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ECONOMIC UPDATE 2024

NIGER

Special chapter
Investing in education for inclusive growth

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ABBREVIATIONS AND ACRONYMS

AES	Alliance of Sahel States
BCEAO	Central Bank of West African States
CFAF	*Franc de la communauté financière en Afrique* (Franc of the Financial Community of Africa)
CP	Classe Paillote (Straw hut classrooms)
DSA	Debt sustainability analysis
ECOWAS	Economic Community of West African States
EN	*Ecoles Normale*
GDI	Gender Development Index
GDP	Gross Domestic Product
GNNSCP	Government of Niger National School Construction Plan
HCI	Human Capital Index
IDP	Internally displaced persons
IMF	International Monetary Fund
IPP	Independent power producer
kWh	kilowatt-hour
MEN	Ministry of Education
MW	Megawatt
NIGELEC	*Société Nigérienne d'Electricité* (Nigerien Electricity Society)
NPL	Non-performing loans
PASEC	*Programme d'Analyse des Systèmes Educatifs*
PFM	Public financial management
PPP	Purchasing power parity
SDI	Service Delivery Indicator
SOE	State-owned enterprise
SORAZ	*Société de raffinage de Zinder*
TSA	Treasury single account
UMOA	*L'Union monétaire ouest-africaine* (West African Monetary Union)
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	United Nations High Commissioner for Refugees
US$	US-Dollar
WAEMU	West African Economic and Monetary Union West African Power Pool
WAPP WFP	World Food Programme
XOF	West African CFA franc

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The Niger Economic Update is a World Bank report series produced once a year that assesses recent economic and social developments and prospects in Niger. The Economic Update also provides an in-depth examination of a selected policy issue, outlining its current challenges and potential going forward. It is intended for a wide audience, including policy makers, business leaders, financial market participants, and the community of analysts and professionals engaged in 's evolving economy. This draft reflects data as of July 31, 2024.

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For more information about the Bank world and its activities in Niger, please consult: https://www.worldbank.org/en/country/Niger.

EXECUTIVE SUMMARY

This 2024 Economic Update for Niger is articulated in two chapters. The first chapter presents the economic and poverty trends observed in the country in 2023 and the outlook from 2024 to 2026. The second chapter focuses on access to primary and secondary education and provides recommendations to ensure adequate investment to enhance access to quality education.

Economic and poverty developments and outlook

In Niger, 2023 was marked by a severe political crisis, with an unconstitutional regime change, followed by sanctions and a large reduction in financing. Following the unconstitutional regime change on July 26, 2023, the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (WAEMU) imposed heavy commercial and financial sanctions, banning trade (including food, pharmaceuticals, and electricity), prohibiting financial transactions between Niger and the rest of ECOWAS, freezing government accounts at the regional central bank. ECOWAS also closed land and air borders. Most international financial institutions paused development financing and the country lost access to the WAEMU regional bond market. The sanctions were lifted after nearly 7 months on February 24, 2024, but their effects will likely last longer.

In September 2023, Burkina Faso, Mali, and Niger formed the "Alliance of Sahel States" (AES)-a security and military pact with political and economic objectives. On January 28, 2024, in a joint communiqué, the three countries announced their immediate withdrawal from ECOWAS. According to the revised ECOWAS treaty, a notification period of one year is required to leave ECOWAS. The three countries remain members of WAEMU.

The crisis is estimated to have significantly reduced GDP growth to 2.0 percent in 2023 (-1.7 percent per capita, one of the lowest in Sub- Saharan Africa).[1] Prior to the crisis, GDP growth had been projected at 6.9 percent in 2023 and to rise to 12 percent in 2024, on the back of large-scale oil exports through the pipeline starting by end- 2023. However, the sanctions and border closures delayed this start. Government spending fell due to the freezing of government assets, the loss of regional financing, and a significant reduction in external financing (of approximately 7.5 percent of GDP). Private investment also fell sharply in 2023 due to the uncertainty and a liquidity crisis in the banking sector, brought on by the financial sanctions. Formal trade volumes also fell : exports by 8.1 percent and imports by 12 percent. On the supply side, manufacturing, construction and trade and tourism-related service sectors

[1] *According to World Bank estimates*

were heavily impacted. Meanwhile total agriculture production expanded, supported by irrigated agriculture.

That GDP growth remained positive in the face of considerable constraints demonstrates resilience. The authorities took proactive measures on budget management, to continue paying salaries in the public sector. They also ramped up local electricity production in response to the cut-off of electricity imports from Nigeria. The characteristics of Niger's economy also mitigated the impact of sanctions: Niger is an oil producer with its own refinery capacity, and it has high levels of informal trade.

Overall inflation remained stable at 3.7 percent in 2023. Inflation was subdued in H1-2023 (1.2 percent on average) but rose in H2-2023 (6.3 percent on average) after the onset of the political crisis, due to food inflation caused by import disruptions.

Because of the crisis, the government cut expenditures and accumulated debt arrears. Following the reduction in financing, the 2023 budget was revised. Capital spending was cut, and the fiscal deficit reduced to 5.4 percent of GDP (compared to 6.8 percent in 2022). As a result of the financial sanctions, the government missed several debt repayments to bondholders and international financial institutions. According to UMOA-Titres, CFAF 314 billion (US$512 million or 3.1 percent of GDP) was owed to bondholders as of February 19, 2024. As a result of the arrears, Moody's has downgraded Niger's credit rating from B3 to Caa3. Public debt reached 54.7 percent of GDP, including arrears.

The extreme poverty rate, using the international poverty line, is estimated to have remained unchanged in 2023 (48.4 percent). While overall GDP per capita contracted, agricultural GDP per capita expended marginally by 0.12 percent, leading the extreme poverty rate to remain unchanged, despite the increase in food prices in the second half of the year. On the one hand, the rise in food prices mainly affects households in urban areas where the poverty rate is relatively lower, thus limiting the number of households being pushed into poverty. On the other hand, the marginal increase in agricultural GDP per capita directly affects households in rural areas where the poverty rate is relatively higher.

However, food insecurity remained an issue. Food inflation and pockets of food deficits have exacerbated Niger's chronic food insecurity; 2.3 million (8.9 percent of the population) were estimated to be food insecure in Q4-2023, 13 percent higher than Q4 2022. There are also estimated around 300,000 internally displaced persons (IDPs) due to insecurity and an equal number of refugees, primarily from Nigeria, Mali, and Burkina Faso. The crisis and border closures led to severe disruptions in the delivery of humanitarian aid.

With sanctions lifted and access to financing gradually restored, growth could recover to 5.7 percent (1.8 percent per capita) in 2024 and average 6.5 percent in 2025-26. The rebound would be driven, by large-scale oil exports, while non-oil industry and service sectors, which accumulated heavy losses in 2023, face a difficult recovery. This outlook includes the potential negative growth impacts of the ECOWAS withdrawal: higher trade costs (new tariffs) and lower trade with non-WAEMU ECOWAS states, higher investors' risk premia, and increased regional financing costs. The fiscal sector will continue to face financing constraints, even though arrears have been cleared and development financing by the World Bank and the IMF has resumed, as domestic financing will remain costly. Inflation is projected to reach 8.5 percent in 2024 due to the border closure with Benin, and the lower cereal production during the 2023/2024 agricultural campaign compared to the 2022/2023 campaign. Inflation is expected to remain above 3 percent in 2025-26 as the resumption of large imports from the region is offset by higher import costs due to the exit from the ECOWAS free trade area. With the onset of oil exports, the current account deficit is projected to narrow from 9.3 percent of GDP in 2023 to 8.3 percent in 2024.

In line with the strong baseline growth projections, the extreme poverty rate is projected to decrease to 42.5 percent by 2026. This assumes solid growth in service and agriculture sectors and the adoption of policies that use increased oil revenues effectively for the benefit of the population.

The outlook remains subject to significant downside risks. The security situation could deteriorate, and the country could suffer from further climatic shocks. An ECOWAS withdrawal that has gaps in agreements could lead to larger disruptions in the free movement of goods, services, capital, and labor and could have spillover effects onto trade in the WAEMU zone. However, if new trade opportunities are realized, these negative impacts could be mitigated. Sustained or escalated tensions between Benin and Niger can contribute to higher trade costs and further delay or interrupt oil exports. The uncertain outlook is already reflected in higher interest rates and the partial coverage of the country's last issuances on the regional bonds market. Further economic policy uncertainty could lead to higher regional financing costs. A financing squeeze could lead to cuts in public expenditure, which could delay investments that stimulate growth.

Against this backdrop, it is critical to raise the potential for growth, including by investing natural capital from oil into human capital. Assuming oil prices at US$60/barrel, the projected production increase would lead the oil sector to account for 13 percent of Niger's GDP by 2030 (depending on production), up from approximately 2 percent in 2023. While this expansion is expected to boost government revenues, it will also amplify the volatility of growth. While this expansion is expected to boost government revenues, it is likely to amplify growth volatility. Moreover, if there are no new discoveries, Niger's oil production is projected to start declining in the mid-2030's due to depleting oil reserves, underscoring the criticality of enhancing productivity in the non-oil sector for sustained and inclusive economic growth. Improving productivity in the non-oil sector will require reforms to address Niger's low educational attainment. Expected oil revenues can be used to increase investments in the education sector. Chapter 2 analyses the fiscal costs of public investments needed to increase access to quality education.

Fiscal Cost of Improving Access to Education

Niger's low human capital development outcomes are a binding constraint to achieving sustainable and inclusive economic growth. Niger's human capital development is characterized by low life expectancy at birth, high under-five, and maternal mortality rates, and high stunting rates. In addition, access to quality education remains a major challenge.

Key challenges in the education sector include:

(i) limited and poor school infrastructure: More than one-third of the existing primary school infrastructure consists of straw hut classrooms, also known as Classe Paillote (CPs), which are not only inadequate but also unsafe for students and teachers.

(ii) school closures due to insecurity and displacement: the education system is directly threatened by insecurity, which often results in school closures; in Tillabéri, Tahoua, and Diffa, various non-state armed groups linked to al-Qaeda and the Islamic State have threatened, abducted, and killed teachers, students, and parents.

(iii) low enrolment and retention rates, especially for girls: Primary and secondary school enrollment rates in Niger lag structural, regional, and aspirational peers, leaving millions of children and youth out of school. According to World Bank calculations, 4 out of every 10 primary school-aged children are out of school.

(iv) weak learning outcomes due to poor quality of teaching: Learning outcomes are

weak due to an over-reliance on contract teachers, most of whom lack minimum literacy and numeracy skills. 92 percent of 10-year-olds in Niger cannot read and understand an age-appropriate passage.

Due to the demographic pressure, the government would need to build between 3,500 and 8,100 new classrooms on average every year to satisfy the demand for classrooms, in addition to replacing CPs.[2] Based on a constant (net) enrollment rate[3] of 57.7 percent (2021), the net change in the number of students enrolled in primary school each year is projected to increase from 102,370 in 2024 to a peak of 133,511 in 2045. The net change in the number of students enrolled in secondary school is also projected to grow, although less rapidly than the primary school population. In addition to building new classrooms, the government would also need to hire and train more qualified teachers and provide enough school supplies including textbooks.

The existing government program to improve the quality and access to education is estimated to cost up to 0.26 percent of GDP per year on average. The existing government program has three components; (i) replace all CPs with adequate permanent structures, (ii) train and hire more qualified teachers; and (iii) integrate qualified contract teachers into the civil service. The cost of the government's agenda will depend on the timeframe to replace CPs and integrate the contract teachers into the civil service, as well as GDP growth.

However, the current government program will not be able to provide enough classrooms, teachers, and school materials to accommodate the growing student population. As a result, millions risk remaining out of school. In addition to replacing all CPs, training, and hiring qualified teachers and integrating contract teachers, a comprehensive policy agenda should also account for population growth and increasing enrollment rates. Such a program will likely cost an average of 1.2 percent of GDP annually over the next three decades, excluding the cost of textbooks and classroom maintenance.
There are several options to finance the required additional spending without weakening fiscal sustainability. These include: (i) improving spending efficiency in the education sector to free up resources; (ii) strengthening domestic revenue mobilization, both oil and non-oil revenues, to create additional fiscal space in a sustainable manner; (iii) channeling part of the expected windfall from large-scale oil production and exports; and (iv) mobilizing external financing from development partners.

Countries with large numbers of out-of-school children face high costs in terms of foregone GDP, so the economic cost of not improving access to quality education will be substantial. If there are not enough classrooms built or teachers trained, millions more children will be out of school in the coming years. These children will later enter the labor market with lower levels of productivity than what they would have had if they had gone to school, making the opportunity cost of out-of-school children in terms of foregone GDP substantial. According to estimates by Burnett and Thomas (2013), the opportunity cost of out-of-school children ranges from 5.4 to 18.2 percent of GDP in Mali, 4.1 to 17 percent of GDP in Burkina Faso, and 8.3 to 14.1 percent of GDP in Cote d'Ivoire. Moreover, the lack of education opportunities for a growing young population can negatively impact the security situation of the country.

[2] Assuming a teacher-student ratio of 1/50.
[3] Net enrolment rate is the ratio of children of official school age who are enrolled in school to the population of the corresponding official school age

TABLE E.1 Policy options to support the economic recovery, restore macro-fiscal sustainability and increase access to quality education in Niger

Policy Objectives	Policy Options
	Feasible to implement in the short term (1 year)
Regain/increase access to budget financing sources	• Continue to implement the debt arrears clearance' plan, which will enable Niger to increase access to domestic and external financing.
Strengthening public financial management	• Continue full return to established PFM systems and processes.
Address banking sector vulnerabilities	• Adopt the new Banking Law • Clear any remaining arrears on government bonds owed (directly) to the local commercial banks to help ease the liquidity constraint
Address elevated levels of food insecurity	• Reopen all commercial borders – particularly those linked to the most secure and cost-effective supply routes – to normalize trade flows in and out of Niger, and ease pressure on prices. • Ensure tight monitoring of prices of staple food commodities and reinforce measures such as targeted subsidies-where possible- to support economic access to food among vulnerable populations in both rural and urban settings. • In line with the above, adopt and operationalize a National Response Plan to address the expected spike in needs during the upcoming lean season, particularly among pastoralists.
Strengthen domestic revenue mobilization (oil and non-oil)	**Oil revenues** • Implement an effective management framework for oil revenues starting with oil revenue forecasting. • Strengthen the macro-budgetary framework. **Non-oil revenues** • Develop capacity to assess market prices (particularly transfer prices), benchmark costs and value for money in contracts. • Strengthen the current legislation on transfer pricing with the inclusion of appropriate measures in the regulatory texts to reduce transfer pricing risk. • Finalize the revision and simplification of General tax code by broadening the tax base and removing non-essential tax exemptions
Mitigate the economic impacts of ECOWAS withdrawal and prevent spillovers onto WAEMU trade	• Preserve the benefits of economic integration by maintaining or negotiating new bilateral or regional agreements to ensure: (i) transport and transit rights to coastal ports; (ii) visa-free travel and right to work in the ECOWAS region; (iii) and complementarity between ECOWAS and WAEMU trade provisions, including rules and certificates of origin. • Avoid adopting tariff and non-tariff measures that would significantly increase trade costs with non-WAEMU ECOWAS states after leaving the ECOWAS free trade area. • Provide clear and consistent public communication on WAEMU membership.
Increase access to education by replacing Classe Paillote	• Continue the replacement of CPs by building the 750 planned classrooms in 2024. • Use increased fiscal space from oil revenues to invest in human capital development, in particular to improve access to quality education.
Strengthen the quality of teaching	• Implement the hiring process of the new teacher graduates from the Ecoles Normales. • Continue to implement the teacher training program at the Ecoles Normales and aim to increase the number of student teachers over time in line with the hiring capacity. • Start the integration process of contract teachers in 2024.
	Important to implement in the medium term (2 to 5 years)
Improve management of the oil sector and oil revenues	• Manage oil revenue volatility by establishing a stabilization fund with appropriate fiscal and savings rules. • Ensure efficiency of investments financed by oil revenues including the development of multi-year expenditure programming and infra-annual expenditure programming tools (procurement plan, sectoral and global commitment plans and cash flow plan). • Establish an oil sector regulator with adequate capacity to ensure the effective oversight and implementation of the regulation and that petroleum operations are being conducted efficiently, transparently and in accordance with best industry practices (including environmental and social norms).
Address elevated levels of food insecurity	• Accelerate investments into local value chains of fortified nutritious food, including the resumption of domestic production of specialized nutritious food for nutrition treatment and supplementation, to reduce import dependency. • Ensure adequate preventive positioning of national food reserves.
Improve access to quality education in the medium to long-term	• Adopt an education reform agenda that builds new classrooms, trains and hire teachers every year to meet the demand for education stemming from population growth and improving enrollment rates. Assess the fiscal costs of the plan and adjust reform plan to take into account fiscal constraints. The fiscal costs should be integrated into the government's medium-term expenditure framework. • Continue to allocate more teachers, classroom construction, and materials to underserved areas.

ECONOMIC AND POVERTY DEVELOPMENTS AND OUTLOOK

1.1 Development Context

The development context is characterized by high demographic pressures, vulnerability to climate shocks and recent political instability.

Niger's economy has been dependent on agriculture, that is highly vulnerable to climate shocks, leading to volatile growth, and is projected to become more dependent on hydrocarbon, exposing it to even higher volatility. The agriculture sector contributes about 40 percent to GDP. Although irrigation has increased in recent years, rain-fed agriculture remains the bedrock of the sector, exposing it to climate shocks. For instance, a weak growth of 1.4 percent in 2021 due to poor rainfalls, was followed by strong growth of 11.5 percent in 2022 due to a better- than-average rainy season. With limited improvements in productivity and high population growth, over half the population lives in extreme poverty, aggravated by gender disparities, with some of the weakest human capital development indicators globally. With the completion of the Niger-Benin pipeline, oil production is expected to rise from 20,000 to 107,000 barrels per day by 2025 (according to the government), increasing the importance of the oil sector in exports, revenues, and GDP.

From 2011 to 2023, Niger had been seen as a source of political stability in the Sahel, benefiting from a significant increase in international development assistance and investment. However, this changed with the unconstitutional regime change on July 26, 2023. The crisis led to regional sanctions and border closures and a pause in development assistance. In September 2023, Burkina Faso, Mali, and Niger formed the "Alliance of Sahel States" (AES)—a security and military pact with political and economic aims. In November 2023, Niger and Burkina Faso announced their withdrawal from the G5 Sahel, after Mali had already left in May 2022.[4] On January 28, 2024, in a joint communiqué, the three countries announced their immediate withdrawal from the Economic Community of West African States (ECOWAS). According to the revised ECOWAS Treaty, a notification period of one year is required to leave ECOWAS. Subsequently, on July 6, 2024, the three countries signed the Treaty establishing the Confederation of Sahel States. These developments have increased political and policy uncertainty. The three countries remain members of West African Economic and Monetary Union (WAEMU).

[4] *In December 2023, Chad and Mauritania declared to dissolve the alliance.*

1.2 Recent Economic and Poverty Developments

In Niger, 2023 was marked by a severe political crisis that triggered regional economic and financial sanctions and a disruption in external financing.

Niger faced heavy ECOWAS and WAEMU commercial and financial sanctions and border closures that lasted nearly 7 months. On July 30, in response to the unconstitutional regime change, the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (WAEMU) imposed economic and financial sanctions that included: (i) the closure of land and air borders between ECOWAS countries and Niger; (ii) the suspension of all commercial transactions between Niger and WAEMU and ECOWAS countries, without exception; (iii) the suspension of financial transactions between Niger and WAEMU and ECOWAS countries; (iv) the freezing of public assets of the government, state-owned enterprises and parastatals held in the BCEAO (regional central bank of WAEMU) and in commercial banks in the WAEMU region; (iv) the suspension of Niger from all regional financial assistance. In general, the sanctions were implemented and enforced by ECOWAS countries and institutions, with the exception of Guinea, Burkina Faso, and Mali, which supported the de facto authorities in Niger.

In addition to the sanctions, the unconstitutional regime change triggered a sharp decline in external financing. Overall, an estimated 7.5 percent of GDP in external financing was not disbursed in 2023 due to pauses in international development assistance. However, development partners continued to provide humanitarian assistance with the help of implementing partners in Niger, with significant delays in implementation.

To mitigate the impact of the sanctions, new authorities took several proactive measures, including: (i) redirecting trade flows through Burkina Faso using the Ouagadougou-Dori-Niamey corridor for the transportation of various shipments with the support of Burkinabe and Nigerien military convoys, (ii) increasing local power production (solar and existing diesel plants), (iii) requiring cash payments of taxes and duties instead of depositing into the frozen treasury single account (TSA) at the BCEAO, and (iv) conducting government transactions outside of the established PFM systems.

The crisis is estimated to have significantly reduced GDP growth to 2.0 percent in 2023 (-1.7 percent per capita).[5]

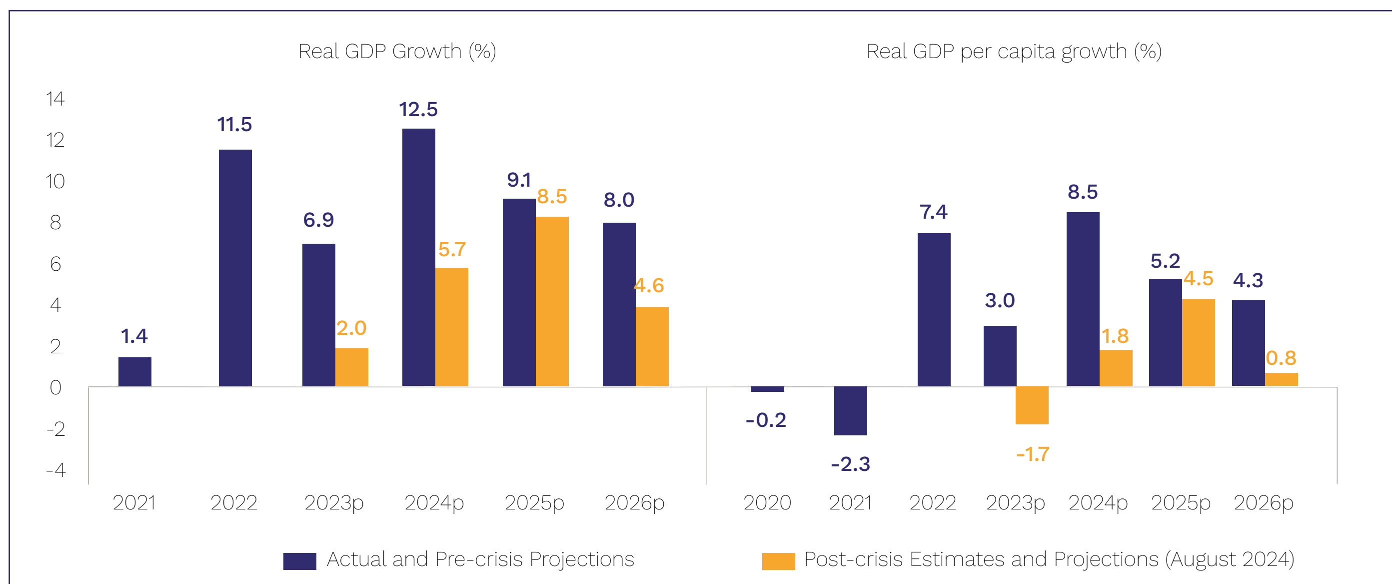
Prior to the crisis, GDP growth had been projected at 6.9 percent in 2023 and to rise to 12 percent in 2024, on the back of large-scale oil exports through the pipeline starting by end 2023. However, the sanctions and border closures delayed this start. Government spending fell due to the freezing of government assets, decline in tax revenues, the loss of access to the WAEMU regional bond market, and a significant reduction in external financing. Private investment also fell sharply due to the uncertainty and a liquidity crisis in the banking sector, brought on by the financial sanctions. On the supply side, total agriculture production expanded despite a drop in cereal production, however manufacturing, construction, trade and tourism-related service sectors were heavily impacted.

That GDP growth remained positive at 2.0 percent in 2023 in the face of several constraints demonstrates considerable resilience. This resilience is partly due to the country's economic characteristics such as high level of informal trade (less affected by sanctions) and being oil-producing with a domestic refinery that can supply fuel to the domestic

[5] *Based on World Bank estimations.*

market, including for local thermal power production (Box 1.2). It also reflects the measures taken by the authorities, for example on budget management to ensure the continuation of public-sector salary payments, and the ramping up of local electricity production response to the cut-off of electricity imports from Nigeria. However, the growth slowdown in 2023 resulted in a 1.7 percent decline in GDP per capita, bringing real GDP per capita below the level observed in 2021 (Figure 1.1).

FIGURE 1.1 **Pre-crisis, GDP growth in 2023 was projected at 6.9 percent, but it is now estimated at 2.0 percent**



Source: INSN and World Bank staff estimates

Despite low cereal production, the agriculture sector remained resilient, supported by strong production from irrigated agriculture. Rain-fed production of the main cereals declined by 12 percent compared to 2022. The decline in production is mainly attributed to (i) severe weather events, including insufficient rainfall, flooding and bush fires that destroyed a share of the production; (ii) civil insecurity, which has reduced cultivated areas, and pastoral land in several regions; and (iii) drought and pest infestations. This decline was offset by the increase in irrigated production, leading to an expansion in overall agricultural output and a positive contribution of 1.2 percentage points (ppts) to GDP growth, compared to a positive contribution of 9.3 ppts in 2022 (Figure 1.2). The shortfall in cereal production, combined with the effects of the economic and financial sanctions, have left more than 2.3 million people in a situation of food insecurity (see Box 1.3 for more details).

Commercial sanctions and insecurity disrupted activities in the extractive sector. Growth in the sector was projected to be strong in 2023, driven by the onset of oil exports and improvements in other mining activities. Delays in finalizing the pipeline resulted in delays in oil production, leading to lower growth of 12 percent, compared to 30 percent initially projected.6 The suspension of uranium production in September 2023 linked to the shortage of chemical imported inputs and the closure of artisanal gold mining sites due to security concerns have resulted in a significant decline in output. Uranium production fell by approximately 1.8 percent, while gold production decreased by 60.1 percent.

[6] The equipment needed for the pumping stations had been blocked at the border with Benin when the borders were closed. They were later redirected to the Ouaga-Niamey corridor, which caused a delay in the commissioning of the pipeline

The crisis affected secondary (non-extractives) and tertiary sectors. Before the crisis, production in the secondary and tertiary were expected to grow respectively by sectors 5.7 and 8.5 percent, driven by buoyancy in the construction sector and the growing post covid demand. However, the pause in external development financing led to delays in public infrastructure projects, severely affecting the construction sector while limited intermediate and capital goods imports and electricity shortages/higher cost of power (Box 1.2) affected manufacturing. Trade sanctions and border closures led to lower travel and trade flows, affecting trade, tourism, and transport-related service sectors.

BOX 1.1 IMPACT OF SANCTIONS ON THE FORMAL PRIVATE SECTOR

According to a survey conducted by the Niger Chamber of Commerce and Industry (CCI), the sanctions have disrupted private sector activities and resulted in significant financial losses. The CCI recently completed a survey of its members to assess the impact of the sanctions on their activities.

Channels of impacts: A summary of the results shows that in the first three-month (July 30 – October 31), the private sector was affected by **(i) the trade sanctions:** more than 42,000 tons of goods worth more than CFAF 14 billion that were in transit to Niger through neighboring countries, particularly Benin and Nigeria, were held up. For instance, in August and September, imports fell by almost 60 percent; **(ii) electricity shortages:** firms had to rely on costlier alternative energy sources (i.e., diesel generators). As a result, the cost of the energy factor has risen by more than 20 percent for at least half the firms surveyed; **(iii) the pause in external financing:** Limited access to financing for the government led to an increase in fiscal pressure. Almost 70 percent of firms surveyed experienced an increase in tax pressure, with requests for advance tax payments and other cash advances.

All sectors of the economy were affected. Power cuts and the increase in the price of electricity following the interruption of power supply from Nigeria have affected the operations of businesses in all sectors. In the hospitality sector, hotel bookings fell by nearly 85 percent between August and November. In the construction sector, large public projects tied to external financing have been halted, with some companies in the sector ceasing operations altogether.

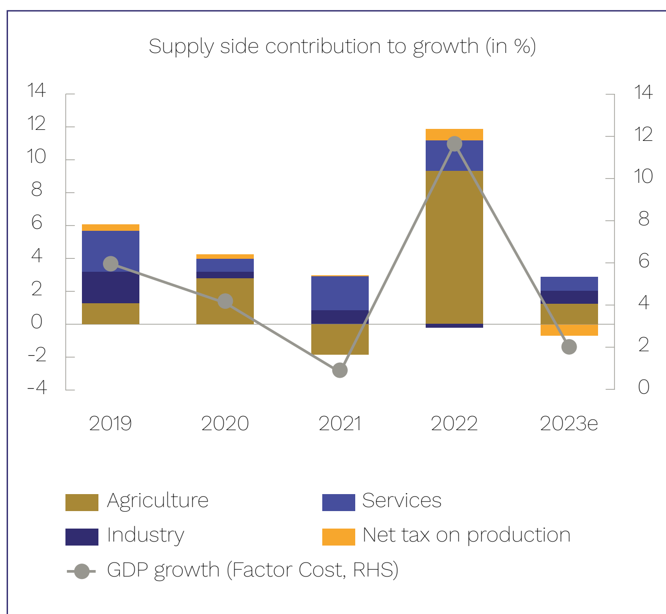
The constraints in the private sector have likely led to some firm closures and an increase in underemployment and unemployment. Many firms have had to reduce working hours or to lay off workers in order to continue their operations. However, some firms have had to cease operations. Although, there is no recent labor market data, the CCI highlights the likely increase in unemployment.

A firm survey is planned in April 2024 by the World Bank, in collaboration with the Ministry of Economic and Finance.

Source: Adopted from a summary of findings from a firm survey conducted by the Chamber of Commerce of Industry of Niger

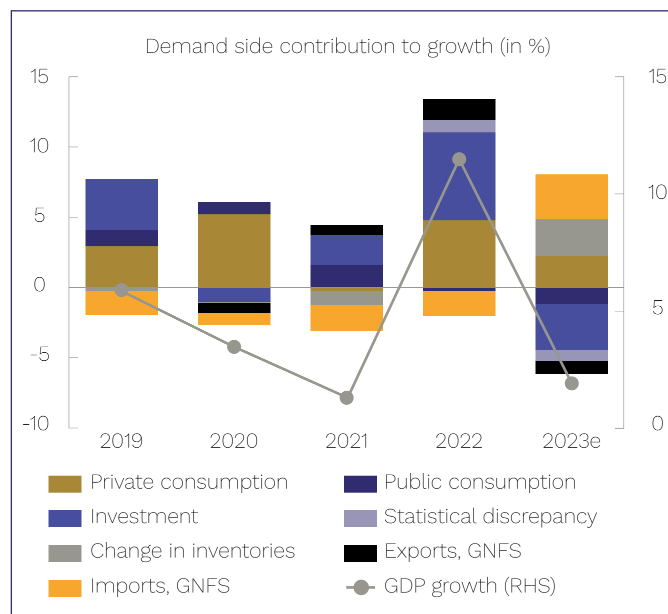
On the demand side, the trade sanctions and border closures reduced external demand and investment. The trade sanctions and border closures reduced exports, including uranium, and delayed the start of oil production for export. With a significant reduction in external budget support and project financing from international donors, large public investment projects such as the Kandjaji Dam have been put on hold. In addition, the financial sanctions implemented by the central bank, including the freezing of government and SOE accounts and the loss of access to the regional debt market, limited government consumption and investment. Private investment slowed amid heightened political uncertainty and reduced credit from the banking sector but remained positive, mainly due to investment from the first half of 2023. Private consumption (thanks to good agricultural production at the end of 2022, which were consumed in 2023) and the change in inventories (part of the crude oil produced and destined for export, which is currently in transit to the port of Benin, considered the exit point for exports) supported growth and helped avoid a contraction of the economy in 2023.

FIGURE 1.2 On the supply side, agriculture, services and industry contributed to growth



Source: INSN and World Bank staff estimates

FIGURE 1.3 Private consumption and inventory from oil production contributed to growth on the demand side



Source: INSN and World Bank staff estimates

The sanctions significantly disrupted the external accounts…

The sanctions have severely disrupted external trade transactions in 2023. Niger has a large structural trade deficit, being a net food importer and relies extensively on imports to meet the demand for energy, capital, and intermediate goods. Before the crisis, the trade balance was expected to deteriorate given large imports of capital goods and services for ongoing large infrastructure projects. Border closures severely impacted formal trade volumes, with exports (namely uranium, gold, and onions) declining by 8.1 percent and imports (namely, electricity and capital goods) falling by 12 percent. Nonetheless, informal trade (food and other goods such as fuel and livestock) remained significant, especially along the long Niger-Nigerian border as evidenced by the continued availability of imported goods in markets in Diffa, and Zinder (See Box 1.3 for more detail).

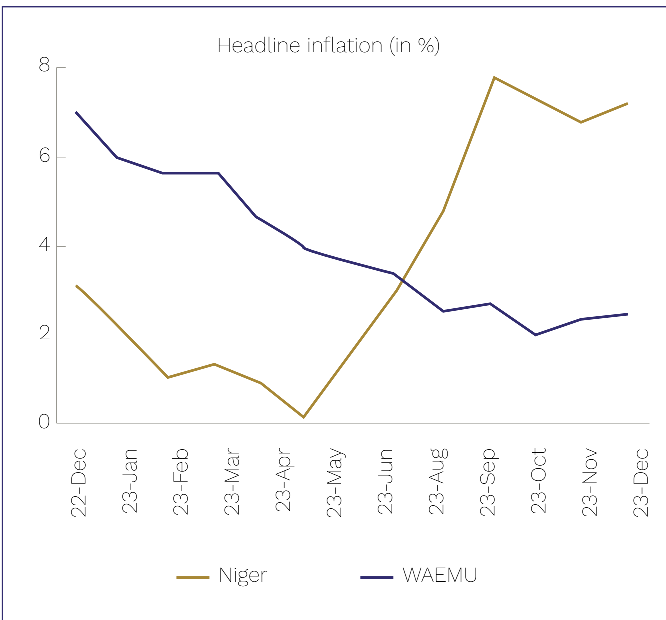
Disruption in trade led the current account deficit to moderately widen. The large decline in imports led to a smaller trade deficit of 9.3 percent of GDP than the 13.4 percent initially projected. Despite the suspension of official development assistance, the primary and secondary income balance is expected to remain positive but narrowed to 0.1 percent of GDP (2022: 1.4 percent of GDP) due to remittance inflows continuing despite the financial sanctions via regional money transfer agencies that operated outside the BCEAO network. As a result, the current account deficit slightly improved to 9.3% of GDP in 2023, from 9.8 percent of GDP in 2022.

The capital account balance is expected to narrow to about 1 percent of GDP due to reduced issuances on the WAEMU regional bond market and a decline in drawings on external debt. On the financial account side, foreign direct investment and portfolio investment remained dynamic thanks to the finalization of oil -related investments in the first half of 2023, before the crisis. However, the slowdown in the pace of major private investment after the crisis and the reduction of financial transactions with external financial institutions (trade credit, currencies, and deposits) affected financial inflows leading to a reduction of financial account balance from 6.9 percent of GDP in 2022 to 5.6 percent of GDP in 2023.

... and caused prices to rise sharply in the second half of 2023

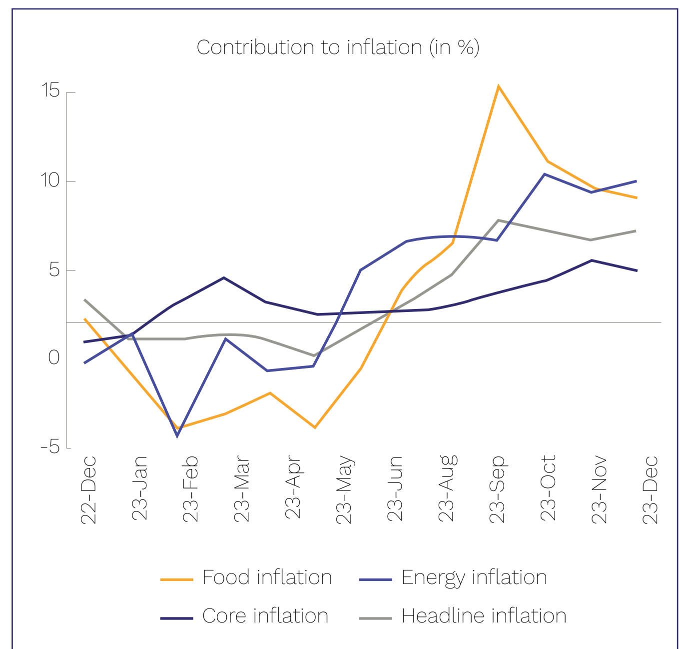
After declining consecutively between January and July, inflation has risen continuously since August 2023, exceeding the average in the WAEMU region (3%). As Niger is heavily dependent on food imports, the combination of low agricultural production and closure of borders and major corridors (Benin and Nigeria) led to a fall in supply, resulting in price hikes especially during the second half of the year. In fact, pre-crisis the year-on-year inflation rate was on a downward trend in 2023, declining from 3.1 percent in January to 0.2 percent in May 2023 (Figure 1.4). However, from June 2023, year-on-year inflation was on an upward trend, reaching 7.2 percent in December 2023, mainly driven by higher food and energy prices other than electricity and fuel for which prices remained unchanged since August 2022 (Figure 1.5). Niger's annual average inflation reached 3.7 percent 2023 above the WAEMU's convergence range of 1-3 percent.

FIGURE 1.4 After declining consecutively between January and May, inflation has risen continuously since August 2023, above WAEMU region average



Source: INS and World Bank staff calculation

FIGURE 1.5 Food and energy prices have contributed the most to the increase in inflation



Source: INS and World Bank staff calculation

BOX 1.2 IMPACTS OF THE STOP IN ELECTRICITY IMPORTS FROM NIGERIA

Before the crisis, electricity imports from Nigeria accounted for 71% of national consumption, mainly benefiting two regions – the Western Zone (Niamey, Dosso and Tillaberi) and the Central Eastern Zone (Maradi, Tahoua and Zinder). In the Western Zone, the installed capacity is ~169MW (excluding imports), while the maximum demand is currently ~220MW between 8pm and midnight. Without imports from Nigeria, ~23% of the peak demand would not be met. The situation in the Center-East zone is more critical with an installed functional capacity of ~25MW (excluding imports) against a maximum demand of more than 50MW. Without imports from Nigeria, more than half of the demand would not be met during peak hours.

After Nigeria stopped exporting electricity to Niger on July 31st, NIGELEC – Niger's national electricity company – ramped up domestic power production significantly, albeit at higher generation costs. Nigelec increased domestic production at the existing Gorou Banda diesel plant (80 MW), the Istithmar IPP (89 MW in Niamey and 22 MW in Zinder) and was able to commission the Gorou Banda solar plant (50 MW). Niger was able to do this despite the sanctions due to domestic supply of fuel from the local refinery (SORAZ), which refines local crude oil from the CNPC oil company for its local thermal power plants. Niger was able to significantly reduce electricity rationing, and blackouts observed at the beginning of the crisis.

As a result of higher costs to supply electricity while tariffs remain unchanged, NIGELEC's financial situation has deteriorated, with higher-than-expected deficits in 2023 to 2027. Imports from Nigeria were the cheapest source of power supply at 6 US cents/kWh, while the local diesel plants are more expensive. The financial deficit for Nigelec/the sector in 2023 due to tariffs

being below cost recovery level is expected to be higher than previously estimated (FCFA 28 billion pre crisis due to the delay in tariff increase).

The sanctions and disruption in external financing have also delayed policy reforms and energy sector expansion. Planned (lower cost) generation expansion depends on projects that have been delayed by the sanctions and disruption in development financing, including Scaling Solar, Dorsale Nord Interconnection (Nigeria), and Kandaji.

Shifting from imported electricity to domestic power production in the generation mix could become a longer-term energy security strategy, which would increase the cost of electricity at least in the short-term. In addition, it has been announced that tariffs will remain unchanged in 2024, while the Government's ability to subsidize the sector is now significantly lower due to limited fiscal space. Nigelec's financial deficits could increase further, limiting its ability to make investments needed to expand access. Niger's ambitious plans for increasing electricity access (tripling number of connections and energy consumption by 2030) could be scaled back significantly. Already in 2023, given the reduced energy supply, Nigelec had to pause new electricity connections.

The financial sanctions led to a liquidity crisis and a deterioration of portfolio quality in the banking sector

The sanctions created a liquidity crisis in the domestic banking sector. The announcement and implementation of the sanctions led to large withdrawals and a decline in deposits by consumers and businesses in the banking and microfinance sectors. This was exacerbated by the fact that access to liquidity through the BCEAO was constrained to BCEAO's short-term/ weekly refinancing windows and not the longer-term liquidity.[7] In addition, Nigerien banks held bonds issued by WAEMU governments (including Niger), which due to the sanctions meant they were not able to receive payments on the bonds, further affecting liquidity. According to BCEAO data, at the end of December 2023, banks' cash holdings was down by 52.3 percent compared to December 2022. In response to the decrease in liquidity, commercial banks imposed daily limits on cash withdrawals, with only a few banks allowing withdrawals up to XOF 500,000 (US$ 815) per day.

The liquidity crisis persisted despite the financial sanctions being lifted. As of mid-March, several banks continued to implement daily cash withdrawal limits. Only a fraction of the banks held government bonds from other WAEMU countries, so were able to access the payments made by those countries during the sanctions but held in frozen accounts. However, all banks continue to face liquidity constraints due to limited access to new government securities, higher liquidity price stemming from monetary policy tightening by BCEAO, and lower deposits by consumers.

In addition, banks' portfolios have deteriorated, and lending has slowed. According to the BCEAO, at the end of December, NPLs reached 23 percent, compared to 8.7 percent in WAEMU. The ratio varies across banks, with those providing credit for public spending and import-export being the most impacted. The quality of the portfolio deteriorated further than the NPL ratio suggests, because Nigerien banks are holding unpaid Niger government bonds that the WEAMU banking commission has decided to not classify as non-performing. Moreover, in December 2023, the value of new bank loans declined by 4.7 percent yoy, mainly due to a slowdown in lending to the private sector.

[7] According to the BCEAO, Nigerien Banks had access to all the liquidity windows at the BCEAO during the sanctions, but they could not increase their liquidity because (i) they did not have enough government bonds since they couldn't participate in regional bonds market; and (ii) they couldn't offer competitive rates amidst monetary policy tightening.

The fiscal performance in 2023 was characterized by budget cuts, accumulation of arrears, and use of parallel systems for public finance management[8]

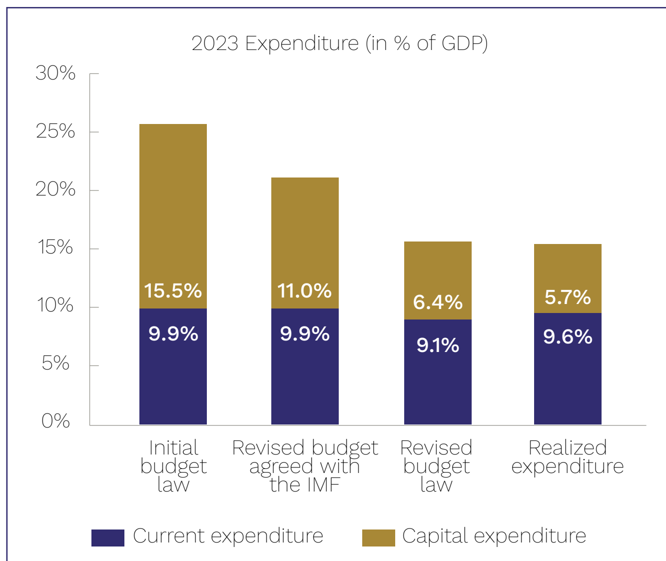
In response to reduced revenues and financing, the authorities revised the budget for 2023 by cutting capital expenditures. The crisis, sanctions and subsequent economic slowdown led to a decrease in tax revenue. Moreover, budget financing was significantly impacted by the loss of access to the regional bond market and remove non necessary space disruption in external financing. Consequently, the government adopted a new budget law for 2023, with a downward revision in revenues, expenditures, and the fiscal deficit. Expenditures were projected to decline by 9.7 percent of GDP, compared to the initial budget, and by 5.4 percent of GDP, compared to the revised budget submitted to the IMF Board. However, the outturn for 2023 revealed that expenditures declined by 10.3 percent of GDP, compared to the initial budget law, by only 0.6 percent of GDP, compared to the revised budget law. As expected, the public sector wage bill was prioritized while capital investment was cut significantly (Figure 1.6). Total revenues in 2023 were projected to decline by 4.5 percent of GDP compared to the initial budget law and by 1.5 percent of GDP compared to the revised budget submitted to the IMF Board in June 2023, but, total revenue was estimated at 10.5 percent of GDP. That the revenue decline was not more severe given the freezing of public assets in BCEAO accounts was due to actions taken by the authorities, including requesting payment of taxes in cash.

The budget deficit was estimated at 5.4 percent of GDP in 2023, compared to 1.4 percent of GDP in the revised budget law and 5.3 percent of GDP in the revised budget submitted to the IMF board on July 5, 2023. At the end of December, realized expenditures stood at 15.9 percent of GDP, while revenue collected was estimated at about 10.5 percent of GDP. The deficit includes interest arrears accumulated in 2023.

Public financial management has been weakened, first during the sanctions and now by a recent presidential decree exempting defense spending from controls. As the government did not have access to its treasury accounts at the central bank, it had to conduct transactions outside of the established PFM systems. With the sanctions lifted, the administration should be able to return to using the PFM systems. On February 23, 2024, a presidential decree (Ordonnance No 2024-05) declared that the purchase of equipment of any kind, and services or projects carried out for the benefit of both the armed forces and the presidential palace, are no longer subject to public procurement and public accounting laws. These expenses are also exempted from taxation until the end of the transition period. The decree also applies to purchases of goods and services and projects for the benefit of official residencies. This decree would make Niger an outlier among Sahel countries in terms of lack of transparency and accountability on defense and security spending.

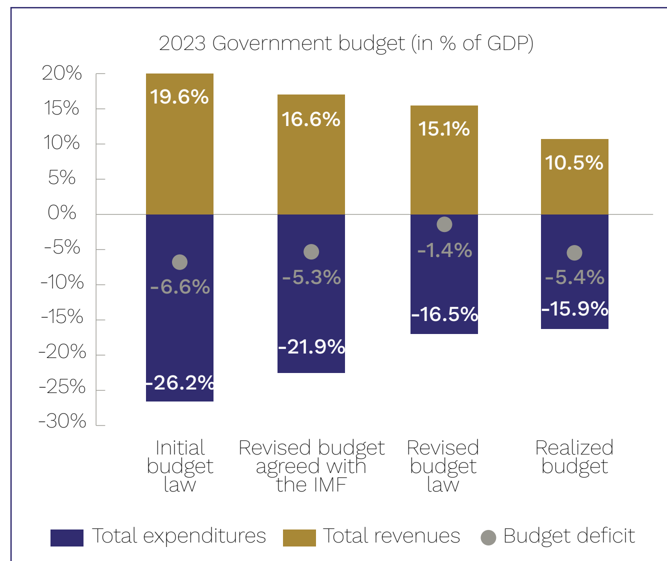
[8] *Fiscal numbers for 2023 will likely be updated before publication of the Economic Update.*

FIGURE 1.6 Total expenditures in 2023 were revised down by 9.7% of GDP compared to the initial budget law



Source: MOF and WB Staff calculations

FIGURE 1.7 With limited access to financing, the budget deficit was reduced to 1.4% of GDP in the revised budget but reached 5.4 % of GDP in 2023



Source: MOF and WB Staff calculations
Note: Expenditures include net lending The realized expenditure includes interest arrears. Without interest arrears the realized budget deficit is estimated at 4.9% of GDP

With no access to its account at the central bank, the government accumulated domestic and external arrears. Niger's Public Treasury missed several debt repayments to bond holders on the regional market. According to UMOA-Titres, the regional agency responsible for promoting and managing treasury bonds in the WAEMU zone, at the end of December 2023, the Nigerien government had failed to repay a total of CFAF 267 billion in principal and interest payments (see Table 2).[9] In sum, total domestic arrears were estimated at CFAF 395.2 billion at the end of December 2023.[10] Furthermore, the government has also accumulated external arrears with regional and international financial/development institutions, estimated at CFAF 70.5 billion. Following the missed repayments, Moody's downgraded Niger's credit rating from B3 to Caa2, then to Caa3.

TABLE 1.1 Missed repayments by the government of Niger on the regional bond market

	At the end of Dec. 2023 CFAF billion	At end of February 19, 2024 CFAF billion
Missed payments	267.1	313.9
Principal	260.5	300.1
Interest	~6.5	13.8

Source: UMOA -Titres and WB staff calculations

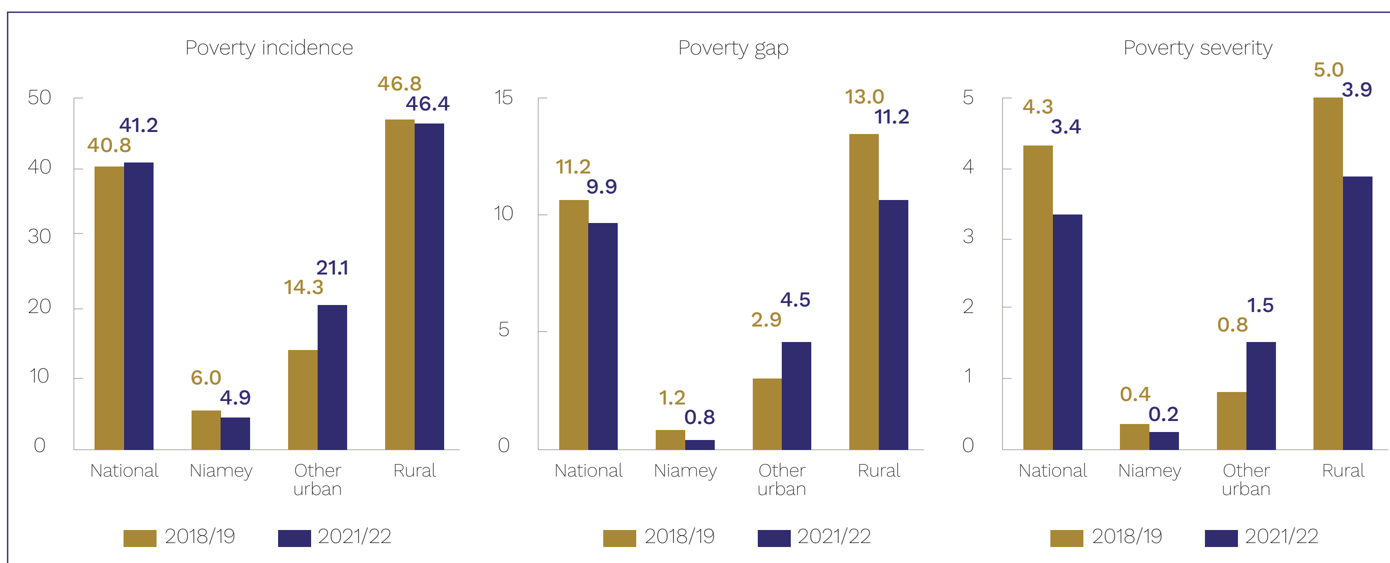
Public debt as a share of GDP is expected to have risen to around 54.7% in 2023 based on the projected fiscal deficit and low GDP growth. This includes expected domestic expenditure arrears, estimated at less than 1 percent of GDP, incurred to maintain expenditures. The last joint Bank-Fund Debt Sustainability Analysis (DSA) conducted in June 2023 had concluded that the overall risk of debt distress remains moderate. This risk rating is likely to remain unchanged given that the arrears were due to sanctions and not a lack of capacity to repay. As of end-April, the government has started to clear its stock of arrears, allowing it to resume access to (concessional) financing and supporting debt sustainability.

[9] *By February 19, 2024, the of the amount had reached CFAF 313.9 billion.*
[10] *According to IMF data*

The poverty rate at national poverty line, remained unchanged during 2018-2021.

The incidence of poverty, as measured using the national poverty line, remained virtually unchanged at around 41 percent between 2018 and 2021. However, due to high population growth (3.7 percent), this corresponds to one million additional poor people over the period, from 8.9 to 9.9 million. At the same time, we observe an opposite trend in the indicators of the poverty gap and the poverty severity, which have decreased over the period, suggesting that the situation of the poor and the poorest was better at the end of 2018-2021.

FIGURE 1.8 Changes in monetary poverty indicators 2018/19 - 2021/22 by area of residence

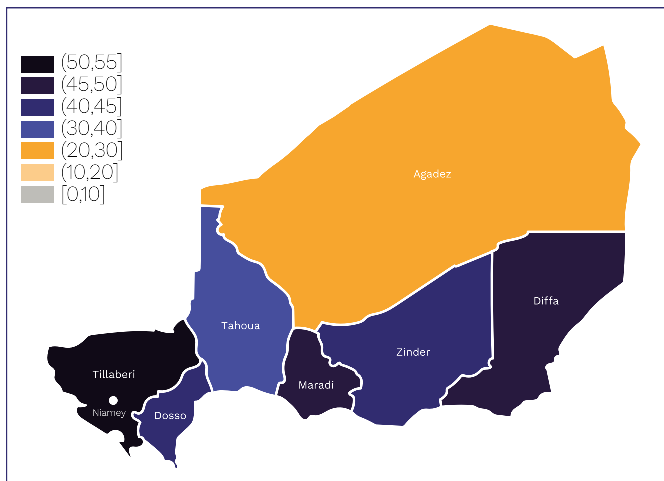


Source: World Bank calculations based on EHCVM 2018/19 and 2021/22using the national poverty line

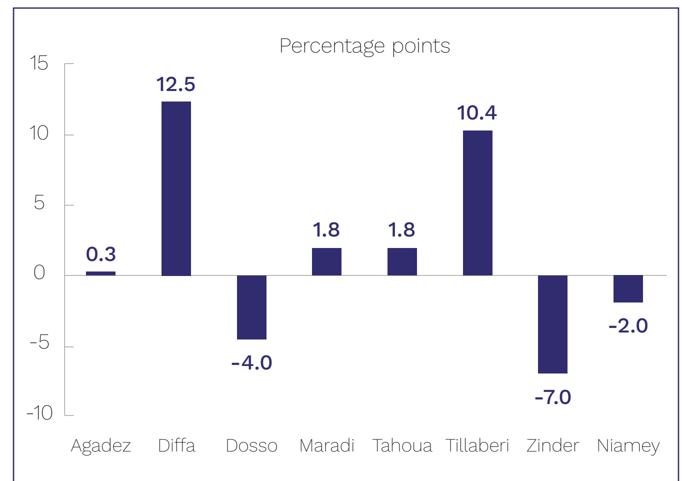
There are significant spatial disparities in poverty. While the slight increase in the poverty incidence is driven by the increase in urban poverty, the reductions in the poverty gap and in the poverty-severity is the result of the reduction in rural poverty. Inflation during the period seems to have mainly affected urban households, which explains the increase in urban poverty, while the reduction in rural poverty is explained by the good performance of the agricultural sector in 2022. Moreover, there were significant disparities in monetary poverty among Niger's regions, with Tillaberi remaining the poorest region with a poverty incidence of 52.7 percent, followed by Maradi and Diffa (48.0 and 46.4 percent respectively). Niamey and Agadez remain the least poor regions with incidences of 4.9 and 14.4 percent respectively (Figure 1.9).

FIGURE 1.9 Poverty profile and trends by region: 2018/19-2021/22

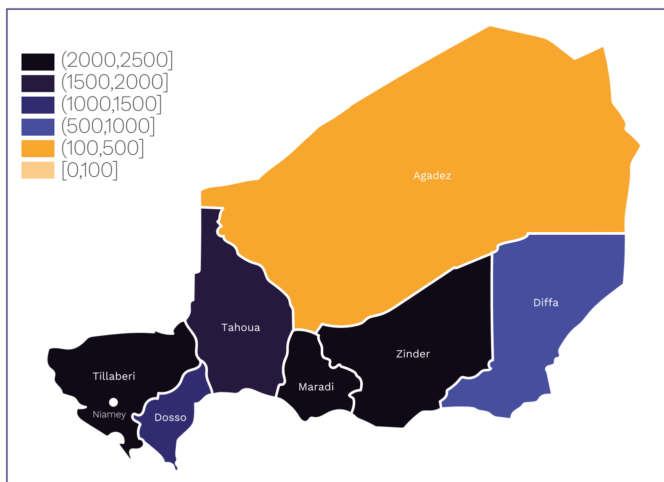
(a) Poverty incidence map, 2021/22



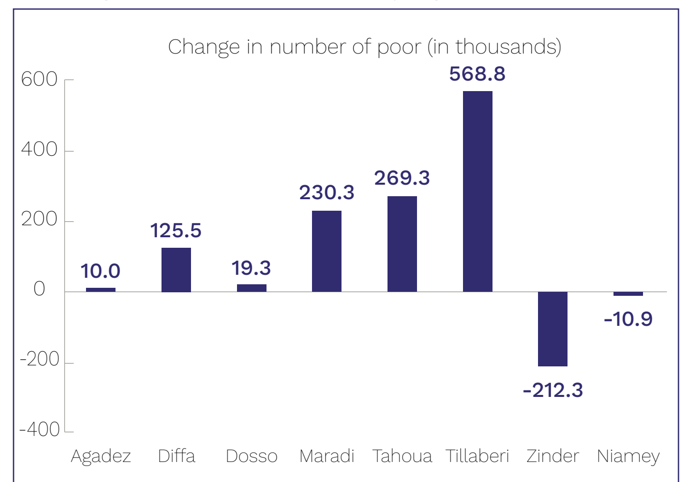
(b) Changes in poverty incidences by region: 2018/19 - 2021/22



(c) Map of poor people numbers, 2021/22



(d) Changes in the number of poor by region: 2018/19 -2021/22



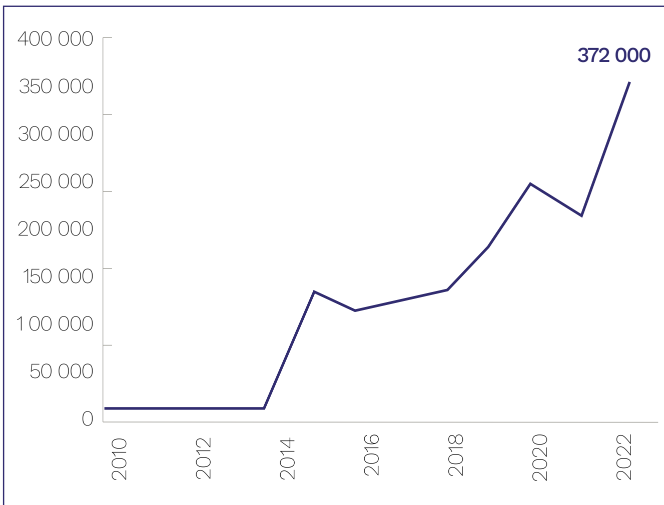
Source: World Bank staff calculation based on EHCVM 2018/19 and 2021/22

In 2023, the extreme poverty rate, using the international poverty line, is estimated to have remained unchanged (48.4 percent). While overall GDP per capita contracted, agricultural GDP per capita expended marginally by 0.12 percent, leading the extreme poverty rate to remain unchanged, despite the increase in food prices in the second half of the year. On the one hand, the rise in food prices mainly affects households in urban areas where the poverty rate is relatively lower, thus limiting the number of households being pushed into poverty. On the other hand, the marginal increase in agricultural GDP per capita directly affects households in rural areas where the poverty rate is relatively higher.

Elevated food prices have also led to a rise in food insecurity, intensifying the humanitarian situation.

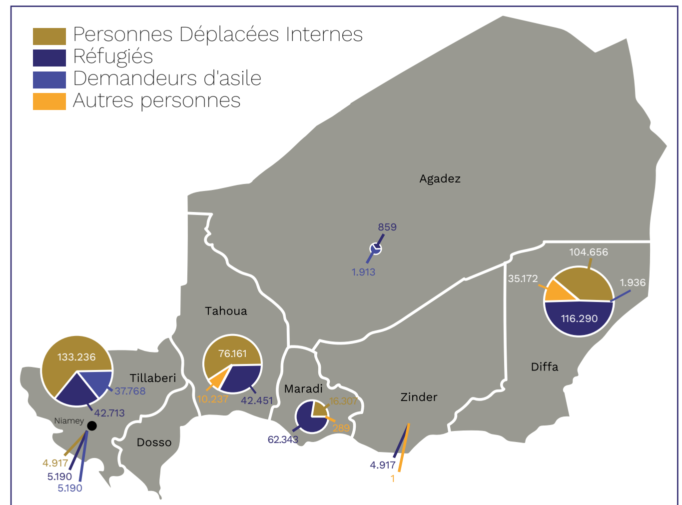
2.3 million people (8.9 percent of the population) were estimated to be food insecure in Q4-2023, 13 percent higher than Q4 2022, due to food deficit, inflation, and insecurity (Box1.3). There are also estimated around 300,000 internally displaced persons due to insecurity and an equal number of refugees, chiefly from Nigeria, Mali, and Burkina Faso. The crisis and border closures have led to severe disruptions in the delivery of humanitarian aid. With persistent insecurity, the Tillaberi, Tahoua, Diffa, and Maradi regions are most affected by displacements, which are exacerbated by climate shocks such as flooding and droughts. Furthermore, over 621 schools have been closed as a result of insecurity, with more than 55,000 deprived of schooling as a result.

FIGURE 1.10 The number of internally displaced persons (IDPs) has risen sharply in recent years



Source: Internal Displacement Monitoring Centre

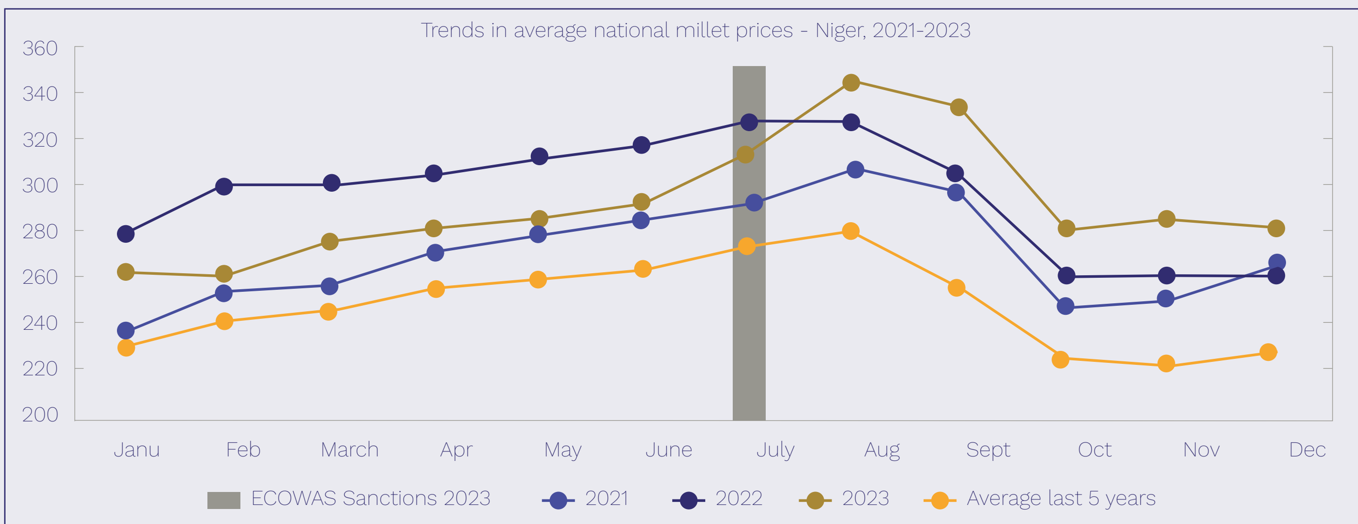
FIGURE 1.11 Mapping of forced displacement in Niger



Source: UNHCR, January 2024.

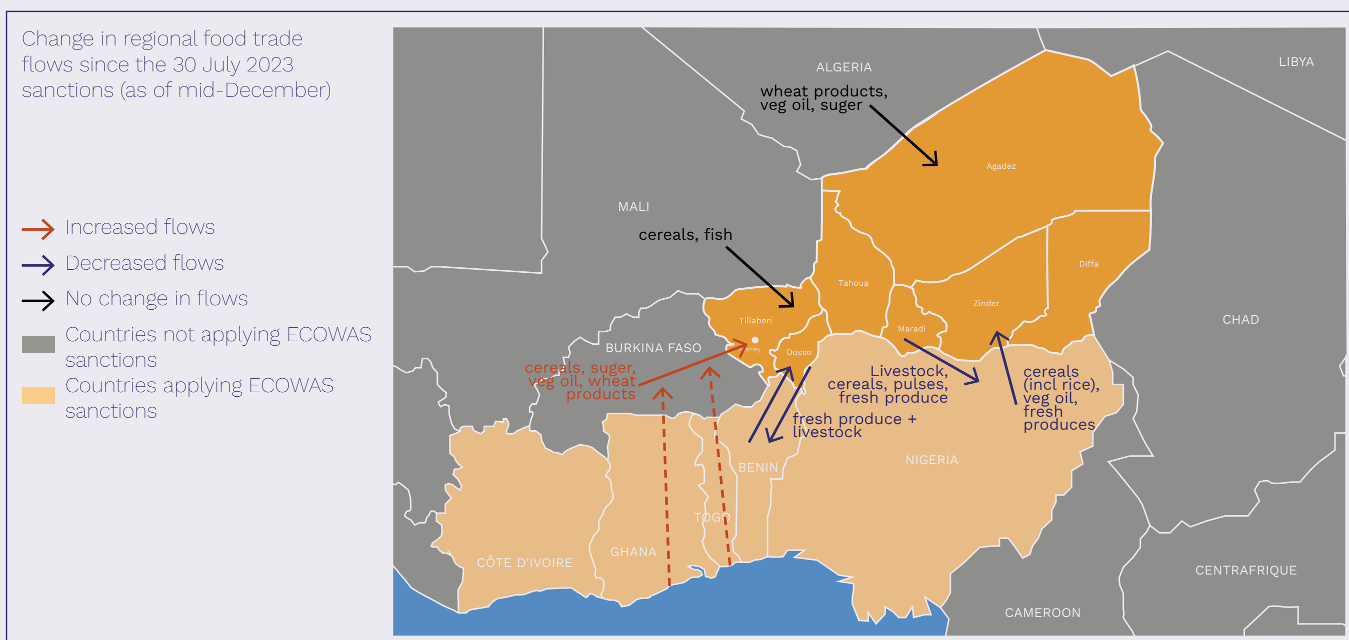
BOX 1.3 FOOD MARKETS AND FOOD INSECURITY DEVELOPMENTS

Niger faced unusually high food prices throughout 2023, even before the military crisis and subsequent ECOWAS-imposed sanctions. Before the crisis in July, national prices of millet, the country's main staple grain were already 12% above the five-year seasonal average. **This was then significantly exacerbated by border closures with key trading partners Nigeria and Benin after the crisis** with prices of imported rice in particular soaring by 17% week-on-week in the week following the crisis By end of August - the peak of the lean season, when households are most at risk of food insecurity – the price of millet was 23% higher than the seasonal average and 5% higher than the previous record-breaking levels of 2022. While the local harvest brought a temporary dip in prices in September, prices remain relatively high.



Source: Data from Système d'Information des Marchés Agricoles (SIMA) Niger; Analysis by WFP

Food remained largely available in markets despite the sanctions – albeit at much higher prices -thanks to significant informal trade flows. While formal trade with Nigeria and Benin fell, food imports into Niger continued through informal channels along the porous borders (as reported by traders and local authorities and evidenced by the continued availability of imported goods in the Diffa, Maradi and Zinder markets). Niger's non-ECOWAS neighbors maintained open borders (while Libya and Chad play a minor role, Algeria remained a crucial source of oil, sugar, and wheat products). Mali and Burkina Faso, who did not apply the sanctions, lifted previously imposed cereal export bans as a gesture of solidarity towards Niger's new authorities. Plus, Burkina Faso and Niger organized joint escorted convoys to bring in goods through routes that had been previously abandoned due to insecurity. The new authorities also took several steps to bolster food availability, including releasing stocks intended for exports on local markets, cutting import taxes for key staples, and warning wholesalers against engaging in speculation/ stock hoarding to increase prices further. While no shortages were reported (apart from a brief shortage of imported rice), food stocks nevertheless remained lower than usual – in particular in hard-to-reach areas, where 50% of households surveyed in the aforementioned October 2023 national survey reported decreased availability of staple foods in their local market in the past four weeks.



Source: WFP analysis based on key informant interviews with local authorities, traders, and market analysts

The crisis's impact on food prices and livelihoods directly impacted the country's already worrying food security situation and fragile economy. The latest Cadre Harmonisé/ IPC analysis conducted in March 2024 projects that 3.4 million people (12.9 percent of the total population) will be severely food insecure during the June- August 2024 lean season period (categorized in Cadre Harmonisé crisis or emergency phase). This represents an 18 percent increase compared to the same period in 2023. Key drivers include food prices inflation, pockets of low crop or fodder production due to localized drought (especially in pastoral areas) during the 2023 growing season, and insecurity. These supply-side factors were compounded by falling household income due to loss of livelihoods due to the political crisis. The national food security survey conducted in October 2023 (Sites Sentinelles) found that 34% of households living in accessible areas and 66% of those in hard-to-reach areas reported experiencing unusual livelihoods-related challenges over the previous two months – with the most widely-reported challenge being the decrease in selling price and/or demand for commodities produced or sold by the household due to border closures.

Food insecurity was also exacerbated by disruptions to humanitarian assistance programmes in 2023 - in part due to the political crisis and sanctions, which prevented imports of food and specialized nutritious products for children, reduced donor funding for the government and partner's food assistance programmes, and restricted humanitarian access to parts of the country. This has a direct knock-on effect on 2024 food insecurity and child malnutrition levels, as households who were already severely food insecure last year but were not assisted are extremely likely to fall further into food insecurity during the upcoming lean season.

Source: World Food Programme Niger

1.3 Economic and Poverty Outlook

With sanctions lifted, large-scale oil production and exports effective, and a significant share of arrears cleared, growth is set to recover, but the outlook is subject to significant downside risks.

As of May, the government had cleared a significant portion of domestic and external arrears. First, the government has cleared its arrears to the World Bank and African Development Bank at the end of April 2024. Second, the government reached on an agreement with UMOA-Titres on its domestic arrears in order to re-tap the regional market. Under the agreement, (i) Niger agrees to pay half of the interest arrears; (ii) the capital arrears will be refinanced with the new bonds; (iii) Niger agrees to pay the remaining half of the interest arrears within 30 days. Following the agreement, on April 26, Niger successfully raised 457 billion in its first foray into the regional financial market since August 2023. The issuance, totaling ~419 billion CFAF (equivalent to the amount of market debt maturing between July 2023 and April 2024), comprised treasury bills (maturity 12 months) and treasury bonds (maturity 3 years et 5 years).

Growth in 2024 could rebound to 5.7 percent (1.8 percent per capita) in 2024 and average 6.5 percent in 2025-26, boosted by large oil exports. The non-oil industry and services sectors, which have accumulated losses in 2023, face a difficult recovery. This projection includes the expected negative growth impacts of an orderly ECOWAS withdrawal (Box 1.4), which assumes that trade and transit agreements are put in place and free movement of goods, services, and people are maintained, thereby limiting impacts to higher trade costs (new tariffs) and lower trade with non-WAEMU ECOWAS countries, higher investors' risk premia, and increased regional financing costs. The fiscal sector will continue to face financing constraints as several development partners will likely continue to pause their financial commitments, and because of costlier domestic borrowing.Inflation is projected to reach 8.5 percent in 2024 due to the border closure with Benin, and the lower cereal production during the 2023/2024 agricultural campaign compared to the 2022/2023 campaign. Inflation is expected to remain above 3 percent in 2025-26 as the resumption of large imports from the region is offset by higher import costs due to the exit from the ECOWAS free trade area. With the start of oil exports, the current account deficit is projected to narrow slightly from 9.3 percent of GDP in 2023 to 8.3 percent in 2024.

Large-scale oil production has begun, with crude oil reaching the port in Sèmè (Benin), but effective export – shipment from the port- was delayed due trade dispute with Benin. Following the commissioning of the Niger-Benin pipeline in November 2023, oil production rose above domestic consumption for testing along the pipeline and pre-filling of storage tanks. Crude oil was subsequently pumped through the pipeline and reached the port in Sèmè at the end of April, but shipment has been delayed due to Benin preventing ships to load until Niger reopens the land border with Benin, which remains close despite the lifting of sanctions. In mid-May and mid-August, the Benin authorities authorized ships to load and export crude oil from Niger. However, the escalation of the trade dispute led the Niger authorities to close the pipeline and halt oil production for export in mid-June. With oil exports effective, Nigerien authorities expect oil production to reach nearly 107,000 barrels/day in 2024, a more than 5-fold-increase in domestic oil production, compared to previous years (~20,000 barrels/day). Assuming oil prices at US$60/barrel in 2010 constant prices, the production increase will lead the oil sector to account for 13 percent of Niger's GDP (up from ~2 percent in 2023).

In anticipation of crude oil exports, Niger borrowed US$400 million from China, repayable over one year at 7 percent interest. Niger and China signed a total

of three agreements, including the loan agreement for the advance payment, a memorandum of understanding, and a contract for the joint marketing of crude oil. The loan is secured by Niger's share of crude oil destined for exports, however additional details of the loan such as production and price assumptions have not been disclosed. The agreements are for one year, and the prime minister noted that the government will re-evaluate and choose the deal/partner that best serves the country's interests.

The outlook remains subject to significant downside risks, including a deterioration in the security situation, terms of trade shocks, climatic shocks, difficult financing conditions, the withdrawal from ECOWAS, and sustained political tension. An ECOWAS withdrawal that has gaps in agreements leading to larger disruptions to transport, transit and free movement of goods, services, capital and labor and spillovers onto WAEMU trade would see larger negative impacts of the exit. Realizing new trade opportunities would mitigate impacts (Box 1.4). Sustained or escalation of political tensions between Benin and Niger will contribute to higher trade costs and further delay oil exports. The uncertain outlook has translated into a higher risk premium on Niger's bonds, with higher interest rates on the country's issuances on the regional bond market in 2024. Further economic policy uncertainty could lead to higher regional financing costs and the BCEAO may need to continue monetary tightening in 2024 to bring inflation under control. A financing squeeze could lead to cuts in public expenditure, affecting growth-enhancing investments, as security expenditure pressures mount.

The national budget for 2024 is underpinned by increased revenues from large-scale oil exports but may not be realistic in terms of revenue or financing sources[11]

According to the approved budget for 2024, revenues are expected to recover. The key assumptions that underpinned the initial budget law include (i) the lifting of sanctions in early 2024, with borders fully open for international trade; (ii) a resumption of disbursements (projects and budget support) by external partners; (iii) economic growth of 11.3 percent; (iv) oil production of 107,000 barrels/day valued at US$79.9/barrel.

The increase in oil production and export is expected to increase government revenues. Total revenue is expected to reach 16.8 percent of GDP, mainly supported by a recovery in tax revenue to 11.8 percent of GDP, compared to 8.1 percent of GDP in 2023. Oil-related revenues are expected to reach 3.9 percent of GDP (Figure 1.14). This represents about 23.5 percent of total government revenue and 33.4 percent of tax revenue. The projected oil revenues are based on production reaching nearly 107,000 barrels a day over the entire year priced at US$79.9 per barrel.

Meanwhile, a recovery in capital expenditure will boost total expenditure. Expenditure rationing in 2023 mainly concerned capital expenditure, while current spending remained almost the same. In 2024, total expenditure is expected to reach 20.2 percent of GDP, compared to 15.9 percent of GDP in 2023. Capital expenditures are projected at 11.3 percent of GDP, and current expenditure at 8.9 percent of GDP, compared to 5.7 percent of GDP and 9.6 percent of GDP respectively in 2023.

The fiscal deficit is projected at CFAF 394 billion or 3.4 percent of GDP. Amortization is projected at 2.5 percent of GDP. To meet the gross financing needs of ~6 percent of GDP, the government plans to borrow from the regional bond market, but also from international partners for budget and project financing. In particular, the budget assumes project loans at 1.8 percent of GDP, budget support at 2.0 percent of GDP, and domestic borrowing at 2.2 percent of GDP.

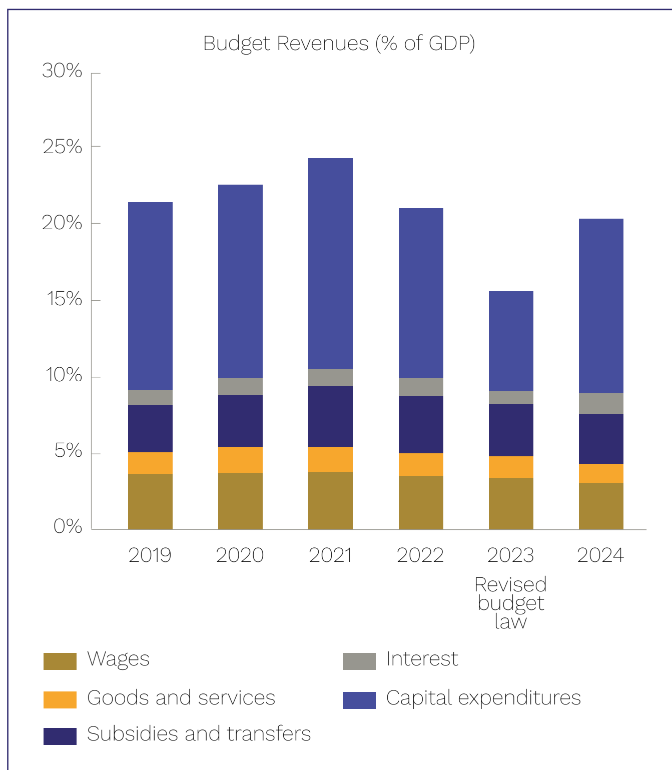
Revenue collection and financing in 2024 is likely to be lower than projected in the approved budget, which would then lead to lower expenditures than projected. First, large-scale oil production has begun, but exportation through the pipeline has been delayed due to trade dispute with Benin. The Beninese

[11] *Based on the initial budget law for 2024*

authorities have so far allowed only two cargoes of oil to be loaded and exported to China, and are preventing further shipments, demanding the re-opening of the land border. In response, the Nigerian authorities have closed the pipeline and halted oil production for export since mid-June. Second, the price of a barrel of oil used is the expected Brent oil price, which does not likely reflect the appropriate reference price for Niger. Third, the budget assumed a resumption in regional and external financing, including projects and budget financing, from international organizations/partners in early 2024. While the government has started to clear the stock of arrears access to financing will remain limited and costlier.

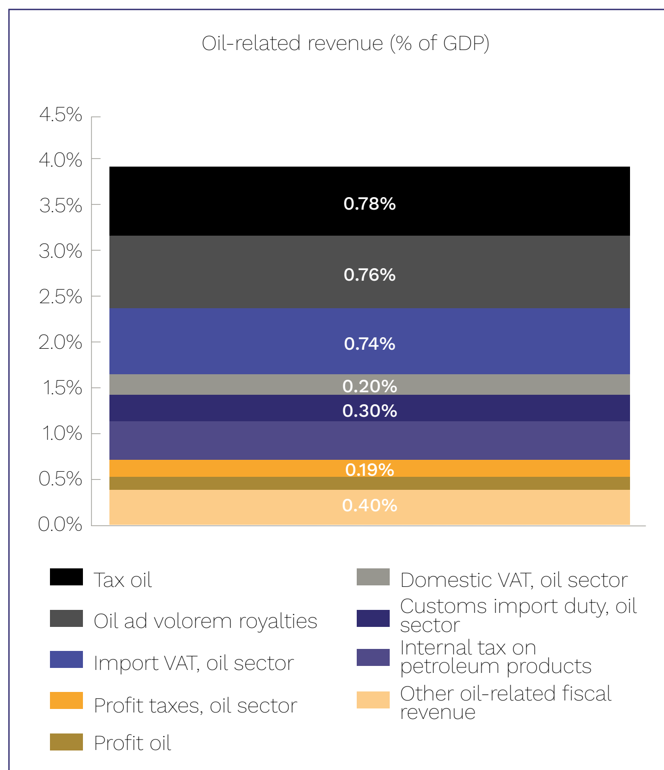
Borrowing on the regional market is likely to be limited and costlier so the fiscal envelope for expenditures (revenue plus financing) is therefore expected to be significantly smaller. After reaching an agreement with UMOA-Titres on its domestic arrears, Niger successfully raised CFA457 billion ($747 million) on April 26 on the regional financial market for the first time since August 2023. The interest rates were higher interest rates compared to those preceding the crisis, reflecting a premium for investing in Niger compared to other regional issuers. Nevertheless, these rates are comparable to those in Burkina Faso and Mali. **According to World Bank estimates, the fiscal deficit is likely to reach 4.4 percent of GDP, with revenues and expenditures projected at 10.9 and 15.2 percent of GDP respectively (Figure 1.16).**

FIGURE 1.12 In the approved budget revenues are projected to recover and reach 16.8 percent of GDP, fueled by goods and services and trade related tax revenue



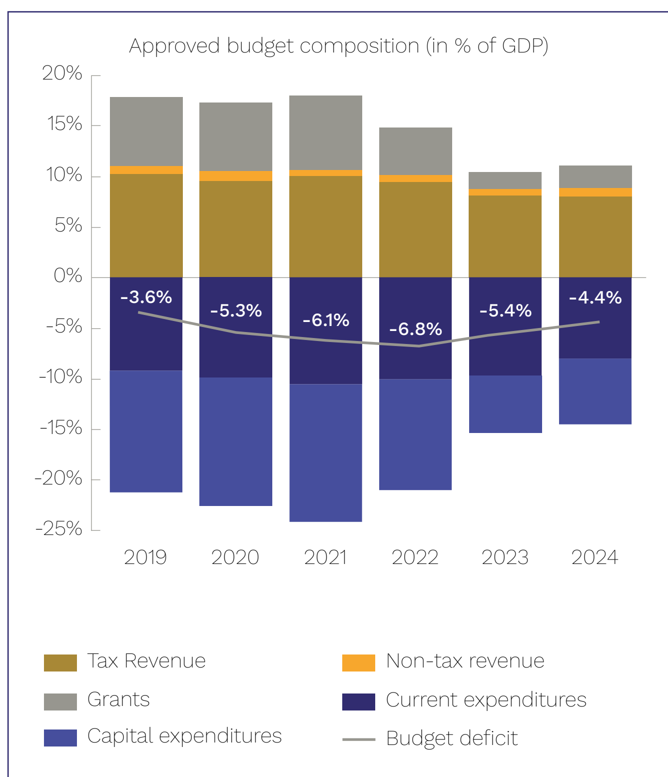
Source: Internal Displacement Monitoring Centre

FIGURE 1.13 According to the initial budget lawOil-related revenue is projected to reach 3.9 percent of GDP in 2024, with oil production projected to reach nearly 107,000 barrels/day



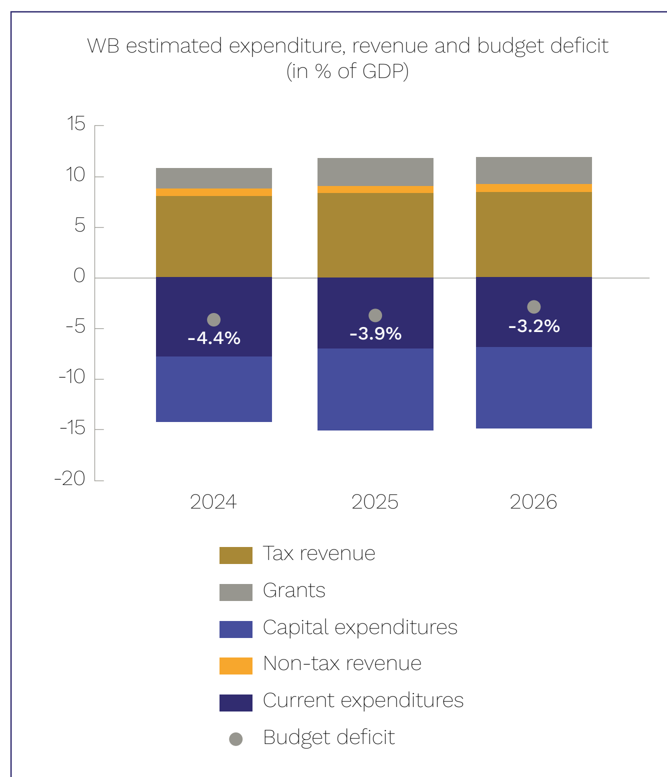
Source: UNHCR, January 2024.

FIGURE 1.14 The budget deficit is projected to narrow in 2024 in the approved budget



Source: MOF and WB Staff calculations

FIGURE 1.15 According to WB analysis, the fiscal deficit will likely reach 4.4% of GDP in 2024



Source: MOF and WB Staff calculations

The extreme poverty rate is expected to decline by 2024-26, in line with projected growth rates.

Over the period 2024-2026, the extreme poverty rate, at the international line (US$2.15 per person per day), is projected to decline, in line with the strong baseline growth projections. Assuming solid growth in agriculture sectors and policies that use increased oil revenues effectively for the population, the poverty rate is expected to decrease to 42.5 percent by 2026. Despite the relatively high inflation, expected to reach 8.5 percent in 2024 and average 5.4 percent in 2025-2026, the real GDP growth in agriculture, which accounts for about 69 percent of the income of poor households, is expected to be above 5 percent, significantly higher than the population growth. As a result, the number of absolute poor is projected to decrease and reach nearly 12.9 million people by 2026, representing a decrease by 473,000 poor since 2024.

However, the poverty outlook is subject to significant uncertainties. First, the evolution of poverty will critically depend on policies that transmit oil and gas rents to the general population, particularly the poor. This is the case when growth takes place in a sector that does not employ poor people. Second, nearly 80 percent of households depend mainly on agricultural activities which are vulnerable to climatic shocks. Finally, a deterioration of the security situation and an increase in IDPs would hinder poverty reductioreduction and exacerbate Niger's chronic food insecurity situation.

Policy options (see Table E.1) are available to strengthen Niger's macro-fiscal framework and support the economic recovery following seven (7) months of sanctions. In the short term, it is critical to (i) establish and implement a realistic and credible domestic arrears clearance plan to enable Niger to resume access to regional and external financing sources; (ii) return to established PFM systems; (iii) establish an effective management

framework for oil revenues, starting with oil revenue forecasting; and (iv) take actions to mitigate negative impacts of the ECOWAS withdrawal and minimize spillovers onto WAEMU trade. In the medium-term, establishing an oil sector regulator with adequate capacity could ensure the effective oversight and implementation of the regulation and that petroleum operations are being conducted efficiently, transparently and in accordance with best industry practices.

BOX 1.4 PRELIMINARY ANALYSES OF THE POTENTIAL IMPACTS OF THE ECOWAS WITHDRAWAL

This box looks at the existing regional linkages, lays out the key potential transmission channels and expected economic impacts of the withdrawal and highlights further risks, as well as opportunities. These are preliminary analyses based on scenarios and assumptions, which would need to be updated as the situation evolves, e.g., as bilateral trade agreements are negotiated, and external tariffs are set.

Burkina Faso, Mali and Niger have been members of the Economic Community of West African States (ECOWAS)[12] since 1975 and also the West African Economic and Monetary Union (WAEMU) since 1994. ECOWAS has an ambitious regional economic integration agenda promoting free movement of people, goods, capital and services (key instruments include the ECOWAS passport, a free trade area (FTA) with a common external tariff (CET), transport and transit regime, and regional integration projects such as the West African Power Pool (WAPP). WAEMU shares a complementary economic integration agenda (it also has a FTA with a CET aligned with ECOWAS). In addition, WAEMU member states are in a monetary union with a regional central bank (BCEAO) and a common monetary policy and currency. The WAEMU bond market is a key source of financing for member states, including Mali and Burkina Faso.

On January 28, 2024, in a joint communiqué, the three countries announced their immediate withdrawal from ECOWAS. According to the revised ECOWAS Treaty, a notification period of one year is required to leave ECOWAS. At the ECOWAS Heads of State summit held on February 24, 2024, ECOWAS lifted all sanctions on Niger and called for unity and the three countries to reconsider their decision.[13] The three countries remain members of WAEMU.

Existing socio-economic linkages between the three countries and the rest of ECOWAS (Figure 1.17 – 20):

The potential benefits of being part of a larger economic community are significant for the three smaller and landlocked countries: Burkina Faso, Mali and Niger are among the lower-income member states of ECOWAS, accounting for around 8 percent of GDP but 17 percent of the population. For the three countries, the key socio-economic linkages are imports from ECOWAS, land transit corridors and 3 million diaspora residing in the region:

- **The level of formal intra-ECOWAS trade is lower than that of other regional economic zones** - only 8 percent of total trade is intra-regional compared to 18 percent for the East Africa Community and 20 percent for the Southern African Development Community. Less than 5 percent of Burkina Faso, Mali and Niger's formal exports[14] go to ECOWAS as exports are dominated by gold (70-95 percent of total exports by value) and other extractives to countries outside of ECOWAS (Figure 1.17).

- **However, more than one-third (37 percent) of the three countries' imports of goods come from ECOWAS[15]** - in particular, food products and fuels from Cote d'Ivoire, Senegal, and Nigeria. Of that, Mali and Burkina mostly import from other WAEMU countries, whereas Niger also imports significantly from Nigeria (Figure 1.17).

- **In addition, a large share of domestic electricity demand has been met through regional imports:** Burkina Faso from Ghana, Mali from Cote d'Ivoire, and Niger from Nigeria, providing power at lower cost than domestic power production. However, this regional energy trade has been disrupted since 2023, contributing to electricity shortages and deepening financial deficits in the sector (Figure 1.18).[16]

- **Beyond direct trade, land transit corridors in the ECOWAS region are key for the three landlocked countries** to connect to other countries in the region and to the region's coastal ports (Dakar, Abidjan, Lome, Cotonou, Tema) for imports from the rest of the world (ROW) (Figure 1.19).[17]

- **People flows are substantial and bring in important remittances:** Burkina Faso, Mali and Niger citizens with the ECOWAS single passport travel visa free and have the right to reside and work in the region. Approximately 3 million diaspora members (Burkina Faso: 1.6 million, Mali: 900,000, Niger: 400,000) reside in ECOWAS (mostly in WAEMU i.e., Cote d'Ivoire, but also in

[12] ECOWAS membership in Jan 2024: 15 countries, with 8 also in WAEMU (Benin, Burkina Faso, Guinea-Bissau, Côte d'Ivoire, Mali, Niger, Senegal and Togo) and 7 non-WAEMU (Cabo Verde, The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone)
[13] ECOWAS (2024). Extraordinary Summit of the Ecowas Authority of Heads of State and Government on the Political, Peace and Security Situation in the Region. https://www.ecowas.int/wp-content/uploads/2024/02/EXT-ORD-SUMMIT-FINAL-COMMUNIQUE-ENGLISH-_240225_160529.pdf
[14] Informal exports are not captured in the data, including for example Niger's agricultural and livestock exports to Nigeria.
[15] Imports could reflect service trade integration where goods from outside ECOWAS are imported by the coastal countries, often by wholesalers, who then re-export them to the three countries.
[16] Exports of electricity from Cote d'Ivoire to Mali have declined from ~120 MW to ~10MW currently due to large payment arrears, contributing to the current energy crisis. Prior to the ECOWAS sanctions, 70 percent of Niger's electricity demand was met by imports from Nigeria; Niger ramped up domestic thermal production (more expensive) in response to the sanctions.
[17] Mali is primarily dependent on Dakar, Senegal, then Abidjan, CIV. Niger uses primarily Cotonou, Benin. Burkina Faso uses Lome, Togo, Abidjan, CIV and Tema, Ghana.

Nigeria), sending large remittances that support external balances and household incomes (Figure 1.20). The three countries are implicated in 21% of intra-ECOWAS remittances exchange (equivalent to around USD 3.5 billion).

Key Potential Channels of Transmission, ECOWAS Withdrawal Scenarios and Expected Impacts

Given the socioeconomic linkages, the key potential transmission channels for the three countries from leaving ECOWAS are disruptions to trade, transit and people flows and higher investors' risk premia.

■ **Trade Flows (Imports):** Higher import costs (due to new tariffs and non-trade barriers (NTBs)) would lower imports (foods and fuels) from non-WAEMU ECOWAS countries after leaving the ECOWAS FTA. In theory, trade with WAEMU countries should not be affected by leaving the ECOWAS FTA if the WAEMU FTA continues to function well.

■ **Transit Flows:** Disruptions to land transit corridors would reduce trade with other WAEMU countries and the ROW.

■ **Spillovers onto regional energy trade -** not directly linked to ECOWAS membership,[18] but could be impacted by broader regional dynamics. Reductions in electricity imports would likely increase the cost of power in the short term.

■ **People Flows:** Disruptions to the free movement of its citizens within the ECOWAS region.

■ **Increased economic policy uncertainty could lead to higher investors' risk premia and, in turn, higher costs of WAEMU regional financing.** Bond yields for Niger had already increased significantly since January 2022 up to July 2023 - similar to the rest of WAEMU (1-year T-bills at 7.69 percent and 3-year bonds at 7.37 percent). Niger lost access to the WAEMU regional bond market due to the sanctions. It regained access in April 2024; average yields for all instruments have been more than 100 basis points higher compared to June-July 2023.

The importance of the transmission channels and the expected impacts on the economy will depend on the manner of the ECOWAS exit and if there are spillovers onto WAEMU trade and onto regional energy trade. Given the many uncertainties, two stylized scenarios have been defined to analyze the potential impacts on the three countries. In both scenarios, the three countries remain in WAEMU and there are minimal disruptions to the free movement of people given the desire to avoid large social disruptions.

SCENARIO 1: An orderly ECOWAS exit with negotiated agreements that minimizes spillovers onto WAEMU. This scenario would limit the impacts to the exit of the ECOWAS FTA with higher trade costs and lower trade with non-WAEMU ECOWAS member states. Transport and transit instruments are renegotiated/or included in new bilateral agreements. Trade with other WAEMU countries is conducted according to the WAEMU FTA. Regional energy imports remain at their current levels – i.e., lower than pre-2023 levels – as the three countries look to enhance energy independence, leading to electricity costs remaining high in the short term. Agreements are in place to preserve the visa-free travel and right to reside and work for its citizens throughout the ECOWAS region. The uncertainty over the exit and the impacts leads to increased investors' risk premia and higher WAEMU regional financing costs.

Overall, we would expect annual GDP growth for 2024-2026 to be slightly lower as a result of the ECOWAS withdrawal (compared to a counterfactual scenario of no ECOWAS exit). The expected demand-side impacts would be slightly lower volumes of imports from non-WAEMU ECOWAS countries, and slightly lower levels of private and public investments due to increased risks and higher costs of WAEMU regional financing. Inflation would be slightly higher due to higher import costs. In terms of the supply-side, agriculture and extractives sectors would not be materially affected by disruptions in regional supply chains, with mining (gold, uranium) and oil exports going outside ECOWAS by air and the Benin pipeline. In contrast, manufacturing and service sectors would be more impacted by higher costs of imported inputs and power, and lower trade volumes.

SCENARIO 2: An ECOWAS exit with gaps in agreements that lead to substantial spillovers onto WAEMU. In this scenario, there would be higher tariffs and NTBs on imports from non-WAEMU ECOWAS countries compared to Scenario 1, which could boost custom revenues in the short-term but would lower import volumes significantly. Transport and transit instruments are not fully renegotiated/or included in new bilateral agreements so that there are gaps disrupting trade flows with WAEMU countries and the rest of the world. There could also be trade frictions within the WAEMU FTA, e.g., there is complexity in using the WAEMU instead of the ECOWAS certificate of origin. Energy independence is even more strongly emphasized, leading to lower regional energy imports than current levels and higher costs of electricity in the short term. There are larger increases in investors' risk premia and regional financing costs compared to Scenario 1. However, agreements are in place to preserve the visa-free travel and right to reside and work for its citizens throughout the ECOWAS region.

Overall, we would expect negative impacts on annual GDP growth for 2024-2026 to be larger than in Scenario 1, but still moderate. The expected demand-side impacts would be larger than Scenario 1 in terms of the reduction in imports (from WAEMU as well as non-WAEMU ECOWAS countries), the reduction in levels of private and public investments, and the inflationary impacts of imports.

Niger could see larger impacts than Burkina Faso and Mali due to its stronger trade linkages with non-WAEMU ECOWAS (Nigeria) and macro-fiscal vulnerabilities from 7 months of economic and financial sanctions.

[18] While WAPP is an ECOWAS institution, regional energy trade is governed by bilateral power purchase agreements and transmission service agreements between the trading countries.

That the overall expected impacts under these two scenarios are only slightly to moderately negative reflect the economic structure of the three countries: the importance of agriculture (mainly non-tradeable domestic food production) and extractives sectors, and large informal trade flows across the region, which are likely to be less affected from leaving the ECOWAS FTA.

Further Risks and Opportunities

The expected socioeconomic impacts would be much more significant if the ECOWAS exit disrupted the free movement of people, impacting the millions in the diaspora and their remittance flows. The ECOWAS communique of February 24, 2024, highlights this risk: "*The withdrawal will automatically affect the immigration status of the citizens as they may be required to obtain visa to travel around the region. Citizens may no longer be able to reside or set up businesses under ECOWAS arrangements and may be subject to diverse national laws. The three countries will cease to use ECOWAS passports, ECOWAS Biometric National Identity Card and the region-wide 'ECOWAS Brown Card' vehicle insurance.*"

The three countries remain in WAEMU; however, the decision to exit from ECOWAS created some uncertainty. Market analysts see a WAEMU exit as a low probability risk,[19] but one which would have substantially more severe impacts on growth, inflation, external and fiscal balances, given the stronger trade linkages with other WAEMU countries and because the monetary union provides an anchor for macroeconomic stability (through the CFA franc peg to the Euro, buffer of pooled external reserves, common macroeconomic stabilization rules).[20]

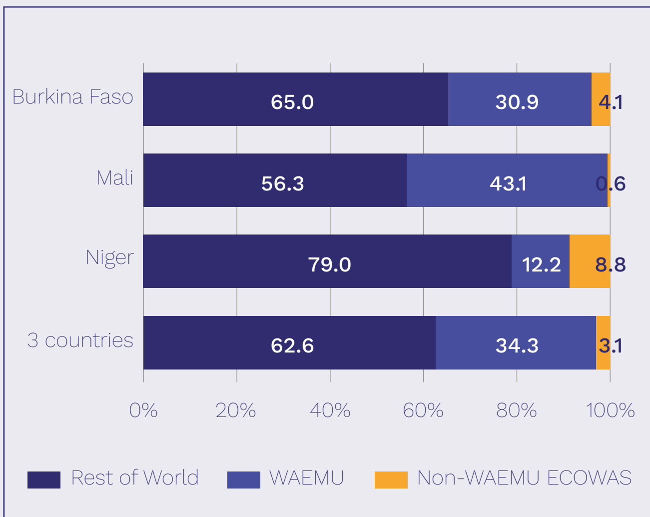
Therefore, if there are heightened perceived risks of a WAEMU exit, this could further increase the countries' risk premia and regional financing costs even if they remain in WAEMU. This would be challenging at a time of high gross financing needs and increasing reliance on the WAEMU regional bond market, this could lead to cutting of public spending to limit financing needs.

Finally, there could be important medium-to-longer term impacts for the three countries in terms of `missed development opportunities' in energy, food systems, security, digital, pandemic preparedness, if the countries' participation in regional integration programs, as well as in trade facilitation efforts, is disrupted.

However, there are also new trade opportunities, e.g., intensifying existing or establishing new bilateral trading relations, including with countries outside ECOWAS - already ~2/3 of imports are from outside ECOWAS - though these could take time to be fully realized as new trade agreements need to be negotiated and new trade/transit routes need to be established.

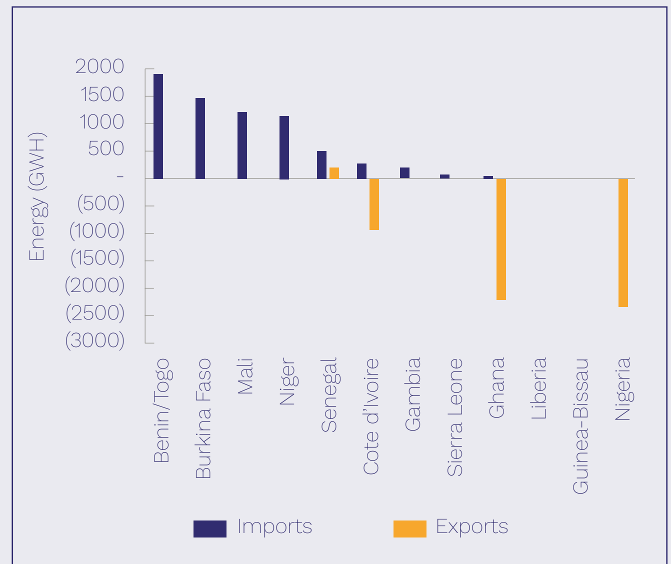
[19] S&P Global Ratings (2024). What The Departure of Burkina Faso, Mali, and Niger from ECOWAS Would Mean for WAEMU. https://www.spglobal.com/ratings/en/research/articles/240226-what-the-departure-of-burkina-faso-mali-and-niger-from-ecowas-would-mean-for-waemu-13004298
[20] The potential impacts are difficult to assess, though we can note Mali's previous exit from the CFAF monetary union in 1962, which saw a devaluation of its new currency, macroeconomic imbalances, and a long period of low growth. Mali rejoined WAMU in 1984.

FIGURE 1.16 Share of total recorded imports from ROW, WAEMU, non-WAEMU ECOWAS



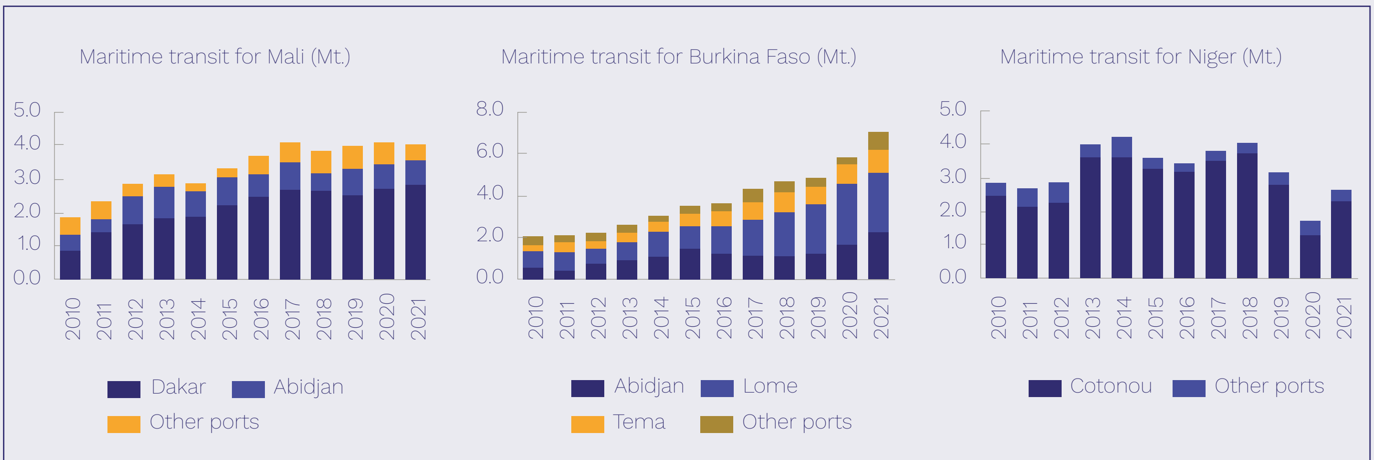
Note: All figures are averages for the period 2018-22. Trade is in goods, excludes electricity imports. Source: UNCOMTRADE, 2024, using mirror trade statistics, WB staff analysis

FIGURE 1.17 Total electricity imported and exported intra-ECOWAS (WAPP Grid), 2022



Source: ECOWAS-WAPP, 2024

FIGURE 1.18 Transit Flows: Maritime transit by regional port



Source: Port Authorities

FIGURE 1.19 People Flows: Number of Burkina Faso, Mali, and Niger diaspora by host country

Source: https://www.migrationdataportal.org/regional-data-overview/western-Africa, WB staff analysis

INVESTING IN EDUCATION FOR INCLUSIVE GROWTH

2

2.1 Sectoral context: Key challenges in the education

Increasing access to education is challenged by limited and poor school infrastructure, growing insecurity, and heavy demographic pressures

Niger's low human development outcomes are a binding constraint to promoting economic growth and shared prosperity. The World Bank's Human Capital Index (HCI) shows that Nigerians born today are expected to reach only 32 percent of their productivity potential due to serious deficiencies in health, nutrition, and education.[21] The low HCI is due to a combination of interrelated challenges: high infant and maternal mortality rates, low child immunization coverage, high rates of stunting, high levels of chronic malnutrition that place the country in a state of "emergency" according to the World Health Organization's classification, and poor educational outcomes.

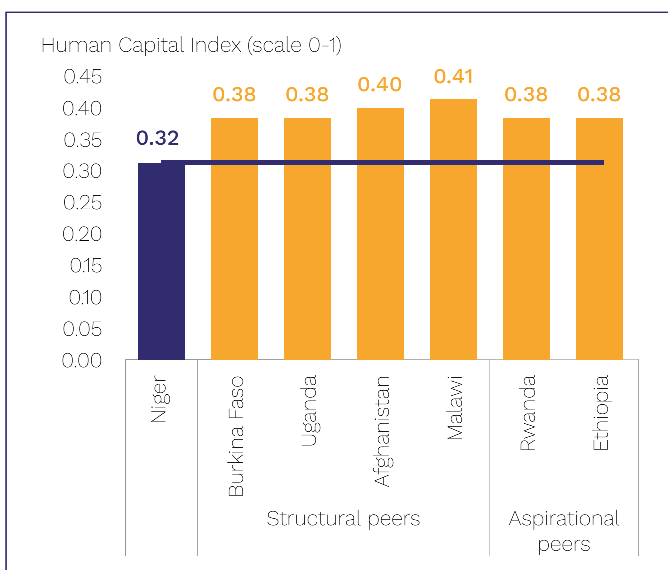
[21] *World Bank Group (2022). Niger Human Capital Country Brief. October 2022. The World Bank. https://thedocs.worldbank.org/en/doc/64e578cbeaa522631f08f0cafba8960e-0140062023/related/HCI-AM23-NER.pdf.*

Access to education remains a major challenge at the primary and secondary levels due in part to limited and poor school infrastructure, and more recently insecurity. Despite recent improvements in access to public primary education, the system is struggling to absorb the rapidly growing young population. More than 50 percent of children between the ages of 7 and 16 remain out of school. The situation is worse for girls, especially after school closures due to COVID-19 and subsequent insecurity. In 2022, approximately 36 percent of the country's 81,947 primary and secondary classrooms were classified as "Classe Paillote" (CPs) or Straw Hut Classroom. Across the country, these classrooms serve as a stopgap measure in the absence of permanent school infrastructure and are a last resort for children, families, and communities living in areas without nearby schools. These makeshift schools do not meet even minimum safety standards and increase the risk of fire; they are permeable to rain and cannot accommodate certain equipment needed for schooling, such

as lighting, temperature control, teaching and learning materials, and digital and laboratory equipment. Insecurity in parts of the country has displaced many people and led to school closures. As a result, many affected children can't attend school.

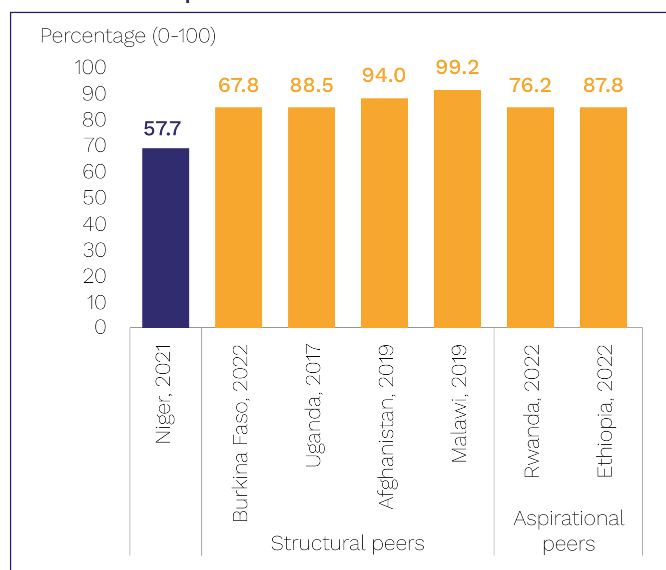
Demographic pressures will make increasing access to education / enrollment rates even more difficult in the future. Based on a net enrollment rate of 57.7 percent (2021), the net change in the number students enrolled in primary school each year is projected to increase from 102,370 in 2024 to peak at 133,511 in 2045 and decline to 122, 342 by 2054. Therefore, in addition to replacing CPs, an average of 2500 new classrooms will need to be built each year to accommodate the growing number of primary age children (Figure 2.5). At the lower and upper secondary levels, an average of 1,037 new classrooms will be needed annually between 2024 and 2054 (Figure 2.6). These projections assume constant enrollment rates, so if enrollment rates improve, even more classrooms will be needed.

FIGURE 2.1 Niger's Human Capital Index lags that of its structural and aspirational peers



Source: WDI and WB staff illustration

FIGURE 2.2 Primary school enrollment rate in Niger is lower than structural and aspirational peers



Source: WDI and WB staff illustration

FIGURE 2.3 The number of primary school students is projected to rise, increasing the need for more classrooms

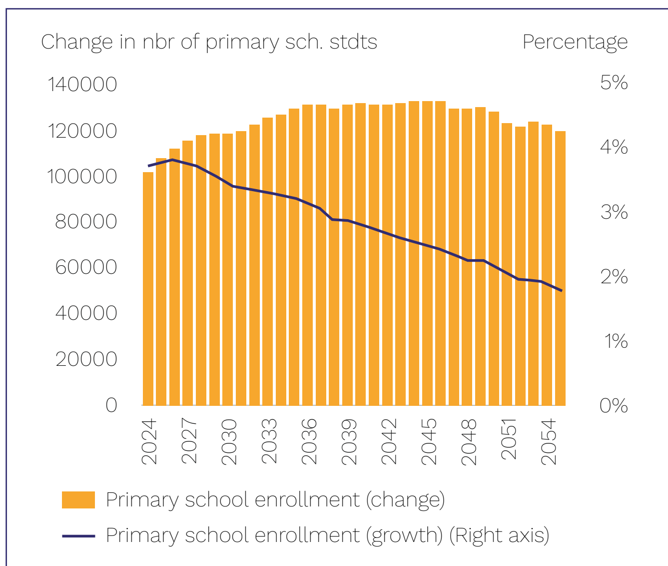
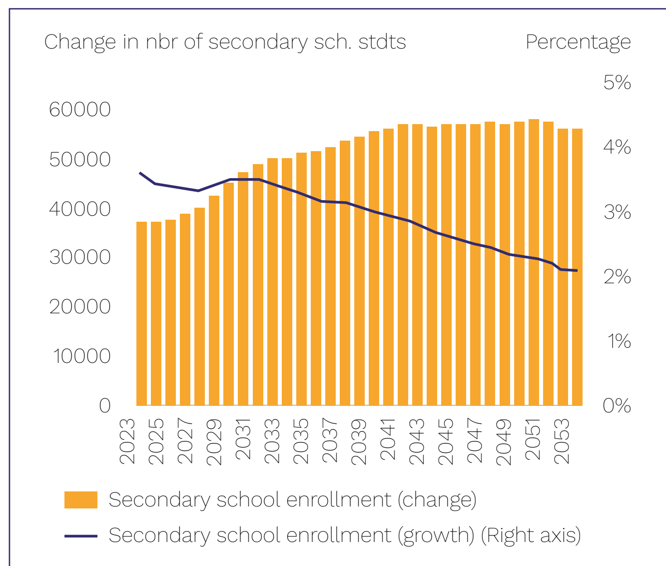


FIGURE 2.4 The number of students at the secondary level is also projected to rise



Source: WB staff calculation based on UN population projections and UNICEF data on enrollment rates

FIGURE 2.5 An average of 2500 new classrooms will need to be built each year between 2024 and 2054 to accommodate the growing number of primary age children

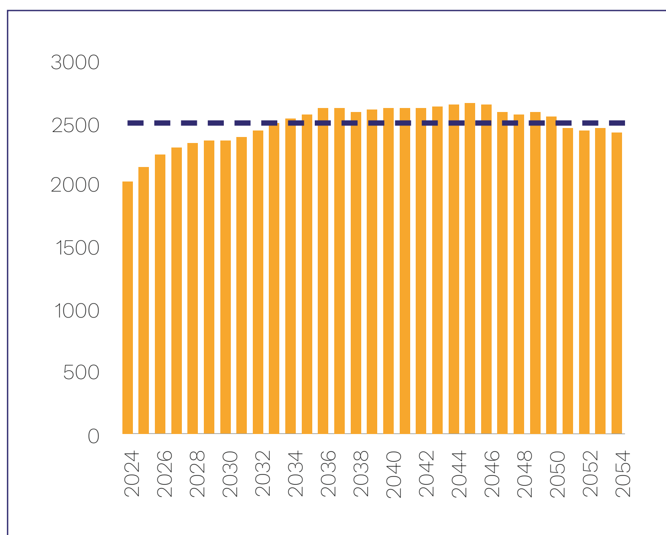
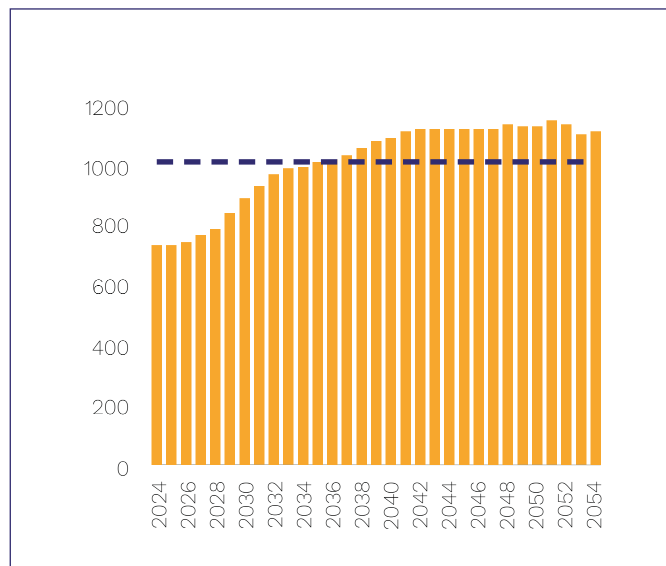


FIGURE 2.6 At the lower and upper secondary levels, an average of 1,037 new classrooms will be needed annually



Source: WB staff calculation based on UN population projections and UNICEF data on enrollment rates

Weak pedagogical environment, shortages of educational resources, and underperforming teachers contribute to poor learning outcomes

In addition to low enrollment, Niger's primary school completion rate is relatively low compared to peers. In 2021, the primary completion rate was 57.6 percent, which was lower than structural, aspirational, and regional peers (except Chad) (Figure 2.2). Structurally, most children are out of school, whether primary (more than 50 percent) or secondary (60 percent).[22]

For children enrolled in the education system, weak educational outcomes translate into a severe learning crisis. While the HCI (2020) for Niger shows that children complete an average of 5.3 years of schooling by the age of 18, this equates to only 2.6 learning-adjusted years of schooling. In short, the system is getting children into school, but they are learning at half the expected rate. According to the Programme d'Analyse des Systèmes Educatifs (PASEC) (2019), only 44.5 percent of second graders meet the minimum threshold for literacy.[23] In addition, recent learning assessments ranked Niger 10th out of 14 participating francophone countries in reading achievement at the end of the first cycle of primary school.[24]

In Niger, the learning poverty estimate is 0.90, meaning that 90 percent of 10-year-olds cannot read and understand a short story. At the end of primary school, only 17 percent of students have textbooks for reading and 30 percent for math. In addition, the distribution of textbooks varies widely between schools and localities, despite measures taken at the central level to distribute resources equitably. The other main factor which contributes to low learning outcomes is poor quality of teaching.

Niger has the highest teacher absenteeism rate in the region. Among the 14 francophone West African countries that participated in the 2019 PASEC education assessments. PASEC (2019) found that 72.2 percent of teachers had 1-5 absence days over the last 2 months.

[22] The proportion of children out of school (especially for girls) is highest in the poorest households (quintile 1) compared to the richest households (quintile 5). For instance, 41% of girls have never been in school compared to 35% of boys in quintile 1 (EHCVM 2021-2022).

[23] PASEC (2019). PASEC2019 – Performances du système éducatif nigérien : Compétences et facteurs de réussite au primaire. PASEC, CONFEMEN, Dakar
[24] PASEC (2019). PASEC2019 – Performances du système éducatif nigérien : Compétences et facteurs de réussite au primaire. PASEC, CONFEMEN, Dakar

The insufficient and unstable supply of teachers with inadequate qualifications is also a major factor in the unsatisfactory educational outcomes. Due to the relatively low entry requirements for the Ecoles Normales (ENs) and the inadequate quality of the training, students graduating from the ENs were underqualified and were not guaranteed a teaching position upon graduation.[25] Due to the insufficient quality of EN graduates and the limited budget, the teacher workforce is dominated by contract teachers, whose contracts are renewed annually by the Ministry of Education (MEN), rather than permanent (civil servant) teachers. In 2021, 73.3 percent of the approximately 70,000 primary school teachers were contractual, lacking stable income and clear career paths. The lack of job security and career prospects in turn discourages young talent who would otherwise apply for ENs and enter the teaching profession. Furthermore, a national assessment of contract teachers in 2017 found that only 34 percent of them had the minimum literacy and numeracy skills, and 20 percent received a score below 25 percent. Contract teachers in the Diffa region performed the worst, with 40 percent scoring below 5 out of 20, while those in Niamey and Tillabéri performed the best. The Service Delivery Indicator (SDI; 2015) also showed that less than one percent of primary school teachers had the minimum knowledge required to teach mathematics.

2.2 Government's reform agenda and costs

The government's agenda include replacing all CPs with permanent classrooms, hiring more permanent teachers, and improving teachers' training

To improve access to education, the Government of Niger has embarked on an ambitious agenda to replace CPs with permanent and more appropriate classrooms. To address the immense need for classrooms, the government has approved a Zéro classes paillotte program that aims to replace 36,000 CPs with better classrooms. The phased replacement of CPs announced in the Sector Education Plan 2020 is underway. The implementation of the program's school infrastructure construction plans is expected to significantly improve learning time, working conditions and overall safety for all students.

In the first phase, a total of 5,000 new classrooms will be built over the next five years (2024-2028) (Figure 2.7). The regions with the highest number of CPs - Maradi, Zinder, Tahoua, Dosso and Tillaberi - will receive the largest number of new permanent classrooms (Figure 2.8). The construction plan only addresses the replacement of CPs and does not address the growing new demand for classrooms due to population growth. In addition, the construction of such numbers of improved classroom structures in large numbers remains a challenge. While the Fonds Commun Sectoriel de l'Éducation (FCSE) construction plan for 2022-2023 called for the construction of 545 classrooms, only 162 have been built to date due to weak institutional capacity and low absorption rates of available funding.

[25] Initial and in-service training for preschool and primary school teachers is provided by the Ecoles Normales (ENs), which initially offered two years of training and a salary to those recruited from among students with four years of secondary education.

FIGURE 2.7 A total of 5000 classes are planned over the next 5 years to replace CPs

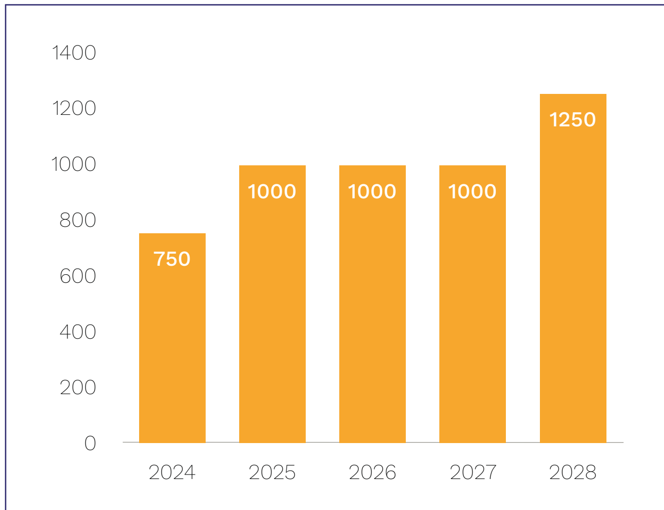
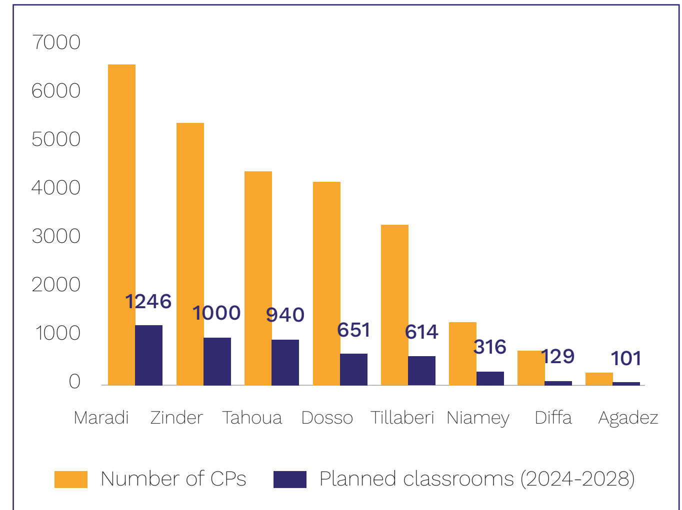


FIGURE 2.8 The regions with the highest number of CPs will receive the highest number of new permanent classrooms



Source: Ministry of National Education (Ministère de l'Education Nationale, MNE) Yearbook 2022.

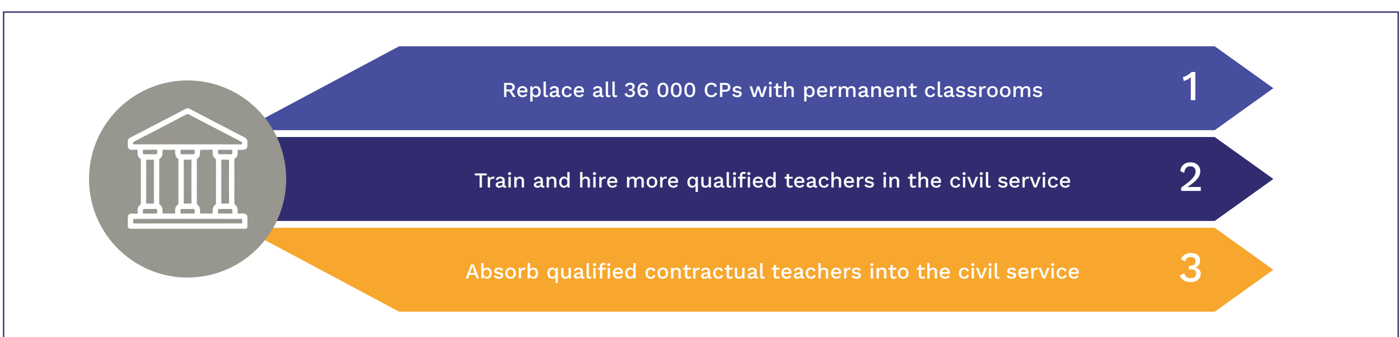
In addition to building classrooms, the government has taken steps to strengthen the quality of teaching and improve educational outcomes. The quality of teachers is being improved on three levels:

• *Increasing the number of student teachers entering teacher training colleges.* Efforts have been made in recent years to increase the recruitment level of ENs, including a new entry requirement and training curriculum from 2022. From 2022, the entry requirement for ENs will be raised from a junior high school diploma to a high school diploma. In 2022 and 2023, 2,516 and 1,561 student teachers, respectively, will be accepted for two years of training at a teacher training college. Successful graduates will be hired directly into the civil service as teachers. From 2024, only qualified graduates from the ENs will be recruited directly into the civil service as primary school teachers. The government plans to recruit 3,000 EN graduates each year from 2024. In 2024, about four percent of the primary school teaching force will be replaced by those (EN graduates and qualified contract teachers) with the new qualification standard.

• *Improve the tenure and salary of graduates of teacher training schools at the beginning of their careers.*

• *Implementation of the plan to integrate contract teachers into the civil service.* The recruitment of new contract teachers will be stopped. At the same time, the existing pool of teachers will be "renovated" by absorbing qualified contractual teachers. This will include those who have graduated from initial training centers and those who have been selected on the basis of merit from the pool of contract teachers prior to this new reform.

FIGURE 2.9 Social assistance expenditure trends and benchmarking



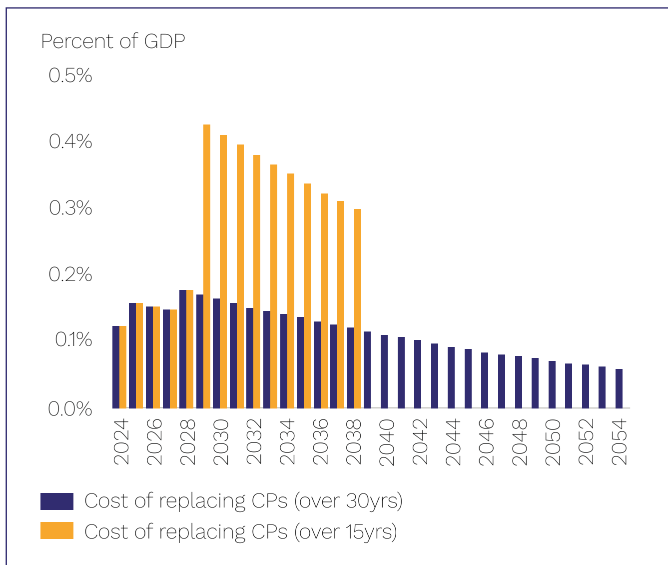
Source: World Bank staff illustration

The government's program to replace all CPs, train and hire more qualified teachers and integrate contract teachers into the civil service could cost up to 0.26 percent of GDP per year on average

Replacing the 36,000 CPs with classrooms that meet national school construction standards will cost approximately US$1 billion (constant US$). Based on World Bank estimates, it cost approximately US$26,889 (in 2022) to build one classroom that meets national school construction standards. Not adjusted for inflation, the total cost of replacing all 36,000 CPs will be approximately US$968 million. According to the Government of Niger National School Construction Plan (GNNSCP), the cost of replacing the 36000 CPs is approximately US$936 million (US$26000 per classroom). An important factor/aspect is the timeline required to build the new classrooms. Based on World Bank estimates, if all CPs are replaced over the next 15 years, the total estimated cost is likely to be about 4.3 percent of GDP (for the entire period); If CPs are replaced over the next 30 years, then the total cost is estimated to be 3.5 percent of GDP (Figure 2.10).

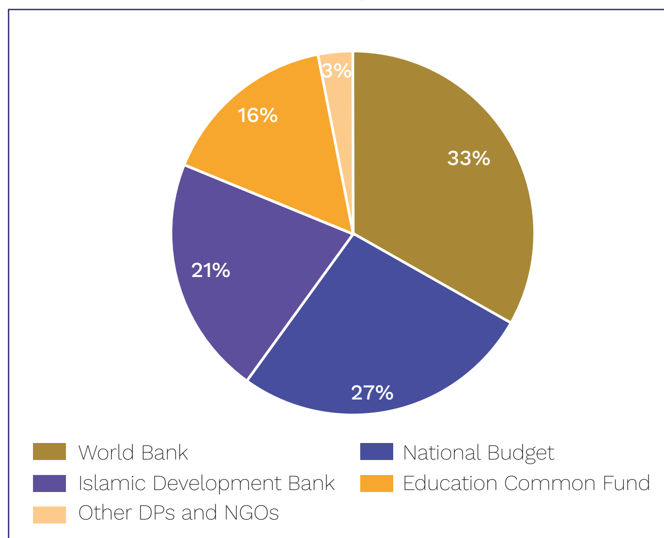
The implementation of the GNNSCP is likely to be delayed. The announced contribution of the development partners and the government's budget plan to cover the needs for the next six years amounts to US$ 582 million for the implementation of the GNNSCP. The various sources of funding are shown in Figure 2.11. Based on the estimate in the previous paragraph, this amount is not sufficient to cover the cost of replacing CPs and building additional classrooms to meet the increasing demand due to population growth. Moreover, the current construction plan, which is scheduled to come into effect in 2024, is highly uncertain, as many DPs that provided funding for this initiative have stopped disbursements following the military crisis of July 2023.

FIGURE 2.10 If all CPs are replaced over the next 15 years, the total cost is estimated cost at 4.3 percent of GDP



Source: World Bank Staff calculation
Note: GDP projections for 2024-2026 are from the WB current short-term projections presented in Chapter 1. Longer term GDP projections (2026-2055) are from the Long-term Growth Model projections in the Niger CEM 2022.[26]

FIGURE 2.11 The majority of the financing for the 24,000 classrooms planned for the next 6 years is from external sources, which are now uncertain post-crisis



Source: National operational strategy for the school construction program in Niger (2023).

[26] *World Bank 2022, "Pathways to sustainable growth in Niger". Country Economic Memorandum*

For simplicity we assume that it is equal to the full (average) salary of a teacher. The 2016, the average monthly salary of a primary school teacher was almost US$300, or US$3,600 per year. Thus, it costs about US$7,200 to train one teacher for 2 years and US$21.6 million to train 3,000 teachers for 2 years-not adjusted for inflation. All trained teachers from the ENs are then hired into the civil service at the starting salary, adjusted for inflation.

Hiring contractors into the civil service means paying them a higher salary. The current (average) monthly salary of a contract teacher in primary school is about US$143, which is about 48 percent of the current average salary of a primary school teacher in the civil service. Contract teachers at the lower and upper secondary levels are paid 47 percent and 44 percent, respectively, of the average salary of their civil service counterparts. Therefore, we assume that contract teachers are paid the starting salary of primary school teachers when they join the civil service. Given their years of experience, they are likely to receive a higher salary, so this should be considered a lower bound. In addition, the starting salary for secondary school teachers is likely to be higher than US$300. In this case, it will cost approximately US$157, US$208, and US$234 more per month, respectively, to integrate each contract teacher at the primary, lower, and upper secondary levels into the civil service. We also assume that all contractors (63,495) will be integrated over 15 years, which is 4,233 contractors per year.

FIGURE 2.12 **The number of primary school students is projected to rise, increasing the need for more classrooms**

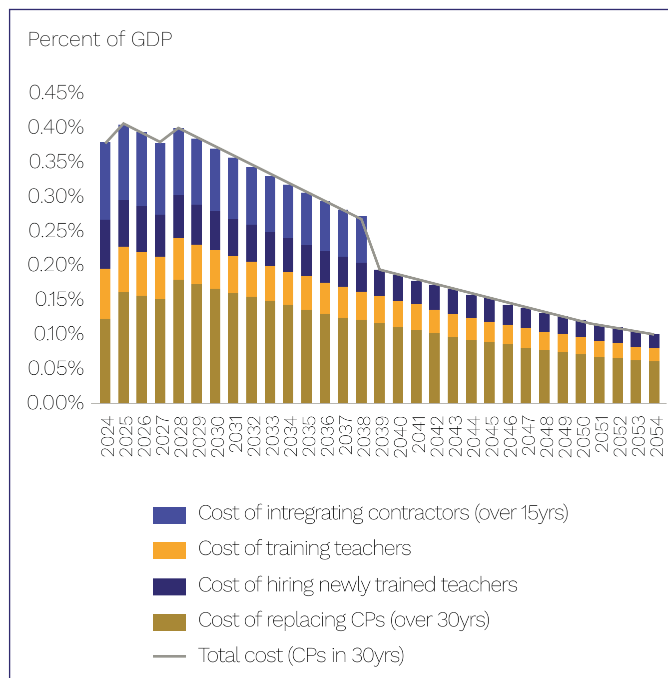
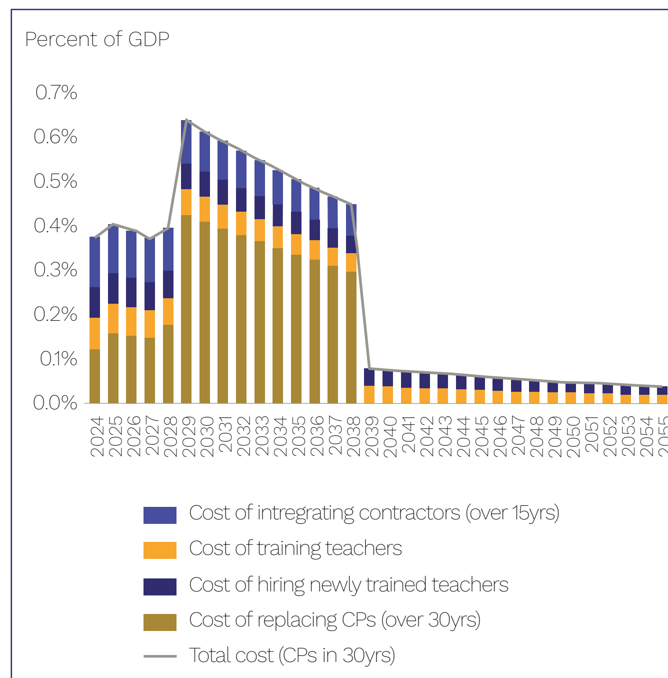


FIGURE 2.13 **The number of primary school students is projected to rise, increasing the need for more classrooms**



Source: World Bank Staff calculation
Note: GDP projections for 2024-2026 are from the WB current short-term projections presented in Chapter 1. Longer term GDP projections (2026-2055) are from the Long-term Growth Model projections in the Niger CEM 2022. Inflation is assumed to equal 1 percent.

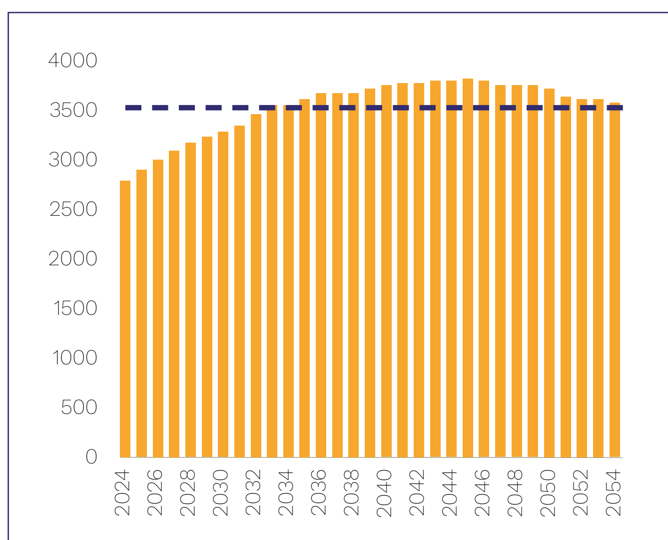
2.3 Reform scenarios with associated costs

It will cost a total of 10.3 percent of GDP to build all the new classrooms needed over the next 30 years (2024-2054), in addition to replacing CPs, if enrollment rates remain constant

The education sector is under strong demographic pressure and requires additional resources to meet the growing demand for education, provision of school infrastructure and equipment/ materials, and qualified teachers. According to UN population projections for 2022, the school-age population - between the ages of 7 and 19 - will increase from 8.7 million in 2022 to 23.6 million in 2055, an average of 448,000 additional school-age children per year. And if enrollment rates remain constant, there will be more than 6.7 million primary and 2.6 million secondary students in 2055, compared with 2.7 million and 0.95 million, respectively, in 2023. Assuming constant primary and secondary enrollment rates and a teacher-student ratio of 1/50, a total of about 113,113 new classrooms will be needed to accommodate nearly 5.7 million new students between 2023 and 2055. The current level of construction is far from sufficient to keep pace with the growth in primary school enrollment, and the proportion of precarious classrooms continues to rise.

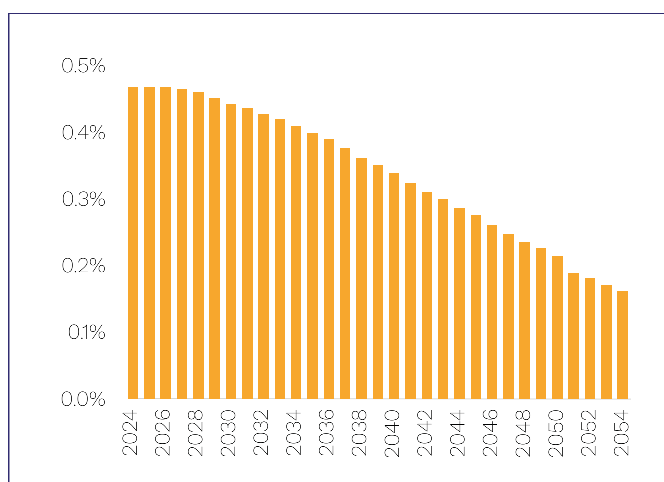
Based on World Bank estimates, it will cost a total of 10.3 percent of GDP to build all the new classrooms needed over the next 30 years (2024-2054), in addition to replacing CPs, assuming that enrollment rates remain constant. If enrollment rates remain constant over the next 30 years, an average of 3,535 (2508 in primary and 1037 in secondary) new classrooms would be needed annually to accommodate new enrollments in primary and secondary schools (Figure 2.14). The annual cost of building the new classrooms is projected to decline from 0.46 percent of GDP in 2024 to 0.16 percent in 2054 (Figure 2.15). This cost is in addition to the cost of replacing CPs. Under these projections, the government's plan to train and hire 3,000 primary teachers per year, if sustained, is likely to provide a large enough pool of well-trained teachers to accommodate the new students and new classrooms in primary schools. However, a program to train and recruit teachers at the secondary level will also be needed.

FIGURE 2.14 The number of new additional classrooms needed annually to accommodate new students is projected to increase over the next three decades



Source: World bank Staff calculation

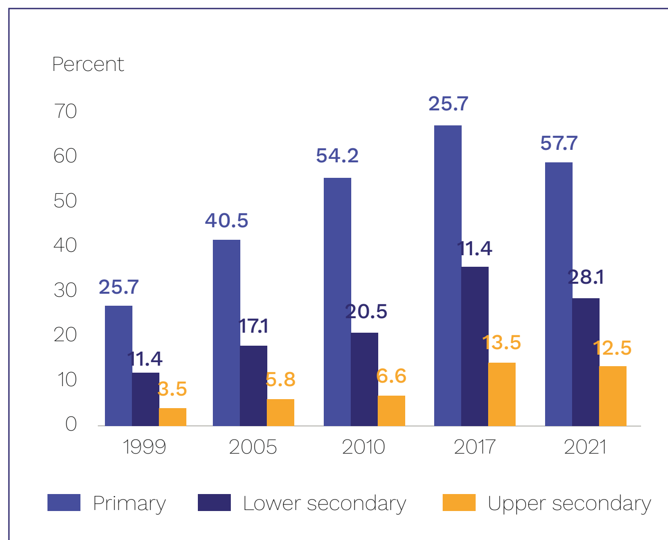
FIGURE 2.15 If enrollments rates remain constant, the cost of building new classrooms needed every year to accommodate new primary and secondary school students is projected to decline from 0.46% of GDP in 2024 to 0.16% by 2054



Source: World bank Staff calculation

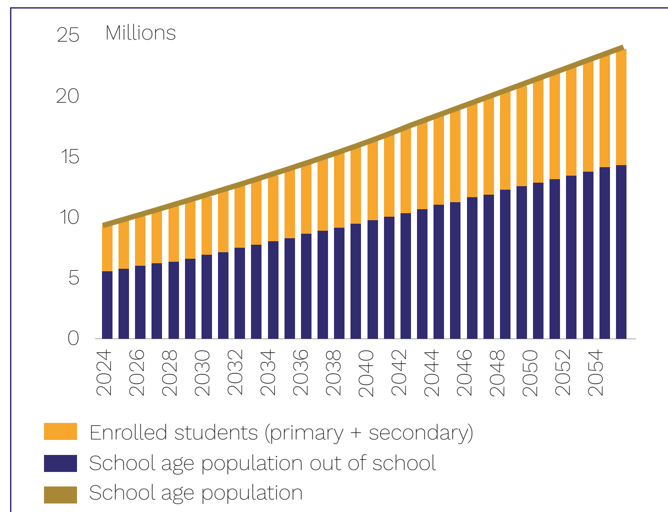
Unfortunately, this scenario will leave millions of children and adolescents out of primary and secondary school over the next 30 years (2024-2044), the majority of whom will be girls. Primary and secondary school enrollment rates have improved over the past two decades, with primary enrollment improving from 23.4 percent in 1997 to 66 percent in 2017, but declining to 57.7 percent in 2021, likely due to insecurity (Figure 2.16). The recent decline in net primary enrollment is unfortunate, as it was already lagging its peers (Figure 2.2). If primary and secondary enrollment rates remain constant over the next 30 years, the number of children and adolescents will reach nearly 25 million. Such a scenario will have high economic and social costs.

FIGURE 2.16 **Although net primary enrolment rate has declined since 2017, it is still much higher compared to two decades ago**



Source: UNESCO

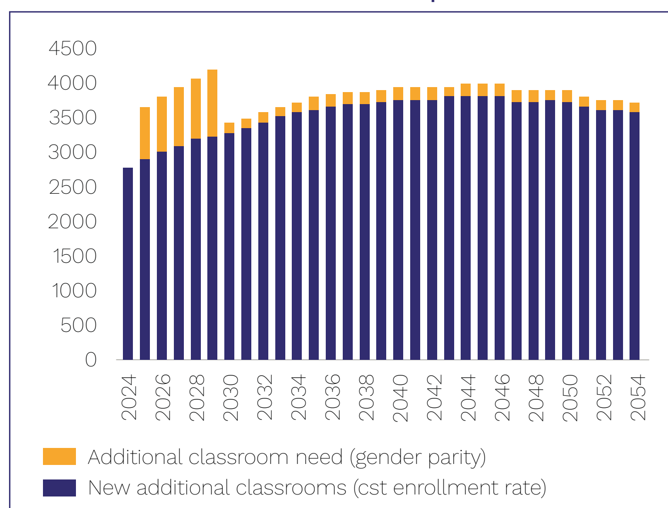
FIGURE 2.17 **If enrollment rates in primary and secondary schools remain constant, millions of school age children and adolescents will be out of school**



Source: World bank Staff calculation based on UNESCO data

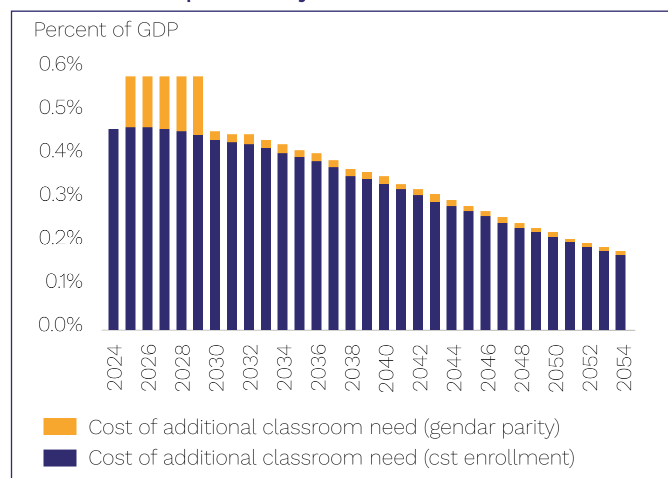
In a scenario where gender parity is achieved in primary and lower secondary by 2028, nearly 8,500 additional classrooms will be needed over the period 2024-2054 to accommodate the additional girls enrolled (Figure 2.18). In 2021, the enrollment rate for girls in primary school was 55 percent (26.3 percent in lower secondary school), compared to 60.3 percent for boys (29.9 percent in lower secondary school). Closing the gender gap in education in Niger can increase potential economic output by 11 percent (Box 2.1). As a result, the cost of building new classrooms will rise to nearly 0.6 percent of GDP in 2025 and fall to 0.2 percent by 2054.

FIGURE 2.18 **Achieving gender parity in enrollment rate by 2028 will require 8,500 additional classrooms over the period 2024-2054**



Source: World Bank Staff calculation based on UN population projections (2022)

FIGURE 2.19 **As a result, the annual cost of building new classrooms will rise to nearly 0.6 percent of GDP in 2025 and fall to 0.2 percent by 2054**



Source: World Bank Staff calculation

A more comprehensive policy agenda to improve access to quality education is estimated to cost about 1.2 percent of GDP on average every year, in addition to current spending

Demand for classrooms in the future will also be driven by rising enrollment rates. As average incomes rise, enrollment rates are likely to increase over time, as they have in recent decades. Between 2001 and 2021, the enrollment rate in primary, lower secondary, and upper secondary schools will increase by 27.7, 16.7, and 8.5 percent, respectively. Therefore, we consider a scenario in which the enrollment rates in primary and secondary schools - starting in 2022 - improve linearly with the same trend as in the previous two decades (2001-2021). For example, we assume that the primary enrollment rate increases by 27.7 percent between 2022 and 2042 and continues to increase until it reaches 100 percent in 2052. Figure 2.20, and Figure 2.21 show the future demand for classrooms and the estimated construction costs as a share of government expenditures under this scenario.

All told, improving access to education is likely to cost an average of 1.2 percent of GDP over the next three decades. To improve the quality of education and increase access to it for all new school-age children and youth, the government's reform agenda should include (i) replacing all CPs, (ii) integrating all contractors into the civil service, (iii) building enough classrooms to accommodate new students (due to demographic pressures and rising enrollment rates), (iv) training enough qualified primary and secondary teachers, and (v) recruiting them into the civil service. The cost is projected to be 1.3 percent of government expenditure in 2024, peaking at 1.6 percent of GDP in 2029 and declining to 0.5 percent of GDP by 2054 (Figure 2.22). Several factors are likely to influence the projected costs:

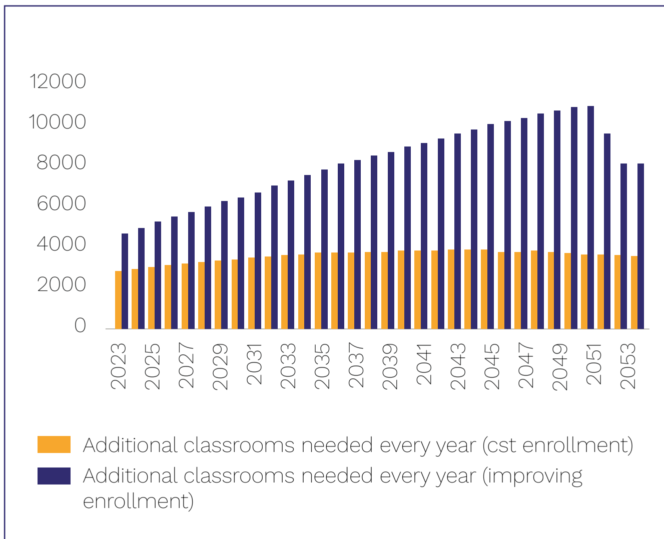
1- The cost of textbooks and other materials, as well as classroom maintenance cost will increase the estimated cost.

2- Considering that classrooms should be built, and teachers trained before the school year begins, the annual costs are likely to be different. The costs of classrooms and teacher training have been allocated to the same year but are likely to be incurred in previous years.

3- Improving access to education will have a positive impact on economic growth, implying a lower cost as a share of GDP. Simulations in Niger Country Economic Memorandum (World bank 2020) showed that, education reforms as discussed in this chapter will have substantial effects on long-term economic growth. Improving access to education is likely to boost economic growth through several channels: (i) spending on school construction will boost physical investment in the country, albeit in the short run, but continuously meeting the demand for classrooms implies a sustained investment in physical capital; (ii) more and better qualified teachers are likely to lead to better learning and educational outcomes; and (iii) with a higher share of children having access to education, aggregate labor productivity is likely to rise over time as successive cohorts with an increasing share of educated people enter the labor market.

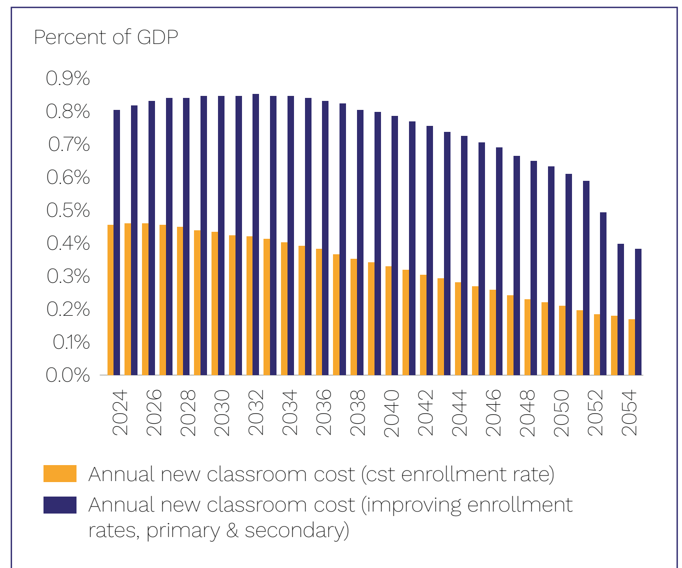
4- Building classrooms and training and hiring teachers alone will likely not be enough to increase and sustain enrollment rates throughout the country. The government ought to adopt a comprehensive policy to increase enrollment rates, such as building canteens to provide students with a minimum level of adequate nutrition.

FIGURE 2.20 If primary and secondary enrollment rates improve then even more classrooms will be needed to accommodate new students over time



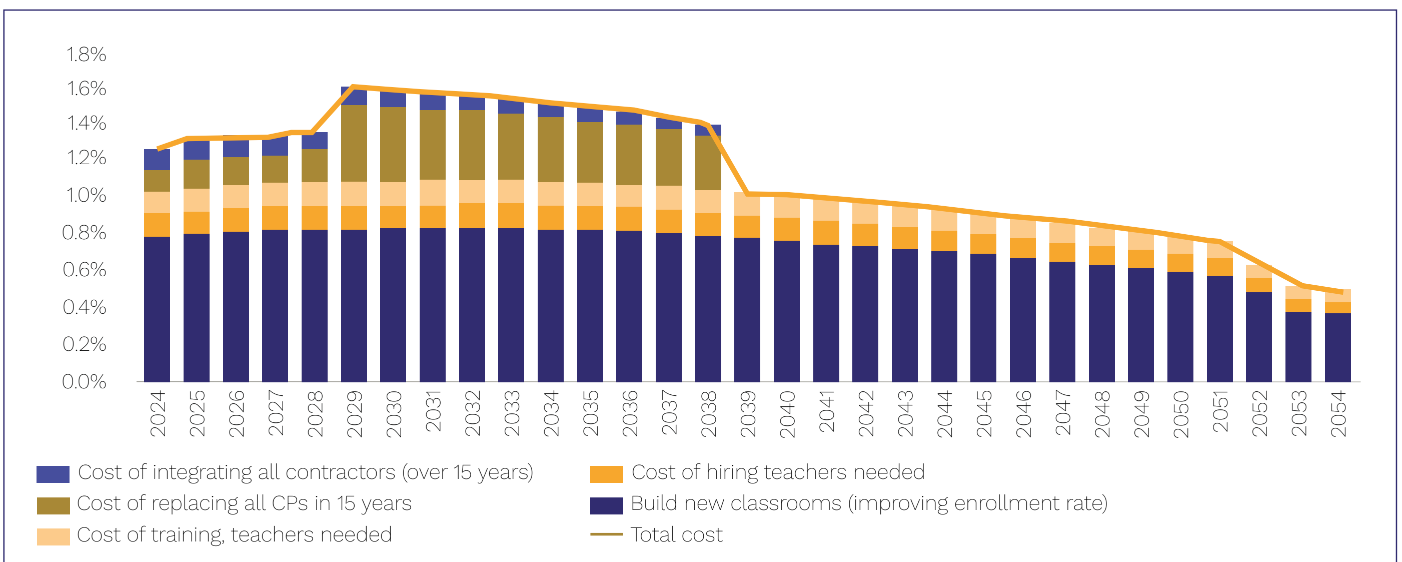
Source: World Bank Staff calculation

FIGURE 2.21 As a results, the cost of building classrooms will also be higher



Source: World Bank Staff calculation

FIGURE 2.22 The cost of improving access to education in Niger is projected to increase from 1.3% of GDP in 2024 to 1.6% by 2029 and decline to 0.5 percent by 2054

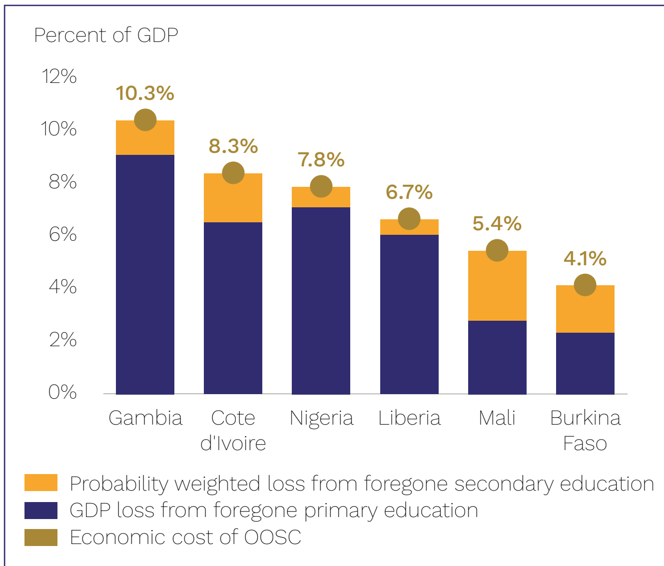


Source: World Bank Staff calculation

Some estimates show that countries with large numbers of out-of-school children face high costs in terms of foregone GDP, so the cost of not improving access to quality education is substantial. If not enough classrooms are built and teachers trained, millions more children will be out of schools in the coming years. These children will later enter the labor market with lower levels of productivity than if they had access to school, making the opportunity cost of out of school children in terms of foregone GDP substantial.

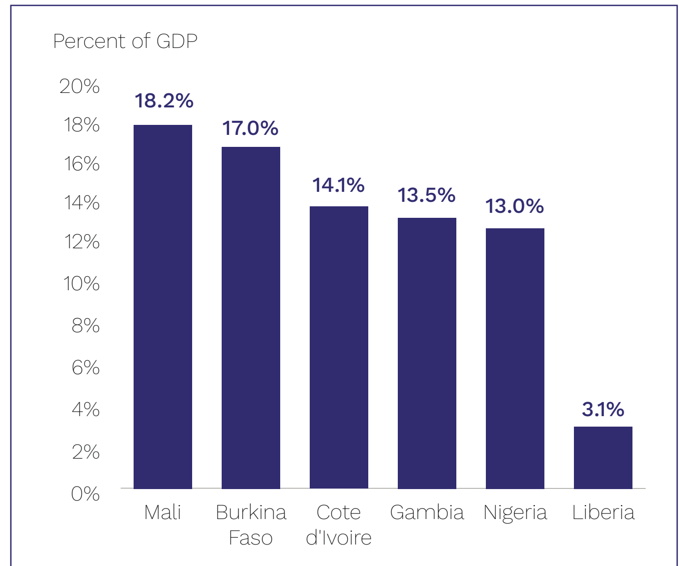
According to estimates by Burnett and Thomas (2013), the opportunity cost of out-of-school children likely ranges from 5.4 to 18.2 percent of GDP in Mali, 4.1 to 17 percent of GDP in Burkina Faso, and 8.3 to 14.1 percent of GDP in Cote d'Ivoire. Niger is not the sample, but these estimates for regional peers suggest that the cost of out-of-school children is likely as high.

FIGURE 2.23 Economic cost of out-of-school children by microeconomic esamaaon



Source: Burneq, N., and M. Thomas (2013) and WB staff illustrason
Note: The micro-estimated cost is the direct economic cost (lost productivity as measured by wages) incurred by today's out-of-school children that will not complete primary education when those out-of-school children reach working age. It attempts to answer the following question: If all of today's children expected not to complete primary school actually complete basic education, how much higher will GDP be when that cohort of children enters the labor market in ten years, relative to a counterfactual in which those OOSC never completed primary education?

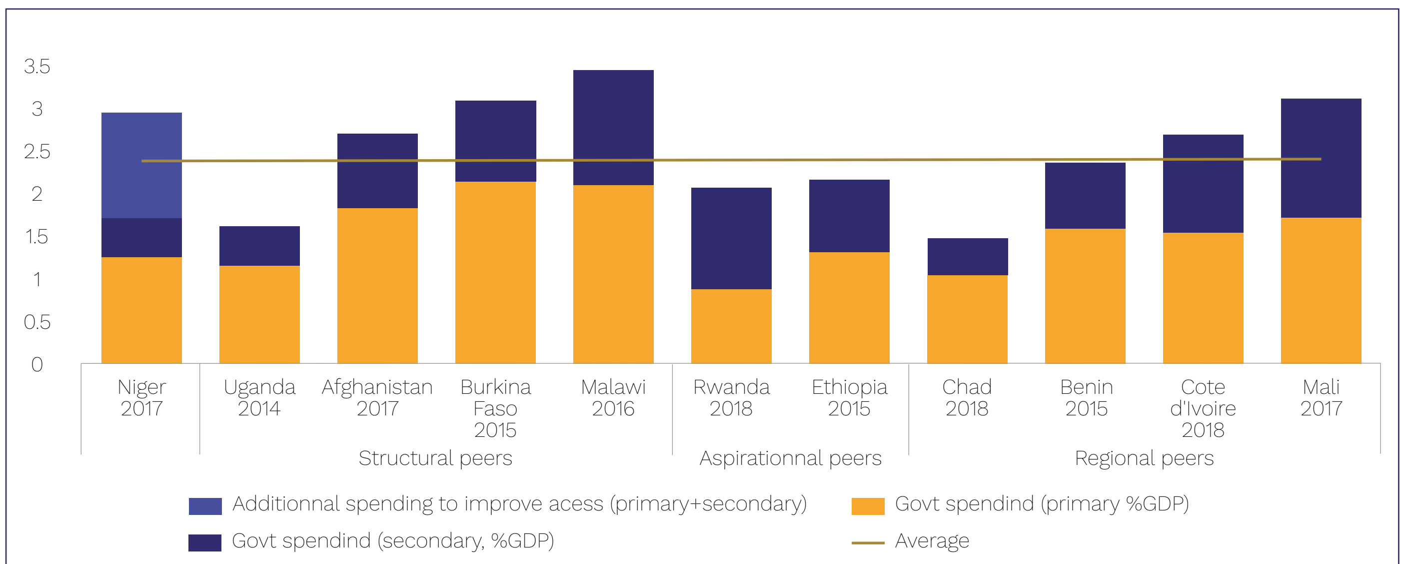
FIGURE 2.24 Economic cost of out-of-school children by macroeconomic esamaaon



Source: Burneq, N., and M. Thomas (2013) and WB staff illustrason
Note: The macro approach estimates the cost of OOSC as the difference between two hypothetical, forward-looking scenarios. In the first scenario, education policy follows the status quo so that the expected number of years of schooling in each country (estimated in UNDP 2013) is unchanged. In the second scenario, a stronger push is made to achieve universal primary education, so that the expected lifetime schooling of the population rises in proportion to the current percentage of children expected not to complete primary education. These estimates are generally higher than the microeconomic estimates, likely because this second method captures some of the positive externalities associated with primary education, rather than solely direct private income gains.

If implemented, the estimated costs will increase government spending on primary and secondary education to nearly 3 percent of GDP. In 2017, government spending on primary and secondary education was estimated at 1.7 percent of GDP (primary: 1.2 percent of GDP; secondary: 0.5 percent of GDP). This was lower than the average of structural, aspirational, and regional peers based on the latest available data. By spending an additional 1.2 percent of GDP annually, total government spending on primary and secondary education will rise above average of the comparator countries.

FIGURE 2.25 If implemented, the estimated costs of improving access to quality education will increase government spending on primary and secondary education to nearly 3 percent of GDP



Source: UNESCO and WB staff illustration

There are several ways to finance this additional spending on education without jeopardizing fiscal sustainability. First, improving the efficiency of spending on education will free up additional resources that can be reinvested in the sector (World Ban 2020). Second, following the start of large-scale oil production and exports, government oil revenues are expected to rise to 5 percent of GDP by 2030, from less than 1 percent of GDP currently. Part of this imminent windfall can be used to invest in social sectors in general and education in particular. In addition, international development partners have a crucial role to play in providing financial and technical assistance to support access to quality education in Niger.

BOX 2.1 MACROECONOMICS GAINS FROM CLOSING THE GENDER EDUCATIONAL GAPS IN NIGER

Gender development in Niger is relatively weak due to low educational attainment. On the United Nations Gender Development Index (GDI), Niger performs worse than the average for sub-Saharan Africa, the WAEMU countries, and peers in the Sahel region. The index measures gender disparities in three basic dimensions of human development: i) health, measured by female and male life expectancy at birth; ii) child education, measured by female and male expected years of schooling; iii) adult education, measured by female and male average years of schooling for adults aged 25 and over. Niger performs well on life expectancy at birth compared to its peers but lags on education indicators. The average years of schooling in Niger is only 1.7 and 2.8 for females and males, respectively, compared to 5.1 and 6.9 years in Sub-Saharan Africa and 2.5 and 4.6 years in the WAEMU region.

Recent research shows that closing the gender gap in education in Niger would improve labor market outcomes, long-term growth, and fiscal sustainability. Ouedraogo and Gomes (2022) simulate a public policy that increases education spending to enroll more girls in school so that the number of years of education is equal for boys and girls within the same income percentile. The results of the simulation suggest that closing the gender gap in education would increase female labor force participation, raise women's earnings, and improve fiscal outcomes. It is also expected to increase female labor force participation by 85.6 percent and reduce the overall gender gap in average effective hours worked, as measured by the male-to-female ratio, by 59.5 percent. In addition, the new policy would increase aggregate economic output by 11.2 percent, mainly due to the increase in effective hours worked. Aggregate private consumption is expected to increase by 3 percent due to higher labor income. To implement the new education policy, the government will need to increase spending on public education by 21.2 percent, which represents a 3 percent increase in total government spending. Such an increase in education spending would require budget reallocation and efficiency improvements.

Aware of the importance of gender equality, the Niger authorities have taken several initiatives to close the gender gap. The authorities have adopted a new National Gender Policy with the aim of working with all stakeholders to build a country without discrimination by 2027, where men and women, girls and boys have equal opportunities to participate in its development and enjoy the benefits of its growth. Girls' education is a key priority, with the authorities planning to build 100 girls' boarding schools by 2025 and close the gender gap in primary and secondary school enrollment by 2026.

Adopted from: Ouedraogo, R. and Gomes, D. 2022. Macroeconomic Gains From Closing Gender Educational Gaps in Niger. IMF Selected Issues Paper SIP/2023/006

ANNEX 3

TABLE 3.1 Selected economic and fiscal indicators

	2021	2022	2023	2024	2025	2026
			Estimate	Projections		
	Annual percentage change, unless otherwise indicated					
National Accounts						
GDP at constant prices	1.4	11.5	2.0	5.7	8.5	4.6
Private consumption	-0.2	7.0	3.5	3.8	4.6	4.7
Public consumption	9.8	-1.2	-7.0	3.5	2.9	1.2
Investment	7.7	21.1	-10.4	4.0	7.6	2.8
Exports of goods and services	6.7	14.4	-8.1	45.2	39.1	9.2
Imports of goods and services	6.9	6.5	-12.0	13.3	10.1	4.1
Agriculture	-5.1	27.0	3.1	6.5	6.8	5.2
Industry	4.1	-0.9	3.9	12.1	5.6	3.4
Services	5.4	4.9	0.1	1.1	12.2	4.5
Inflation						
GDP deflator	3.1	3.8	3.7	10.4	10.5	5.3
Consumer prices (average)	2.9	3.9	3.7	8.5	6.7	4.2
External sector						
Exports fob	7.3	1.0	-2.4	49.8	-	-
Imports fob	9.6	13.8	-6.3	3.4	-	-
Terms of trade	-5.1	146.5	-0.4	13.1	12.0	12.3
Percent of GDP, unless otherwise indicated						
Current account balance	-7.8	-9.8	-9.3	-8.3	-3.8	-2.9
Foreign direct investment	2.1	3.9	3.2	1.6	1.7	1.7
Fiscal accounts						
Overall fiscal balance (incl. grants)	-3.4	-6.8	-5.4	-4.4	-3.9	-3.2
Primary balance	-2.2	-5.6	-4.5	-3.8	-3.5	-2.8
Total revenues and grants	18.2	14.9	10.5	10.9	11.4	11.1
Tax revenues	10.1	9.4	8.1	7.9	8.0	7.8
Taxes on goods and services	3.8	3.5	3.0	2.9	2.5	2.5
Direct Taxes	2.5	2.5	2.7	2.5	2.2	2.1
Taxes on international trade	2.7	2.4	1.7	1.7	2.2	2.1
Non-tax revenues	0.8	0.6	0.5	0.7	0.7	0.7
Grants	7.3	4.7	1.7	2.1	2.6	2.4
Total expenditures	21.5	21.7	15.9	15.2	15.3	14.3
Current expenditures	10.7	9.9	8.8	7.9	6.8	6.5
Wages and compensation	3.8	3.6	3.6	3.3	2.9	2.8
Goods and services	1.8	1.4	1.1	1.0	0.9	0.9
Interest payments	1.1	1.2	0.9	0.6	0.4	0.3
Current transfers	3.9	3.7	3.1	2.9	2.6	2.6
Capital expenditures	13.5	11.6	5.7	6.3	7.7	7.3
Debt						
Public debt (external and domestic)	51.3	51.7	54.7	53.3	51.3	50.6
External government debt	33.5	32.5	34.5	31.6	28.6	26.7
Memorandum items						
GDP per capita (change in %)	-2.3	7.4	-1.7	1.8	4.5	0.8
Nominal GDP (CFAF, billions)|	8270.8	9569.9	10129.0	11815.2	14167.1	15603.8
Nominal GDP (US$, billions)	14.9	15.3	16.8	19.4	23.2	25.5

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