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NIGER

**Annual Progress Reports of the Poverty Reduction Strategy Paper
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. **The Government of Niger has continued to implement its reform agenda for the third and fourth year, which is grounded on the four pillars¹ of its Poverty Reduction Strategy (PRS) launched in January 2002.** A Joint Staff Assessment for the PRSP Progress Report for 2003 was discussed by the Executive Boards of IDA and the IMF on January 27, and 31, 2005, respectively. The Annual Progress Reports (APRs) on the PRSP implementation in 2004 and 2005 for which this JSAN has been prepared were submitted to IDA and IMF staffs in October 2006. They present the result of the PRS implementation in those two years and provide an overview of policies pursued through end-2005 to promote growth and reduce poverty. This JSAN covers both annual progress reports (APRs). The delays in preparing the progress reports were due to the need to postpone certain key surveys to 2006, because of the severe food crisis in 2004/05 which could have distorted a number of indicators, and because of the time lag needed to collect data.

2. **Overall, progress in the implementation of the PRSP in 2004 and 2005 was broadly positive,** given the challenges posed by a drought and locust plague in the second half of 2004 and a severe food crisis in the second and third quarters of 2005. As a result of declining GDP per capita between 1990 and 2004 as well as the 2005 food crisis, significant poverty reduction has remained elusive. A Core Welfare Indicators Questionnaire (CWIQ) completed in 2005 indicated the poverty level to be 62.1 percent, which is essentially unchanged from the 63 percent poverty level derived from a 1993 budget and consumption

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.

survey. This result is not surprising, given that GDP per capita in 2005 was essentially at the same level as in 1993. That said, the data in the 1993 and 2005 surveys are not directly comparable. To determine poverty levels and trends more accurately, it will be necessary to await the results of a complete household survey planned for 2007.

3. **Despite the challenging circumstances of the period under review**, Niger was still able to improve its fiscal stance in 2005 with the overall fiscal deficit limited to 7.5 percent of GDP against 9.2 percent in 2004. The Government also initiated discussions with donors to identify durable solutions to the structural issues behind the recurrent food crises. They jointly took measures to ensure full integration of the President's Special Program, funded by HIPC resources, into corresponding sectoral programs. Program-budget, and Medium-Term Expenditure Frameworks (MTEFs) were elaborated in key social sectors (basic education and health), and are being extended to other PRS priority areas, in particular rural development. Once completed, these priority-area sectoral MTEFs will allow the Government to prepare a comprehensive MTEF. This is supported by annual Rural and Social Policy Reform Credits.

II. PROGRESS IN IMPLEMENTING THE STRATEGY

A. Macroeconomic Developments

4. **Macroeconomic policies in 2005 and in the first part of 2006 were consistent with Niger's PRS objectives.** In 2005, the basic budget deficit² was limited to 2.8 percent of GDP, and in 2006 is expected to remain at the same level, in line with program objectives. The overall fiscal deficit (on a commitment basis and before grants) declined in 2005 to 7.5 percent of GDP, and is to increase modestly to 7.8 percent of GDP in 2006; in the two years the deficits were financed entirely through grants and highly concessional budgetary loans. The share of domestic expenditure (excluding foreign-financed investments) allocated to health, education, and rural development has steadily increased from 2004 to 2006, in line with the targets. The Central Bank of West African States continued to adhere to a prudent monetary policy.

5. **Economic growth remains volatile and highly vulnerable to external shocks, including weather conditions. Following the 2004 drought that led to a downturn of GDP of some 1 percent in 2004, economic activity recovered strongly in 2005 with GDP growth reaching 6.8 percent, while growth in 2006 is projected at about 3.5 percent.** The good performance in 2005 was supported by a strong rebound of cereal production, and expansion of construction and transportation activities, in part related to the *Jeux de la Francophonie* held in December 2005. In 2006 growth is supported by a favorable agricultural production, and expansion in mining and services. Following a sharp increase during the third quarter of 2005, year-on-year inflation significantly declined during the last quarter of 2005 reflecting the improvement in food supply, and this trend continued in 2006. The external current account deficit (including grants) increased to 7.4 percent of GDP (from

² Domestic revenue minus total expenditure, excluding foreign financed investment outlays, but including those financed with HIPC Initiative assistance.

7 percent of GDP in 2004), and is expected to remain broadly unchanged in 2006. In 2005 the surge of food imports was in great part covered by higher humanitarian assistance.

6. **As indicated in the 2004 and 2005 APRs, in order to boost economic growth, reduce the economy's vulnerability to shocks, and curtail poverty, higher and sustained productivity growth in agriculture and economic diversification is essential.** Niger lags considerably behind the other countries in the region in agriculture productivity. There is therefore a need to encourage the adoption of modern techniques of farming through the expansion of extension services and increasing farmers' access to financial services. Further, there is considerable potential to expand irrigation through increased investment in irrigation infrastructure. To this end, the full implementation of the rural sector development strategy, with assistance from development partners, will be critical. This requires improved capacity to monitor and execute effectively the public investment program. Further, although increased investment in infrastructure would help reduce the cost of doing business in Niger, more efforts are needed to streamline the regulatory framework, reform transport services, preserve the existing road network, reform the land tenure system and strengthen the judicial system.

7. **Progress toward long-term fiscal sustainability is a key element of the authorities' PRS.** This calls for raising domestic revenue through expansion of the tax base, while pursuing prudent expenditure policies, notably regarding the wage bill. Staffs concur with the APRs on the need to further strengthen the budget preparation and execution process, consistently with sectoral MTEFs recently prepared. The debt burden has been cut significantly through the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI); thus the ratio of NPV of external debt to exports, which had declined in 2004 to about 150 percent after debt relief under the HIPC Initiative, fell further to 46 percent in 2006 after additional relief provided under the MDRI. However, the results of the recent LIC debt sustainability analysis (DSA) indicate that Niger is at a moderate risk of debt distress, given its vulnerability to a number of exogenous shocks, including weather conditions, and the projections indicate that the debt burden will increase over time, although by 2025 it would remain significantly below the policy-based thresholds. These results underscore the need that new investments be financed mostly by grants. Were grants not to be forthcoming at the required level, new borrowing should be contracted only at very concessional terms and for highly productive projects, so as to preserve debt sustainability. Prospects for expanding exports for the next few years are relatively favorable, as uranium and gold exports are expected to increase, both in volume and value, and investments under way in the rural sector should expand the production and exports of agricultural products.

8. **The 2005 APR includes a discussion of the medium-term macroeconomic framework, which is consistent with the framework underlying the PRGF-supported program.** It notes that the government's annual average real GDP growth objective for 2006-07 is 4.2 percent, and that this would increase per capita income by about 1 percent per year. It indicates that the main fiscal objective is to gradually reduce the overall fiscal deficit so as to limit over the long term the reliance on concessional assistance, while shifting the composition of expenditure to improve access to key social services. This is to be achieved through (i) the control of the wage bill, accompanied by incentives for higher productivity, and (ii) the expansion of the tax base, so as to reduce the tax pressure on the formal sector of

the economy. It also underscores the need to increase the effectiveness of public investments, which should be better targeted on social services and essential infrastructure.

B. Sectoral Policies

9. While encouraging progress was observed regarding macrostabilization over the past five-year period, implementation of sectoral reforms needs to be strengthened for the achievement of strong and sustained growth. These rates of growth are particularly important given Niger's rapid population growth rate (3.4 percent per year).

10. **The APRs note that progress is modest on structural reforms.** Financial sector reform recorded little progress since the establishment of *NigerPoste* in June 2005. The two reports are silent on why the reforms are stalling in this area and do not specify what actions the Government plans to take to regain momentum. Since the end of the review period, critical steps for reform completion have been discussed with the Government. These include: (i) the privatization of *Crédit du Niger*; (ii) the finalization of the restructuring of the National Post Office, especially the creation and the licensing as a commercial bank of FINAPOSTE, the subsidiary of *NigerPoste*; and (iii) the establishment of a microfinance institutions' supervisory body, following the submission by a steering committee of a draft decree that needs to be adopted by the Government.

11. **Regarding privatization and regulatory reforms,** the privatization of the electricity company (NIGELEC) has been delayed mainly due to the difficulty in finding private companies ready to invest US\$60-100 million that is required for the expansion and rehabilitation of the power system. Potential investors have indicated that they would be willing to invest in the sector under a management contract scheme which would require the Government to continue to assume responsibility for investment. Progress is under way in restructuring the company, with the objective to increase production and cut costs. The privatization of the wholesale petroleum product distribution company (SONIDEP) has failed in part because of difficulties in finding sound foreign private partners interested in investing in Niger. However, since 2004/05, SONIDEP management has been strengthened, and operating results have improved. The Government pursued in 2004 and the first half of 2005 the implementation of the petroleum pricing mechanism adopted in August 2001—which calls for a full pass-through on a monthly basis of the changes in international prices—despite the substantial increase in petroleum prices observed during the period. However, in response to the international price surges in September-October 2004 and in July-September 2006, the Government allowed some tax deferment that was subsequently recouped.

12. The Government has pursued the key objective of its National Transport Strategy of repairing and safeguarding the existing road network, with a view to ensure the level of service expected by users and to contribute to improved transportation for the country. However, more efforts are required to improve road maintenance management and financing, in particular by ensuring that the resources allocated to maintenance are effectively available.

13. **In the area of trade policy and regional integration,** the APRs underscore that export promotion and diversification are essential to foster economic growth. They note that a number of actions have been taken to promote foreign trade through export development

programs, and economic integration has been strengthened, in particular with the establishment of a free trade area with all ECOWAS countries. However, the APRs could have been more specific in identifying the bottlenecks to export diversification, the measures that could be adopted to boost exports and the precise sectors where export gains could be achieved. The ongoing Diagnostic Trade Integration Study (DTIS) will provide recommendations in this area.

C. Human Development and Service Delivery

14. **The APRs provide comprehensive statistics on performance achieved by the health, education and water sectors.** Staffs find that the reports describe well the progress in service delivery over the review periods. However, the APRs could have included a table comparing outcomes on key social indicators with the targets presented in the 2002 PRSP. The forthcoming PRSP II is expected to provide more specific information on development outcomes and compare expected progress (PRSP II targets) with the MDGs.

15. **Progress was recorded in 2004 and 2005 in the primary education sector but nevertheless fell short of the PRS targets.** While implementation of the ten-year development plan (PDDE) is fair, Niger remains far from achieving universal primary education. The primary gross enrollment increased to 45.4 percent in 2004 and 52.4 in 2005, which compares with 44.7 percent in 2003 and with a target for 2005 in the 2002 PRSP of 48 percent. The second component of the program, quality of education, needs to improve as well since school outcomes remain weak in Niger compared to sub-regional norms. The completion rate has risen from 25.6 percent to 36.4 percent over 2001-2005, but the outcome remains lower than the 44 percent target for 2005 presented in the 2002 PRSP. The preparation of a post-primary education program is under way and will help define a strategic framework to ensure sustainable expansion of secondary education along with other components of the system; this is in response to the growing demand from those finishing schooling in the primary education level. In response to a June 2006 audit that found mismanagement of funds in donor-financed programs in the education sector, the Government recently took remedial actions, including removing two ministers from office.

16. **The Government adopted in February 2005 the five-year Health Development Plan (2006-2010).** The program which is supported by IDA through a credit of US\$35 million approved in January 2006, is being implemented. The program aims to: (i) improve the coverage of health services, as well as their quality; (ii) monitor the outcome and impact of services (such as visit rates of the poor, morbidity and mortality rates); and (iii) improve human resource management and strengthen budget execution. Progress was recorded in the sector and some indicators have improved during the past years: the infant mortality in 2006 is 81 per 1,000 against 123 per 1,000 in 1998, and a 2005 target in the 2002 PRSP of 94.5 per 1,000. The under-five mortality rate is 198 per 1,000 against 262 per 1,000 in 1998 and close to the 205 per 1,000 targets for 2005 included in the 2002 PRSP. If the under-five mortality keeps decreasing at the current trend, the indicator will fall to 213 by 2015, far short of the MDG target of 107. The national immunization rates of children increased from 60 percent in 1998 to 83.5 percent in 2006, which significantly exceeds the 37 percent target for 2005 retained in the 2002 PRSP. The accomplishments are, however,

very limited in some areas, and staffs recommend that the authorities sustain and accelerate the implementation of the National Health Development Plan.

17. **The Government adopted in 2002 a strategic plan to fight HIV/AIDS** with support of development partners. Eight regional coordination units to fight HIV/AIDS were created along with 24 sectoral committees. Access to retroviral therapy started in Niger in 2004, but needs to be scaled up to reach more infected people across the whole country. The HIV/AIDS prevalence rate is low compared to regional averages. It has decreased from 0.87 percent in 2002 to 0.70 percent in 2006. However, staffs recommend sustaining and accelerating implementation of the strategic plan to keep the prevalence low.

18. **Despite the progress detailed above, the attainment of social sector objectives continues to face significant challenges. Staffs recommend that the upcoming PRSP identify the key constraints to attaining such objectives and remedial measures that could be adopted by the policy makers.** While the Permanent Secretariat of the PRSP has defined a list of sixty indicators to follow on the implementation of the PRS in 2005, data weaknesses have prevented the authorities from assessing trends of some social indicators since 2000 and deriving policy recommendations for improving them. Going forward, it will be critical that statistical information systems be strengthened to allow improved monitoring and evaluation for the next PRSP targets.

19. **Regarding the water sector,** the successful implementation of the IDA-funded Water Sector Project and the Rural Hydraulic Program of the President's Special Program (funded on HIPC receipts) led to significant progress in access to safe water both in rural and urban areas. The coverage of drinking water needs in rural areas increased to 59 percent in 2005 from 52 percent in 2000, and exceeds the target for 2005 in the 2002 PRSP.

D. Governance

20. The 2004 PRSP Progress Report mentions actions taken to reform the **judicial and legal sector** under the Judicial Reform Support Program (PARJ) adopted by the Government with assistance of main donors (Denmark, France, UNDP, IDA, etc.). **The PARJ aims to enhance the capacity and effectiveness of the judiciary system through:** (i) training of judges; (ii) equal access to judiciary for all; and (iii) design and implementation of a sound penal policy. The 2005 PRSP Progress Report is silent on progress in implementing this program. Furthermore, both reports do not sufficiently elaborate on actions taken to address governance issues and corruption, areas where Niger is considered to be a weak performer as evidenced by several indicators, including those of IDA, CPIA and Kaufmann and Kraay governance indicators.

21. **With respect to economic governance,** the 2006 Budget Law allocations for the health and education sectors were based on their respective MTEFs, and this is being extended to other priority PRSP sectors starting with the 2007 Budget Law. Also, the Government agreed last year to integrate all HIPC resources into line ministries' budgets based on their performance on budget management and reforms, and this was done for health and education (amounting to almost 60 percent of 2006 HIPC resources). It is noteworthy that budget execution rates in 2005 for current expenditures exceeded 90 percent in each of

the three priority sectors of Basic Education, Health, and Rural Development. In addition, the Government has elaborated a poverty-reduction items list for 2005 and 2006, and the latter was included in the 2006 Budget Law. The line ministries participate in a cash management system to ensure that their priority spending is protected.

22. **The Government adopted in July 2005 the Public Expenditure and Financial Accountability Review (PEMFAR) elaborated jointly by the Government, EU and IDA.** As recommended in the PEMFAR priority action plan, financial management systems are being strengthened through the implementation of the Financial Management Information System (FMIS). The Government has reformed the budget classification and the charts of public accounts. A Treasury-Budget computer interface was established in May 2005 allowing for better monitoring of commitments and payment orders, hence strengthening monitoring of government expenditures. Budget execution rates are higher than 90 percent for recurrent spending of priority sectors.

23. **The Government has also made progress in improving the reporting system with the formal closing of accounts and regular submission of budget execution laws to the *Chambre des Comptes* of the Supreme Court.** The *Chambre des Comptes* has been allocated human and logistical resources to examine the budget execution laws. Annual accounts audits (Budget Review Laws) are produced yearly with some delays that are to be eliminated in 2007. However, support is needed to strengthen the capacity of the parliament to ensure proper audit and follow-up.

24. **The two reports described well the progress in decentralization.** Local elections were successfully held in July 2004, and technical assistance was provided by France and IDA (through the Community Action Program) for enhancing the capacity of the newly-elected counselors.

E. Capacity Building and Participation

25. **The Government trained line ministries' staff on the MTEF and program-budget elaboration in 2004-2005.** This program was supported by IDA, Japan, and UNDP. In 2004, a Niger Chapter of the Africa Capacity Building Foundation was established under the acronym of CAPED (Analysis and Development Prospective Unit). CAPED has organized more than 25 workshops and seminars on: (i) macromodelling, specifically the impact of aid on growth and poverty reduction; (ii) public procurement and financial management of projects; (iii) negotiation skills; and (iv) country policies and institutional assessments.

26. **The Government also created in January 2005 the High Commission for the Modernization of the State under the umbrella of the Prime Minister's Cabinet.** This institution is responsible for designing, supervising, coordinating and ensuring the monitoring and evaluation of all activities in order to enhancing the functioning of the administration and territorial collectivities, in line with government directives. To this end, the Government recently adopted a modernization program (*Programme Intégré de modernisation de l'administration du Niger*); technical assistance will be necessary in order to successfully implement the program.

27. **In view of the importance of pursuing a prudent debt management policy**, the Department of Debt at the Ministry of Economy and Finance was strengthened with donor assistance through training of staff and provision of equipment, including appropriate software.

III. ADDRESSING WEAKNESSES NOTED IN THE JSAN OF THE SECOND PRSP PR

28. **The JSAN of the second PRSP PR pointed out the need to:** (i) update the poverty profile and analysis by completing the planned Core Welfare Indicators Questionnaire (CWIQ) survey and conduct a qualitative assessment of poverty and socio-economic vulnerabilities; (ii) implement expeditiously growth-enhancing strategies to strengthen growth; (iii) pursue the reduction of the fiscal deficit in 2005 by expanding the tax base, strengthening revenue collection, and adopting prudent expenditure policies, especially regarding the wage bill; (iv) improve the preparation of budget programs and MTEFs and ensuring their use in budget preparation; (v) adopt and implement the priority action plan for improving public finance management in the context of the PEMFAR; (vi) adopt a strong population and reproductive policy; and (vii) continue the integration of the President's Special Program into sectoral strategies.

29. **Progress was achieved on some of the issues outlined above, but much more is needed to fill the gaps.** The CWIQ survey was completed and provided an updated poverty profile and data on access to key social services. The basic fiscal deficit was reduced to 2.8 percent of GDP in 2005 from 3.3 percent in 2004, significantly below the program target. The surveys on the social indicators and population and health planned in 2005 were postponed to 2006 to avoid potential bias linked to the food crisis which may have had conjectural effects on social indicators. Finally, the National Household Survey will be launched in March 2007. Significant progress in preparing sectoral MTEFs was achieved: the Government finalized those for primary education and health and, more importantly, as it requires coordination across four ministries, that of the rural sector. The latter was, however, completed after the review period of 2004-05.

30. **Regarding population and reproductive policy mentioned above**, the acceleration of the demographic transition and the reduction of the demographic rate of growth is an essential condition to improve the overall development prospects of Niger, ensure food security, and achieve sustainable results in the social sectors (especially education and health). The Government is most aware of this huge challenge and has recently prepared a new Declaration of National Population Policy. In this context, staffs encourage the Government to define and implement an action plan to improve the legal status of women and re-launch family planning.

IV. CONCLUSIONS AND RECOMMENDATIONS

31. **The third and fourth APR describe well the outcomes achieved in social sectors while not addressing in depth shortfalls regarding structural reforms.** The reports would have benefited from discussing further areas where performance was weak and proposing

corrective measures. Staffs recommend that the second PRSP, expected to be completed by March 2007, address these challenges more specifically, with particular emphasis on:

- Accelerated implementation of growth-enhancing strategies, especially related to improving the investment climate in Niger, promoting export diversification and expansion, and promoting rural development.
- Expansion of the tax base to help support a much needed increase in priority expenditure, elaboration of MTEF for other line ministries and, ultimately, of a global MTEF, and incorporation of the President's Special Program into sectoral programs (as was done for education and health in the 2006 Budget Law).
- Establishment of benchmarks for key quantitative social targets and poverty reduction indicators.
- Decentralization for more effective service delivery.
- Population and reproductive health policies with the aim of further improving human development outcomes and structural measures needed to address recurrent food crises.
- Debt management strategies to ensure debt sustainability.