

PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

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Operation Name	Supplemental Financing to Growth Policy Reform Operation II
Region	AFRICA
Country	Niger
Sector	Central government administration (30%); Roads and highways (10%); General industry and trade sector (30%); General agriculture, fishing and forestry sector (20%); Banking (10%)
Operation ID	P129793
Lending Instrument	Development Policy Operation – Supplemental Financing
Borrower(s)	REPUBLIC OF NIGER
Implementing Agency	THE MINISTRY OF PLANNING, LOCAL GOVERNMENT, AND COMMUNITY DEVELOPMENT
Date PID Prepared	December 6, 2011
Estimated Date of Appraisal	January 9-13, 2012
Estimated Date of Board Approval	February 23, 2012
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

Niger is one of the world's poorest countries. About 80 percent of the population derive their livelihoods from agriculture and livestock. A harsh climate, frequent droughts, and poor soils, but also poorly performing agricultural institutions contribute to the low productivity of these activities in Niger.

The second Growth Policy Reform Credit (GPRC-2) in the amount of US\$52 million was approved by IDA's Board on June 23 and disbursed in November 2011, supporting reforms of the business environment, infrastructure, agriculture, and public financial management. GPRC-2 is expected to close on June 30, 2012 and a new 3-year programmatic series of development operations is currently under preparation.

At present, Niger suffers from three severe external shocks that create unanticipated additional financing needs. This includes spill overs from the Libyan crisis in the form of the return of between 115,000 and 247,000 migrant workers and the proliferation of arms, a poor harvest during the 2011/12 season with a projected cereal deficit of about 520,000 tons, and the impact of the European debt crisis on foreign aid, trade, remittances, and investment.

II. Operation Objectives

The supplemental financing will provide supplemental budget support to Niger to help sustain the implementation of the GPRC-2 supported reform program in the face of unanticipated additional financing needs due to the adverse impact of the Libyan crisis and a poor harvest in 2011/12.

The main objective of GPRC-2 is to help overcome policy constraints and institutional bottlenecks to growth by: (i) addressing the main business environment obstacles, including taxes; (ii) relieving infrastructure constraints for the private sector; (iii) promoting rural sector growth; and (iv) pursuing public finance management reform.

The main expected outcome of the series of the series of two DPOs is higher private investment and job creation through improvements in the overall the business climate. More specifically, the two DPOs are expected to bring about:

- Improvements in the business environment, freeing up financing for short term capital needs, and providing increased access to finance.
- Strengthened road infrastructure.
- A better performing agricultural sector through food imports rationalization and technology investment.
- Improved public financial management by: (i) enhancing the linkages between budget and treasury functions, which will directly translate in the reduction of payment delays to private suppliers; (ii) strengthening the financial relationship between the State and the private sector; (iii) encouraging an increase in registered tax-paying firms by lowering the profit tax; and (iv) bolstering financing for infrastructure maintenance.
- Implementation of the Government's policy on Demographics Program Development.

III. Rationale for Bank Involvement

A supplemental financing of US\$15 million to GPRC-2 would support the authorities in the implementation of measures to mitigate the impact of the crises and contribute to maintaining the overall reform program on track by limiting the crowding out of PRSP related expenditures by crisis induced expenditures.

The proposed supplemental financing meets OP 8.60 requirements for supplemental financing. The impacts arising from spill-overs from conflict and political disturbances in the sub-region, especially in Libya, and the food deficit caused by a poor harvest represent exceptional and unexpected exogenous shocks which are threatening program objectives. The macro-fiscal framework for the 2012 budget agreed with the IMF includes the proposed financing. The supplemental financing would meet OP 8.60 requirements as follows:

Niger is currently implementing the GPRC-2 supported program in compliance with all covenants embedded in the Financing Agreement for the Second Growth Policy Reform Credit (Credit No. 4962) between the Republic of Niger and the Association signed on July 14, 2011.

The borrower is unable to obtain sufficient funds from other lenders on reasonable terms or in a reasonable time. The EU is considering providing crisis related budget support. These resources would complement the proposed supplemental financing, however, would be insufficient to

adequately cover financing needs. As a recipient of MDRI debt relief, Niger is subject to IDA's Non-Concessional Borrowing Policy and access to non-concessional resources would require an exception of this policy. Furthermore, given Niger's economic situation, market access to non-concessional credit is virtually limited to projects in the extractive industries. The recent DSA update for Niger already signals a deterioration of Niger's risk of debt distress from low to moderate.

The time available is too short to process a further freestanding Bank operation. In particular, Niger's liquidity situation has deteriorated significantly in recent months, with government deposits with the central bank amounting only to about US\$60 million by the end of September 2011, only about half the level of September 2010.¹ This makes the rapid provision of supplemental financing essential, if the implementation of government crisis response programs is to proceed uninterrupted. Preparation of a new series of development policy operations is underway to support Niger's core PRSP related expenditure program. However, presentation to the Board and disbursement is expected at the earliest by May/June 2012, contingent on the completion of agreed prior actions.

The recipient is committed to the program and the implementing agencies have demonstrated competence in carrying out.

IV. Tentative financing

Source:	(\$m.)
Borrower/Recipient	0
IDA	15
Total	15

V. Tranches (if applicable)

	(\$m.)
First Tranche	15
Second Tranche	
Etc.	
Total	15

VI. Institutional and Implementation Arrangements

The implementation of this supplemental financing will be managed in the same manner as the GPRC-2 credit. The Ministry of Planning, Local Authorities, and Community Development is the main entity responsible for the overall supervision, monitoring and reporting of this credit. It will ensure that funds are used for their intended purpose.

VII. Risks and Risk Mitigation

¹ This amount includes earmarked donor resources, flexible resources are thus even less.

The main risks and mitigation measures associated with the supplemental financing to GPRC-2 are as follows:

Security risks. The proliferation of arms in the region and the return of a large number of migrant workers in the wake of the Libyan crisis create additional risks of escalating conflict in an environment of tensions over resource rents, terrorist activities by Al Qaeda in the Islamic Maghreb, and expanding criminal activities such as drug trafficking and smuggling across the Sahara. Close security cooperation with regional and international partners and the design and implementation of a plan for development and security in the Sahelo- Saharian zone of the country seek to contain these risks.

External shocks. Niger's economy remains highly vulnerable to weather related shocks to agriculture and livestock and to changes in global demand for its exports of uranium. As the 2011/12 harvest is likely to leave a significant cereal deficit, the Government has already started to draw up and implement plans to prevent a food crisis with the support of the international community. Following the Fukushima nuclear accident, global demand and prices of uranium are on the decline. In the short term this risks is managed through multiyear contracts. In the medium to long term, these risks require sufficient fiscal flexibility for expenditure adjustments and the diversification of the economy to reduce the vulnerability to such shocks.

Fiscal risks. The implementation of the ambitious government program requires significant domestic and external resource mobilization efforts and could create pressures for access to unsustainable sources of financing, especially if resource mobilization efforts do not achieve the targeted results. Agreement on a new IMF program and intensified budget dialogue by the Bank and other budget support donors are the key means to mitigate this risk. In addition, the Bank will support the authorities in their resource mobilization efforts.

Weak governance and capacities. This might slow down implementation of the reform agenda and could undermine the achievement of results. To manage these risks, capacity building measures are an integral part of the Bank's portfolio in Niger. In particular, a dedicated capacity building program for the Ministries of Finance and Planning has become effective in 2010. The Bank also supports Government in the design and implementation of fiduciary reforms. The Bank is also providing technical assistance for the development of a governance and anti-corruption strategy to enhance public resource management and service delivery.

Coordination risks. The split of the former Ministry of Finance and Economy into a Ministry of Finance and a Ministry of Planning requires strong coordination among the two ministries for the successful implementation of a harmonized budget support program. To mitigate these risks, joint coordination mechanisms are being established.

On balance, the expected benefits outweigh the risks. Expected benefits include the sustained implementation of the GPRC-2 supported reform program in a context of severe external shocks as well as an effective crisis response to these shocks.

VIII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The poverty and social impacts of the proposed supplemental financing are twofold. First, the supplemental financing contributes to preserving the initially envisaged positive poverty and social impacts described in detail in the program document for GPRC-2. Second, the proposed supplemental financing is expected to have a significant positive poverty and social impact, as it supports government programs that seek to assist vulnerable groups and households affected by spill-overs from conflict and political disturbances in the sub-region, especially in Libya, and the food deficit caused by a poor harvest. Government programs seek to address three interrelated issues created by the crises, namely (a) preventing a deterioration in the security situation; (b) helping with the reintegration of returning migrant workers; and (c) preventing a poor harvest from turning into a famine.

Environment Aspects

The implementation of the proposed credit is not likely to have significant negative effects on the country's environment, forests and other natural resources given that no new policy measures are undertaken as a result of this credit. The credit will be used to provide the Government with supplemental financing to respond to unexpected fiscal needs caused by spill-overs from conflict and political disturbances in the sub-region, especially in Libya, and the food deficit caused by a poor harvest, and therefore enable it to maintain the course of the ongoing reforms supported by GPRC-2. A detailed discussion of (a) the likely environmental effects of the actions supported by GPRC-2 and (b) the overall capacity of government to monitor and mitigate environmental effects is included in the GPRC-2 program document.

IX. Contact point

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