, regional conflict and political instability. The successful political stabilization in April 2011 provided the basis for a stronger policy focus on economic development and poverty reduction. The start of oil production in November 2011 and large-scale investments in the uranium sector promise to boost economic growth in the medium term, while providing critical resources for the government’s program. Taking advantage of these opportunities will require the government to mobilize greater private sector participation in the infrastructure and public service sectors, as well as continued engagement by Niger’s development partners to provide financing and technical support to strengthen governance and build institutional capacity.

Political institutions have been strengthened since democracy was restored in 2011.Following the return of constitutional order significant progress has been made in re-establishing the institutional framework for democratic governance.This framework includes a number of institutions whose function is to mediate conflicts, which should help to attenuate the political instability that has plagued Niger in the past. The Council of the Republic[[1]](#footnote-1), the National Council for Political Dialogue and the National Commission for Social Dialogue are all expressly devoted to conflict mediation and resolution, while the nomination of a Mediator of the Republic and the institutionalization of the statute of the opposition further demonstrate the government’s commitment to safeguarding political stability.

1. **Operation Objectives**

The proposed SGG-3 is a single-tranche DPO, the third in a programmatic series of three budget-support operations. The proposed operation focuses on reforms designed to foster shared economic growth and enhance the efficacy of public spending in Niger. Specifically, the grant supports reforms in three priority policy areas: (i) establishing a competitive and diversified economy to support accelerated and inclusive growth; (ii) reinforcing food security and promoting sustainable agricultural development; and (iii) enhancing the efficacy and efficiency of public spending.

The proposed operation’s overall development objectives are (i) to improve the business environment for investment and trade, (ii) to increase agricultural productivity, and (iii) to improve public financial management. The credit is fully aligned with and supportive of the government’s PDES, which was adopted on August 1, 2012 and which replaced the country’s previous PRSP.

The first policy area aims to establish a competitive and diversified economy to support accelerated and inclusive growth. The proposed SGG-3 completes reforms started by SGC-1 and SGC-2 by supporting (i) institutional reforms, including the adoption of a new investment code and measures aimed at strengthening the electricity sector; (ii) reforms that simplify international trade procedures; (iii) expanded labor-market reforms; and (iv) measures to improve transparency in the oil sector.

Reforms under the second policy area of the proposed SGG-3 continue the reinforce food security and promote sustainable agricultural growth that begun during earlier operations. About 80 percent of Niger’s population lives in rural areas, and the majority of the rural population are below the poverty line. Consequently, rural development is central to poverty reduction. The rural sector represents about 43 percent of GDP, with agriculture accounting for about 60 percent of rural output and livestock for about 29 percent. Major factors contributing to the poor performance of the sector include: (i) frequent droughts and invasive pests; (ii) scarce water resources and insufficient financing for irrigation development; and (iii) obstacles to commerce and trade in agricultural products, both within Niger and across its borders. The prior actions address irrigation issues, food security, and a key constraint to the development of the livestock sector.

The third policy area of the proposed SGG-3 continues the series’ support to enhance the efficacy of public spending. These efforts are fully consistent with the government’s program, as Pillar 1 of the PDES identifies strengthening PFM systems as essential to consolidating the credibility and efficiency of public institutions. Analytical work, including the recently completed Public Expenditure and Financial Accountability (PEFA) assessment and the forthcoming review of the IMF-ECF program, confirms the importance of an enhanced PFM system. The SGG-3 supports the adoption of the remaining decrees necessary to make complete the revisions to the public procurement legal framework, including a decree establishing sanctions for public officials, bidders and members of commissions who violated the procurement code. In the area of the supervision of SOEs, the SGG-3 supports measures preventing the accumulation of new arrears in four of Niger’s important SOEs.

1. **Rationale for Bank Involvement**

Strong output increases in the uranium and oil sectors and rising agricultural production are driving GDP growth. Meanwhile, fiscal revenues and foreign debt are financing a rapid expansion in public investment. Overall, Niger’s macroeconomic framework is judged to be appropriate. It will, however, continue to face growth and employment challenges stemming from its landlocked geography, its small domestic market and its reliance on commodity exports. Furthermore, Niger’s limited progress in employment creation during a period of fairly robust economic growth underscores the need for further reforms to promote diversification and boost shared prosperity. Although the government has made important strides in combating poverty, with the national poverty headcount rate falling from 53 percent in 2006 to an estimated 48 percent in 2011, much more could be done so speed the pace of poverty reduction.

The design of the SGG series is informed by lessons learned from previous DPOs and by the conclusions of the CAS Completion Report for FY 2008-11. Among the most important lessons from recent DPOs in Niger is that in the absence of broad-based economic growth and job creation macroeconomic stability and social programs will not be capable of generating the strong, positive impact on poverty indicators necessary to achieve the government’s development objectives. For this reason the SGG-3 is built around a deeper commitment to cross-cutting reforms designed to promote robust private-sector development, build greater resilience to shocks in labor-intensive sectors and ensure that the fiscal benefits from the exploitation of natural resources are well-managed and widely shared.

In light of this experience the proposed series focuses on a limited set of obstacles that have created bottlenecks to private-sector job creation. Business-climate reforms are expected to boost investment, while a more highly skilled labor force will contribute to an increase in total factor productivity and reduced transaction costs for international trade will boost export competitiveness and lower import costs. The proposed reforms are expected to boost agricultural production and trade while improving food security. Specific actions in these policy areas are expected to reduce budget leakages and to increase the efficiency and effectiveness of SOEs.

IDA has been providing budget support to Niger since the early 2000s, promoting key policy reforms and providing resources for the implementation of the country’s poverty reduction strategy papers. Implementation of the reform programs supported by the SGC-1 and SGC-2 has been deemed satisfactory. The authorities are fully committed to implementing the reforms supported by the SGG-3 by January 14, 2014.

1. **Tentative financing**

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| **Source:** | ($m.) |
| BORROWER/RECIPIENT | 0 |
| International Development Association (IDA) | 70 |
| Borrower/Recipient |  |
| IBRDOthers (specify) |  |
|  **Total** | **70** |

1. **Institutional and Implementation Arrangements**

The reform program supported under the SGG-3 is coordinated by the Ministry of Planning, Regional and Community Development. The Ministry of Planning has experience in the implementation and oversight of development policy operations, which has been demonstrated by its successful execution of the previous operations in the SGC programmatic series. The preparation and execution of the SGC-3 benefited from the existing institutional framework for the coordination of economic and financial programs established by the Minister of Planning. It includes an inter-ministerial committee co-chaired by the Minister of Planning and the Minister of Finance, while day-to-day oversight is delegated to a technical committee co-chaired by the Secretary General of the Ministry of Planning and the Secretary General of the Ministry of Finance. Primary technical responsibility for the implementation of PFM reforms will remain with the Budget and Treasury departments. Sector-specific reforms will be implemented by the respective technical departments in the sector ministries, with overall coordination provided by the Ministry of Planning. A results matrix that tracks the three operations in this series provides concrete indicators and empirical benchmarks to monitor progress and enable evaluation following the end of the program in 2014. Niger’s development partners will follow progress on these and other reforms through a harmonized review process.

1. **Risks and Risk Mitigation**

The main risks to Niger’s economic and social development remain commodity-price volatility, climate shocks and security challenges. The continuing development of the uranium sector and the recent start of oil production have increased the country’s fiscal and economic dependence on international commodity prices. Niger’s agricultural and livestock sector is crucial to the country’s social and economic stability but is highly vulnerable to climate factors, particularly rainfall.Neighboring countries are important markets for Niger’s agricultural and livestock exports, but trade continues to be threatened by regional instability and the specter of terrorism. The potential impact of terrorist attacks in Niger itself was illustrated by attacks on a uranium mine in the north of the country in May and in the capital of Niamey in June 2013. The worsening security situation in northern Nigeria has reduced trade across Niger’s southern border, where the bulk of the country’s population is concentrated. The government has increased security expenditures by 1.25 percentage points of GDP and strengthened cooperation with regional and international partners in an effort to address these complex challenges.

1. **Poverty and Social Impacts and Environment Aspects**

*Poverty and Social Impacts*

**The actions supported by the proposed operation are unlikely to have a negative impact on poverty.** The establishment of an electricity regulator may ultimately result in an increase in electricity tariffs. However, such a price increase would have only a modest impact on the poor, as the poorest segments of the population have almost no access to electricity.

**Some of the actions supported by the proposed operation are expected to have positive poverty and welfare impacts**. Three policy measures are likely to make a positive direct contribution to poverty reduction, as they are designed to make growth more inclusive and extend economic opportunities throughout Nigerien society. These include: (i) improvements in technical and vocational training and (ii) the restructuring the national food-reserve agency. Additional policy actions supported by the SGG-3 will boost overall economic growth and hence indirectly contribute to poverty alleviation and broad income and welfare improvements. These include measures to: (i) facilitate commerce and trade; (ii) improve access to reliable electricity; (iii) privatize the management of animal-feed factories; (iv) improve transparency in the oil sector; (v) enhance the management of the national irrigation agency; and (vi) finalize the new investment law and prevent the accumulation new arrears by state-owned enterprises.

**The prior actions are not expected to have any adverse impact on gender disparities, and some of them are likely to have a positive gender impact**. The restructuring of the national irrigation authority (ONAHA) and the strengthening of the national food-reserve agency (OPVN) are intended to increase agricultural productivity and reinforce food security, which is expected to have strongly positive welfare impacts for women’s nutrition and the income-generating capacity of female-headed households. Meanwhile, the establishment of a social safety-net program will provide critical support to female-headed households both within and beyond the agricultural sector. Continuous engagement with the implementing agencies during the implementation of the proposed operation will help to sharpen their focus on gender issues.

*Environmental Aspects*

The reforms supported by the proposed SGC-3 are not expected to have a negative impact on the environment, forests and other natural resources. Indeed, two of the supported policy areas are expected to have a positive environmental impact. These are: (i) *the development of a sustainable energy policy*, and (ii) *the restricting of the irrigation authority*. SGC-3-supported actions to promote the sustainable development of the energy sector should help to offset the population’s reliance on wood fuel. Wood currently supplies 90 percent of Niger’s power needs and wood harvesting is dangerously unsustainable despite Niger’s environmental policies, which are well designed but lack practical effectiveness. The expansion of electric power under a revamped NIGELEC is expected to reduce wood-fuel consumption in favor of hydroelectric and environmentally conscious coal power. In addition, SGC-3 support for the restructuring of ONAHA should lead to more sustainable water management with less damaging environmental consequences.

Nigerien law includes a decree on environmental assessments that ensures the integration of environmental considerations into proposed development projects. Institutional responsibility for environmental-impact assessment lies with the Office of Environmental Assessments and Impact Studies (*Bureau d'Evaluation Environnementale et des Etudes d'Impacts*, BEEEI), which is attached to the Ministry of the Environment and Desertification Control. BEEEI provides support not only to sector ministries, but also to local communities, and small environmental units have been established at the regional levels in order to build decentralized environmental-management capacity. Support from development partners, including the World Bank, has greatly improved the effectiveness of these units, and BEEEI is increasingly able to involve civil society and affected population through special environmental hearings and environmental-impact-assessment validation workshops. The proposed operation is fully consistent with BEEEI protocols and complements its efforts through the reforms to energy and water-management policies described above.

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1. The Council of the Republic consists of the current President of the Republic and former Presidents and Heads of State of Niger, the President of the National Assembly, the Prime Minster, and the leader of the opposition. [↑](#footnote-ref-1)