Niger

key figures

- Land area, thousands of km^2 1 267
- Population, thousands (2004) 12 415
- GDP per capita, $ (2003) 228
- Life expectancy (2000-2005) 46.2
- Illiteracy rate (2004) 81.8

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Niger

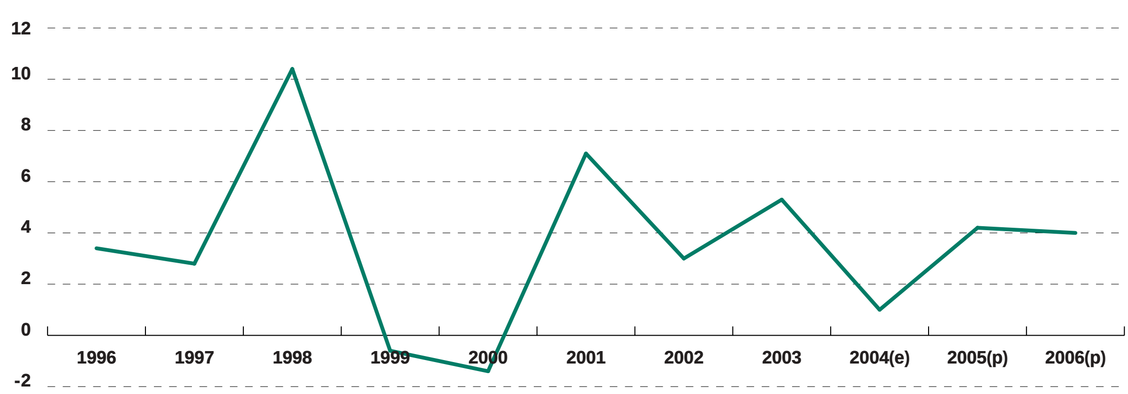
NIGER IS NOT WELL ENDOWED by nature. Landlocked and dry, the country has one of the lowest levels of per capita income in the world and it ranked second to last of the 175 countries surveyed in the 2003 United Nations human development index. In spite of this, Niger recently registered noteworthy economic performances, demonstrating the importance of political stability and rigorous policies even in such a difficult environment.

The Nigerien economy relies principally on agriculture, livestock and uranium extraction. Its competitivity, strengthened by the devaluation of the CFA franc in January 1994, resulted in growth averaging 3.5 per cent per annum throughout the second half of the 1990s. The April 1999 coup d'état – which led to a drastic reduction in foreign aid and high political instability – dealt a severe blow to the economy. This instability ended and normality returned with democratic presidential elections and the formation of a new government at the beginning of January 2000, as well as with considerable efforts to cement the national peace. While GDP increased significantly (+5.3 per cent) in 2003, it seems to have slowed enormously in 2004 (to 0.9 per cent) as a combined result of the political instability in the neighbouring Côte d'Ivoire, drought and locust invasions.

Drought and locust invasions damaged growth in 2004 underlining the vulnerability of the economy.

With its budget 60 per cent financed by international aid, the Nigerien government introduced policies that benefited from the Heavily Indebted Poor

Figure 1 - Real GDP Growth



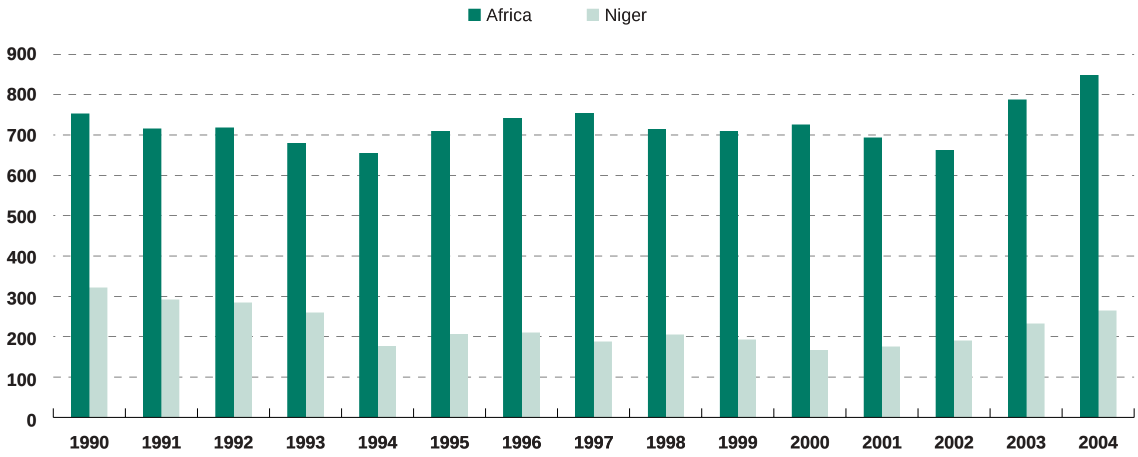
Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

Countries (HIPC) Initiative, as well as growth and poverty reduction programmes. Thus, it is now in a position to pay salary arrears and to finance new investments in rural zones. In December 2004, President Tandja and his supporters won the presidential and legislative elections. They announced their intention to continue with and reinforce economic reforms in 2005 and 2006.

Recent Economic Developments

On the whole, Niger's economic performance was satisfactory in 2002/03, despite the negative effects of the crisis in Côte d'Ivoire and strong fluctuations in harvests, which highlighted the country's complete dependence on rainfall. Real GDP growth was 5.3 per cent in 2003, compared to 3 per cent in 2002, though

Figure 2 - GDP Per Capita in Niger and in Africa (current $)



Source : IMF.

a downturn is expected in 2004. Largely due to drought and locust invasions, real GDP is likely to reach only 0.9 per cent in 2004. For the next three years (2005-07), the country has fixed a growth objective for itself of around 4 per cent subject to a sufficient rainfall and control of locust invasions. Expected improvements in irrigation should enable the creation of a cotton industry. Beyond this, the Nigerien government intends to support private sector growth.

The primary sector accounts for 41 per cent of GDP and for 60 per cent of exports. Dominated by agriculture and livestock, the sector is the main source of growth in the country. Agriculture is heavily dependent on climatic conditions (water management remains a chief issue). Thus, the good rainfall of the 2002/03 season enabled agriculture to grow to 8.6 per cent of GDP. Very good food production since this period has also contributed to lowering the Consumer Price Index (CPI), from an average of 2.7 per cent in 2002 to -1.7 per cent in 2003. This is primarily due to a fall in the price of food (by 4.9 per cent), particularly cereals. The 7 per cent increase in cereal production made it possible to rebuild strategic food reserves. Millet, the most drought-resistant grain, accounts for almost two-thirds of agricultural production. Rice production, mostly originating along the banks of the Niger River, remains inadequate for the population's needs, which are estimated at 200 000 tonnes. Nor is the sector competitive against Chinese imports.

In 2003, cottonseed production dropped by almost half. The national cotton company (*Société nigérienne de cotton*, SNC) has been unable to lend impetus to the industry's development unlike in other West African Economic and Monetary Union (WAEMU) countries. Cowpea – a rain-fed cash crop rarely consumed locally – is often informally exported to sub-regional markets (Benin and Nigeria), and is the sole agricultural product of real significance. For several years, and under the auspices of a project to promote agricultural exports (PPEAP), Niger has been attempting to develop the production of onions, gum arabic, turmeric, sesame, livestock, meat and leather and hides.

The good results of the agricultural sector in 2002/03 should not mask significant risk factors. Niger is particularly vulnerable to locust invasions. In August and September 2003, the first signs of locust numbers increasing became evident. These increased over the first semester of 2004, with locusts breeding all along the east side of Aïr (Tafidet, Ibel and Tchibossène). At the end of May 2004, the government acknowledged large-scale breeding in the Aïr Mountains. Monitoring and combating activities, begun in March and April 2004, had to be suspended in May following the exhaustion of insecticide supplies. With the rains of the second half of May 2004, new signs of an outbreak were noted that necessitated treatment. In a June 2004 report, the UN Food and Agriculture Organization (FAO) described the situation as "extremely alarming". The report forecast

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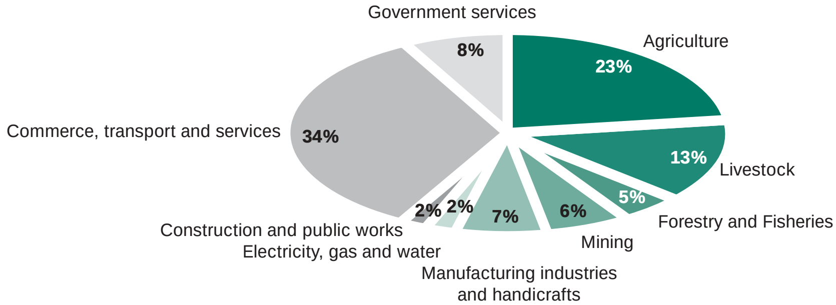
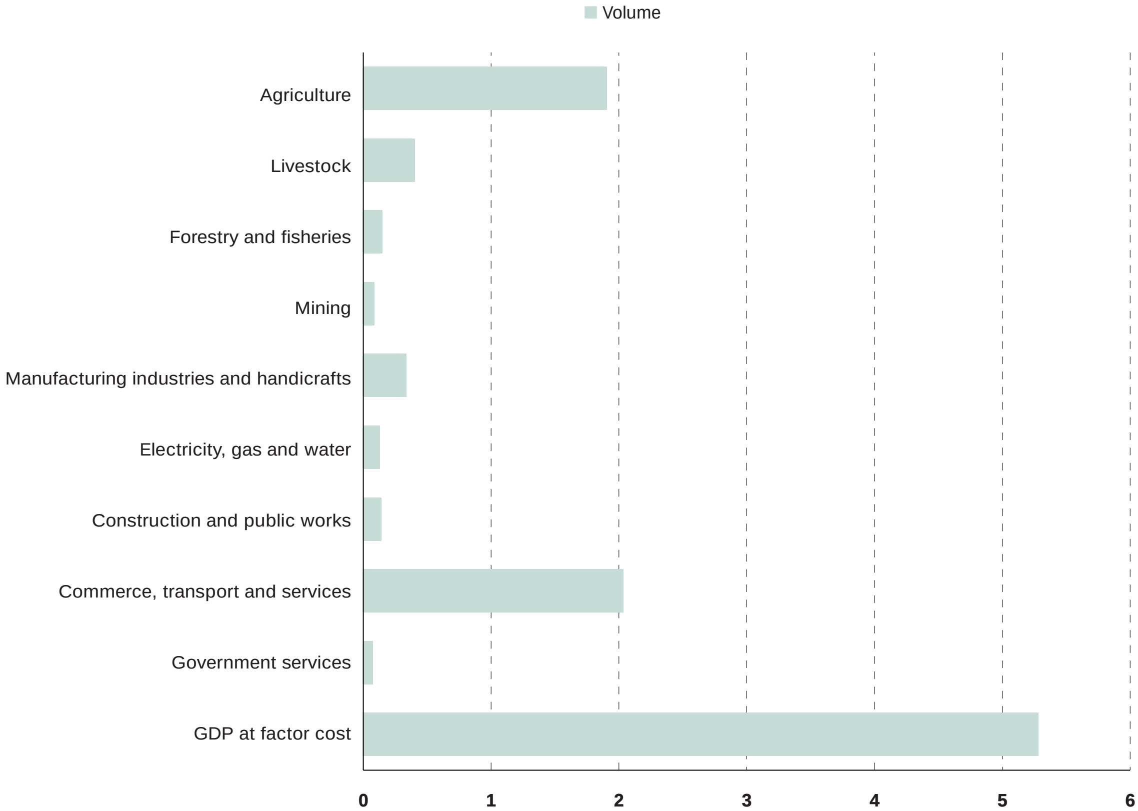
Figure 3 - GDP by Sector in 2003 (percentage)



Source: Authors' estimates based on IMF data.

Figure 4 - Sectoral Contribution to GDP Growth in 2003 (percentage)



Source: Authors' estimates based on IMF data.

very rapid increase in the number of locusts in the Sahel, swarms of insects bypassing the spraying in the African northwest and migrating to areas of recent rainfall. The FAO requested that Niger and other sub-Saharan African countries (including Mali and Senegal) undertake extensive detection and control operations. Unless they are able to mobilise the necessary funds, the entire region runs the risk of massive invasion, which will be particularly detrimental to farmers. The last locust invasion in Niger in 1987/89, cost the country more than 300 million dollars and took several years to bring to a close.

Husbandry (livestock, leather and hides) accounted for 13.3 per cent of GDP in 2003, making it the second largest export after uranium. The cattle herd increased

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2 per cent in 2002/03 to over 3.6 million head, while the sheep and goat population grew respectively, by 3 and 2.5 per cent (for a total of 16.5 million head). Niger also possesses camel, horse and donkey herds. Despite the importance of livestock to the Nigerien economy and culture, derivative products such as milk, meat, leather and hides are poorly developed. Niger mostly exports livestock, notably to the high-potential and easily accessed Nigerian market. This industry is primarily informal and its development is hampered by the inadequacy of road, transport and slaughtering infrastructures. With the liquidation of the national leather and hide company (*Société nigérienne des cuirs et peaux*), the formal industry more or less disappeared. Formal activity is now limited to a few traditional tanneries with reputations for quality.

For the 2005/07 period, the government is aiming to improve agricultural production through water management and crop diversification. The authorities have forecast an increase in cash crops of 6.7 per cent (reference scenario), as well as an increase in public spending on agriculture of around 49 per cent in 2005. These funds will be directed at supporting irrigated and cash crops.

The secondary sector depends mainly on mining, dominated by uranium extraction as well as several non-representative small industries. Niger is the third largest producer of uranium in the world, behind Canada and Australia. COMINAK (*Compagnie minière d'Akouta*) and SOMAIR (*Société minière de l'Aïr*) are the largest extraction companies. Almost all of the uranium produced is exported to France (64 per cent) and Japan (29 per cent). In 2003, uranium accounted for 61.6 per cent of exports, up from 57.3 per cent in 2002. Uranium production increased by 5 per cent in 2003, to reach 3 143 tons, and two-thirds of this was produced by COMINAK. Uranium has been at the heart of Niger's development since the 1970s and 1980s, though the price of uranate per kilogram has been falling gradually for several years (from 21 100 CFA francs – 30.4 dollars – in 2002 to 21 090 CFA francs – 36.3 dollars – in 2003).

Gold mining is the second largest activity in the sector, and is led by the *Société minière de Liptako* (SML). The sector's contribution to the economy remains modest however, estimated at just 0.6 per cent of GDP during 2005/09. In spite of having a developed regulatory framework and significant geological assets – the country has reserves of coal (50 million tons), phosphate (1.2 million tons) and salt (25 million tons) – the country's landlocked position and poor infrastructure make it difficult to attract investors.

The near absence of an industrial sector (outside of public services) means that a large part of the population's needs are met by imports. In 2001, there were 58 production units in the manufacturing sector (46 actually operating), of which 15 were food-processing units, eight metal and wood construction and printing/publishing, and seven were in chemicals. In 2003, the manufacturing and craft industries accounted for 6.7 per cent of GDP.

Table 1 - Demand Composition (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Gross capital formation	**9.7**	**12.1**	**14.2**	**14.2**	**15.4**	**16.2**	**16.9**
Public	4.6	7.1	8.8	8.3	9.1	9.6	10.2
Private	5.0	5.0	5.4	5.9	6.2	6.5	6.7
Consumption	**97.6**	**95.6**	**94.7**	**95.0**	**94.1**	**93.7**	**93.0**
Public	11.5	12.4	12.2	11.3	11.7	11.9	11.7
Private	86.2	83.2	82.5	83.7	82.4	81.8	81.3
External sector	**-7.3**	**-7.7**	**-8.9**	**-9.2**	**-9.5**	**-9.8**	**-9.9**
Exports	18.5	16.9	15.2	16.0	16.0	15.7	15.5
Imports	-25.8	-24.6	-24.1	-25.2	-25.5	-25.5	-25.4

Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

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The tertiary sector remains the principal contributor to GDP. Largely informal (three-quarters of tertiary GDP is from non-formal activities), this sector is characterised by a concentration on business and services. The sector has increased on average by 4 per cent per annum over the past seven years, driven by cross-border trade in spite of the 1999 political crisis.

Household consumption accounts for a large part of Niger's demand, representing over 80 per cent of GDP. The country's demand structure also attests to the weakness of overall investment despite increased public spending and the structural nature of the external deficit.

Macroeconomic Policies

Fiscal and Monetary Policy

The fiscal policy initiatives implemented by the Nigerien government – in collaboration with the IMF – were satisfactory. These consisted of continuing to strengthen budgetary policy through better control and allocation of current expenditure to bring spending into line with available budgetary resources. Current expenditure was strictly controlled and certain non-priority spending was postponed. This reduced current expenditure from 10.7 per cent of GDP in 2002, to 10.1 per cent in 2003, and it should reach 9.9 per cent in 2004. The wage bill remained stable from 2002/04 (at around 3.6 per cent). Thus, despite the local, legislative and presidential elections, current expenditure has not grown. The scheduled 3.5 per cent increase in public sector wages remains in line with GDP growth. The modernisation of public spending channels, both in terms of procedures and management systems, has resulted in the rationalisation of the management of public expenses.

State revenues have developed unevenly, with income falling from 15.6 per cent of GDP (including grants) in 2002 to 14.7 per cent in 2003, before climbing once again to 15.6 per cent in 2004. To increase its revenues, the government introduced a number of new measures in 2004. These included a tax on imported rice destined for re-export, a 12 per cent excise tax on tea and VAT on oils and edible fats. The effect of these measures should be felt during 2006. The HIPC Initiative income – from debt relief from bilateral and international creditors – was allocated in priority to basic education, secondary education and health. HIPC Initiative funds do not represent additional financial resources. The crisis in Côte d'Ivoire had a limited indirect impact on public revenues in 2003, as a reduction in imports from the country particularly affected customs income. More generally, the crisis has disrupted the major trade channels, leading to shortages of some consumer goods and essential primary materials. Onion and livestock exports to Côte d'Ivoire also dropped. The suspension of Côte d'Ivoire's payments under the WAEMU compensation fund for lost customs revenue also affected the Union's transfers.

Table 2 - Public Finances (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Total revenue and grants[a]	**12.7**	**13.5**	**15.6**	**14.7**	**15.2**	**14.2**	**14.9**
Tax revenue	6.7	8.9	10.0	9.0	9.4	10.0	9.9
Grants	4.9	4.2	4.9	4.8	4.9	3.3	4.1
Total expenditure and net lending[a]	**13.1**	**17.2**	**18.4**	**17.4**	**18.0**	**18.4**	**18.7**
Current expenditure	9.3	11.0	10.7	10.1	9.9	9.9	9.8
Excluding Interest	*7.6*	*9.3*	*9.2*	*9.0*	*9.3*	*9.3*	*9.2*
Wages and salaries a	3.3	3.5	3.7	3.6	3.7	3.6	3.7
Interest	1.7	1.8	1.5	1.1	0.6	0.6	0.6
Capital expenditure	4.1	6.2	7.7	7.3	8.0	8.5	8.9
Primary balance	**1.2**	**-2.0**	**-1.3**	**-1.6**	**-2.1**	**-3.6**	**-3.3**
Overall balance	**-0.4**	**-3.7**	**-2.8**	**-2.7**	**-2.8**	**-4.2**	**-3.9**

a. Only major items are included.
Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

The fiscal and lending policies set out by the Central Bank of West African States (BCEAO) have remained cautious, thus checking inflationary pressures and maintaining a suitable level of foreign currency reserves.

The health of the Nigerien banking system – which is comprised of eight banks and one financial institution – is, on the whole, satisfactory. The majority of local banks adhere to the prudential rules of the regional banking commission. A new institution, the Sahel-Saharan Investment and Trade Bank (BSIC), received regulatory approval in July 2003 and is now in the process of setting up a subsidiary network in the 18 member states of the Community of Sahel-Saharan States. The Nigerien economy is very poorly equipped with banking facilities and just 12 per cent of GDP originates from the banking sector, well below the WAEMU 2003 average of 27.6 per cent.

External Position

Niger has a structural deficit in its balance of trade. The coverage ratio (ratio of exports to imports), which has fallen appreciably in the last three years, was at 65.7 per cent in 2004. The decline recorded in 2004 was attributable to increased imports, particularly of equipment (+48 per cent) and telecommunications material. Re-exports to Nigeria, which increased strongly in 2003, declined in 2004 negatively affecting tax revenues. Niger remains highly dependent on foreign imports for basic food supplies, energy and industrial products (Table 3). One of the country's goals is to reduce its current account deficit, which grew from 7.8 per cent in 2002 to 7.6 per cent in 2003 before falling to 7.3 per cent in 2004. This decline should continue. From 2005, gold extraction and diversification of agricultural exports should contribute to improving the current account. Since the end of 2001, the effective real exchange rate increased by 5 per cent, reflecting the strengthening of the euro against the dollar. The national currency is fixed to the euro, with the exchange rate at 655.96 CFA francs to the euro. It thus fluctuates with the euro against the dollar.

France is Niger's largest supplier, accounting for 17 per cent of imports. Despite the crisis in Côte d'Ivoire, which led to increased transportation costs, that country remains in second place (accounting for 15 per cent of imports). Exports are concentrated on a small number of countries and products. Nigeria is the first destination, followed by France. Trade to Nigeria is primarily composed of livestock, food products and re-exports of cigarettes and textiles. In the opposite direction, Niger imports oil products and manufactured goods and food from Nigeria. These, often informal, exchanges provide those with extremely low purchasing power access to both a source of revenue and consumer goods.

In order to reduce the current account deficit, the government plans to increase uranium and food-processing exports and to limit the rise of imports.

The programme adopted by the authorities to discharge internal debt has enabled them to reduce arrears. At the end of 2003, the external debt stock was estimated at 226.5 billion CFA francs. A new computer programme, intended to allow more efficient management and analysis, should lead to better debt monitoring.

Table 3 - Current Account (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Trade balance	-1.3	-3.0	-4.2	-4.9	-5.4	-5.8	-5.8
Exports of goods (f.o.b.)	16.4	14.0	12.9	12.3	12.0	11.7	11.6
Imports of goods (f.o.b.)	-17.7	-17.0	-17.1	-17.2	-17.5	-17.5	-17.4
Services	-6.0	-6.5	-6.0	-6.4			
Factor income	-1.4	-0.8	-1.1	-0.5			
Current transfers	3.2	3.7	3.5	4.2			
Current account balance	**-5.5**	**-6.6**	**-7.8**	**-7.6**			

Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

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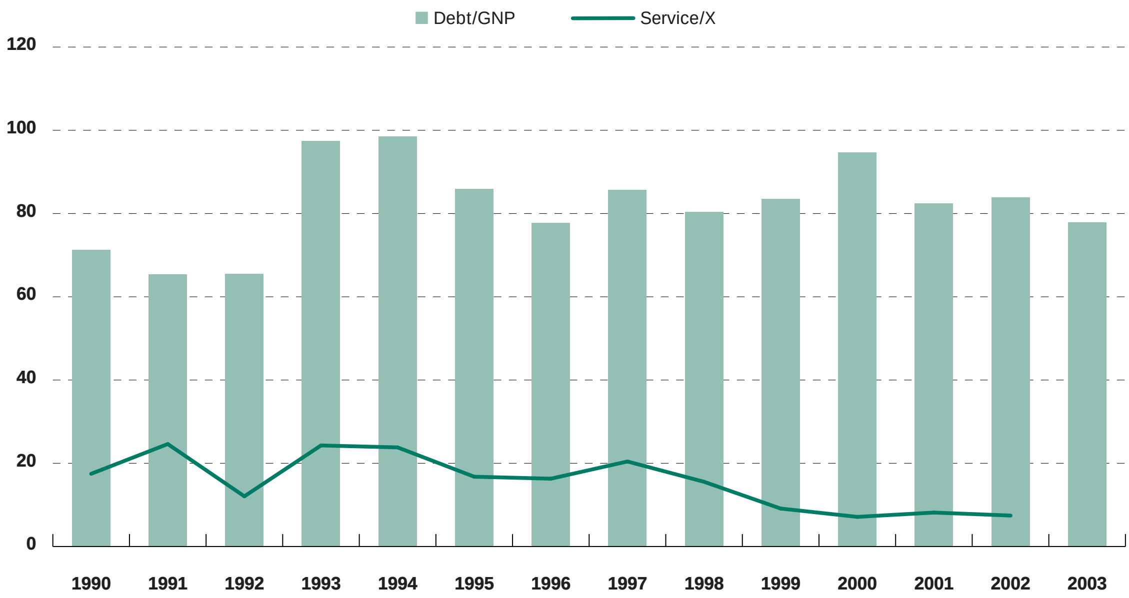
Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports)



Source: World Bank.

The completion point of the HIPC Initiative was reached on 8 April 2004. To adhere to the HIPC Initiative goal of maintaining a debt to export ratio of below 150 per cent, the country's bilateral and multilateral creditors conceded additional aid to Niger (the Paris Club provided a top-up of 4 million dollars). Since reaching decision point in 2000, Niger has suffered from exogenous shocks (a difficult uranium market, weak dollar), which explain the deterioration in the debt to export ratio. The country finally had its Paris Club debt erased (185 million dollars). Spain, the United States, France, Japan and the United Kingdom, as members of the Paris Club, are all involved in this debt restructuring. The country is now negotiating a similar treaty with its non-Paris Club bilateral creditors. According to the IMF, only Kuwait has agreed to HIPC debt relief. At the end of 2002, the nominal value of Niger's debt (non-Paris Club) was 230.9 million dollars. None of the country's commercial debt, which was 4.6 million dollars at the end of 1999, has been forgiven. The HIPC Initiative will enable the country to bring its debt ratio from 68.8 per cent of nominal GDP in 2004 to 58.3 per cent in 2006, in addition to reducing debt servicing charges.

Structural Issues

The Nigerien private sector is dominated by the informal sector and by a concentration of activity in trade and services. No database for small and medium enterprises (SME) exists. The sole definition of SMEs in use is that of the investment code, which dates from 1989 and which classifies companies according to the level of their investment. Those companies investing between 50 and 200 million CFA francs (around 94 500 and 377 000 dollars) are defined as small, while those investing between 250 million and 1 billion CFA francs (472 000 and 1.9 million dollars) are considered medium sized.

The strategy for promoting SMEs focuses on developing opportunities that exploit the country's comparative advantage. Several support structures have been put into place. The government programme to support private initiatives and create jobs (PAICE), under the Ministry of Commerce, is composed of three funds. These include, a research fund (*Fonds d'aide aux etudes*, FAE), a contribution fund (*Fonds d'intervention et de participation*, FIP) and a guarantee fund (*Fonds de garantie supplémentaire*, FGS). Together, it is hoped that they will: *i)* facilitate project research financing; *ii)* supplement the personal contribution of developers, such as young graduates, when their resources are insufficient; and *iii)* facilitate access to bank loans by helping developers gather the guarantees required by banks. With support from the European Development Fund (EDF), in 1993 the Nigerien government also created an organisation to finance and support private enterprises (AFELEN). In five years, AFELEN granted 6 billion CFA francs (11.3 million dollars) in loans to 205 companies, investing a total of 10.6 billion CFA francs (20 million dollars). However, the project's continued existence is threatened by the increased number of delayed and unpaid loans and numerous malfunctions. Grants of new loans ceased in 1996 and since 1998, AFELEN has focused on recovering its loans.

The privatisations of SONITEL (Nigerien telecommunications company) and SNE (Nigerien water company) took place in 2002. Since then, almost no progress has been made in structural reform. The restructuring of the national postal service (*Office national des postes et de l'épargne*) should be pursued. After a first attempt to open the capital of the Nigerien oil company, SONIDEP, to oil-sector professionals proved unsuccessful in 2003, a new call to tender was launched in 2004. The privatisation of NIGELEC (the national electricity company) also had to be delayed as insufficient capital was raised to ensure its restoration. Its management was handed over in a 25-year concession to a consortium made up of the Nigerian Electric Power Authority (NEPA) and Vivendi. At the beginning of 2004, the World Bank approved a 5.5 million dollar payment to finalise the SONIDEP and NIGELEC privatisations.

Niger's principal urban centres are equipped with modern telecommunications systems. Internet connections are effective, network access is progressively improving and Internet kiosks are proliferating in large towns. Private telephone lines remain very limited, particularly outside Niamey. The country has a national network of asphalt roads, going from Niamey (in the west) to the east of the country, with branches leading north to the border with Mali, Tahoua, Agadez and Arlit. The renovation of the road network – financed by the EU – and construction projects are underway in preparation for the francophone nation games, which will take place in the country in 2005. The renovation of the water sector has also been scheduled. Niger has an acceptable aeronautic network: the French airline, Air France, operates two flights a week to the country, and there are charter links between the capital, Niamey, and the other large economic centres. Finally, the postal system is reasonably efficient.

In the light of the incapacity of the financial sector to fulfil its role in the fight against poverty, the government has planned to restructure the banking sector and to support the development of insurance and local intermediary financing systems. In this regard, 90 per cent of the *Crédit du Niger* will be privatised, and the regional collective loan agency, the *Caisse de prêts aux collectivités territoriales* (CPCT) will be restructured. During this phase, CPCT will cease lending. The restructuring of five insurance companies will take place via the implementation of measures aimed at: *i)* strengthening their management and employee training; *ii)* paying the state's arrears to these companies; and *iii)* setting up an automobile insurance fund. The government also intends to rehabilitate the *Banque commercial de Niger* (BCN) and the *Banque islamique du Niger pour le commerce et l'investissement* (BINCI) and, using independent and local structures, to create a decentralised financial services provider throughout the country governed by a specific legal and regulatory framework. Since 30 December 2003, the Bank of Africa – Niger (BOA-N) has been the leading stock listed on the regional exchange (BRVM). Finally, the audit of microfinance organisations was begun in 2004 and the government intends to restructure the national post office in order to restart its financial services. Progress in this direction has been made, with the completion of initial studies. These examined restructuring postal services and creating a financial services arm of the post office. The terms of reference of the actuarial audit of the national social security fund (*Caisee nationale de sécurité sociale* CNSS) were finalised in June 2003, although an agreement with the International Labour Organization (ILO) that would lead to the audit had yet to be reached.

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Political and Social Context

The socio-political environment in Niger remains fragile, and social tensions have been increased by unpaid salary arrears, as well as by the threat of a new Tuareg rebellion in the north of the country. This has arisen following rumours that the former Tuareg rebels (ex-members of the Liberation Front of Aïr and Azaouak – FLAA) who had been integrated into the army under the 1995 peace accords were demobilising. However, the Nigerien authorities are pursuing a proactive policy of dialogue. In April 2003, a national strategy for conflict prevention and management was agreed upon by the government, civil society, political parties and unions. In a meeting of an *ad hoc* committee for conflict prevention in January 2004, the creation a national council for political dialogue (*Conseil national de dialogue politique* CNDP) was agreed. Its existence was sanctioned by presidential decree and then adopted by the various political parties and inserted into their charters. The participants subscribed to:

- ensure equal access to the media for all legally recognised political parties;
- ensure greater freedom of expression by a revision of the law of the press lifting some of its strict measures;
- set up a commission to draft statutes for the opposition; and
- devise mechanisms for conflict resolution within political parties via a detailed code of political ethics.

In April and May 2004, strikes were organised by the teachers and labour unions (the *Syndicat national des enseignants du Niger* and the *Confédération démocratique des travailleurs du Niger*) demanding that the government withdraw the government workers' pension plan introduced in 2000 and that it settle the salary arrears bill.

While political activity was high in 2004 with the December presidential elections, they subsequently quietened with the re-election of President Tandja with more than 65 per cent of the vote. Niger has thus held its second peaceful democratic elections, becoming a model of stability in the sub-region. Underlining this is President Tandja's position as acting president of WAEMU and the Economic Community of West African States (ECOWAS).

Women, who account for more than half of the population, are particularly affected by poverty. In accordance with the poverty reduction strategy adopted by the government, efforts must be made to reinforce public structures, civil society organisations and the private sector. In June 2004, to this effect the African Development Fund (ADF) met in Tunis and approved a 4.41 million dollar loan to Niger. This aid is intended to help increase gender equality.

Gross primary enrolment (38.1 per cent in 2001/02) and literacy (18.2 per cent in 2004) are low and the population's health is delicate. Maternal and infant mortality are the highest in the sub-region (respectively, 7 and 126 per thousand). Measures have been undertaken to improve the situation.

HIV/AIDS (1.2 per cent) is one of the lowest in Africa. Niger has 60 000 people infected with HIV, and almost 6 000 of these are sick. There is a shortage of reagents in the country, yet these are indispensable to screening. The fight against AIDS began in 1987, following the detection of the first cases and the country's AIDS programme concentrates on public education campaigns, training health professions, opening screening laboratories and improving the security of blood transfusions.

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