

THE INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

NIGER

**Poverty Reduction Strategy Paper Progress Report
Joint Staff Advisory Note**

Prepared by the Staffs of the International Monetary Fund (IMF) and
International Development Association (IDA)

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I. OVERVIEW

1. **In 2003-04, Niger continued to implement its reform agenda, which is guided by the four strategic pillars of its Poverty Reduction Strategy (PRS).**¹ Fiscal imbalances were slightly reduced, steps were taken to strengthen economic governance, important structural reforms were initiated, and social indicators were moderately improved. Moreover, key sectoral strategies premised on the 2002 PRSP were prepared in collaboration with the World Bank, and steps were taken to harmonize programs supported by development partners with the PRS.

2. **Despite these achievements, there is a long way to go to fully implement the PRS and achieve its objectives.** The economy remains susceptible to external shocks, macroeconomic imbalances are still relatively large, and the implementation of key structural reforms has been slow. Also, notwithstanding progress in developing growth-enhancing strategies for key sectors such as the rural and infrastructure sectors,² related programs are yet to be costed, and other complementary strategies in export promotion and tourism development are yet to be fully defined. Moreover, other shortcomings highlighted in last year's Joint Staff Assessment (JSA), including lack of adequate understanding of the poverty

¹ These are: (i) ensuring economic and financial stability while promoting sustainable and robust growth; (ii) improving access for the poor to quality social sectors; (iii) developing productive sectors, especially in rural areas; and (iv) promoting good governance and strengthening institutional capacity.

² Important elements of these strategies are to address inadequate water management infrastructure and road networks.

profile and the impact of growth on poverty, have still not been fully tackled.³ Further, despite the open, transparent, and consultative manner in which the PRSP and its progress reports were prepared, the process continues to be weak in several respects, including lack of adequate coordination with key stakeholders such as NGOs and regional authorities. Looking ahead, the above-noted concerns should be addressed to enhance the effectiveness of reforms and move forward the full implementation of the PRS.

II. PROGRESS IN THE IMPLEMENTATION OF THE POVERTY REDUCTION STRATEGY

A. Macroeconomic Policies and Performance

3. **Staffs concur with the second Annual Progress Report's (APR) assessment of macroeconomic policies in 2003-04, which were in line with the objectives established under the PRSP.** In 2003, the basic fiscal deficit⁴ was limited to 2 percent of GDP, and, in 2004, it was further reduced to 1.1 percent of GDP. Over the same period, the overall fiscal deficit (on a commitment basis and before grants) remained at 7.5 percent of GDP. These outcomes reflect the authorities' determined prudent spending policies, and modest improvements in domestic revenue. However, shortfalls in external assistance and capacity constraints in several key areas hampered a full implementation of social programs. The Central Bank of West African States continued to adhere to prudent monetary policy.

4. **Notwithstanding Niger's good policy stance, a drought is estimated to have limited real GDP growth to 1 percent in 2004,** compared with 5.3 percent in 2003, and raised inflation to some 4 percent, from -1.5 percent a year earlier. The external current account deficit (excluding budgetary grants) is estimated to have reached 7.3 percent of GDP in 2004, slightly lower than the 2003 level, and limited progress has been made in export diversification.

5. **The lackluster economic performance in 2004 underscores Niger's vulnerability to exogenous shocks.** To firmly put the economy on a path of sustained and strong growth, reforms to improve the supply response, including public and financial sector reforms, should be expedited. Further, as stressed in the APR, the implementation of recently developed growth-enhancing strategies, especially for the rural and infrastructure sectors, should be expedited; and complementary strategies such as for export diversification and tourism development should be defined. In this context, continued strengthening of institutional and technical capacity with technical assistance from development partners remains essential.

6. **Progress toward long-term fiscal sustainability is a key element of the authorities' PRS.** This requires raising domestic revenue, notably through the expansion of the tax base and improving the efficiency of revenue collection, while adhering to prudent expenditure policies, especially regarding the wage bill. To facilitate fiscal consolidation, staffs concur with the APR's emphasis on the need for continued improvements in the budget

³ JSA (EBD/03/94, 10/21/03).

⁴ Domestic revenue minus total expenditure, excluding foreign-financed investment outlays.

preparation process, as recommended by the 2004 Public Expenditure Management and Financial Accountability Review (PEMFAR), especially regarding development of sectoral Medium Term Expenditure Frameworks (MTEFs), consistent with the PRS. As pointed out in the APR, the implementation of an ambitious reform agenda would require additional donor support, underscoring the need to adequately cost the programs accompanying Niger's sectoral strategies.

B. Sectoral Policies

7. **Consistent with the 2002 PRS, the authorities continued preparation of coherent strategies and policies to develop growth-supporting sectors and facilitate provision of basic services to vulnerable groups.** In this context, the adoption in August 2004 of a Rural Development Strategy (RDS) was one of Niger's major achievements since the first APR was issued in June 2003. The staffs support the RDS's focus on three pillars: (i) improving access of rural populations to economic opportunities with a view to promoting conditions for sustainable economic growth in the sector; (ii) improving food security and ensuring sustainable management of natural resources; and (iii) enhancing the capacity of public institutions and rural organizations to improve living conditions in the rural sector. In this context, the staffs welcome the completion of a study on the sources of growth, which identifies different rural sub-sectors as potential growth engines. However, the costing of proposed programs needs to be expedited. The staffs urge the authorities to closely coordinate the implementation of the RDS's action plans among the various government ministries and to ensure that the rural development component of the President's Special Program is fully integrated in the strategy.

8. **In June 2004, the Government adopted a well formulated National Road Sector Strategy (NRS),** covering both road infrastructure and road transport, accompanied by a specific action plan. The main objectives of the strategy and action plan are to ensure development and maintenance of the national road network connecting areas of agricultural production with markets in the urban areas, and generally, to reduce rural isolation. The newly adopted NRS should facilitate development of MTEFs for the two sectors for use in budget preparation and PRSP updating. It will now be important to provide adequate funding and follow-up for the implementation of the strategy.

9. **The government continued supporting private sector development.** Since the completion of the first APR, the authorities have implemented several measures aimed at promoting private sector investment. These include extending technical assistance in project design to promising young entrepreneurs, and streamlining regulations governing new investment.

C. Improvement in the Access of the Poor to Quality Social Services

10. **The authorities continue to implement the ten-year development plan for education (PDDE), which gives priority to primary education and aims to raise gross enrollment rates to 59 percent overall and 43 percent for girls by end 2007.** In this

context, the primary gross enrollment ratio increased from 41.7 percent in 2001-02 to 50 percent in 2003-04; over the same period, the gross enrollment ratio for girls rose from 33.3 percent to 40.4 percent.⁵ In addition, steps have been taken to improve the quality of schooling and to develop the strategic and management capacity of the central and regional administrations.

11. **In the area of health**, the government continued its efforts to implement the key priority actions defined in the document on Strategic Orientations for Health Sector Development, which was adopted in 2002 and covers the 2002-11 period. Accomplishments in this area include: (i) the establishment of integrated health centers; (ii) human and institutional capacity-building initiatives, and in particular the training of health personnel; and (iii) the improvement of the country's health coverage. **The HIV/AIDS prevalence rate has remained low**, and since the completion of the first Progress Report, a national blood transfusion bank has been created.

12. Despite progress achieved over the past five years, **Niger's primary school enrollment and health coverage rates are much lower than the average for Sub-Saharan Africa**. Drop out and repetition rates remain high, while school locations and primary education expenditures distribution are biased in favor of urban centers. Moreover, health conditions continue to be precarious, particularly in the rural areas, owing to limited accessibility to quality service, including for family planning and reproductive health care. Against this background, the authorities have initiated an evaluation of Niger's population policy in the context of the envisaged updating of the PRSP. The staffs urge them to accelerate implementation of the HIV/AIDS Project funded by the Bank, the European Union and the Global Fund, and to assess the impact of the cost-recovery policy on access to health services.

D. Good Governance and Key Structural Reforms

13. **Niger is making inroads in improving economic governance**. Budget formulation and programming continued to improve, especially after the introduction in 2002 of a new budget nomenclature and charter of accounts. Further, the authorities completed the PEMFAR, and the implementation of its recommendations is expected to significantly strengthen economic governance.

14. **Other structural reforms lag behind**. The privatizations of the petroleum distribution company, SONIDEP, and the electricity firm, NIGELEC, were unsuccessful mainly because of limited investor interest. Concerns regarding competition in the two sectors also contributed to the delays in privatization. On financial sector reform, some progress was made with the restructuring and recapitalization of the Banque Commerciale du Niger, the

⁵ Measures have also been taken to address the supply constraints to education, through the construction of new classrooms and teacher recruitment. The Government has also completed the study on the impediments to access primary schooling, which has helped reinforce the ten-year development plan (PDDE).

investment bank, and three insurance companies. Also, audits of all major micro-finance institutions were completed and restructuring plans for the post office drawn up. Nevertheless, much remains to be done to accelerate the pace of reform in the financial sector, including the privatization/liquidation of the Credit du Niger; and the restructuring of the Community Lending Bank, the social security institution, and micro-finance institutions. The staffs stress the need for accelerating public and financial sector reforms as they are critical for supporting strong, private sector-led growth and effective poverty reduction.

III. ADDRESSING KEY WEAKNESSES OUTLINED IN THE JSA AND TIMETABLE FOR THE PREPARATION OF THE NEXT PRSP

15. The **JSA of the first APR** of the PRSP stressed the need for the authorities to: (i) initiate a household survey to update poverty analysis; (ii) complete a study on the sources of growth and initiate an analysis to gauge its impact on poverty; (iii) adopt a satisfactory population and reproductive health strategy; (iv) ensure fuller integration of HIPC-financed projects within sectoral strategies while improving on the costing of the PRS; (v) improve the quality of socio-economic statistics to monitor the effectiveness of poverty reduction programs; (vi) adopt an action plan for improving public expenditure outcomes based on the PEMFAR recommendations.

16. **Most of the above-noted issues are yet to be fully addressed.** The preparation of the National Household Survey was delayed, due to inadequate financing and technical expertise; the unavailability of data has prevented updating of Niger's poverty profile; the evaluation of the poverty impact of economic growth remains incomplete; and, population policy is yet to be defined. These weaknesses are a major impediment to an effective implementation of the PRS and need to be addressed expeditiously. The staffs also consider the formal adoption of a new poverty-monitoring and evaluation framework as an important step toward enhancing the effectiveness of Niger's PRS.⁶

17. **Niger's PRS needs to be updated.** Accordingly, there is need to complete the ongoing national household survey, evaluate the poverty impact of past policies, and to develop a framework to monitor progress in achieving the PRS objectives. These actions are essential to strengthen the analytical underpinning of a revised PRS. In this regard, the authorities have decided to issue a third APR in 2005 and to update the PRS in 2006. They will also undertake in 2005 the costing of programs that would help achieve the Millennium Development Goals (MDGs). Under the circumstances, to avoid the 2002 PRSP losing relevance and prevent a piecemeal implementation of reforms, the authorities should ensure that the updating of the PRSP is not delayed beyond 2006.

⁶ The authorities have created a National Institute of Statistics and a General Directorate of Development Program. In addition, apart from the new survey to be implemented early in 2005, the cost of a follow-up Budget and Consumption survey has been revised and the Government has earmarked resources in the 2005 budget to finance the survey. Finally, a survey for Niamey was completed in 2004.

IV. CONCLUSION AND ISSUES REQUIRING ADDED FOCUS

18. **The second APR broadly reflects Niger's achievements and shortcomings in the implementation of the PRS**, and underscores the authorities' commitment to address identified weaknesses in its implementation. Undoubtedly, the PRSP remains the overarching instrument of policy making and a strategic anchor for fighting poverty in Niger. Going forward, the staffs encourage the authorities to continue focusing on the priority issues spelled out below:

- Updating of poverty analysis by completing the planned surveys and conducting a qualitative assessment of poverty and socio-economic vulnerabilities;
- Expeditionary implementation of the growth-enhancing strategies as this is essential for strengthening economic growth. This will require quickly moving forward with the costing of programs accompanying the rural and infrastructure strategies, and the development of complementary strategies for other key areas such as export promotion and tourism development;
- Continued reduction of the fiscal deficit in 2005 by expanding the tax base and strengthening the efficiency of revenue collection, and by adhering to prudent expenditure policies, especially regarding the wage bill;
- Improvement of the preparation of budget programs and MTEFs and ensuring their use in budget preparation;
- Adoption and implementation of the priority action plan for improving public finance management in the context of the PEMFAR;
- Adoption of a strong population and reproductive policy; and
- Continued integration of the President's Special Program into sectoral strategies.

19. **Updating Niger's 2002 PRS is a pressing issue for the authorities.** The endeavor requires the active involvement of all national stakeholders, with due technical and financial support from the donor community. In the wake of the recent national elections, conditions appear set for the country to successfully address the challenge.