PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

December 28, 2016
Report No.: 112711

Operation Name	Second Public Investment Reform Support Credit
Region	AFRICA
Country	Niger
Sector	Central government administration (50%); General energy sector (25%); Irrigation and drainage (25%)
Operation ID	P159969
Lending Instrument	Development Policy Lending
Borrower(s)	THE REPUBLIC OF NIGER
Implementing Agency	Ministry of Finance
Date PID Prepared	October 12, 2016
Estimated Date of Appraisal	January 24, 2017
Estimated Date of Board Approval	February 28, 2017
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.
Other Decision *{Optional}*	*Teams can add more if they wish or delete this row if no other decisions are added*

I. Country and Sector Background

The PIRSC2 takes place in a context marked by a deteriorating global and regional environment that has impacted on Niger's recent positive economic performance. Niger had experienced a period of high growth between 2010 and 2014, reaching 7 percent in 2014. Growth was mainly driven by agriculture thanks to favorable weather. Positive developments in natural resource projects also helped generate fiscal space for public investment and address social needs. On the political front, Niger continues to strengthen its democratic governance and renewed its executive and parliamentarian institutions following the legislative and presidential elections in 2016. However, economic activity slowed down to 3.5 percent in 2015 due to slower growth in agriculture, lower oil and mining outputs, security developments that impacted negatively on economic activities, and the spillovers of the economic difficulties in Nigeria. Recent estimates also show that fiscal deficit has increased significantly as a result of increasing security spending, lower revenue from natural resources and a rapid increase in public investment, calling for efforts aimed at enhancing public investment management efficiency. Not only does the proposed operation provide much needed resources but it also addresses key issues at the heart of Niger's development challenges.

Niger's overall macroeconomic performance has been mixed, but overall, the macroeconomic framework is adequate for the purpose of the proposed operation. The medium-term economic outlook remains positive with growth expected to reach 5.2 percent in 2016 and averaging 5.4 percent in the outer years through 2019, benefiting from stronger agriculture growth and a recovery in the oil sector. The fiscal deficit increased from 2.6 to 9.1

percent of GDP between 2013 and 2015 driven by a significant increase in public investment, additional costs incurred with security expenditures and supporting an estimated 300,00 refugees and internally displaced people. However, fiscal consolidation is expected to preserve debt and fiscal sustainability from 2016 onwards. The consistency of the policy framework under the IMF ECF program and the macroeconomic anchor offered by WAEMU, establish adequate conditions for the proposed operation to achieve its objectives. With fiscal space likely to remain constrained over the medium-term, the presence of an IMF program is critical to anchor public policies and provide a framework for donors—external support accounts for over 60 percent of total financing. However, macroeconomic risks are assessed high.

Commodity-price volatility security challenges, economic spillovers from Nigeria and climate shocks remain a major risks to Niger's development. Continued low prices in the oil and uranium sectors would not favor higher exports and postpone the major projects expected to generate significant revenue (the construction of the Chad pipeline in oil and the Imouraren mining project). Intensification of armed hostilities would continue diverting public resources to security spending which has averaged 3-4 percent of GDP over 2013-2014 and reached 5 percent of GDP in 2015. It would also affect trade and private investment. A continued depreciation of the Naira would result in a reduced demand for Niger's products. In terms of revenue, it would impact tax revenue although this could be partially offset by an increase in merchandise imports from Nigeria. Lastly, insufficient rainfall would affect agriculture and overall growth, the impact of which could be mitigated if the irrigation program achieves its objectives as planned.

Despite declining poverty over the past decade, poverty and gender disparity remain high. With a per capita GDP of US$895 in 2015 (constant 2011 US$), Niger is among the poorest nations in the world. Poverty incidence declined from 53.7 percent in 2005 to 44.5 percent in 2014 with a more pronounced decline in urban areas, from 29.6 percent in 2005 to 8.7 percent in 2014. The vast majority of Niger's 8.2 million poor (2014 estimate) live in rural areas where food insecurity is high. Growth in real per capita consumption benefited everyone, except those in the poorest decile. Between 2011 and 2014 the poorest 30 percent of the population experienced a decline in real per capita consumption of up to 10 percent, whereas the better off experienced even higher rates of consumption growth. Niger remains at the bottom of UNDP's human development ranking despite little improvements over the past years. Its human development index was 0.348 in 2015, up from 0.326 in 2010, but still well below the sub-Saharan Africa (SSA) average of 0.502. Gender disparities have declined since the 1980s, but remain substantial, particularly in education and health. Niger ranked 151st out of 152 countries in UNDP's 2013 gender inequality index.

The PIRSC series supports the Government's strategy in public finance management (PFM) and public investment management (PIM), irrigation and electricity which are among the key areas addressed by the Economic and Social Development Plan (*Plan de Développement Economique et Social* – PDES). The Government has as an objective to expand irrigated land significantly, thereby improving productivity and production. Investment in irrigation as part of the 3N (*Nigeriens Nourish Nigeriens)* strategy, aims to reduce the risks of volatility related to rain-fed agriculture, agriculture being the main driver of output, contributing significantly to income growth of rural population and the poor.[1] Electricity is a sector which has undergone major reforms. Significant investment is planned in the sector in order to increase access.[2] Achieving these objectives would also requires improvements in PFM and PIM.

II. Operation Objectives

The PIRSC's development objective is to: (i) improve the quality, reliability and accountability of the country's PFM and PIM systems; (ii) establish the policy and regulatory framework necessary for a well-functioning public irrigation sector; and (iii) to facilitate the reform of the electricity sector.

III. Rationale for Bank Involvement

Niger's current PDES, which was initially in effect for the 2012-2015 period and extended to December 2016 provides the overarching framework for the government's development agenda, which focuses on facilitating broad-based income and welfare improvements. A World Bank-IMF Joint Staff Advisory Note commended the government on its comprehensive analysis of Niger's development challenges, its realistic plan to achieve robust and sustainable growth, and the participatory process through which the PDES was developed. The PDES has four pillars: (i) Strengthening the credibility and effectiveness of public institutions; (ii) Creating the conditions for sustainable and inclusive development; (iii) Reinforcing food security and supporting agricultural development; (iv) Promoting diversification and enhancing competitiveness to facilitate more robust and inclusive growth; (v) Fostering social development. The PIRSC series supports Pillars (i), (iii) and (iv).

The proposed operation is fully aligned with the poverty reduction strategy, the PDES. The PIRSC series is designed to advance a number of key PDES objectives. The Government started preparing a successor strategy to the PDES, which will cover the 2016-2018 period. Once this strategy is finalized, the PIRSC will be reviewed and adjusted as necessary to ensure that the series remains fully aligned with the government's priorities.

The proposed PIRSC2 follows on the first of the series of the two single-tranche budget support credits of the PIRSC to be disbursed over the 2016-2018 period. The proposed Operation (US$50 million) follows on the US$80 million operation approved by the Bank in December 2015.

IV. Tentative financing

Source:	($m.)
BORROWER/RECIPIENT	0.00

[1] The country's growth potential is also associated with extractive industries, mainly uranium. Oil came on stream on 2013 and added to the growth potential for Niger. Uranium and oil together account for about 60 percent of Niger's merchandise exports, but contribute to less than 6 percent of GDP.

[2] Access to electricity is only 10 percent (slightly over 1.5 million people) and is among the lowest in Sub-Saharan Africa (SSA). An investment plan amounting to about US$1.4 billion is planned for 2012-2017.

International Development Association (IDA)		50.00
Borrower/Recipient		
IBRD		
Others (specifiy)		
	Total	50.00

V. Tranches *(if applicable)*

	($m.)
First Tranche	50.00
Second Tranche	
Etc.	
Total	50.00

VI. Institutional and Implementation Arrangements

The PIRSC series will utilize an institutional framework for the coordination of economic and financial programs established by the government. This framework includes an inter-ministerial committee in charge of the coordination of external projects and budget supports, chaired by the Minister of Economy and Finance, while day-to-day oversight and supervision of implementation of these projects is delegated to a newly-created technical committee, the head of which was appointed recently. The technical committee regroups all entities involved in the implementation of all existing budget support programs, which will improve the coordination of reforms and the flow of information within the government. Primary technical responsibility for the implementation of PFM reforms will rest 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 technical inter-ministerial committee. A Results Matrix included in Annex 1 sets out the three operations of the PIRSC series and defines relevant indicators and empirical benchmarks to monitor progress during implementation and enable a thorough ex post evaluation following the end of the program in 2017. Niger's development partners will track progress on the reform agenda through a harmonized review process.

VII. Risks and Risk Mitigation

The overall risk rating for the proposed operation is substantial. While the nature of fragility in Niger may point to the risk of a more negative trajectory than the current situation fully reflects, positive steps have been achieved under difficult circumstances. Although subject to the spillovers from a regional instability and the economic crisis in Nigeria, climate change, and pressures as a migration route to Europe, Niger has nonetheless managed to complete an electoral cycle and signal a development orientation through its agriculture and energy sector policies. Nonetheless, there are risks to be acknowledged. The categories deemed to pose a substantial threat to the proposed operation are the government's institutional capacity for implementation and sustainability, the fiduciary risks, the technical design of project or programs, the security and the macroeconomic risks. All other risks are deemed moderate.

Macroeconomic risks are substantial. These risks stem from Niger's vulnerability to volatile commodity prices, the spillovers from the Nigeria's economic crisis, and the region's fragile security situation. Commodity price shocks may put pressure on the balance of payments and constrain the fiscal envelope. Deteriorating security situation would challenge the fiscal stability, by both diminishing public revenues, and increasing spending on security and on supporting refugees and IDPs. Similarly, trade diversion stemming from the economic crisis in Nigeria would reduce domestic revenue. If materializing, these risks would jeopardize the Government's fiscal consolidation plan and result in higher than projected fiscal deficit and public debt increase. The PIRSC series helps address these risks through its focus on promoting greater public expenditure efficiency, which will allow the Government to maximize the value of limited budgetary resources, and on budget and commitment regulations. In addition, the continued implementation of IMF ECF programs and the macroeconomic anchor offered by Niger's membership in the WAEMU help mitigate macroeconomic risks.

Risks involving the technical design of the program are substantial. Although economically justified, the implementation of some of the triggers underpinning the PIRSC series may be difficult. In particular, the triggers on electricity in the third operation related to the adoption of electricity tariffs with a cost-coverage approach could be challenging. Equally challenging are the measures and expected results about budget credibility and efficiency, and the expansion of irrigated areas, especially given the vulnerability of the budget to exogenous shocks that may impact negatively on the target indicators. The government's commitment to the reform agenda is strong and based on a broad political consensus and agreement among all stakeholders. Support to the reforms is based on the fact that the proposed measures are needed not only to deliver improved sector performance, but also to provide supply and access expansion urgently needed in Niger to the benefit of the population. These are expected to help mitigate the risks discussed above.

Institutional capacity risks, particularly related to the implementation of new governance arrangements, are substantial. The implementation capacity of sector ministries is generally low, and interagency coordination could be significantly improved. However, the government has established and applied mechanisms to resolve interagency conflicts. The Government adopted new institutional framework with the creation of an inter-ministerial committee in charge of coordinating line ministries involved in budget support operations in September 2015 to reinforce intersectional coordination. The Government has initiated budget harmonization process. In addition, the existing mechanism of regular consultations between Niger's development partners active in policy areas that are covered by PIRSC2 prior actions, will reduce risks stemming from the demands of multiple international agencies on the government's administrative capacity. Capacity-building support in key policy areas supported by PIRSC is being delivered through a dedicated program involving the Ministry of Finance and through the World Bank's Public Sector Capacity for Service Delivery Project (P145261), approved by the Board in March 2014.

Persisting security concerns would impact foreign investment, affect domestic production, and divert public spending from key structural and social issues. Niger remains vulnerable to spillovers from its main trading partner Nigeria that faces security risks. Niger's growth prospects are also vulnerable to spillovers in neighboring Chad, as the construction of the crude oil pipeline connection will depend on security in Chad. Overall, the current security situation is unlikely to impact the implementation of the PIRSC-supported reforms, but affect growth recovery. In these terms, there is a risk that security spending will continue to crowd out other spending and thwart the fiscal consolidation and debt sustainability. The space for policy based lending will improve if the security challenges improve or Niger receives more support.

VIII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

Many of the actions supported by the PIRSC series are expected to have positive poverty reduction and welfare enhancement impacts. Measures under each of the PIRSC's three pillars are specifically designed to speed the pace of poverty reduction by broadening access to economic opportunity. PFM and PIM reforms under Pillar 1 will increase the economic impact of capital investment, increasing the quality and availability of public goods and services. The PIRSC series supports PFM reforms in health, education, rural development, water resources, transportation, and energy; these sectors have been shown to have the greatest impact on poverty reduction. Improvements in the management of irrigation systems will increase cropping cycles, improve yield, reduce food insecurity, reduce and result in increased production, thereby contributing to reduced economic vulnerability of rural households involved in irrigation.[3] The rules of operation of IWUAs ensure that all processes involved in irrigation are inclusive, participatory and equitable, and that farmers' right to access irrigation is secured. Measures to strengthen the institutional framework of the electricity will establish essential conditions for expanding electricity access, creating new income opportunities and promoting broad-based growth. A PSIA will be conducted during calendar year 2017 to assess the impact of the electricity measures to inform the government policy in the sector. It will be supported by the NECALEP.

Some actions supported by the proposed the PIRSC series are expected to have a positive impact on gender equality. The *Arrêtés* establishing IWUAs contain provisions to facilitate the presence of women in governing bodies at scheme level as well as the requirement to set up grievance mechanisms. It is therefore expected to impact directly on gender by leading to more equity and empowerment for women. With respect to the other two pillars, the impact on gender will not be directly linked to the prior actions. However, their impact could benefit female-headed more propotionately given their more pronounced vulnerability. Increased access to electricity is expected to benefit female-headed households who are more in need of new economic opportunities more proportionately. Similarly, PFM and PIM reforms will allow public agencies to expand social services, which are critically important to women and female-headed households.

Reforms supported by the PIRSC series will strengthen Niger's mechanisms for mitigating social risks of development projects. Selection of investment projects following the procedures spelled out in the Decree on the management of public investment projects (Prior Action under

[3] Farmers consume between 50 and 80 percent of their production.

Pillar 1) helps incorporate social risk mitigation measures. Reforms supported under Pillar 2 will strengthen the farmers' rights to use irrigated land. The existing regulatory framework already provides sufficient protection of the farmers' rights; the PIRSC-supported reforms will further clarify it, and will benefit the farmers fully. ONAHA Decree (Prior Action 5 under Pillar 2) provides for ONAHA's assistance to the establishment of transparent contractual arrangements between farmers' organizations and the providers of goods and services. This will enhance the farmers' bargaining power and their ability to master irrigated agriculture, and will result in higher incomes and poverty reduction.

Environment Aspects

The proposed operation is not likely to have significant negative effects on the Niger's environment, forests, or other natural resources. Niger has an institutional framework to ensure effective management and protection of the environment. The Nigerien legislation includes a Law on Environment which states that any development or activity likely to affect the environment, including land use or land acquisition, as well as policies, plans, programs shall be subject to an environmental assessment. In addition, the national system is very rich in terms of legal texts on the protection of the environment and natural resources (water code, forestry code, health code, etc.). Environmental and Social Management is under the responsibility of the Ministry of Environment, Urban Safety and Sustainable Development, the mission of which is to develop and implement the environmental policy. The main services involved are the Office of Environmental Assessments and Impact Studies (BEEEI) and the Directorate General for Environment and Forestry. Support from Niger's development partners, including the World Bank, has greatly improved the effectiveness of these units, and the BEEEI is increasingly able to engage with civil society and affected populations through special environmental hearings and impact assessment workshops. Other national, regional and local institutions and agencies are also involved in the preparation, implementation and monitoring of environmental issues, including most prominently the Ministry of Agriculture, the Ministry of Livestock, the Ministry of Water Resources, the Ministry of Health, etc. Specifically, Pillar 1 reforms will support increased public expenditure efficiency, including feasibility studies on environmental impact, which may have positive indirect effects on the environment. The screening process will help ensure that projects that have potential negative environmental impact are addressed accordingly. Implementation of Prior actions 2 and 3 follow the BEEEI protocols. With respect to Pillar 2, the "multi-year agreement" between the State and ONAHA, which is one of the instruments supported by the reform, comprises the establishment of an Environmental Assessment Unit within ONAHA, whose role will be to (a) ensure actual integration of mitigation measures in new constructions, and (b) monitor impacts during operation of the schemes, possibly leading to corrective measures when they are needed.

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