

**PROGRAM INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

September 25, 2017  
Report No.: AB7900

<b>Operation Name</b>	FOSTERING RURAL GROWTH REFORM GRANT
<b>Region</b>	AFRICA
<b>Country</b>	Niger
<b>Sector</b>	Agriculture (30%); Extractives Industry (25%); Banking Institutions (5%); Energy (15%); Telecom (15%); and Governance (10%)
<b>Operation ID</b>	P163318
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	THE REPUBLIC OF NIGER
<b>Implementing Agency</b>	MINISTRY OF PLANNING
<b>Date PID Prepared</b>	September 25, 2017
<b>Estimated Date of Appraisal</b>	October 17, 2017
<b>Estimated Date of Board Approval</b>	December 5, 2017
<b>Corporate Review Decision</b>	<i>Proceed to Appraisal/Negotiations</i>

**I. Country and Sector Background**

1. Niger's economy is undiversified, heavily relying on agriculture and the extractive industries. Agriculture is main driver of growth and accounts for 40 percent of GDP. The vast majority of Niger's population and the poor live in rural areas and earn their living from agriculture. However, agricultural productivity is low due to very low uptake of modern inputs and poor extension services. Niger has significant mineral wealth, including uranium and gold, and has started exporting refined oil products. These three products account for approximately 70 percent of total export values. The extractive industry accounts for 10-15 percent of government revenue.

2. Growth is volatile owing to frequent external shocks of different nature. Shocks impacting on the economy include security challenges, the Nigerian crisis, unfavorable weather conditions and commodity prices. Security challenges disrupted economic activities with growing social and humanitarian pressures linked to the flow of hundreds of thousand refugees and internally-displaced people. The economic downturn in Nigeria impacted export performance. Unfavorable weather conditions impacted agriculture, and depressed commodity prices adversely affected growth and revenue in the extractive industries.

3. Although declining, poverty remains high, and is more pronounced in rural areas. Poverty incidence declined from 53.7 percent in 2005 to 44.5 percent in 2014. Despite the decline in overall poverty incidence, the rural poor became poorer relative to their urban counterparts during the same period. Their per capita consumption relative to that of the urban poor declined from 60 percent to 43 percent. Lack of economic diversification, volatile agricultural growth,

low access to physical and institutional infrastructure, and a weak human capital base limit economic opportunities, especially in rural area.

## II. Key development issues and rationale for Bank involvement

4. A key objective of the Government of Niger is to focus on supporting rural growth, given the concentration of the poor in rural areas. Agriculture would be the leading sector supported by the government's 3N initiative with a special focus on agro-industry, public investment in infrastructure and the social sectors. Niger is predominantly a rural economy and the majority of the population earn their living from agriculture. Agriculture is the main contributor to GDP but agricultural productivity is low compared to the secondary and tertiary sectors, to other countries in the region.<sup>1</sup> The sector is handicapped by inadequate extension services,<sup>2</sup> limited use of equipment and modern inputs, limited control of water, a weak organization of producers, and declines in soil fertility. Extremely low access to rural finance is identified as one of the key impediments to modern inputs, marketing channels and logistics—including inadequate storage facilities and ability to process agricultural products which also account for low productivity in agriculture. Strengthening of the links between the extractive industry and the local economy is also considered a key factor to rural growth. The greatest potential for the extractive industry social and economic contribution is in job creation either through local subcontracting and/or through the development of the informal mining sector, such as gold panning and small-scale mining. A framework needs to be established to formalize the local content in the sector and the artisanal mining sector needs to be formalized and better organized. Community development aimed at providing social infrastructure (roads, schools, hospitals, and mining cities) also enhances the benefits for the rural population. They provide an alternative to rural employment.

5. Counterfactual analyses show that significant gains could be made if inefficiencies in infrastructure were fixed. Niger could grow by as much as 4.5 percentage points per capita if it expands and improves its infrastructure. Power would contribute around 1.51 percentage points to per capita growth if generation capacity and national access rates—which as of today are among the lowest in the region—were increased. ICT would also make an important contribution to economic prospects (1.31 percentage points), provided the mobile phone and Internet markets continue expanding.<sup>3</sup> Creating a favorable environment for the private sector to invest in these sectors, improving access of the rural population to electricity and mobile/internet, and making sure that the NIGELEC, the state-owned company in electricity, remains financially viable are the main objectives of the Government.

6. Niger's domestic revenue is low, and is among the lowest in the WAEMU. One of the key challenges facing Niger is the need for increasing its tax revenue. First it will help continue financing Niger's development challenges and avoid painful fiscal consolidation through cuts in expenditures as has been the case in the past years. Second, the current vicious circle of increasing public debt and interest payments represents a risk that would only be mitigated in the medium term under the assumption of a tightening fiscal stance. Government data show that tax

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<sup>1</sup> Using WDI data, the GDP/worker ratio in Niger is half that of Sub-Saharan Africa.

<sup>2</sup> République du Niger, and FAO (Food and Agriculture Organization). 2009. Analyse diagnostique du système d'appui conseil. Mise en place d'un dispositif intégré d'appui conseil pour le développement rural au Niger.

<sup>3</sup> Source: Niger SCD – 2017.

expenditures and exemptions from the investment code -only - increased from 0.5 percent to 0.9 percent of GDP between 2014 and 2015. A World Bank study showed that for customs revenues only, over the five years from 2011 to 2016, exemptions represented 47 percent of customs revenue, on average, peaking at 54 percent in 2015.<sup>4</sup>

7. Niger's macroeconomic framework remains adequate for the proposed operation. Growth is expected to be moderate averaging 4.5-5 percent in 2017-19 driven by agriculture and mining. To contain the substantial fiscal deficit of 7.5 percent in 2017, explained partly by security-related spending, the government has initiated a process of fiscal consolidation which aims to bring Niger in line with the WAEMU fiscal target by 2020. The tax revenue measures included in this programmatic series support this consolidation effort. This risk of debt distress is moderate. The macro policy framework is underpinned by the continued implementation of the International Monetary Fund (IMF) Extended Credit Facility (ECF) program and the macroeconomic anchor offered by Niger's membership in the West African Economic and Monetary Union (WAEMU). Downside risks predominate and are mainly related to the vulnerability and exposure of the economy to weather, security, Nigeria's economy and commodity prices.

### **III. Proposed Objective**

8. The proposed operation is the first of a series of two development policy operations to be disbursed over 2017-2018 under IDA 18. The operation will provide financial support to Niger as the authorities implement the (Plan de Développement Economique et Social) PDES II .

9. The proposed series is fully aligned with the government's development strategy and priorities as articulated in the PDES II. It is designed to advance a number of key PDES II objectives. Pillar 1 supports the PDES II 's objective of "Food security and sustainable agricultural development" by focusing on agricultural productivity and the dissemination of context-relevant farming practices. The focus on the extractive industry in Pillar 1 supports the PDES II's objective of "A competitive and diversified economy" by strengthening the linkages between the extractive industries with the rural economy. The focus on rural finance under Pillar 1 and infrastructure under Pillar 2 supports the PDES II's objective of "A competitive and diversified economy". Pillar 3, supports the PDES II's objective of "Governance, Peace and Security".

### **IV. Preliminary Description**

10. The program development objective (PDO) is to foster rural growth. This will be achieved through a series of cross-cutting reform measures grouped in two pillars. The first pillar is "Increasing rural productivity growth". It aims to (i) enhance the use of modern inputs and improve access to extension services systems; (ii) strengthen the linkages between the extractive industries and the local economy, and; (iii) deepen rural finance penetration. The second pillar is "Supporting growth-enabling sectors". It aims to (i) develop a framework favorable to ICT

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<sup>4</sup> Draft: Informal trade and customs revenue losses in Niger, (2017).

investment, mainly in rural areas; (ii) improve the financial and the technical performance of NIGELEC<sup>5</sup>, and; (iii) broaden the tax base by rationalizing tax expenditure and exemption regimes

## **V. Poverty and Social Impacts and Environment Aspects**

11. Many of the actions supported by the proposed operation are expected to have positive poverty reduction and welfare enhancement impacts. Improvements in the agricultural input supply chain (seeds and fertilizers) and on the extension service delivery will contribute to higher agricultural yields and therefore to improved food security while reducing economic vulnerability of rural households. Artisanal and small-scale mining (ASM) is an important source for jobs for the rural population, and a way for many to complement agricultural incomes. In particular, the development of community projects financed by the extractive industry will impact positively the rural population. In addition, enforcement of existing regulation in the extractive industry will allow the development of a strategy to address the social, health and safety issues that are currently encountered in the artisanal mining areas: the child labor, the dangerous and unhealthy working conditions resulting in frequent accidents (collapsing tunnels and pits), the absence of adequate personal protective equipment. Greater access to rural finance will help producers access more economic opportunities.

12. The development of the electricity and ICT sectors will create small business opportunities while complementing other initiatives to improve rural welfare. Potential negative impact on the poor of the tariff adjustment is mitigated. The majority of the poor does not have access and use electricity. In addition, there is already a tariff system that protects to the poor. Nonetheless, a PSIA will be conducted during calendar year 2018 by the NECALEP to assess the impact of the electricity measures and inform the government policy in the sector. Access to internet and mobile through the USF will allow for the expansion of e-voucher supporting social protection and subsidy programs targeting the poor.

13. Some actions supported by the proposed series are expected to have a positive impact on gender equality. The development of an action plan to better integrate Extractive Industries into the national economy envisages among other objectives the advancement of women in the sector. The formalization of the ASM will protect women and children for whom harsh working and living conditions are the norm. The impact on gender of the prior actions on agriculture, rural finance, electricity and ICT will not be directly linked to the prior actions. However, their impact could benefit female-headed more proportionately given their more pronounced vulnerability if directed to them. Increased access to electricity and broadband network is expected to benefit female-headed households who are more in need of new economic opportunities more proportionately. Similarly, the education and health reforms will allow the Government and public agencies to expand social services, which are critically important to women and female-headed households.

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<sup>5</sup> Societe Nigerienne d'Electricite (Niger electricity company).

## *Environment Aspects*

14. The proposed operation is likely to have positive effect on the Niger's environment, forests, or other natural resources. Unregulated or poorly regulated artisanal mining activities in the extractive industries have resulted in significant environmental destruction. Such adverse impacts have been considered by the Government which has prepared a Strategic Environmental and Social Assessment (SESA) to identify and address negative (enhance positive) environmental and social impacts along the entire mining value chain. The SESA provides strategic guidance for enhancing environmental sustainability and social equity of the sector as a whole and specific recommendations to be incorporated into national policies and programs. The formalization of artisanal mining is likely to reduce such adverse impacts on the environment. Similarly, a stronger regulation and control of the quality of agricultural inputs will reduce potential environmental risks borne by unregulated seeds or fertilizers. The prior actions supporting the development of ICT, rural finance and the social sectors are not likely to have significant impacts on environment and forests

### **Tentative financing**

Source:	(\$m.)
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	120
Borrower/Recipient	
IBRD	
Others (specify)	
	Total
	120

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