

# Pathways to sustainable growth in Niger

A WORLD BANK GROUP COUNTRY ECONOMIC MEMORANDUM



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# EXECUTIVE SUMMARY

**This Country Economic Memorandum aims to support Niger's efforts to walk on a path conducive to a resilient and sustainable economic growth.** It does so by attempting to answer the following five questions, each of which constitutes a separate chapter: (i) What were the salient structural characteristics of Niger's growth performance in the last 20 years? (ii) What are the margins to accelerate growth in the medium to long term? (iii) How can technology be a vehicle for private sector development? (iv) How can the country's large natural resource endowments be managed in a transparent way that benefits the whole population? (v) How can the current disaster management framework be strengthened to increase resilience to natural shocks?

**Amidst competing development needs and priorities, three main areas of analysis and policy reforms have been selected.** The selection criteria were based on the lessons drawn from other developing countries' experiences, on Niger specificities, and on the potential gains from moving to the frontier. The areas are, i) the use of technology to develop private sector, ii) the development of a well-managed extractive industry, and iii) the establishment of a disaster risk management and finance frameworks. For each area, long-standing bottlenecks that have held back growth performance are identified and specific policy options presented, with a view to create pathways for increasing economic diversification, reducing vulnerability to natural disasters and ultimately boosting long term growth in a sustainable manner.

**In particular, five pathways are identified throughout the chapters:**

- Leverage new technologies to promote agricultural productivity and export orientation;
- Foster the development of digital finance;
- Promote sound local content policies in the extractive sector;
- Manage oil revenues in a transparent and fiscally responsible way;
- Strengthen the disaster risk management framework and establish a disaster risk financing strategy

**It is worth emphasizing that these pathways are not mutually exclusive. Instead, overall growth performance will be magnified by the implementation of overarching reforms that exploit the significant existing complementarities between each of these areas.**

## **20 years of low productivity, low income and unresolved problems**

**Although Niger's recent GDP growth performance has been relatively robust (5.2 percent on average from 2000 to 2020), it has not led to the fundamental change in the economy required to achieve a prolonged period of income growth and poverty reduction in the face of challenging demographic prospects.** Per capita GDP at current prices stands at only US\$ 568 as of 2020, compared to US\$ 197 in 2000. This modest change in per capita GDP is also attributable to the weak productivity gain of around 2 percent per annum and a rapid population growth rate of 3.8 percent. With the highest fertility rate in the world (6.2 children per woman in 2020 according to the most recent national survey), Niger's economic growth has been too weak to significantly dent poverty. While the poverty rate decreased from above 50 percent to 41.2 percent during this period, the number of people living in extreme poverty (i.e., with less than US\$ 1.9 per day) increased, reaching 10 million in 2020.

**A suitable metaphor to represent this situation might be that of an athlete running on a treadmill: energetic but static.** The reason behind this inertia is that the Nigerien economy has fundamentally remained the same as two decades ago: undiversified and poorly specialized. Agriculture remains the main sector as share of workers employed (75 percent of the total workforce) and accounts for roughly the same share of valued added (40.8 percent) as services. However, frequent climatic shocks impact agricultural productivity and cause food insecurity. On average, droughts create yearly agricultural income losses of US\$ 15 million, and between US\$ 20 million and US\$ 70 million are caused by floods. Weak institutions, poor governance, the spread of violence and insecurity and other internal and external drivers of fragility further complicate the pursuance of a long-term development strategy. The longstanding challenges that need to be addressed to create the conditions for the self-sustaining growth process required to lift millions out of poverty include an underdeveloped formal private sector, a large agriculture sector marked by low productivity (both in level and growth) and insufficient ties with export and financial markets, a low level of financial inclusion, a growing extractive sector with limited local content, and the adverse impacts of recurrent natural disasters on lives and livelihoods.

**In 2022, Niger finds itself at a critical juncture, as formidable development challenges are exacerbated by multifaceted shocks and the risk of escalating conflicts.** The spread of violence and instability continues to be an issue even as the country celebrates its first peaceful political transition. Niger has faced political instability since its independence in 1960. Since then, it has experienced seven republics and violent seizures of power by the national army. The growing regional insecurity and the presence of violent extremist groups in border areas threaten the stability of the country and fuel pre-existing inter- and intra-communal tensions. These drivers of fragility and conflict have a large impact on the economy as they amplify pre-existing inter- and intra-communal tensions such as those among pastoralists and farmers. They also exacerbate conflict over natural resources, the marginalization of youth and women in the labor market and low public service provision in border areas. While the first peaceful transition of power took place in 2021, it is yet to be seen if this will reestablish the social contract that has been eroded as a result of the lack of improvement in living standards. The Nigerien political sphere is characterized by a system whereby social cohesion and political stability are maintained by granting political elites privileged control over parts of the economy and state power. This leads to the centralization of power and services in Niamey, leaving the majority of those in the rest of the country with limited access. This equilibrium is upheld by privileging stability over dynamism, avoiding the short-term disruption that a bold reform agenda might entail.

**The process of economic development requires a set of structural changes able to sustain a continuing increase in income and social welfare** (see chapter 1). Unfortunately, Niger has only partly been able to replicate the patterns observed in other countries that have successfully transitioned from a system where the economic structure was mainly characterized by low income, informal, and labor-intensive activities, to one with higher incomes, higher savings and domestically financed investment, especially in manufacturing. For instance, given the low-income level and continued rapid population growth, domestic consumption is still highly tilted (70 percent of GDP) towards food, and even the composition of food items consumed does not show a pattern towards more sophisticated or higher nutritional items. The sustained demographic trend generates growing demand for services and infrastructure and at the same time constrains the current level of domestic saving. Such demand cannot be accommodated therefore without high access to foreign capital. This is largely evident in the extractive sector, where there are monopoly foreign operators in the uranium, gold and oil sectors, each operating a single site.

**A significant inflow of foreign capital has not been able to raise productivity or broaden the production basis.** Large foreign direct investments (FDI) above the Sub-Saharan African average as share of GDP, had until 2011 contributed to dramatically increasing the share of gross fixed capital formation to around 24 percent of GDP. However, the real value of the total stock of public and private capital (as share of GDP) per person in 2019 was 86 percent of what it was in 2000. FDI has been concentrated mainly in rent-seeking activities in the extractive industries, although they exhibit a high level of ‘localization’ in their operations in terms of fractions of expenses occurring in Niger or by Nigerien staff. Investments in agriculture have been almost absent, inhibiting the adoption of technologies that, in combination with adequate public policies to develop access to markets, would have supported the development of comparative advantages in agricultural trade.

**Structural change in the last twenty years has been very limited, amounting to 12 percent of the total change in productivity, and contributing only 0.25 percentage points to yearly per capita value added growth.** Inter-sectoral movements (i.e., labor movement from low to high productivity-level sectors) have taken place at a slower pace than in many peer countries. From 2010 to 2019, Niger saw an *increase* in the share of agriculture in value added, and a continuous decline in the employment share in industry at a yearly average rate of -0.5 percentage points. Services is the only sector contributing positively to structural change, but the impact is much lower than in comparator countries. Weak governance and the failure to develop a level playing field over the years have had a negative effect on the private sector, preventing the reallocation of resources to a more productive sector. On a brighter note, empirical evidence shows that in resource-rich countries, a lower rate of structural change does not necessarily imply lower overall productivity growth. Resource-rich countries tend to have highly capitalized enclave mining and extraction industries. The average productivity gains of moving one person from agriculture into industry are actually 30 percent higher in resource-rich than in resource-poor low-income countries (LICs). This bodes well for Niger in view of the expected increase in the employment share in industry following the expansion of the natural resources sector, provided that the policies to develop a local content are in place.

### Decomposition of GDP per worker, Niger

% Yearly Contribution to Growth	2000-2019	2000-2009	2010-2019
Total per capita Value Added	1.43	0.46	2.05
Productivity	2.07	0.70	3.17
Within-sector productivity	1.82	0.54	2.74
Across-sector productivity <sup>1</sup>	0.25	0.16	0.41
Participation rate	-0.41	0.14	-1.04
Employment rate	-0.04	-0.01	-0.07
Demographic change	-0.19	-0.37	-0.01

**The low level of productivity per worker might be hiding underemployment and underuse of productive potential.** Intra-sectoral productivity has grown fast in Niger but the overall level of productivity (measured by the value added per worker) is still very low. One of the reasons behind this performance (especially in agriculture) is the underutilization of existing human capital (low number of hours worked) and technologies, as a result of lack of inputs (water, electricity) or inaccessibility to markets (costly transportation). Meanwhile the few available resources are not used in an efficient way. A large share of the working age population is employed, but work is concentrated in small-scale, low-productivity activities, mostly in agriculture. Waged jobs are the exception: 40.7 percent of work in Niger’s agriculture sector is unpaid, and a further 51.6 percent is self-employed. As a result, a third of working rural adults are unpaid, compared to just 8.7 percent in urban areas. Productivity in agriculture could be increased through a more extensive use of the labor input by removing the bottlenecks in market structure and accessibility that are impeding the use of labor productive capacity (see chapter 3).

**Labor productivity is hindered by stark gender inequalities which have high costs in terms of economic opportunities.** Despite efforts, the primary completion rate for girls aged between 15-18 has only reached 26.5 percent compared to that of boys at 41.4 percent. Young women face especially daunting challenges related to early marriage and childbearing, low access to education and labor force participation, and limited representation in local and national governance structures, particularly traditional ones. Social norms and some legal barriers lead to gender inequality that result in women having fewer opportunities in the labor market than men, receiving less pay and being less productive. In 2018, a woman was twice as likely to not be earning an income, compared to a man: 63.2 percent of women were either out of the labor force or in unpaid employment, compared to 32.5 percent of men. Gaps in access to basic services, increased childcare responsibilities during the pandemic, and movement restrictions added to women’s existing poverty trap chains in Niger.

1 Across-sector productivity gain captures two elements, 1) labor relocation to sectors with high productivity level and, 2) dynamic-type across-sector movements, as highlighted in the charts (workers’ relocation to sectors with *increasing* (or *decreasing*) productivity levels) (McMillan, Rodrik, & Sepúlveda, 2017). However, this second term alone can be difficult to interpret when, for example, reductions in the employment share are accompanied by increases in productivity. This is because the term becomes negative, seemingly acting as a drag on productivity, when in fact it could be viewed as a positive development in such sectors as agriculture.

## ***Politiques de croissance des revenus et de réduction de la pauvreté au Niger : Scénarios alternatifs à l'horizon 2050***

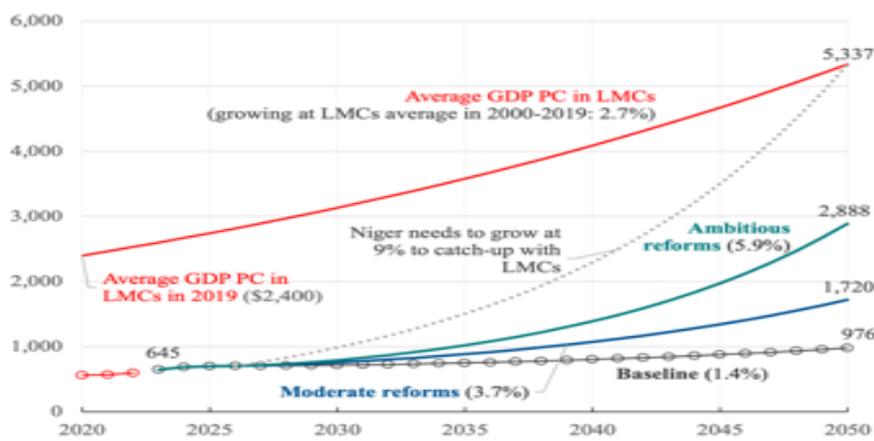
**Under current policies, growth performance is not expected to significantly accelerate compared to recent years.** Simulation on the basis of two economic models (see chapter 2) show that economic growth rates is expected to average at 4.8 percent between 2026 and 2050. Despite population growth, GDP per capita growth is projected to step up to 2 percent in the 2040s. In particular, simulations from the World Bank's Long Term Growth Model (LGTM) projects that average GDP per capita growth will rise to 1 percent in the 2030s and increase to 2 percent in the 2040s. These simulations assume that the population will grow at an average speed of 3.5 percent while the production of oil is projected to reach a plateau at 120,000 barrels per day at a price of US\$ 60 dollars (real 2010 prices) but start to decline in the mid-2030s. Reserves of oil are prudently estimated at two billion barrels in 2020, and the baseline assumes that, in the absence of further discoveries, oil reserves are projected to halve by 2050. The depletion of oil reserves and lack of productivity gains lead investment in the oil sector collapsing to nearly zero in the long term. As a result, investment in the non-oil sector increases from 20 percent of GDP in the short-term to 25 percent in the long term. Moreover, the efficiency of investment (i.e., the marginal product of capital) increases over time due to the continuation of trends in productivity gains in the non-oil sector—mainly through total factor productivity (TFP) but also human capital. As a result, the contribution of non-oil investment to growth accelerates from 1 percentage point in the medium term to 1.7 in the 2030s and 2.2 in the 2040s.

**Therefore, Niger is not projected to catch-up but to witness a growing development gap vis-à-vis other low-income countries.** A per capita growth rate of 2 percent in the long term lies above the 75th (95th) percentile of the growth distribution in low-income and lower-middle- income countries (LICs and LMICs respectively) in Sub-Saharan Africa (SSA) over the last decade. Although this rate of growth is not trivial, Niger's trajectory of GDP per capita would still remain below the country's ambition, remaining below US\$1,000 (in 2010 constant prices) by 2050, well below the level observed today in many SSA countries. If income per capita in the LMICs continues to grow at the same rate observed between 2000 and 2019 (2.7 percent), in 2050 Niger's GDP per capita would remain around 20 percent of the level expected in LMICs. Niger's GDP per capita would need to grow at 9 percent until 2050 in order to catch up with this group of countries, at a GDP per capita level of USD 5,337 in current 2010 prices. Given the underlying demographic assumptions, this will require an average real GDP growth of 12.5 percent a year. If the economy grows at the trend observed under the baseline, the convergence is expected to happen only in the year 2170.

**Broad-based economic reforms could generate significant economic gains and reduce the development gap.** Simulations from the LGTM show that a moderate reforms package based on increasing non-oil TFP and human capital to the 75th percentiles of distribution in LIC and LMICs, and investment to the 90th percentile, would boost GDP per capita growth by an additional 2.3 percentage points on average until 2050 compared to the baseline, raising it to around US\$ 1,720. A decomposition of growth shows that reforms to private investment generate significant extra growth in the medium term but in the long-run, incremental growth is mostly driven by reforms to non-oil TFP and human capital. GDP per capita growth could be boosted by an additional 2.2 percentage points on average until 2050 under a more ambitious reform package where all drivers of growth

are increased to the 90th percentile or higher of the distribution in LIC and LMICs, as Niger would benefit from complementarity among reforms. For instance, reforms to investment benefit greatly from higher non-oil TFP growth, as it increases the marginal product of capital, preventing the efficiency of investment from declining too sharply over time. Under this most favorable scenario, the convergence to the average level of income per capita in the group of low-income countries will happen in 2060.

### Simulated GDP per capita: lower-middle income countries versus Niger's baseline and reform scenarios, Real 2010 U.S. Dollars



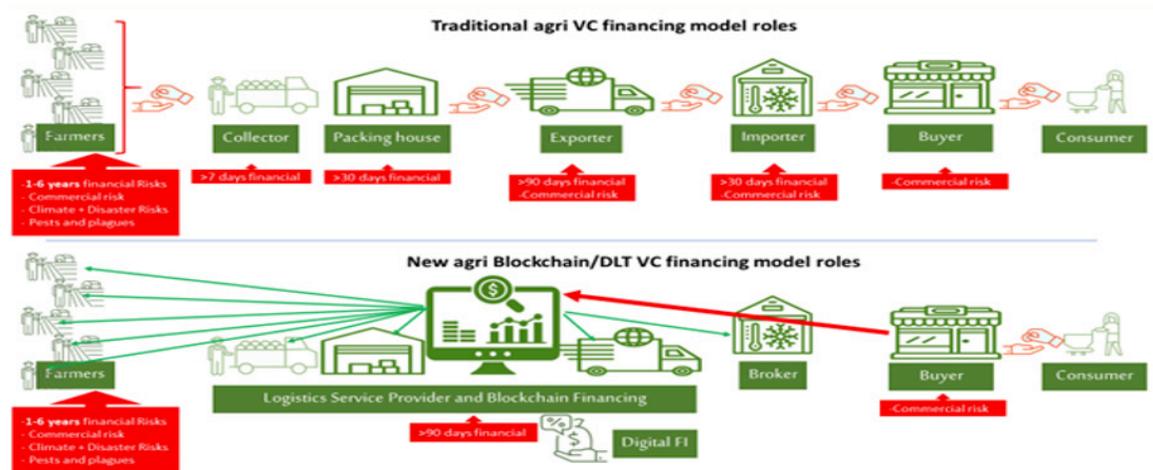
### First Pathway: Leapfrogging private sector-led growth with new technologies

There is ample room to enhance growth by reforming the fundamentals of the economy and removing bottlenecks to the development of the private sector (see chapter 3). The priority for low-income countries like Niger should be to keep investing in skills and physical capital while removing regulatory bottlenecks, including access to finance, entrepreneurship and private sector development. At present, Niger's business climate, market landscape and governance system rather than supporting private sector development and job creation, hamper its attractiveness to foreign investment and discourage entrepreneurship.

**New technologies such as agri-platforms, blockchain, precision agriculture, technology-based storage and management of products, temperature-controlled logistics among others offer opportunities to improve the productivity and competitiveness of agricultural value chains in Niger, but this will not be enough.** While digital solutions could play a key role, there is a need to establish a new paradigm. The limitations of the present trading patterns need to be better understood. It will be important to redefine target markets where Niger will have sustainable competitive advantages by taking into account the counter seasonality and estimates of climate change impacts on its main competitors. The country will need to invest substantially in irrigation, logistics and digital infrastructure to ensure growth to move from subsistence agriculture to a more commercial one. Intra-Sahel trade opportunities are limited because of the climate similarities. However, new opportunities are appearing with the increase of Niger underground water as observed through the NASA Grace Satellite. This

might allow the country to become a bigger producer and exporter of horticultural value chains products and increase its participation to global value chains beyond sesame, onions, tiger nuts, and livestock value chains products etc.. For that, it will be critical for Niger to increase investments in temperature-controlled logistics, transport infrastructure, and mobilizing private capital in the agriculture sector. Diverse policies will be needed to allow Niger's participation to the global value chains including among others improved trade facilitation policy, regulation of business services, favorable business taxation, better conformity to international standards. The atomized structure of the agriculture and agribusiness sectors is a significant obstacle for the generation of a larger supply of homogeneous high-quality agricultural products and will need to be addressed by strengthening the farmers organizations (FOs). If adequately supported and overseen, FOs can play a significant role in aggregating the produce of smallholder farmers and revolutionize the sector but a strong political will be needed at this aim. In addition, a variety of measures will be needed to strengthen financial intermediaries, especially those serving agriculture, so that they can provide a sustainable and competitive access to finance for all actors across the value chain.

### New Blockchain-based agri value chain financing model



## **Second Pathway: Foster the development of digital finance for financial inclusion**

**Experiences of countries with structural similarity to Niger have confirmed that mobile technology can drive financial inclusion even in fragile environments and boost resilience and productivity.** Indeed, mobile finance has changed the landscape of the financial markets in six out of eight countries in the West African Economic and Monetary Union (WAEMU) region by doubling or even tripling the percentage of adults with transaction accounts in the last two years. In Mali and Burkina Faso for example, in 2017 the percentage of adult population with formal accounts grew by 115 percent from 20 to 43 percent, and by 335 percent from 14 to 71 percent, respectively thanks to higher mobile penetration<sup>2</sup>. The Central Bank estimated at 340,000 the number of active mobile money accounts in Niger compared to 7.8 million in Burkina Faso. As access to financial services is an inextricable part of the process of productivity growth and economic growth, it will be key for Niger to put more emphasis on digital financial services in the next decade to spur its private sector development and increase the resilience of its population and enterprises. A central place should be given to the implementation of the Government's existing digital economies initiatives and projects, the digital transformation of the Niger's traditional financial system, the digitalization of Government payments, and the creation of a conducive legal framework to boost mobile adoption given the weak reputation of private mobile operators and limited trust in mobile finance. This will be critical to ensure that the 85.5 percent of the populations that is currently financially excluded can access basic financial services and move away from the existing cash economy with all its challenges. Better accessibility to financial access points and increased number of use cases for mobile finance will be crucial. Current number of money access points at 25,100 including about 9,570 active ones compared to the very low number of bank branches and microfinance institutions at 372<sup>3</sup> is a clear pointer that mobile finance will be key to financial inclusion in Niger.

**Quick wins will come from concerted efforts between the Government and the private sector to ensure that the mobile money access points are functional and liquid, facilitating digital payments across key sectors of the economy.** Agriculture digital payments in rural areas, safety nets, scholarships, taxes and other types of Government payments can be paid electronically through mobile or banks. Efforts are needed to make sure that financial and digital literacy is available for women and youth (with support of religious and traditional authorities), increasing mobile coverage is reliable, biometric identification systems ID are available to largest part of the population to facilitate account opening and access to credit, digital infrastructure platforms are in place to facilitate large scale digital on-boarding and, and second generation of mobile finance products such as digital lending credit, and insurance through mobile are introduced. This will allow Niger to accelerate adoption of mobile finance, move from the low 0.6 digital finance transaction per habitant per year to a 35 digital finance transactions per habitant per year like in Mali, and therefore starting the country's de-cashing process. The benefits will be high for Niger in the fiscal sector, as the impact of de-cashing would be felt on both the revenue and the expenditure sides. On the revenue side, the level of nontax revenue for governments from signorage will be inevitably affected<sup>4</sup>.

2 Findex 2017

3 World Bank, ANSI, SOFRECOM , Demand and supply Mobile money in Niger report, 2021

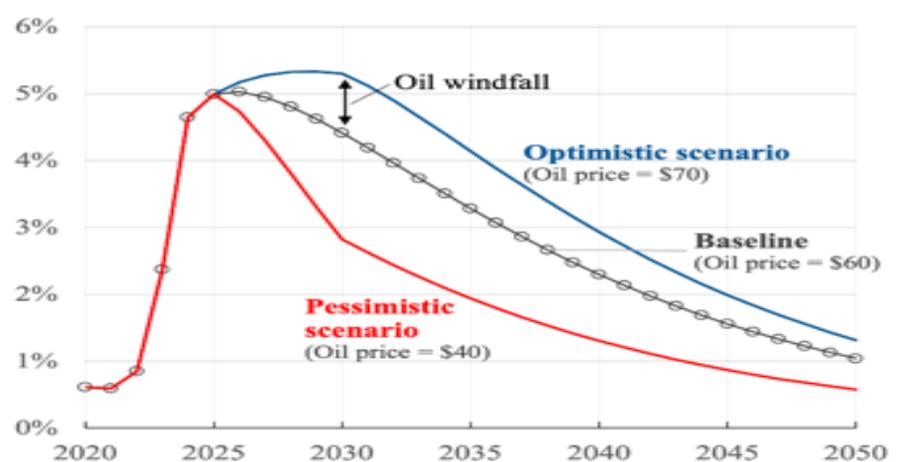
4 IMF, the macroeconomics of de-cashing, <https://www.imf.org/-/media/Files/Publications/WP/2017/wp1771.ashx>

### **Third Pathway: manage oil revenues in a transparent and fiscally responsible way;**

**With the expansion in petroleum production, the role of the extractives sector is likely to expand in the near future** (see chapter 4). The extractive industry has historically played an important role in Niger's economy, but its contribution is set to decline as a result of declining uranium revenues due to mine closures and depressed global uranium market prices. Under baseline projections, the oil sector prior to the construction of the Niger-Benin pipeline is small, accounting for only 2 percent of GDP in 2022. As the pipeline becomes operational in 2023-2024, the oil sector expands to 12 percent of GDP. In per capita terms, annual oil income increases from US\$13 to US\$84, which represents about 15 percent of the GDP per capita of 2020. However, this extra income is not sustainable, slowly falling to US\$25 by 2050 in the absence of new discoveries. Growth in the extractive sector is impeded by the same structural factors that have held back Niger's growth, notably, the scarcity of financial capital and domestic skilled human capital.

**Oil revenues are unlikely to have a large impact on Niger's long-term economic growth, even under a fiscal rule that invests all oil windfalls.** Oil windfalls from higher oil prices are not projected to be large or persistent enough to yield a substantial boost to investment and growth in the long term, even under procyclical fiscal rules. Higher oil prices -by around US\$ 10 -than in the baseline would generate extra fiscal revenues by about one percent of GDP vis-à-vis baseline by 2030. In the case of a transitory shock, the boost to growth would be small even if all the windfall is invested. Moreover, even a permanent increase in oil prices would not be able to finance a significantly higher level of public investment in the long term. This is because Niger's oil sector is expected to contract sharply due to the expected depletion of oil reserves. In later years, the oil sector will generate less fiscal revenue while the effectiveness of investment falls sharply, driven by declining marginal product of capital and increasing losses due to capital depreciation. In these circumstances, it is advisable to plan the future by implementing fiscal rules to (i) smooth booms and bust, and (ii) invest in productive non-oil sectors. Although the oil windfall cannot boost long-term growth per se and poses the "resource curse" risk, it still represents a great opportunity to finance critical investments in the short to medium-term. The oil boom is projected to generate extra fiscal revenues of 3-4 percent of GDP for over a decade. This windfall could contribute to finance the large investment needs in infrastructure and human capital provided they are managed well, to avoid the fiscal mismanagement, economic distortions and oil-related corruption observed in a number of resource-rich countries.

#### **Government oil revenue, Percent of GDP**



#### ***Fourth Pathway: Promote sound local content policies in the extractive sector;***

**Although the extractive sector's potential for job creation and growth is limited, its full economic benefits have not yet been fully reaped.** The expansion of the extractive sector carries significant institutional and fragility risks. The extractive sector plays a large role in shaping conflict dynamics in the country, given the competition over rents among various stakeholders including regional armed groups, past grievances from inequitable sharing of gains from the sector, and corruption (see chapter 4 and Appendix D). Moreover, the public sector has limited capacity to enforce regulations, owing to poor governance, low human capital and scarce technical and financial resources. Boosting local content is a crucial way to integrating the extractive sector with the wider agriculture-based economy. Promoting sound local content policies is a pathway to ensuring that the gains from the extractive sector are shared locally and used as a vehicle to increase human capital, all while remaining attractive to foreign capital. A comprehensive local content strategy that focuses on increasing the capabilities of the existing pool of Nigerien workers while attracting fresh capital is therefore critical.

#### ***Fifth Pathway: strengthen the disaster risk management framework and establish a disaster risk financing strategy***

**As a landlocked country with a mostly semi-arid climate, Niger faces multiple climate threats, most prominent of which are recurrent droughts and floods.** Several factors, including dependence on rain-fed agriculture, rapid population growth, political instability, pervasive poverty, and persistent food insecurity further compound the country's vulnerability to these climate threats. On average, Niger experiences a drought year that lowers GDP per capita by -1.5 percent at least once every 2.2 years, generating yearly agricultural income loss of US\$ 15 million from droughts (2019 World Bank GFDRR). Annual averages losses from floods are estimated to be between US\$ 20 million and US\$ 70 million per year (2017 UN Global Assessment Report on Disaster Risk Reduction). Drought-related emergency costs are even higher, amounting to nearly US\$ 100 million per year. The poor suffer disproportionately from adverse natural events and are considered the main driver of poverty.

**Current challenges are only expected to be amplified in the face of climate change.** Despite the limited capacity of climate models to represent complex regional patterns and detect trends in extreme rainfall regimes, most recent research points to more extreme rainfall events in Niger. Climate change and adverse natural events might impact the rural-urban migration dynamics and increase urbanization. In turn, the projected demographic and urbanization trends in Niger could lead to an increase of the negative effects of flood events, through higher exposure and vulnerability. Besides short and medium-term social protection measures to support the population in coping with these events, investments in long-term solutions focused on integrated urban land-use policies and plans, resilient infrastructure, early warning systems, and risk reduction strategies are critical.

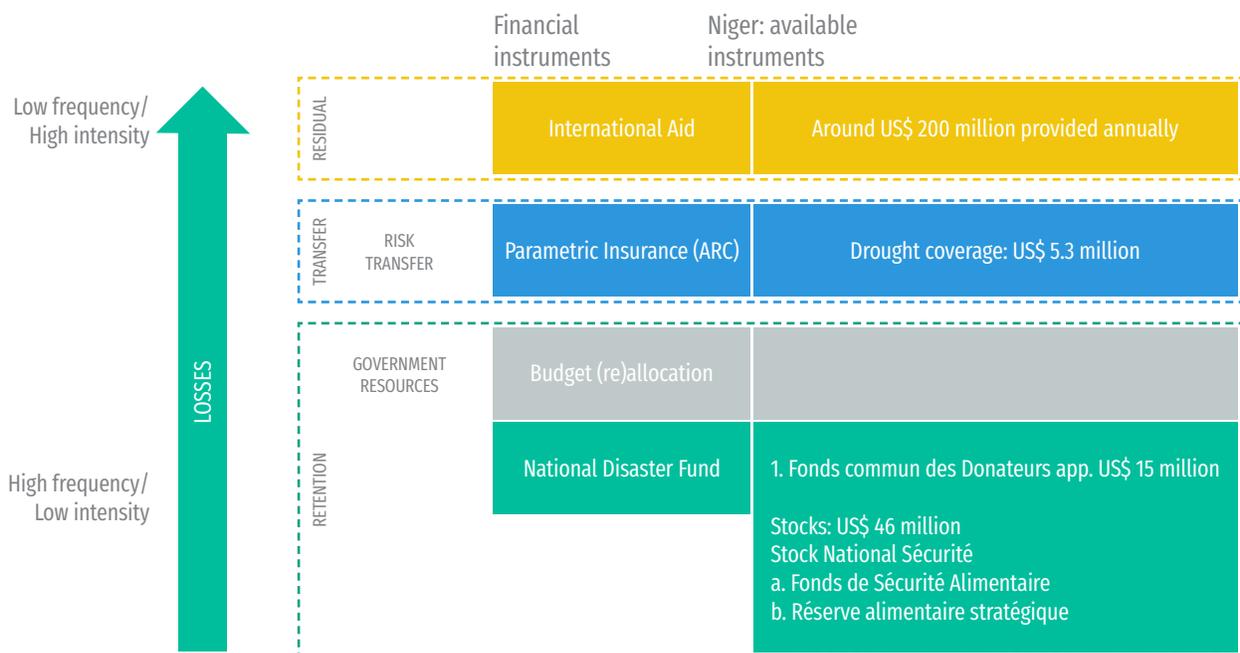
**Decreasing the human and economic impacts of disasters would necessitate the strengthening of emergency preparedness and response capacities, as well as risk reduction investments and policies.** However, even though disaster risk management (DRM) has been identified by the Government as a priority in its Strategic Development Plan, the DRM sector still faces several challenges linked to institutional and resources limitations. Notably the lack of a DRM law clarifying roles and responsibilities for DRM at central and local level, the inadequate capacity for emergency preparedness and response at the national and local levels, including Early Warning Systems, weak DRM at the local level, and limited capacity and budgetary resources for disaster risk reduction are highlighted by this CEM as critical gaps that needed to be addressed in the DRM framework.

**Simulation presented in this report show that shock-related food insecurity is a big liability for Niger.** Drought-related emergency costs to respond to food insecurity in Niger amount to nearly US\$ 100 million per year. On average, 1-in-5-year droughts cause liabilities of almost US\$ 200 million. This number jumps to about US\$ 250 million for 1-in-25-year events. When considering a larger mix of causes of food insecurity (climate causes (drought, heatwaves, and flood) as well as conflict/violence, political instability, commodity price/trade shocks and unstable markets, and forced migration), annual liabilities related to food-security costs amount to US\$ 150 million on average. However, the average costs of US\$ 150 million can increase significantly when disasters arise. Niger faces emergency response costs of over US\$ 200 million every five years and of nearly US\$ 300 million every 10 years on average.

**The Government of Niger faces a large financing gap.** Niger disposes overall of resources of US\$ 66.02 million for all layers of risk (National Disaster Fund, Food Reserves, Droughty Insurance ARC), and US\$ 60.7 million for the lower layers of risk (1-5 years, National Disaster Fund, Food Reserves). Compared to the mere cost of drought related food insecurity (US\$ 100 million per year) and overall food security (US\$ 150 million per year), the funding gap amounts to about US\$ 40 to US\$ 90 million per year. The funding gap significantly increases when taking into consideration the modelled food production shocks. The combined humanitarian and economic funding gap is of US\$ 768 million for 1-in-5-year food production shocks and US\$ 1.1 billion for 1-in-10 years food production shocks.

**Relying on humanitarian assistance following disasters, Niger faces uncertainty regarding the amount of funding mobilized as well as delays in the provision of assistance.** Niger is heavily dependent on ad-hoc international humanitarian aid to finance its shock-response. From 2012 to 2019, Niger received between US\$ 200 and US\$ 400 million per year in external international humanitarian assistance (OCHA Financial Tracking System) in total. The country is currently not sufficiently prepared to deal with shocks, and finances its humanitarian shocks mostly ex-post through external donor support as well as to a lesser degree through budget reallocations. With humanitarian assistance arriving on average 7 to 9 months after a disaster, this approach is slow and unreliable, leading to unnecessary loss of lives and livelihoods. Uncertainties over amounts of funding available can undermine government planning of response efforts, and lead to shortages in the assistance provided to the affected population. In the case of Niger, appeals between 2011 and 2019 were on average funded at 63.9 percent.

**Against this background, Disaster Risk Financing (DRF) strategy built around a risk layering approach could support the Government of Niger financially manage its risks more efficiently and reduce the economic, fiscal, and human impact of disasters.** Risk layering refers to the combination of instruments to ensure cost-efficient financing for emergency response and long-term recovery. As no single instrument is optimal for responding to all disaster events, the most cost-effective way of financing disaster response is through a range of tools to address different layers of risk, ranging from frequent small-scale events to rare catastrophic events. Relying on humanitarian assistance following disasters, Niger faces uncertainty regarding the amount of funding mobilized as well as delays in the provision of assistance. A DRF strategy could allow the Government of Niger to further quantify its risks, discuss what risks will be taken on by the Government at different levels (national/regional/local), what risks will be shared with others such as households and firms, and what risks will be shouldered by international partners. A DRF strategy could also help the Government of Niger by putting in place the right financing instruments and making available adequate financing to ensure that funds are available quickly when required.



### Key policy options<sup>5</sup>

Policy recommendations	Timeline for implementation	Fiscal implications
Making the registration/use of the technology simple and trouble-free for the consumer by improving consumer protection reforms and adopting tiered Know Your Customer (KYC) measures	Short term	Low
Enhance the quality of the export products of Niger by providing training and technical assistance to the different value chain actors and strengthening certification processes	Long-term	Low
Level the playing field to attract and retain FDI by ensuring rule-based decision making and transparency in business regulation	Medium term	Medium
Invest in solar energy systems, irrigation, logistics, technologies such as precision agriculture and drip irrigation, digital agri-platforms and blockchain	Medium term	High
Focus the strategy for commercial agriculture on target markets and products where Niger will have sustainable competitive advantages taking into account climate changes and intra-regional collaboration/ rivalry	Medium term	High
Address the shortcomings of the microfinance industry and give it a fresh impulse, involving FinTech solutions and new MFI players to the extent possible	Medium term	Medium
Design properly the Financial Inclusion Fund to provide medium- and long-term loans to strengthen MFIs, Fintechs and banks through a combination of equity, loans and grants for digital transformation	Long term	Medium
Promote value chain financing (VCF) arrangements including the use of warehouse receipts	Short term	Medium
Mandate an appropriate arm of government (e.g., Ministry of Industry or equivalent) to focus specifically on local content needs and opportunities	Short term	Low
Provide incentives to multinationals operating in Niger to provide regular training workshops for instance, quarterly, on various technical/industry matters important to industry (e.g., road design, industrial safety, food hygiene etc.)	Medium term	Low
Encourage or require that foreign investors in Niger put aside a certain fraction of salary (say 2-10 percent) to be spent on training of their own employees	Medium term	Low
Implement revenue-sharing framework, clear arrears of pending payments and ensure funds are spent towards local development projects	Short term	Medium
Develop revenue management legislation e.g., establishing a fiscal stabilization fund	Medium term	Medium
Strengthen legislation enforcing fiscal discipline around usage of windfall resource rents	Medium term	Low
Broaden access to ASM formalization by decentralizing essential process such as registration and license issuance to local governments	Short term	Low

<sup>5</sup> Timeline for implementation: short-term (1 year); medium-term (2-3 years); long term (3+ years) Fiscal implications are estimated as low: affordable within current spending structure; medium: requires budget reallocation; high: need further reform, funding sources and domestic revenue mobilization.

Policy recommendations	Timeline for implementation	Fiscal implications
Adopt a DRM law clarifying roles and responsibilities for disaster risk management at central and local levels	Medium term	Low
Strengthen capacities for emergency preparedness and response at the national and local levels, including Early Warning Systems	Medium term	Medium
Use the National Platform to improve inter-ministerial and other stakeholders' coordination	Short term	Low
Enhance capacity and budgetary resources for disaster risk reduction, including investments in resilience in key sectors, land-use planning and building code enforcement.	Medium term	Medium
Increase investment in disaster risk reduction and disaster risk management activities. Financing disaster risk reduction is often more cost-effective than the financing of post-disaster search, rescue, relief, rehabilitation, reconstruction, and recovery	Long term	High
Develop a comprehensive Disaster Risk Financing strategy. As Niger faces high disaster-related contingent liabilities particularly caused by droughts and floods, there is a strong rationale to work towards a more systematic approach to finance these shocks	Long term	High
Work on risk layering. Working towards a disaster risk finance strategy could further support the identification of optimal risk layering	Long term	High