A WORLD BANK COUNTRY STUDY

Public Expenditure Management and Financial Accountability in Niger

THE WORLD BANK

A WORLD BANK COUNTRY STUDY

Public Expenditure Management and Financial Accountability in Niger

THE WORLD BANK
Washington, D.C.

Manufactured in the United States of America
First Printing: October 2005

printed on recycled paper

1 2 3 4 5 07 06 05

World Bank Country Studies are among the many reports originally prepared for internal use as part of the continuing analysis by the Bank of the economic and related conditions of its developing member countries and to facilitate its dialogs with the governments. Some of the reports are published in this series with the least possible delay for the use of governments, and the academic, business, financial, and development communities. The manuscript of this paper therefore has not been prepared in accordance with the procedures appropriate to formally-edited texts. Some sources cited in this paper may be informal documents that are not readily available.

The findings, interpretations, and conclusions expressed herein are those of the author(s) and do not necessarily reflect the views of the International Bank for Reconstruction and Development/The World Bank and its affiliated organizations, or those of the Executive Directors of The World Bank or the governments they represent.

The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply and judgment on the part of The World Bank of the legal status of any territory or the endorsement or acceptance of such boundaries.

ISBN-10: 0-8213-6366-2 ISBN-13: 978-0-8213-6366-9
eISBN: 0-8213-6367-0
ISSN: 0253-2123 DOI: 10.1596/978-0-8213-6366-9

Cover photographs from the website www.agadez-niger.com, courtesy of Samuel Gaze.

Library of Congress Cataloging-in-Publication Data has been requested.

In memory of our dear friend and colleague Jacques Bernard Christien.

Contents

Acknowledgments ix

Acronyms and Abbreviations xi

Executive Summary xv

Introduction 1

Recent Reform Achievements 2

Rationale for PEMFAR 2

Objectives, Scope and Structure 3

1. Macroeconomic Context 5

Structure of Niger's Economy and of Public Finance 6

Economic Performance 2000–2003 15

Macroeconomic Outlook and Financing Requirements 2004–2007 18

Solvency and Fiscal Sustainability Analysis 21

2. Public Expenditure Review 25

Objectives of the Public Expenditure Review 25

Scope of Analysis and Data Constraints 26

Analysis of Public Expenditure Structure 27

Spending Targets for Priority Sectors 27

Analysis of Public Expenditure by Functional Classification 28

Actual Expenditures Compared to PRSP Spending Targets 30

International Comparisons of Functional Distribution of Public Expenditure 31

Factors Determining the Structure of Public Expenditure 32

Economic Composition of Public Expenditures 36

Impact of Budget Execution on Budget Outcomes 40

Geographical Distribution of Public Expenditures and their Poverty Impact 44

Sector Expenditure Reviews 47

Education 47

Health 53

Road Transport 58

Rural Development 63

3. Assessment of Public Finance Management Systems 67

Budget Preparation 68

Budget Execution 71

The Budget Execution Process 71
Externally Financed Development Expenditures 74
Processing Delegated Budget Credits (credits délégués) 75
Public Accounting and Treasury Management 76
Government Accounts 77
Reporting (Treasury Accounts and Budget Review Law) 78
Treasury System 78
Cash Management 79
Internal and External Controls 80
Ex-Ante Controls 81
Internal Audit 81
External Audit 82
Political Control (National Assembly) 83
Non Financial Assets, Monitoring of Parastatals and Debt Management 84
Non-Financial Assets (Comptabilité Matière) 84
Monitoring of Parastatals 85
Debt Management 86
Institutional and Organizational Reforms and Human Resources Management 87
Institutional and Organizational Reforms 88
Human Resource Management 89

Appendixes 91
Appendix A: Macroeconomic and Government Finance Tables 93
Appendix A.1: Financing of Government Overall Fiscal Deficits 94
Appendix A.2: Sources of Net Official Development Assistance, 1997–2001 95
Appendix A.3: Selected Economic and Financial Indicators, 2004–2007 96
Appendix B: Public Expenditure Data 97
Appendix B.1: Total Public Expenditures 97
Appendix B.2: Domestically-financed Public Expenditures 101
Appendix C: Methodology of Public Expenditure Reclassification Exercise 107
Appendix C.1: Objectives and Main Tasks 107
Appendix C.2: List of Reclassifications and Explanations 108
Appendix C.3: Synthesized Table of Reclassifications 112

References 117

List of Tables

1:	Priority Action Plan	xxii
1-1:	Nominal and Real GDP and Growth Rates, 1997–2003	6
1-2:	Niger and WAEMU Convergence Criteria, 1997–2003	9
1-3:	Composition of Government Revenue, 1997–2003	9
1-4:	Composition of Government Expenditures, 1997–2003 accrual terms	10
1-5:	Composition of Government Expenditures, 1997–2003	11
1-6:	Overall Fiscal Balance, 1997–2003	12
1-7:	Projected HIPC Assistance to Niger after Completion Point	14
1-8:	Change in Domestic Arrears (net), 1999–2003	17
1-9:	Financial Operations of the Central Government, 2004–2007 Projections of revenues and expenditures	20
1-10:	Financial Operations of the Central Government, 2004–2007 Projections of overall balance and financing	21
1-11:	Public Sector Solvency and Sustainability in Niger	22
2-1:	Quantitative Targets for Priority Sector Spending	28
2-2:	Functional Distribution of Public Spending (total expenditures)	29
2-3:	Functional Distribution of Public Spending (Recurrent Expenditure)	31
2-4:	Medium Term Projections of Priority Sector Expenditures, 2004–2007	33
2-5:	Regional Comparison of Spending on Priority Sectors	33
2-6:	Importance of Donor Financing for Public Expenditures	33
2-7:	Economic Structure of Total Expenditures	37
2-8:	Payroll and Wage Bill 2000–2003	38
2-9:	Ratio of Recurrent to Capital Expenditures	39
2-10:	Ratio of Budget Allocation to Execution by Expenditure Category	41
2-11:	Execution Rates by Budget Execution Stage	43
2-12:	Primary Education Indicators	48
2-13:	Education Sector—Recurrent Expenditures by Subsector	49
2-14:	Cost of Contract Teachers	49
2-15:	Unit Costs by Subsector	50
2-16:	Economic Classification of Education Expenditures	51
2-17:	Health Indicators	53
2-18:	Economic Classification of Health Expenditures	54
2-19:	Health Sector—Recurrent Expenditures by Level	56
2-20:	Ratios of Health Workers to Population by Region (2000)	56
2-21:	Public Expenditures for Transport and Civil Works	59
2-22:	Budget Allocations for Road Maintenance and Actual Expenditures	61

2-23: Yields of Cereal Production in Niger—Comparison with other Countries in the Sub-Region 64
2-24: Public Expenditures in the Rural Sector 65
3-1: Niger's Budget Execution Process 72

List of Charts

1-1: Real Output Growth 6
1-2: Evolution of Net ODA to Niger 13
1-3: Government Revenue 17
2-1: Evolution of Public Expenditure by Functional Classification 29
2-2: Evolution of Recurrent Expenditure by Functional Classification 30
2-3: Comparison Total Expenditures—PRSP Spending Targets 32
2-4: Comparison Recurrent Expenditures—PRSP Spending Targets 32
2-5: Sectoral Distribution of Capital Expenditures by Source of Financing 34
2-6: Use of HIPC Resources, 2001–2003 35
2-7: Economic Structure of Total Expenditure 37
2-8: Execution Rates by Sectors 41
2-9: Quarterly Fluctuations in Spending on Goods and Services 42
2-10: Per Capita Levels of Regionally Administered Expenditures by Region 46
2-11: Per Capita Distribution of Spending in the Special Program of the President 46

List of Boxes

1: WAEMU Convergence Criteria 8
2: Revenue-Enhancing Measures Introduced since 2001 16
3: Rationale for and Impact of Niger's Cash Management System 44
4: Inter-sectoral Expenditure Structure—Main Recommendations 47
5: Education—Main Recommendations 52
6: Health Sector—Main Recommendations 58
7: Road Transport—Main Recommendations 63
8: Rural Development Sector—Main Recommendations 66
9: Budget Preparation—Main Recommendations 70
10: Exceptional Procedures 73
11: Budget Execution—Main Recommendations 76
12: Accounting and Treasury Management—Main Recommendations 80
13: Internal and External Controls—Main Recommendations 84
14: Non-financial Assets, Monitoring of Parastatals and Debt Management—Main Recommendations 88
15: Institutional and Organizational Reforms and Human Resources Management—Main Recommendations 90

Acknowledgments

This is the final report of the Niger Public Expenditure Management and Financial Accountability Review (PEMFAR) undertaken by the World Bank in close partnership with the Government of Niger and the European Commission (EC). On the Government side, Adamou Kane (Ministry of Economy and Finance) was responsible for the overall coordination. The Government team consisted of a core group in the Ministry of Finance and Economy (MEF) led by Moumouni Saidou and Saadou Bakoye, and four sectoral task forces. The coordinators of the task forces were: Tari Bako (Road Transport), Adamou Soumana (Education), Djika Garba (Health), and Adamou Maiguiya (Rural Development). Members of GAGE (Government group conducting technical work on economic management) provided key inputs to the macroeconomic analysis.

The analytical work of this report is based on a main mission conducted in November 2003 jointly by the Government, the EC and the Bank. A first draft was discussed in a two-day workshop in June 2004, organized by the Government in Niamey, Niger. The Minister of Economy and Finance, Mr. Lamine Zeine, presided over the workshop. Participants in the workshop included representatives from several Government ministries, donor organizations, private sector and civil society organizations. The workshop was led by the following officials: Djibir Abdoua (MEF), Yacouba Abou (MEF), Rabo Fatchima (MEF), Ibrahim Garba (MEF), Gani Hamado (MEF), Ibrahim Mamane (Chamber of Accounts), Ibrahim Samaila (Ministry of Civil Service and Labor), Yaye Seidou (MEF), Abdou Soumana (MEF), and Kambèye Zabeirou (MEF).

Under the direction of Hinh Dinh (Lead Economist), the World Bank team was led by Peter Siegenthaler and Amadou Ibrahim (Task Managers, AFTP3). The authors of this report are Emmanuel Pinto Moreira (AFTP3), Macroeconomic Context, Peter Siegenthaler (AFTP3), Public Expenditure Review, and Emile Finateu (AFTFM), Public Finance Management Systems. Xavier de la Renaudiere (consultant) played a key role in the drafting process. The World Bank team also included Amadou Alassane (AFTS3), Jacques Bernard Christien (AFTFM), Quy-Toan Do (DECRG), Soukeyna Kane (AFTFM), Djibrilla Karamoko (AFTH2), Anne Mondoloni (AFTFM), Peter Osei (AFTP3), Rachidi Radji (AFTH2), Andreas Schliessler (AFTTP), Mamadou Yaro (AFTFM), Ali Zafar (AFTP3). Contributions were made by World Bank consultants Charles N'Cho, Koffi Ekanmian, Jacqueline Freitas, Stan Manikowski, and Michel Populus.

The European Commission team participating in the PEMFAR was headed by Guy Samzun (EC, Niamey) and consisted of Xavier le Mounier and Bibata Dille (both EC, Niamey). EC consultants Lydia Montalti, Claude Boursoit, Jean Petit, and M'hamed Cherif contributed to the report. Yves Huart from the French Treasury participated as consultant in the exercise. Other donors, in particular the IMF, UNDP, French Cooperation and AFD, provided valuable inputs. The PEMFAR process received financial assistance from the Public Expenditure and Financial Accountability Program (PEFA) and the UNDP.

Peter Moll (AFTP1), Jean Luc Bernasconi (ECSPE), and Moussa Yaya (IMF) were peer reviewers. The team benefited from the support and guidance of Cadman Mills (Sector Manager AFTP3), Iraj Talai (AFTM), Vincent Turbat (Country Manager Niger), Pedro Alba (Country Director, AFC13), and Antoinette Sayeh (former Country Director, AFC13). Abiodun Olusegun Aina, Maude Jean-Baptiste and Josiane Luchmun (AFTP3) assisted in the preparation of the report.

Acronyms and Abbreviations

AfDB	African Development Bank
BCEAO	*Banque Centrale des Etats de l'Afrique de l'Ouest* (Central Bank of West African States)
CAADIE	*Centre Autonome d'Amortissement de la Dette Intérieure de l'Etat* (Central Executing Agency of Domestic Arrears Settlement)
CAFER	*Caisse Autonome pour le Financement de l'Entretien Routier* (Autonomous Road Maintenance Fund)
CAS	Country Assistance Strategy
CFAA	Country Financial Accountability Assessment
CET	Common External Tariff
COGES	*Comité de Gestion des Etablissements Scolaires* (School Management Committee)
CWIQ	Core Welfare Indicator Questionnaire
DAF	*Direction des Affaires Administratives et Financières* (Financial and Administrative Affairs Directorate)
DCE	*Direction du Contentieux de l'Etat* (Public Dispute Settlement Directorate)
DCF	*Direction du Contrôle Financier* (Financial Control Directorate)
DEPP	*Direction des Entreprises Publiques et Parapubliques* (Directorate of Public and Parastatal Enterprises)
DFI	*Direction du Financement de l'Investissement* (Investment Finance Directorate)
DGB	*Direction Générale du Budget* (General Budget Directorate)
DGIF	*Direction Générale de l' Inspection des Finances* (General Directorate for Financial Inspection)
DGTP	*Direction Générale des Travaux Publics* (General Public Works Directorate)
DO	*Direction de l'Ordonnancement* (Payment Order Directorate)
DPP	*Direction des Programmes et du Plan* (Planning and Programming Directorate)
DSA	Debt Sustainability Analysis
EC	European Commission
EDS	*Enquête Démographique et de Santé* (Demographic and Health Survey)
EFA-FTI	Education for All, Fast Track Initiative
EPA	*Etablissements Publics à Caractère Administratif (Administrative Public Enterprises)*
EPIC	*Etablissements Publics à Caractère Industriel et Commercial (Industrial and Commercial Public Enterprises)*
EU	European Union
FCFA	*Franc de la Communauté Française de l'Afrique* (Franc of the French Community of Africa)
FMIS	Financial Management Information System
GAGE	Groupe d'Appui à la Gestion Economique (Economic Management Consulting Group)
GDP	Gross Domestic Product
HDI	Human Development Index

HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IGAT	*Inspection Générale de l'Administration Territoriale* (General Inspectorate for Territorial Administration)
IGE	*Inspection Générale d'Etat* (General Public Inspectorate)
IMF	International Monetary Fund
INRAN	*Institut National de Recherches Agronomiques du Niger* (National Agronomic Research Institute of Niger)
I-PRSP	Interim Poverty Reduction Strategy
IsDB	Islamic Development Bank
MEAT	*Ministère de l'Equipement et de l'Aménagement du Territoire* (Equipment and Territorial Management Ministry)
MEBA	*Ministère de l'Education de Base et de l'Alphabétisation* (Basic Education and Alphabetization Ministry)
MEF	Ministry of Economy and Finance
MFP/T	*Ministère de la Fonction Publique et du Travail* (Public Service and Labor Ministry)
MSP	*Ministère de la Santé Publique* (Public Health Ministry)
MTEF	Medium-Term Expenditure Framework
NGO	Non-Governmental Organization
NIGELEC	*Société Nigérienne d'Électricité* (Nigerien Electricity Company)
NPV	Net Present Value
ODA	Overseas Development Aid
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
OPVN	*Office des Produits Vivriers du Niger* (National Cereals' Marketing Board)
PDDE	*Programme Décennal pour le Développement de l'Education* (Ten-Year Education Development Program)
PEAC	Public Expenditure Adjustment Credit
PEMFAR	Public Expenditure Management and Financial Accountability Review
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PREM	Poverty Reduction and Economic Management Network (World Bank)
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Strategy Credit
PRSP	Poverty Reduction Strategy Paper
PSOP	*Paiement sans Ordonnancement Préalable* (Payment without preceding Payment Order)
RDS	Rural Development Strategy
SONIDEP	Société Nigérienne des Produits Pétroliers (Nigerien Petrol Product Company)
SNIS	*Système National de l'Information Sanitaire* (National Health Information System)
TOFE	Table of Government Financial Operations
UNDP	United Nations Development Program

UNICEF	United Nations Children Fund
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union
WFP	World Food Program
WHO	World Health Organization

FISCAL YEAR OF BUDGET

January 1–December 31

CURRENCY EQUIVALENTS

Currency unit: Franc CFA (FCFA)

US$1 = 544 (Exchange rate effective August 2, 2004)

WEIGHT AND MEASURES

Metric system

Executive Summary

Introduction and Macroeconomic Context

The civilian Government elected in 2000 has made a significant effort to improve Niger's fiscal and economic management. Sound macroeconomic and public finance policies have produced good results. Real GDP growth rates averaged 5.1 percent per annum over 2001–2003 and the basic budget deficit[1] was reduced from 3 percent of GDP in 2000 to 1.8 percent in 2003. The falling deficit reflected an increase in Government revenue from 8.0 to 9.7 percent of GDP, and a reduction in recurrent expenditures from 11.2 to 10 percent of GDP, largely due to more effective control of the Government's wage bill. In addition, the Government successfully reached the Completion Point of the Enhanced Highly Indebted Poor Countries (HIPC) Initiative in early 2004 giving Niger access to a major external debt relief program.

The Government also carried out fundamental reforms aimed at restructuring public expenditures and making public finance management more effective and transparent. In 2002, following extensive consultations with civil society, the Government adopted a Poverty Reduction Strategy (PRS), the first step towards implementation of a coherent economic and social development program.

While these are very positive steps, additional efforts are needed to promote rapid growth and sustainable development and achieve significant poverty reduction.

- Niger's economy is still dominated by subsistence agriculture and remains extremely vulnerable to exogenous factors, especially erratic rainfall patterns.
- Access to basic social services is inadequate and Niger's human development indicators are very poor. Improving health and education is therefore one of the main goals of the country's poverty reduction strategy.

In a situation characterized by extreme scarcity of domestic resources, efficient and effective public expenditures programs are critical to the successful implementation of the country's poverty reduction strategy and achievement of the Millennium Development Goals (MDGs). The PRS identified policy priorities in key sectors, but in most of these sectors, with the exception of basic education, little progress has been made in translating PRS priorities into detailed operational programs. The Public Expenditure Management and Financial Accountability Review (PEMFAR) has been prepared in this context and includes a detailed analysis of patterns of public expenditures and public finance management practices.

PEMFAR findings and recommendations are designed to serve as the basis for a budgetary and public finance reform program and action plan to be implemented by the Government with the support of the donor community.

1. Basic fiscal deficit defined as total revenue minus grants, minus total expenditure, excluding foreign-financed investment outlays.

Structure of Public Expenditures

Public Expenditures in Priority Sectors

The PEMFAR report reviews Niger's public expenditures in the four priority sectors identified by the PRS: education, health, rural development, and roads. The findings of the PEMFAR can be summarized as follows:

- The share of the priority sectors in total public expenditures increased from 66.3 to 69.1 percent between 2000 and 2002, despite a marked reduction in the share of health from 16.5 to 14.4 percent. However, recurrent expenditures declined from 50 to 47 percent over the 2000–2003 period.
- The Government focused its attention on expanding basic education, a key objective of the poverty reduction program. The share of basic education in total education expenditures was increased from 44.5 percent in 1998 to 58.7 percent in 2002. Increasing enrollment required a major expansion in the number of teachers. However, costs of increasing the teaching cadre were held down by recruiting a large number of teachers outside the civil service (contract teachers). Major efforts are still required to improve teaching quality, reduce inequalities between rural and urban areas, and correct gender imbalances. The Government also needs to develop a global education strategy covering primary, secondary and higher education, and vocational training.
- The health sector continues to face complex policy and managerial issues. The Government needs to improve access to and utilization of basic health services and address behavioral and living conditions issues, including access to safe drinking water and sanitation. In 2002, the Government adopted a health sector policy statement based on the PRS. Significant, lasting improvements in the performance of the health sector will require formulation and implementation of a more detailed action program. In this context, the Government has launched the preparation of a Health Development Plan for 2005–2009.
- The rural development sector, which is managed by four ministries and includes a multitude of externally-financed projects, faces formidable challenges: (i) increasing productivity by modernizing traditional cultivation and cattle-raising practices; (ii) expanding irrigation to reduce vulnerability to erratic rainfall; and (iii) creating an environment conducive to sustainable development. The Government needs to expand its cooperation in rural development with stakeholders and development partners.
- Considerable resources have been invested to create a national road network but funding maintenance has been inadequate, resulting in serious degradation of the road network. The Government and its partners need to review the priorities of their transport sector programs, in particular the ratio of recurrent to investment expenditures, and agree on an effective road maintenance funding mechanism.

Common Issues

Adjusting and expanding public expenditures in the four priority sectors to meet the new poverty reduction objectives poses a common problem—the narrowness of Niger's revenue base and the rigidity of its expenditure structure.

- Niger's domestic resource base is exceedingly narrow as in 2003 Government revenue accounted for only 9.9 percent of GDP. This was much below the ratio of Benin, Mali or Burkina Faso (above 14 percent) or the West African Economic and Monetary Union (WAEMU) convergence criterion (17 percent). Taxes on foreign trade, customs and import duties, account for a major share of Government revenue. Increasing domestic revenues has proven to be extremely difficult because subsistence agriculture and informal activities account for a high percentage of economic activity.
- Niger is heavily dependent on foreign aid, with donors funding more than half of public expenditures through project financing and budget support. In 2000–2002 development assistance financed on average over 70 percent of total investment expenditures. Budget support often carries with it conditions involving the structure and management of public expenditures. As a result much of the country's public investment decisions and many budget choices reflect donor preferences.
- Development assistance has had a positive influence on the overall structure of public expenditures, but has also distorted the investment/recurrent cost ratio. Donors allocate a high proportion of their funds to high-priority sectors, but mainly for investment. In the transport and rural development sectors in particular, they finance large investment projects but do not make sufficient provisions for the recurrent costs of their operations.
- There is a lack of flexibility of budget allocations as outlays for personnel and debt service account for almost half of total expenditures. Allocations for wages and salaries are difficult to adjust: there is little flexibility in civil service management to rotate staff or move positions to reflect changing priorities. Investments, comprising another third of total expenditures, are dominated by donor preferences. Thus, only about 20 percent of total public spending (recurrent expenditure minus wages and salaries) is under the full control of the Government.
- Both domestic revenues and budget support tend to be volatile, complicating fiscal management. To achieve its fiscal objectives despite revenue shortfalls, the Government introduced a cash management system in 1999. This system helped strengthen the country's fiscal position but had a negative impact on the structure of public expenditures, as evidenced by significant differences in spending patterns between voted and executed budgets. With the exception of education, execution rates in priority sectors have been significantly lower than in other sectors.

The Way Forward

The constraints outlined above have limited the ability of the Government to restructure public spending in support of priority sectors and to achieve the desired "input mix," including the balance between recurrent and investment expenditures. The following measures could, over the long run, bring more flexibility to the management of the country's public finances:

- Study ways to broaden the tax base with the least impact on the poor. In cooperation with the IMF, the Government is studying ways and means of increasing tax receipts, a difficult objective that can be achieved only by broadening the tax base and improving tax collection. The study should not only focus on the revenue generating capacity of alternative tax systems but also on their impact on the poor and other social groups.

- Improve budgeting, making it both more realistic and conservative. The shift to programmatic budgeting, on which the Government has embarked, should lead to a significant improvement. Programmatic budgeting should ensure that there is strong link between sector strategies and hence better take into account strategic priorities and absorptive capacity.
- Strengthen the cash management system and increase its transparency in order to prevent and better manage severe liquidity problems. Budget regulation and treasury management should identify and systematically protect high-priority public expenditures such as key social services and road maintenance, in line with the priorities of the poverty reduction strategy.
- Control the growth of fixed and quasi-fixed expenditures (wages and salaries and debt service) by continuing the policy of hiring some new education and health workers outside the regular civil service. Controlling the growth of wage and salary outlays while increasing the number of primary school teachers and health workers is critical to achieving the objectives of the Poverty Reduction Strategy (PRS). Contractual and decentralized (local) recruitment of primary school teachers has facilitated increased school enrollment while reducing the unit costs of primary education. The Ministry of Public Health has also begun to recruit contract workers for some local health center positions. The policy of hiring teachers and health workers outside the normal civil service structure has been a good temporary solution to the tradeoff between the need to overcome the acute shortage of personnel and the need to control the wage bill. However, the benefit of this policy will depend on salary levels for contract workers not increasing substantially. In the long term, a comprehensive and far-reaching civil service reform will be needed.
- Strictly limit foreign borrowing in volume and only contract loans on highly concessional terms and strengthen coordination of development assistance to make it more coherent and more flexible, and increase donor contributions to high-priority recurrent expenditures in key sectors:
- In several high-priority sectors, more external funding for recurrent costs would help improve the efficiency of the public expenditures program. Although development assistance has had a positive influence on the structure of public expenditures, it has distorted the investment/recurrent cost ratio. Donors allocate a high proportion of their funds to high-priority sectors, but mainly for investment. In transport and rural development in particular, neither donors nor the Government make sufficient provision for the recurrent cost implications of their operations (external project financing does contain some funds to cover recurrent project costs).[2]
    (a) Additional budget support, in part through a shift from project to programmatic financing, is a possible response to the need for donor financing of recurrent expenditures. In 2000–2002, budget support already financed more than 30 percent of current expenditures. However, the effectiveness of budget sup-

2. External project financing is systematically classified as development/investment funding, even if it covers recurrent costs; this makes it very difficult for budgeting authorities to identify and monitor these costs.

port depends on the quality of the country's public expenditures programs and the predictability of donor assistance. Budget support should be provided in the context of more stable medium-and long-term commitments carefully monitored by more efficient national institutions.

(b) Niger's creditors will provide debt relief amounting to US$1.2 billion in nominal terms, equivalent to US$520.6 million in net present value (NPV) terms, plus "topping up" assistance equivalent to US$142 million in NPV terms, as a result of Niger having achieved the HIPC Completion Point (when donors commit irrevocably to deliver debt relief) in early 2004. Resources made available by debt relief under the HIPC initiative are allocated to pro-poor expenditure programs outlined in PRS through the President's Special Program. HIPC funds should finance activities that are fully integrated in sectoral programs. An optimal use would consist in financing high-priority recurrent expenditures that merit protection in case of liquidity shortfalls.

Public Finance Management Systems

Modernization of Niger's financial management system is underway. Niger's public finance management system, which was based on the French model in place before independence, has been reformed to comply with the 1999 Constitution and the WAEMU directives. In 2003 the budget laws were reformed and new public accounting regulations, budget classifications and chart of accounts were introduced. These changes should make budget execution more efficient and improve the transparency and accountability of public finance management.

The report has identified a number of areas where additional steps need to be taken to strengthen existing institutions and/or accelerate the reform process. These include (i) budget preparation and execution; (ii) computerized financial information systems; (iii) cash management; (iv) domestic debt management; and (v) internal and external expenditure controls.

Three main budget preparation and execution issues that must be addressed are inadequate budget preparation, overly centralized execution, and inefficient financial controls:

- Despite recent improvements, the budget preparation process remains inadequate. The budget should be based on a sound macroeconomic framework, projections of Government revenue consistent with that framework, a medium-term expenditure framework and multi-year sectoral allocations reflecting the Government's strategic objectives and PRS priorities. The budget should include all Government expenditures, including externally-financed investment projects.
- The budget execution process is cumbersome and overly centralized in the Ministry of Economy and Finance (MEF). The length and complexity of the commitment process is an incentive for Government officials and suppliers to use exceptional procedures, mainly cash advances and direct payment orders. The Government should explore with the WAEMU means of simplifying the chain of expenditures. Subsequently, more authority on spending decisions should be delegated to spending ministries. This would render them more accountable for the quality and effectiveness of their expenditures programs.

- Ex-ante financial controls should be modernized and given more autonomy. Financial controllers should have access to MEF's information system but should not report to the General Budget Directorate (DGB).

Financial Management Information System (FMIS)

The development of a computerized FMIS was a major achievement, but key actors including financial controllers and credit managers in sectoral ministries have not yet been integrated into the system. A fully integrated system would reduce the length and complexity of budget execution and facilitate timely production of reliable data (including on Government revenue, if the system were to include customs and tax departments). This Report recommends the creation of an information technology department within the MEF, responsible for coordinating the development of a more comprehensive financial management information system.

Cash Management

To cope with revenue shortfalls, the Government has put in place a cash management system consisting of budget regulations (*libération des crédits*) and treasury plans (*plans de trésorerie*). This system regulates the flow of expenditure in view of limiting expenditure allocations to actual receipts. These controls have helped improve the country's overall fiscal performance, but have led to large differences between voted and executed budgeted expenditures in priority sectors. In fact, the system seems to work against priority sectors, as execution rates in these sectors (actual compared to budgeted expenditures) were below the average for all sectors over 2000–2003, with the exception of the education sector. Moreover, the cash management system lacks transparency, as information on cash management plans, spending authorizations and actual payments is not widely shared within the Government.

Internal Arrears

In 1999, the Government created an institution responsible for managing domestic debt and launched a program aimed at clearing internal arrears. Although some progress has been achieved, the PEMFAR recommends a new comprehensive inventory of domestic debt and implementation of a new debt and arrears settlement program.

External Controls (Audits)

External controls are exercised by the Public Audit Office of the Supreme Court (*Chambre des comptes*), the National Assembly, and its Finance Committee. The *Chambre des comptes* is a young institution, which does not have the resources and capacity to perform indepth evaluations of Government accounts and institutional performance. It should be given more resources and more autonomy. The National Assembly and its Finance Commission do not have access to information on revenue and expenditures during budget execution and the Budget Review Law (*Loi de règlement*) is based on incomplete data on public accounts. The Finance Committee needs to be better informed and should receive technical support. The National Assembly would greatly benefit from direct contacts with the Public Audit Office.

Main Priorities of Reform Agenda

Improving Niger's public finance management is a long-term reform, which should be implemented in phases and requires the full support of the Government and the donor community. Table 1 presents a list of essential reforms that should be taken over the next three years and beyond to improve the structure of public expenditures and strengthen fiduciary standards. This is, in essence, a summary of the key recommendations of the PEMFAR.

Table 1. Priority Action Plan

Objectives	Actions	Year 2004	Year 2005	Year 2006	Year 2007	Year Long term	Implementing Agencies
1. Strengthen links between budget allocations and Government priorities defined in PSRP and sectoral strategies.	1. Starting with the 2005 exercise, base Budget Law on global MTEF's defining multi-annual sectoral allocations consistent with priorities of the poverty reduction strategy.	X	X	X	X	X	MEF
	2. Continue and intensify ongoing efforts to develop sectoral MTEFs and gradually extend the process to all ministries.	X	X	X	X	X	MEF
	3. Submit documents accompanying Budget Law to the National Assembly highlighting the consistency of budget proposals with the poverty reduction strategy.	X	X	X	X	X	MEF
	4. Prepare (in consultation with stakeholders, including donors), approve and implement sectoral strategies and action plans as a basis for future program budgets:						MEF
	• For primary education		X				MEB/A
	• For the education sector as a whole			X			MESST
	• For the health sector		X				MSP/LCE
	• For rural development		X				MDA, MRA, MHE/LCD
	• For the transport sector		X				ME/AT
	5. Prepare program budgets:						MEF
	• For primary education (2005 Budget)	X	X	X	X	X	MEB/A
	• For the education sector as a whole (2008 Budget)			X	X	X	MESST,
	• For the health sector (2006 Budget)		X	X	X	X	MSP/LCE
	• For the transport sector (2006 Budget)		X	X	X	X	ME/AT,
	• For the rural development sector (2007 Budget)			X	X	X	MDA, MRA, MHE/LCD
	6. Allocate HIPC funds to finance recurrent expenditures in priority sectors consistent with the PRSP.	X	X	X	X		MEF

	7. Adopt and implement a program to broaden the tax base (especially extension to the informal sectors).		X	X	X	X	MEF
	8. Gradually increase funds allocated to road maintenance in accordance to the national transport plan to be adopted. Introduce a financing mechanism aimed at securing long term availability of these funds.	X	X	X	X	X	MEF/MEAT
2. Identify alternative mechanisms for financing the Treasury and the Government budget.	9. Design and implement a plan to tap domestic and regional market savings (notably to deal with short-term cash management problems).			X			MEF
3. Improve budget execution, reduce disparities between voted and executed budgets, and protect priority expenditures.	10. Define in each key sector and rank vital expenditures that need special protection. Define and implement budget regulations and cash management plans that will effectively protect these priority expenditures, taking into account the seasonality of specific activities.		X	X	X	X	MEF
4. Simplify and rationalize the chain of expenditures.	11. Strengthen the role of financial controllers and simplify budget execution by eliminating redundant controls and relocating Treasury controls to the accounting phase.		X	X			MEF
5. Prepare for decentralization process through deconcentration.	12. Initiate the delegation of the spending authority to selected central ministries on a pilot basis.			X	X		
	13. Improve the management of *crédits délégués* by extending the computerized financial management system for both authorizing officers and accountants. Reduce delays for the settlement of these credits.		X	X	X		

(*continued*)

Table 1. Priority Action Plan (*Continued*)

Objectives	Actions	Year 2004	Year 2005	Year 2006	Year 2007	Year Long term	Implementing Agencies
6. Improve transparency and information systems. Prepare for delegation of commitment authority to line ministries.	14. Complete the computerized integrated financial management system taking into account the certification phase and extend this system gradually as follows:						MEF
	• DGB, Treasury with an accounting interface.		X	X			
	• Directorate of financial control.		X	X			
	• Access to a *salle d'informatique* within MEF on a pilot basis.		X				
	• Customs, tax administration and debt.		X	X			
	• Prepare a plan in 2005 for extending access to all line ministries in 2006 and following years.			X			
	• Extend the system to DGF and the investment program.		X	X			
	• Computerize operations of the *Pairies and Centres de Sous-ordonnancement*.		X	X	X		
7. Gradually integrate externally-financed expenditures into the chain of expenditures.	15. Collect and transmit to the DGB on a timely basis comprehensive data on externally-financed expenditures. Donors should ensure that their financial information is provided to DGF.		X	X	X	X	MEF/Project managers/ Donors
8. Modernize and restructure the Treasury.	16. Modify the structure of the Treasury in accordance with the Organic Law on budget laws. Separate normative and accounting functions.		X	X			MEF
9. Improve accounting practices to provide an accurate picture of Government financial and non-financial assets.	17. Reactivate the work of the committee to establish opening balances.	X					MEF
	18. Integrate opening accounts into Treasury balances.		X				MEF
	19. Integrate transactions that are not handled by public accountants, notably externally-financed investment expenditures into Treasury operations.		X				MEF, development partners
	20. Gradually reduce the use of suspense accounts for future regularization of budget transactions.		X	X			MEF

	21. Use class 1 and 2 accounts for debt and investment goods.		X				TG, DB, DGB
	22. Implement WAEMU directives concerning the *journée complémentaire*.		X	X	X	X	TG, DGB
	23. Implement article 104 of Public Accounting Regulations providing for an arrêté or directive concerning modalities for preparing "*comptes de gestion*."		X	X			TG, DGB
10. Strengthen and improve procedures for closing accounts and preparing final Government accounts.	24. Anchor the preparation of budget laws in the DGB. Prepare a manual of procedures for the preparation of budget laws.		X	X			TG, DGB
	25. Carry out a study of the organizational structure of the MEF with a view to improving the overall coordination and effectiveness of public expenditure planning and management, producing accounts on a timely basis, and optimizing the use of human resources.		X	X			TG, DGB
11. Strengthen internal and external audits.	26. Implement the action plan for control by TG, DGB bodies, stipulated in December 22, 2003 decision 096 of the Prime Minister.	X	X	X			MFP/T, MEF
	27. Strengthen the capacity of the Chamber of Accounts by recruiting and training of judges/auditors, and providing manuals of procedures and audit guidelines.		X	X	X		
12. Strengthen monitoring and payment of external debt and improve settlement of domestic debt.	28. Integrate all external debt transactions into Government accounts.		X				MEF
	29. Organize an external audit of domestic debt which would include sound criteria for verifying, validating, or rejecting claims. Reactivate on that basis the domestic debt settlement process.		X				MEF

(*continued*)

Table 1. Priority Action Plan (*Continued*)

Objectives	Actions	Year 2004	Year 2005	Year 2006	Year 2007	Year Long term	Implementing Agencies
13. Continue efforts to control civil service size and cost of salaries and wages.	30. Reconcile payroll and wages/salary payments:						MFP/T, MEF
	• Adopt a coherent nomenclature and appropriate software.		X				
	• Conduct a through inventory of Government employees.			X			
14. Develop and introduce accounting instruments for non-financial assets to obtain an accurate picture of Government real estate and other assets.	31. Adapt laws to ensure that regulations concerning the management of Government non-financial assets are consistent with WAEMU directives.		X	X			MEF
15. Monitor and evaluate budget outcomes.	32. Organize public expenditure reviews by MEF and key sectoral ministries by the end of each fiscal year.		X	X	X	X	MEF/Sectoral Ministries and PRSP Secretariat.

Introduction

Niger is one of the world's poorest countries. Poverty is pervasive. Based on the 1993 household survey the income of nearly two-thirds of the population is below the poverty line, and a third is considered extremely poor. The UNDP's Human Development Indicators ranked Niger 174th of 175 countries. It is a landlocked Sahelian country located on the southwestern edge of the Sahara Desert. Only 13 percent of the land area is cropped and only 1.5 percent is irrigated. Nevertheless, agriculture generates 40 percent of GDP. Lack of natural resources and skilled manpower seriously hamper economic performance. The economy is dominated by subsistence agriculture and is highly vulnerable to exogenous factors, especially unpredictable rainfall patterns. Ongoing desertification has reduced Niger's arable land by half since 1965 pushing the population southward. As a result, 85 percent of the population now lives in a 100-150 km wide corridor north of the border with Nigeria. Eighty percent of the country's 11.4 million people live in rural areas, making it difficult to bring them necessary social and economic services and to collect taxes. The service sectors account for 43 percent of GDP and industry, mostly mining, 17 percent.

The country's economic structure makes it difficult to develop a robust tax base, and revenues range between 9 and 11 percent of GDP over 1999–2003, compared to 19 percent for Sub-Saharan Africa (excluding Nigeria and South Africa). Niger is highly dependent on foreign grants and loans, which have on average been roughly equal to domestic fiscal revenue. However, because of domestic political instability, external financing has been volatile, ranging from a low of 4.5 percent of GDP in 1999 to a high of 17.9 percent in 2000.

The country's development has been hampered by military and civilian unrest. Niger's civilian Government was overthrown by the military in April 1974 and military rule lasted until about 1990. During 1990–91 various groups began agitating for civilian rule and a national conference in 1991 led to establishment of the first multiparty constitution and Government, but the resulting Governments were generally ineffectual and there was almost continuous political unrest and military agitation. Finally, in 1999 a transition regime controlled by the military handed power over to a civilian Government following free and open presidential and legislative elections in December 1999.

Recent Reform Achievements

The new civilian Government took office and immediately began restoring financial order and reinvigorating the reform program. It took action to bring the fiscal situation under control. It adopted a cash rationing system to control expenditures, while ensuring full payment of salaries, avoiding accumulation of payments arrears, and allowing for orderly servicing external debt. Sound macroeconomic and public finance policies led to stabilization of the economy and contributed to an increase in growth. Real GDP growth rates averaged 5.1 percent over 2001–2003 and inflation remained subdued.

Several structural measures were taken to improve public expenditures and financial management. A revised Budget Law was enacted in May 2000 that corrected unrealistic revenue projections and several important actions were taken to strengthen fiscal discipline and accountability, including the regular and timely closing of fiscal accounts, introduction of a new budget classification and chart of accounts, making accrual and cash accounts fully compatible. Computerization of budget management was initiated with the installation of a Financial Management Information System (FMIS) at selected stages of the budget process. A decree on budget preparation introduced a more structured budget preparation process, allowing for more intra-Governmental consultation and facilitating medium-term programming. The merger of the Planning and Finance Ministries into a Ministry of Economy and Finance (MEF) has laid the basis for a full integration of the investment and recurrent budget processes. Parliamentary and judicial oversight has been restored with the authorities resuming the production of budget review laws and treasury accounts and the Chamber of Accounts and Budget Discipline starting the audit of Government accounts.

Perhaps the most important achievement has been the adoption of a Poverty Reduction Strategy Paper (PRSP) in early 2002. The PRSP provides a framework for coordinating Government and donors' policies and sets strategic directions for resource allocation. It was also a critical element in Niger reaching the Completion Point of the enhanced HIPC initiative in early 2004, which granted the country access to major external debt relief.

Rationale for PEMFAR

Niger clearly needs high and sustained economic growth to significantly reduce poverty and attain its Millennium Development Goals. Successful implementation of its PRS is therefore critical. This will, in the first instance, require strengthening domestic revenue mobilization and management of scarce public resources. The Government and its main donors have recognized this challenge.

There is a consensus about the need for improving management of public finances for the success of reform efforts over the coming years. This consensus between the authorities and the donors is important: Niger faces a structural financing gap, arising from its weak domestic resource mobilization capacity and enormous needs for public spending for provision of basic social services and critical infrastructure. Even if much needed measures to enhance domestic mobilization are put in place, the country will still need large, dependable inflows of donor assistance for the foreseeable future.

Large inflows of external funding come with the risk of undermining national ownership and leadership. This risk can be mitigated by building the Government's capacity to plan and manage its development programs. The Government and donors have jointly agreed on a strategy of moving from financing individual projects, with their unpredictable effects on overall aid flows, to coordinated donor support for programs embedded in the PRSP framework. In its 2003 Country Assistance Strategy (CAS), the Bank has committed itself to a gradual shift in the bulk of its financing from individual investment projects toward consolidated programmatic support in the form of Poverty Reduction Support Credits (PRSCs). Since budgetary funds are fungible, the Bank and other donors must be assured that the overall budget is consistent with a sound macroeconomic framework and meets the country's development needs and, more specifically, the objective of the PRSP. Moving to programmatic assistance or consolidated program financing will therefore require improved management of public finances (strengthened capacity for budget preparation, execution, reporting, monitoring, and supervision, and establishment of appropriate fiduciary standards).

Past public finance reforms efforts have been constrained by a lack of a detailed diagnosis of existing systems and institutional capacity. In fact, a Public Expenditure Review (PER) process initiated in 1997 that led to the production of several sectoral PERs, most of them focusing on health and education, had lost momentum after 2000. Therefore the Government, the EU and the Bank decided in 2002 to undertake a comprehensive assessment of Niger's public financial management systems and capacities, through a PEMFAR.

The Government intends to update and revise PERs in key sectors on an annual or biennial basis, taking into account findings of the annual PRSP progress reports. This will enable a close monitoring of allocation and execution of budgetary resources in PRSP priority sectors and an assessment of their impact on poverty. Similarly, all partners have agreed to periodic updates of the Priority Action Plan (see Table 1), taking into account progress in implementation of reform and other significant developments. New full PEMFAR exercises will be conducted periodically.

Objectives, Scope, and Structure

The main objectives of the PEMFAR are to assess existing systems and capacities for public finance management, examine past budget outcomes and glean lessons learned from previous reform efforts. The findings would be translated into a proposed action plan for reform of public expenditure and financial management to be adopted by the Government and donors. The plan would prioritize and sequence the proposed measures and coordinate the actions and interventions of the various actors.

The PEMFAR format (a standard World Bank format) was used because it would allow combining the assessment of budget results through a Public Expenditure Review (PER) with an assessment of public financial accountability through a Country Financial Accountability Assessment (CFAA). These two chapters of the report are complemented by an analysis of the macroeconomic and fiscal context. Each component of the report intended to focus on a key question:

- Chapter 1 (macroeconomic context): Are Niger's fiscal policies sustainable in the context of the recurrent and projected macroeconomic framework?
- Chapter 2 (PER): Are allocations of public expenditures and their execution in line with strategic (PRSP) objectives?
- Chapter 3 (CFAA): Are minimal fiduciary standards met at different stages of the expenditure process?

The structure of the report reflects this design. Chapter 1 presents the analysis of the macroeconomic context. Chapter 2 focuses on the analysis of the expenditure structure (inter-sectoral analysis), as well as on sector expenditure reviews covering the four PRSP priority sectors—education, health, road transport and rural development. Chapter 3 assesses key components of Niger's public finance management systems, such as budget preparation and execution, accounting, controls as well as structural, organizational and human resources management issues.

Certain important aspects have been omitted due to time and resource constraints. Particularly, it was decided to forgo an in-depth analysis of revenue mobilization and management, because the IMF had already initiated analytical work on this topic. Since improvements in revenue mobilization are a sine qua non for improving public finances in Niger, the PEMFAR will incorporate findings from IMF studies as they become available. Similarly, since the Bank had just completed a Country Procurement Assessment Review (CPAR), procurement was excluded from the analysis. While the scope of the PEMFAR is limited for practical reasons, all partners agreed that the document and in particular the priority action plan emerging from it would be revised periodically and new elements added when available. This would also enable gradual elaboration of an action plan that encompasses all key dimensions of public finance management.

CHAPTER 1

Macroeconomic Context

This chapter of this Report analyzes the structure of Niger's economy, describes recent developments, and evaluates economic prospects and estimates financing requirements.

Three principal factors have influenced Niger's past economic performance: (i) the collapse of the global market for uranium, a major export, in the 1980s; (ii) the vulnerability of agriculture, which accounts for 40 percent of GDP to periodic droughts and progressive desertification, and (iii) long periods of political instability and ineffectual governance that depresses domestic economic activity and discourages donor assistance.

Since the election of a civilian Government in 1999, there have been signs of improved governance and economic progress. The Government that took office in 2000 after free and open election in 1999, moved quickly to restore fiscal order and to set forth a poverty reduction strategy. There has been a notable improvement both in terms of economic growth and fiscal performance. Real GDP growth rates averaged 5.1 percent in 2001–2003. A modest increase in Government revenue and a slight decline in public expenditures reduced Government deficits. Increased donor confidence and the resumption of external assistance helped finance a significant increase in capital expenditures. Nevertheless, Niger's structural problems remain considerable. A more diversified agricultural sector and economic base, and major efforts to develop human resources are essential for sustainable growth and poverty reduction, the Government's overarching objectives. More effective use of domestic resources and external assistance will be essential to meet the country's formidable challenges and create the conditions for a long-term economic recovery and improvement of social sector services critical to the success of the country's poverty reduction strategy.

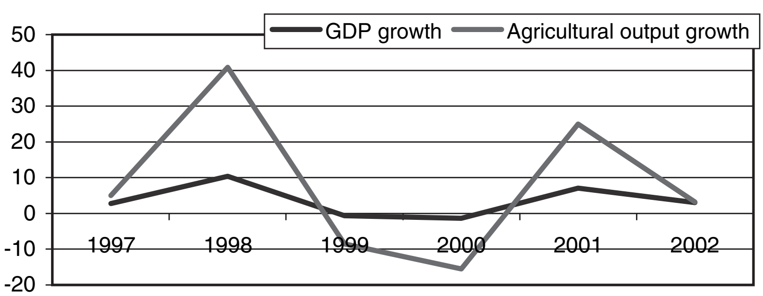
Structure of Niger's Economy and of Public Finance

Economic Structure, Growth, and Poverty

Niger is essentially a rural and agrarian economy: agriculture employs more than 80 percent of the economically active population and generates more than 40 percent of GDP. It is highly vulnerable to periodic drought and progressive desertification. Most of the food produced is used for domestic consumption. The service sector accounts for 41 percent of GDP and employs little over 10 percent of the workforce. Activities in this sector are largely concentrated in retail and wholesale trading, re-exports and basic public services. The industrial sector, which comprises mainly mining, small-scale local manufacturing and brewing, and construction, accounts for the remaining 18 percent. Due to a brief boom in uranium prices, mining made a significant contribution to GDP in the 1970s and 1980s. However, the uranium sector has since then been on a declining trend.

Growth performance is very volatile, as year-to-year changes in Niger's growth rates are caused largely by weather conditions and their effect on agricultural output. For example, high growth rates were observed during 1998, 2001, and 2003, reflecting exceptional weather conditions and strong agriculture production (see Chart 1-1 and Table 1-1). Ensuring strong and sustainable growth to reduce widespread poverty and improve social conditions is therefore the critical issue facing Niger. Diversifying the economy away from agricultural production and finding new sources of growth is crucial. This will be a formidable challenge, given the country's scarce human and physical capital.

Chart 1-1. Real Output Growth, 1997–2002
(in percent)



Source: Ministry of Economy and Finance (MEF).

Table 1-1. Nominal and Real GDP and Growth Rates, 1997–2003

	1997	1998	1999	2000	2001	2002	2003
Nominal GDP (in FCFA billion)	1077.2	1225.2	1242.6	1280.8	1426.0	1512.8	1587.5[/a]
Real GDP (in FCFA billion)	788.0	870.1	865.2	853.1	913.6	941.0	990.9[/a]
Real GDP Growth (in percent)		10.4	–0.6	–1.4	7.1	3.0	5.3[/a]

[/a]Estimate of May 2004.
Source: MEF.

Poverty is widespread, as according to the latest household survey (1992–93), almost two-thirds (63 percent) of the population lives below the poverty line and about a third (34 percent) is considered extremely poor. Despite recent progress, the infant mortality rate is high, 156 deaths per 1,000 births, and the average life expectancy at birth is only 46 years. Barely 60 percent of the population has access to potable water, only 5 percent of the rural population has access to sanitation facilities, and less than half of the population has access to health services.

It is difficult to conceive of significant inroads in poverty reduction in coming years without a slow-down in population growth. At 3.2 percent, Niger has one of the world's highest population growth rates. Recent GDP growth rates (5.1 percent on average for 2001–03) and projected rates (4.2 percent for 2004–07) would result in only a very modest increase in per capita living standards.

Regional Integration and Its Implications on Public Finance Management

Niger is a member of the WAEMU and, as such, shares a common currency (the CFA franc, FCFA) and a common central bank with seven other West African countries (*Banque Centrale des Etats de l'Afrique de l'Ouest,* BCEAO). The BCEAO monetary policy is mainly geared toward a fixed exchange rate. For an individual country, the burden of adjustment to shocks needs to be borne by fiscal policies. Fiscal management was tightened under the Regional Pact of Convergence, Stability, Growth, and Solidarity, adopted by the Conference of Heads of States of WAEMU in December 1999.[3] In this context, Niger's fiscal objectives are determined by the need to meet the regional fiscal convergence criteria (see Box 1). Niger has been making progress toward meeting the WAEMU convergence criteria, since 2000, in particular those related to fiscal performance. By 2003, Niger had reduced the number of unmet criteria to four[4] (see Table 1-3).

WAEMU and BCEAO membership have important implications for Niger's fiscal situation. The recent elimination of the statutory rule allowing national treasuries to access central bank overdraft facilities (statutory advances) has left Niger with an estimated FCFA 8 billion in debt owed to BCEAO at end-2003. In addition, the shift of the financing of Government fiscal deficits from central bank direct advances to the issuance of securities in the regional capital market has added an additional constraint on Niger's fiscal framework. The effectiveness of the issuance of Government securities to finance fiscal deficits will depend much on the demand for these securities and the absorptive capacity of the regional capital market. The success of such issues of securities is hard to predict, as Niger has not yet conducted such an operation.

Regional integration and WAEMU membership have also led to the implementation of trade liberalization policies, including the adoption of a common external tariff (CET)

---

3. The Regional Pact of Convergence, Stability, Growth, and Solidarity is a formal agreement among the member of countries of WAEMU to strengthen the convergence of their economies, reinforce macroeconomic stability, accelerate economic growth, and enhance solidarity among the member countries.

4. In particular, criteria pertaining to change in domestic arrears, change in external arrears, and the ratio of capital expenditure domestically financed-to-fiscal revenue were met. Criteria related to the rate of inflation was also met while criteria pertaining to the basic fiscal balance, wages and salaries-to-fiscal revenue, fiscal revenue-to-GDP, external recurrent account balance, excluding grants-to-GDP were missed.

Box 1. WAEMU Convergence Criteria

The Regional Pact of Convergence, Stability, Growth, and Solidarity, adopted in December 1999, is a formal agreement among the member states of the WAEMU. The Pact has four main objectives: (i) strengthen the convergence of WAEMU economies; (ii) reinforce macroeconomic stability; (iii) accelerate economic growth; and (iv) enhance solidarity among the member countries.

To this end, the Pact defines two sets of convergence criteria (primary and secondary criteria) that member states of the WAEMU must comply with.

The five primary criteria are:

- The ratio of the basic fiscal balance to nominal GDP must be in balance or in surplus (key criterion).
- The ratio of outstanding domestic and external debt to nominal GDP must not exceed 70 percent.
- The average annual inflation rate must not surpass 3 percent.
- The variation on the stock of domestic payment arrears must not be positive.
- The variation on the stock of external payment arrears must not be positive.

The five secondary criteria are:

- The ratio of the wage bill to tax revenue must not exceed 35 percent.
- The ratio of domestically financed public investment to tax revenue must exceed 20 percent.
- The ratio of the external recurrent account deficit, excluding grants, to nominal GDP must not exceed 5 percent.
- The tax-to-GDP ratio must be higher than 17 percent.

The pact defines a convergence phase (2000–2002), at the end of which member countries were expected to have been in compliance with both sets of convergence criteria and a stability phase from 2003 onward.

in 2000 and the progressive harmonization of regulations in other areas such as public finance. The WAEMU CET agreement includes a compensatory facility to cover revenue losses from the implementation of the CET. However, the FCFA 10 billion owed to Niger in compensation for the implementation of the CET has not yet been transferred.[5] In any case, these compensatory payments are temporary and will be phased out by 2007.

Political and economic instability in Niger's two major regional trading partners, Côte d'Ivoire and Nigeria, constitutes risks for its income growth and poverty reduction. The unstable political and economic situation in Nigeria strongly affects the demand for Nigerien exports, especially cattle. Niger also depends on Nigeria for most of its electricity and fuel. However, the impact of the recent political crisis in Côte d'Ivoire on Niger appears to have been relatively minor.

Public Finance Structure

Government Revenues. More than 90 percent of Niger's total Government revenues are derived from taxes, shared roughly equally between taxes on international trade and taxes on domestic activity (taxes on goods and services and income taxes). The tax base is very

5. Government's estimate in May 2004 (not confirmed by WAEMU).

Table 1-2. Niger and WAEMU Convergence Criteria, 1997–2003

	1997	1998	1999	2000	2001	2002	2003[a]	Status in 2003
First-order criteria								
Basic fiscal balance/GDP (=0%)[b]	–3.0	–3.3	–4.8	–3.0	–3.4	–1.8	–1.8	Not met
Average consumer price inflation (=3%)	2.9	4.5	–2.3	2.9	4.0	2.7	–0.7	Met
Total debt/GDP (=70%)	85.5	77.9	79.5	94.5	91.7	81.0	57.6	Met
Change in domestic arrears (=0)	–13.8	–19.3	23.6	3.6	–17.0	–33.4	–18.0	Met
Change in external arrears (=0)	1.9	14.7	25.6	–115.6	0.0	0.0	0.0	Met
Second order criteria								
Wages and salaries/fiscal revenue (= 35%)	56.6	46.5	50.3	50.4	40.1	38.3	35.7	Not met
Domestically financed capital expenditure/fiscal revenue (= 20%)	7.3	10.0	17.0	7.9	20.0	18.8	20.2	Met
External recurrent account balance, excl. grants/GDP (= –5%)	–9.6	–10.0	–8.1	–8.6	–7.7	–10.1	–10.4	Not met
Fiscal revenue/GDP (= 17%)	7.2	7.9	8.1	8.0	8.8	9.6	9.7	Not met
Number of criteria violated	7	8	8	7	6	6	4	4

[a]IMF staff estimate.
[b]Total revenue, excluding grants, minus total expenditures, excluding foreign-financed investment outlays Fiscal revenue includes tax revenue and non-tax revenue only.
Source: IMF (2004a).

narrow, as two-thirds of the economy is informal and escapes the formal tax system. Annual changes in revenues tend to reflect international trade, in particular import and re-export activities with regional partners. Economic and political conditions in neighboring Nigeria and Côte d'Ivoire as well as changes in the US dollar exchange rate play key role in Niger's revenue performance.

Table 1-3. Composition of Government Revenue, 1997–2003 (in FCFA billion)

								Averages	
	1997	1998	1999	2000	2001	2002	2003[a]	1998–2000	2001–2003
Total revenue	90.8	111.8	109.6	110.1	132.8	160.9	156.7	110.5	150.1
Tax revenue	78.1	97.0	100.6	102.8	125.5	144.6	152.1	100.2	140.7
Nontax revenue	7.4	10.1	3.9	3.8	4.1	3.8	1.2	5.9	3.0
Settlement of reciprocal debts	...	...	...	0.0	0.0	8.4	0.0	0.0	2.8
Budget annexes/special accounts	5.3	4.7	5.1	3.5	3.2	4.1	3.4	4.4	3.6
Total revenue in % of GDP	8.4	8.9	8.8	8.6	9.3	10.6	9.9	8.8	9.9

[a]Government and IMF estimates, April 2004.
Source: MEF, World Bank and IMF.

Achieving the WAEMU convergence criterion, raising fiscal revenue from its present level of approximately 10 percent of GDP to 17 percent (Table 1-2) will be extremely difficult. Revenue-enhancing measures introduced since 1994 have resulted in only a modest increase in the ratio. Further increase in revenue would depend on the ability of the authorities to tackle the issues of weak tax collection and excessive granting of tax exemptions and a narrow tax base. Expanding the tax base will require the "re-fiscalization" of agriculture, that is, finding ways of bringing agriculture into the fiscal net.

Government Expenditures. Although the Government has made efforts to contain recurrent expenditures, they still accounted for 60 percent of total expenditures over 2000–2003 (see Table 1-5). Wages and salaries accounted for more than one-third of recurrent expenditure and interest payments on foreign debt were 13 percent of recurrent expenditure over 2000–2003.[6] Subsidies and transfers have been rising since 1999 reflecting subsidies on some agricultural imports and increasing welfare obligations of the Government, and amounted to for 20 percent on average over 2000–2003.

Table 1-4. Composition of Government Expenditures, 1997–2003
accrual terms (in FCFA billion)

								Averages	
	1997	1998	1999	2000	2001	2002	2003/a	1998–2000	2001–2003
Total expenditure and net lending	**171.8**	**211.9**	**233.0**	**214.3**	**245.6**	**278.1**	**276.0**	**219.7**	**266.5**
Total recurrent expenditure	**120.1**	**142.5**	**154.1**	**143.8**	**157.4**	**161.8**	**160.5**	**146.8**	**159.9**
Budgetary expenditure	115.8	134.4	147.1	138.5	147.1	153.7	151.9	**140.0**	**150.9**
Wages and salaries	44.2	45.1	50.6	51.8	50.4	55.3	57.1	**49.2**	**54.3**
Goods and services	40.8	45.3	59.6	41.1	43.2	45.5	39.5	**48.7**	**42.7**
Subsidies and transfers	14.4	24.8	17.1	24.0	28.1	30.3	37.9	**22.0**	**32.1**
Interest, scheduled	16.5	19.2	19.7	21.6	25.4	22.6	17.4	**20.2**	**21.8**
External debt	15.9	17.8	18.5	19.6	24.1	21.2	16.1	**18.6**	**20.4**
Domestic debt	0.7	1.4	1.3	2.0	1.3	1.5	1.3	**1.5**	**1.4**
Annexed budget/ special accounts	4.3	8.1	7.0	5.3	10.3	8.1	8.6	**6.8**	**9.0**
Capital expenditure and net lending	**51.7**	**69.5**	**78.9**	**70.5**	**88.1**	**116.3**	**115.5**	**72.9**	**106.6**
Capital expenditure	54.7	69.9	80.3	73.6	89.0	116.5	115.5	**74.6**	**107.0**
Domestically financed	5.7	9.7	17.1	8.1	25.1	27.1	28.5	**11.6**	**26.9**
Externally financed	49.0	60.1	63.2	65.5	63.9	89.4	87.0	**62.9**	**80.1**
Net lending	**–3.0**	**–0.4**	**–1.4**	**–3.1**	**–0.8**	**–0.2**	**0.0**	**–1.6**	**–0.4**

a/Government, World Bank and IMF estimates, April 2004.
Sources: MEF, World Bank and IMF.

6. Wages and salaries accounted for 34 percent of total recurrent expenditure on average over 2000–2003. Meanwhile, interest payments on external debt have declined since 2001, reflecting the impact of debt relief under the HIPC Initiative.

Table 1-5. Composition of Government Expenditures, 1997–2003 (in percent of GDP)

	1997	1998	1999	2000	2001	2002	2003[a/]
Total expenditure and net lending	16.0	17.3	18.7	16.7	17.2	18.4	17.3
Total recurrent expenditure	11.1	11.6	12.4	11.2	11.0	10.7	10.0
Budgetary expenditure	10.8	11.0	11.8	10.8	10.3	10.2	9.5
Wages and salaries	4.1	3.7	4.1	4.0	3.5	3.7	3.6
Goods and services	3.8	3.7	4.8	3.2	3.0	3.0	2.5
Subsidies and transfers	1.3	2.0	1.4	1.9	2.0	2.0	2.3
Interest payments	1.5	1.6	1.6	1.7	1.8	1.5	1.1
Annexed budgets/special accounts	0.4	0.7	0.6	0.4	0.7	0.5	0.5
Capital expenditure and net lending	5.1	5.7	6.5	5.7	6.2	7.7	7.3
Domestically financed	0.5	0.8	1.4	0.6	1.8	1.8	1.8
Externally financed	4.6	4.9	5.1	5.1	4.5	5.9	5.5
Of which: HIPC resources	. . .	. . .	. . .	. . .	0.6	0.6	0.8

[a/]Government, World Bank and IMF estimates, April 2004.
Sources: MEF, World Bank and IMF.

Capital expenditures are dominated by externally financed expenditures. Over 70 percent of capital expenditures during 2000–2003 were financed by foreign assistance.

External Financing. The rules of the CFA zone limit the use the banking sector to finance fiscal deficit and the underdeveloped state on Niger's non-banking sector limit its capacity to serve as a source of finance to Government. Over 2000–2003, 95 percent of the fiscal deficit was covered by donor loans and grants (see Appendix A). Securing sufficient and timely budget support is, therefore critical to ensure financing of expenditures. Given the low revenue-to-GDP ratio, and constraints on monetizing fiscal deficits, the Government suffers from severe cash constraints when expected disbursements are delayed. The need to improve aid predictability and avoid delays in disbursements is therefore critical to ensuring proper execution of the budget. The Government must strengthen revenue projections underlying budget preparation and the cash management system. It should consider establishing precautionary cash balances that could be used as bridge financing in case of delays in disbursement of budget support. The lack of predictability in aid flows is not only the result of problems on the donor side. Strengthening domestic management of aid operations, including rigorous monitoring of implementation of policy reforms, could help ensure that disbursements are made on schedule.

Over 2000–2003, 41.7 percent of external finance received by Niger was in the form of grants, 38.4 percent was in loans and 19.8 percent was debt relief. In order to ensure debt sustainability, Niger needs to encourage a mix of new financing with a higher proportion of grants. The DSA baseline scenario of the HIPC Completion Point assumes that 60 percent of total external assistance in the coming years will be provided in the form of grants and the remaining 40 percent in highly concessional loans. However, mobilizing this proportion of assistance in grants will be difficult, given the limited availability of this form of donor support.

Table 1-6. Overall Fiscal Balance, 1997–2003
(in FCFA billion)

								Averages	
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003[a]**	1998–2000	2001–2003
Overall Balance (commitment basis excl. grants)	**–81.0**	**–100.1**	**–123.4**	**–104.2**	**–112.8**	**–117.2**	**–119.3**	**–109.2**	**–116.4**
Change in Payment Arrears	–11.9	–4.6	49.1	–112.0	–17.0	–33.4	–12.2	–22.5	–20.9
Domestic Arrears (nt)	–13.8	–19.3	23.6	3.6	–17.0	–33.4	–12.2	2.6	–20.9
External Arrears (net)	1.9	14.7	25.6	–115.6	0.0	0.0	0.0	–25.1	–20.9
Overall Balance (cash basis, excl. grants)	**–92.9**	**–104.7**	**–74.3**	**–216.2**	**–129.8**	**–150.6**	**–131.5**	**–131.7**	**–137.3**

[a]Government, World Bank and IMF Estimates, April 2004.
Source: MEF, World Bank and IMF.

The External Sector

Trade and Recurrent Account Balance. Trade liberalization within the context of WAEMU and IMF agreements has led to a very open trade regime. It is one of the most open within the region and its IMF trade restrictiveness rating is 1 (on a scale of 1 to 10).[7] The following trade liberalization measures have been implemented:

- Niger has adopted Sections 2, 3, and 4 of the IMF's Article VIII agreement and thus does not engage in multiple exchange practices.
- The currency exchange system is free from restrictions on payments and transfers on recurrent transactions.
- Niger has adopted the largely open WAEMU common trade policy, has dismantled tariff barriers to intra-WAEMU, and has adopted the new rules of origin for industrial products.[8]
- Niger adopted the WAEMU four rate common external tariff (CET) in January 2000.

7. A value of 1 means that the economy is fully open to foreign trade. A value of 10 indicates that the country has the most restricted trade regime. In general, open trade regime ranges between 1–4, moderate between 5–6, and restrictive between 7–10.

8. With a view to promote trade of industrial products within the region, the WAEMU countries have adopted new rules of origin to simplify the procedures of certification of eligible industrial products. The new rules of origin indicate that a product will be eligible when it changes its tariff position following processing. In addition, the input content and the value added have been set at 60 percent and 40 percent, respectively.

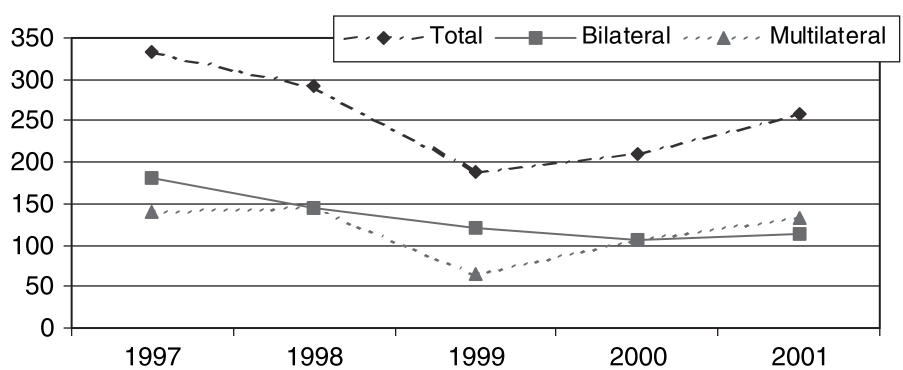
Despite the openness of the trade regime, there has been little trade diversification. Niger's main trading partners are France and Nigeria, which account about 50 percent and 33 percent of Niger's exports in 2002, respectively.

Niger's trade and recurrent account deficits are structural and are not expected to be significantly reduced in the near future. Its trade deficit reflects the country's narrow range of exports, erratic domestic demand for food imports, and its strong dependence on the import of capital goods. Two products (uranium and cattle) accounted for more than 50 percent of total exports over 1999–2002. The 1994 devaluation of the FCFA improved Niger's competitiveness and led to a rebound of exports, while imports declined as they became more expensive. As a result, the trade deficit narrowed from FCFA 21 billion in 1994 to FCFA 2.3 billion in 1996. However, the benefits of the devaluation were short-lived and its positive effects were quickly reversed. The trade deficit has widened since then. Despite recent improvements in terms of trade, the trade deficit stood at FCFA 72.3 billion in 2003 (4.5 percent of GDP). Niger has consistently run a balance of payments current account deficit, even during the uranium boom of the 1970s, reflecting the country's import of capital goods financed by aid flows. The current account deficit has recently further widened due to a significant rise in imports of capital goods. The deficit (excluding grants for budget support) stood at 7.8 percent of GDP in 2003 compared with 6.5 percent in 2001.

External Assistance. Aid flows, provided by a limited number of donors, tend to be volatile. Net Official Development Assistance (ODA) declined during the 1990s due to unstable political conditions in Niger. Although ODA has recovered since 2000, it remains far lower than its levels in the 1980s and 1990s and continues to be volatile and unpredictable. During 1997–2001, Niger received US$256 million of ODA per year on average (of which US$206 million or about 80 percent was in the form of grants and the rest in loans on concessional terms).

Bilateral and multilateral aid flows were roughly of the same magnitude over 1999–2001. Multilateral assistance to Niger was largely provided by IDA and the EU which together

Chart 1-2. Evolution of Net ODA to Niger, 1997–2001
(in US$ million)



Source: MEF.

accounted for more than three-fourths (77 percent) of multilateral ODA to Niger. France and to a lesser extent Japan, Germany and Belgium were the major bilateral providers of ODA over 1997–2001, altogether accounting for nearly 70 percent.

Niger does not attract significant inflows of foreign direct investment. Net direct investment totaled barely FCFA 46.4 billion over 1997–2002 (US$86 million) or FCFA 5.8 billion annually (US$10 million) on average. The current account deficit is generally financed through long-term loans (on concessional terms), grants, and debt relief. By the end of 2002, Niger's nominal stock of external debt reached US$1,757.7 million. 75.6 percent of the total nominal debt was owed to multilateral creditors. IDA was the largest creditor, accounting for nearly half (49.6 percent) of total outstanding debt at end-2002. IDA disbursements accounted for about 69 percent of total disbursements between end-1999 and end-2002.

Debt Relief. In the context of the Enhanced HIPC Initiative, Niger was granted debt relief at the Decision Point[9] estimated at US$1.2 billion in nominal terms or US$520.6 million in NPV terms at end-1999, which reduced the level of the debt to a sustainable 150 percent debt to export ratio.[10] Total cumulative interim assistance from the Decision Point up to end-2002 amounted to US$57.1 million, of which US$29.2 million (51 percent of total interim relief) was provided by IDA. At the Completion Point, Niger was granted exceptional debt relief ("topping-up") of US$142.5 million in NPV terms to compensate for exogenous factors that fundamentally changed Niger's debt sustainability, raising the debt to exports ratio at the end of 2002 substantially above the 150 percent target set out in the enhanced HIPC framework. In addition, several Paris Club members have

Table 1-7. Projected HIPC Assistance to Niger after Completion Point (in US$ million)

	2003	2004	2005	2006	2007	2008	Total 2003–2022
Nominal assistance under the enhanced HIPC initiative[/a]	43.7	68.1	68.4	67.7	66.6	61.0	843
Nominal assistance beyond HIPC initiative assistance	4.8	1.3	1.3	1.3	1.4	1.4	5
Nominal assistance from topping up[/b]	0.0	4.0	9.1	10.5	11.6	11.4	206
Total assistance	48.5	73.4	78.8	79.5	79.6	73.8	1054

[/a] Computed as difference between debt service due after the application of traditional debt relief granted on arrears rescheduled.
[/b] Computed as difference between debt service due after bilateral debt relief beyond HIPC Initiative assistance and debt-service due after topping up at the Completion Point.
Source: HIPC Completion Point Document.

9. Niger reached the Decision Point and the Completion Point under the Enhanced HIPC Initiative in December 2000 and April 2004, respectively.

10. Within the framework of the Enhanced HIPC Initiative, the level of indebtedness is considered unsustainable when the NPV of debt to exports of goods and services is above 150 percent.

indicated their intention to provide additional relief beyond the HIPC Initiative and three are already providing complementary relief. Resources made available by debt relief under the HIPC initiative are being allocated to pro-poor expenditure programs outlined in the PRSP.

Foreign Reserves and the Exchange Rate. Niger's foreign reserves have fluctuated widely over the past decade reflecting export performance and variations in aid inflows. However, increased macroeconomic stability over the past three years has resulted in a build-up of foreign reserves. At end-2003, foreign reserves (excluding gold and SDRs) amounted to around two months' of imports. Since Niger belongs to the CFA Zone, it shares a common pool of reserves with all WAEMU countries at the regional central bank (BCEAO), in an account in the French Treasury, which guarantees the convertibility of the FCFA against the Euro.

From 1948 until January 1994, the CFA franc was pegged to the French franc (FF) at a rate of FCFA 50 to 1 FF. The overvaluation[11] of the FCFA and its implications for external competitiveness of major CFA zone countries led to a 50 percent devaluation of the CFA franc on January 12, 1994. The FCFA is currently pegged to the Euro. Niger's external competitiveness has suffered from the appreciation of the Euro against the dollar. The appreciation of the Euro against the dollar resulted in an appreciation of the FCFA from an average exchange rate of FCFA 733 per US$1 in 2001 to FCFA 697 per US$1 in 2002. The appreciation has continued throughout 2003 and the first half of 2004. The exchange rate stood at around FCFA 520 per US$1 in early June 2004.

Economic Performance 2000–2003

Macroeconomic Performance in 2000–2003

The democratically elected Government that took office in late-1999 initiated an economic recovery and reform program supported by the Bank and the IMF. This involved macroeconomic stabilization, revitalization of economic activity, and improving management of public finances.

Despite an unfavorable environment generated by the recurrence of domestic and regional socio-political tensions, and difficulties in securing timely and adequate external assistance, overall macroeconomic performance has improved since 2000. Real GDP has grown at an annual average of 5.1 percent over 2001–2003, with a strong recovery of 7.1 percent in 2001 compared to a 1.0 percent average annual average *decline* over 1999–2000. The strong growth performance from 2001 onwards reflected not only favorable weather conditions but was also due to a number of positive measures to promote growth, including improvement of fiscal management and performance, and increases capital expenditures on infrastructure. On a 12-month basis, inflation fell from 4.0 at end-2001 to a negative 1.6 percent at end-2003 as a result of continued prudent BCEAO monetary policies, sound fiscal policies, and better output growth performance.

11. The real exchange rate in Niger was estimated to be overvalued by 25–30 percent in 1991.

Fiscal Performance in 2000–2003

The Government successfully implemented fiscal adjustment policies and structural measures over the past three years, aimed at ensuring a sustainable fiscal position and complying gradually with the convergence criteria of the WAEMU. As a result, the basic budget deficit (excluding grants for budgetary assistance and foreign-financed capital expenditure) was reduced from 3.0 percent of GDP in 2000 to 2.0 percent in 2003, despite expenditure pressures in a context of sociopolitical tensions, smaller revenue transfers from WAEMU Commission, and shortfalls in external financing.

Government revenue (excluding grants) has increased from 8.8 percent of GDP in 2000 to 10.6 percent in 2002, as a result of a series of revenue-enhancing measures (See Box 2). However, Niger's revenue performance remains weak and its revenue-to-GDP ratio is the lowest within the WAEMU region. In 2002, it stood at 10.6 percent of GDP, 5 percentage points lower than the WAEMU average and 7 percentage points lower than that of Benin or Mali. The revenue to GDP ratio declined to 9.7 percent in 2003 due to lower revenue transfers from WAEMU as a result of the Ivorian crisis, prolonged closing of the Nigerian border, and lower-than-expected tax revenues on foreign-financed capital expenditure.

Box 2. Revenue-Enhancing Measures Introduced since 2001

1) Introduced Petroleum tax reform in August 2001.

2) Strengthened tax and customs directorate strengthened.

3) Introduced measures in the 2002 budget law to improve tax collection and to broaden the tax base:

- Strengthening provisions for pre-payments of the industrial and commercial profits tax;
- Reviewing the small business license taxes (*patentes synthétiques*) to take account of tax payers' ability to pay and to better distribute the tax burden;
- Broadening of the tax base for revenue stamps and revision of the percentage rates, which have remained unchanged for over a decade;
- Reincorporating of press agencies into the ordinary tax law system; and
- Enhancing of collection of miscellaneous revenue items, particularly non-fiscal receipts collected by legal clerks and bailiffs, forestry offices, law enforcement agencies, state police, and the mining and geological service.

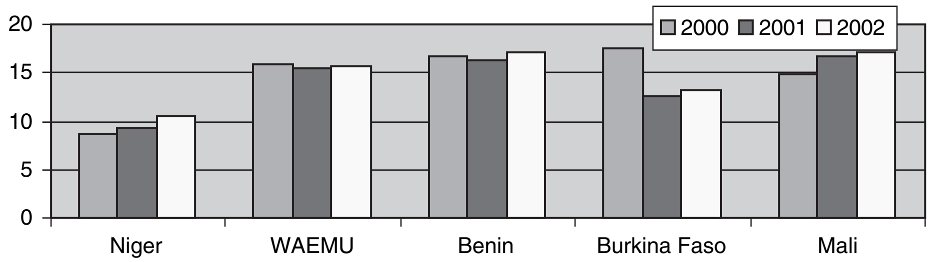
4) Exercised stricter control over the granting of tax exonerations and thoroughly reviewed tax incentives under the investment code.

5) Introduced new revenue-enhancing measures to cope with the revenue-gap observed end-2003 and in the first quarter 2004. These measures include:

- Enhancing control and monitoring of the fiscal agencies.
- Posting of resident experts at the Tax Directorate and Customs.
- Imposing a 19% VAT on cooking oil, in addition to the existing excise tax of 15%;
- Introducing a 12% excise tax on tea and suspending tax-free imports of rice for re-export.
- Increasing the domestic tax on premium fuel by FCFA 7/liter (a 5% increase).
- Nominating a Deputy Finance Minister in charge of informal sector taxation issues and changes in key personnel within the Ministry of Economy and Finance, especially in the fiscal agencies.

Source: MEF.

Chart 1-3. Government Revenue, 2000–2002
(in percent of GDP)



Source: IMF, African Department Database.

Revenue performance continued to be lower than expected in 2004, with a gap estimated at CFA 13.1 billion in the first quarter. The authorities are undertaking remedial measures, including enhanced control and monitoring of the fiscal agencies, and the posting of resident experts at the Tax Directorates and Customs (See Box 1-2).

Recurrent expenditure declined from 11.2 percent of GDP in 2000 to 10.7 percent in 2002, partly due to a strict control of the wage bill. The ratio of wages and salaries to fiscal revenues declined steadily over the period 2000–2003, from 50.4 percent to 35.7 percent in 2002, just above the WAEMU convergence criterion (35 percent).

The Government made significant efforts to shift public expenditure away from recurrent expenditure to capital expenditure. Capital expenditure increased from 5.7 percent of GDP in 2000 to 7.3 percent in 2003, in part reflecting additional resources for infrastructure freed by debt relief under the HIPC Initiative. The ratio of domestically financed capital expenditure to fiscal revenue tripled from 7.9 percent in 2000 to 20.2 percent in 2002, just above the WAEMU convergence criteria of 20 percent.[12]

The Government has also made progress toward clearing past domestic payment arrears mostly accumulated in 1999–2000. FCFA 50 billion (38 percent) was cleared in 2001–2002, equivalent to 1.7 percent of GDP (Table 1-8), as a result of the implementation of an arrears clearance program and Niger has avoided accumulating new arrears since

Table 1-8. Change in Domestic Arrears (net), 1999–2003
(in FCFA billion)

					Average Change	
1999	**2000**	**2001**	**2002**	**2003/q**	**1998–2000**	**2001–2003**
23.6	3.6	–17.0	–33.4	–12.2	2.6	–20.9

/q Government, World Bank and IMF Estimates, April 2004.
Source: MEF, World Bank and IMF.

12. As discussed in Chapter 2, the volume of capital expenditure is most likely over-estimated in Niger. Over 70 percent of capital expenditures financed through foreign project funding. This funding conceals sizeable amounts of recurrent expenditure, allocated to cover administrative costs of project implementation.

then. A further FCFA 12.2 billion was cleared in 2003, but the target of FCFA 18 billion for end December 2003 was not met, mainly due to the shortfall in revenue. However, as shown in Chapter 2 below, the settlement of arrears has not been fully transparent.

Macroeconomic Outlook and Financing Requirements 2004–2007

Economic Outlook for 2004

The Government's economic policy program for 2004 is geared to preserving macroeconomic stability and continuing the implementation of the reform agenda. The 2004 Budget Law aims at reducing the basic budget deficit (excluding grants) by increasing revenue from 9.9 percent of GDP in 2003 to 10.3 percent in 2004, while holding the line on expenditures other than externally financed investment outlays. Measures designed to enhance revenues are outlined in Box 2 above. Recurrent expenditure is projected to increase by 0.2 percent of GDP, mainly on account of a budgetary allocation of FCFA 9 billion to finance local, parliamentary and presidential elections and a 3.5 percent increase in the wage bill.[13] Capital expenditures are expected to increase by more than 20 percent, mainly financed by foreign aid. In line with the PRSP objectives, total spending on health and education would increase to 5.6 percent of GDP from 5.2 percent in 2003. Domestic payments arrears would be reduced by an additional FCFA 18.5 billion (1.1 percent of GDP).[14]

Assuming the continuation of good weather and prudent financial policies, real GDP is projected to grow at 4.1 percent in 2004. Growth would be driven both by agricultural production and non-agricultural sectors (mainly manufacturing and construction), the latter expected to grow by 4.3 percent.[15] Inflation would remain subdued, with an end-year rate projected at 1.8 percent. The current account deficit is expected to decline by 1.1 percentage point of GDP to a projected 7.7 percent of GDP.

Medium-Term Macroeconomic Projections

Medium-term Macroeconomic Framework. The medium-term macroeconomic framework maintains the thrust of the baseline scenario presented in Niger's PRSP (2002) and the HIPC Completion Point Document (2004). It projects Niger's progression toward complying with WAEMU convergence criteria. It takes into account recent economic developments, including higher than expected real GDP growth, additional debt relief granted to Niger at the HIPC Completion Point, and the coming on stream of new gold mining and export activities over the next seven years. The medium-term macro-framework further relies on the following assumptions:

- Conclusion of a new PRGF program with the IMF before end-2004.
- Good weather conditions and timely external assistance.

13. The wage bill will be limited to FCFA 59 billion in 2004, or 36.3 percent of fiscal revenue, only slightly above the WAEMU convergence criterion.

14. This includes a portion of unsettled claims from FY 2003.

15. Construction activity is expected to boost growth through the building of additional schools, health centers, mini-damns and other basic social infrastructure in the rural areas in the context of the President Special Program. In addition, the 2005 Francophone games will invigorate construction activity with the building of sports infrastructure.

- Pursuit of prudent financing policy seeking external aid in form of grants and loans on highly concessional terms.

Under this scenario, real GDP growth would increase to an annual average of 4.2 percent over 2004–2007. Growth would be supported by an increase in investment and a strengthening of non-mining activities, particularly agriculture and services (commerce, transportation, and tourism). New gold mining activities would temporarily boost economic growth over the period. Improvement in economic policies of Niger's regional partners, in particular Nigeria, would further support economic growth. Gross investment would increase from 14.2 percent in 2003 of GDP to 16.3 percent in 2007. Gross national savings would also increase from an average of 6.4 percent over 2001–2003 to 9.3 percent of GDP over 2004–2007 as a result on increases in both public and private savings.

Inflation (annual average) would remain contained at an average of 1.6 percent during 2004–2007. This reflects prudent monetary policy at the regional level, a stable real exchange rate, and strong and sustainable economic growth.

The external current account deficit (excluding grants for budgetary assistance) would decline slightly from an estimated 7.8 percent of GDP in 2003 to 5.1 percent of GDP in 2007 (an annual average of 6.5 percent over 2004–2007). The improvement of the current account during the next two years would mainly reflect export growth driven by agricultural products and livestock, services and gold.[16]

Government Finance Outlook. The macroeconomic framework assumes a continued improvement of the fiscal stance. In 2004–2007, total revenue is projected to increase from FCFA 172 billion (10.3 percent of GDP) to FCFA 239 billion (11.9 percent). Total expenditure and net lending is projected to reach FCFA 354 billion at the end of the period, from FCFA 310 billion in 2004. This represents a drop in percentage of GDP terms from 18.6 to 17.7 percent. This would result in a reduction of the overall fiscal balance (commitment basis excl. grants) from 8.6 to 5.7 percent of GDP.

Risks to the Macroeconomic Framework. The scenario presented above should be regarded as a "best case." It should be recalled that Niger has a record of volatile growth. There is, therefore, a major risk that the assumptions underlying the economic growth and fiscal projections might not materialize. First and most important, the exceptionally favorable weather conditions that have underpinned favorable growth performance since 2000 might not continue. Droughts tend to reappear in Niger every four or five years. History shows that a strong drought reduces growth by several percentage points. Second, delays in implementing critical structural reforms, in particular the privatization program, could compromise the expected increase in private sector investment. Third, the failure to mobilize domestic resources and shortfalls in domestic revenues could impair fiscal performance. Fourth, delays in mobilizing external financing for the public expenditure program and investment projects and in implementing them could jeopardize achievement of the PRSP growth rates. Finally, debt sustainability remains a major concern. Although Niger reached the Completion Point and was granted an additional and exceptional debt relief (Topping-Up), recent preliminary estimates reveal that the debt situation (measured by the NPV of the

16. Gold exports are estimated at 0.6 percent of GDP in 2004–2007, yet reserves are expected to be depleted by 2007–2008.

Table 1-9. Financial Operations of the Central Government, 2004–2007
Projections of revenues and expenditures (in FCFA billion)

	Projections				Average Projections
	2004	2005	2006	2007	2004–2007
Total revenue	**10.3%**	**10.9%**	**11.4%**	**11.9%**	**11.1%**
Tax revenue	9.7%	10.4%	10.8%	11.3%	**10.6%**
Non-tax revenue	0.7%	0.2%	0.3%	0.3%	**0.4%**
Budget annexes/special accts.	0.1%	0.3%	0.3%	0.3%	**0.3%**
Total expenditure and net lending	18.6%	17.9%	18.2%	17.7%	**18.1%**
Total recurrent expenditure	9.9%	9.6%	9.4%	9.3%	**9.5%**
Budgetary expenditure	9.5%	9.1%	8.9%	8.8%	**9.1%**
Wages and salaries	3.5%	3.5%	3.4%	3.4%	**3.5%**
Goods and services	2.6%	2.6%	2.5%	2.5%	2.5%
Subsidies and transfers	2.8%	2.5%	2.4%	2.4%	2.5%
Interest scheduled	0.6%	0.6%	0.6%	0.6%	0.6%
Budget annexes/special accts.	0.4%	0.5%	0.4%	0.4%	0.4%
Capital expenditure and net lending	8.7%	8.3%	8.8%	8.4%	**8.6%**
Capital expenditure	8.7%	8.3%	8.8%	8.4%	**8.6%**
Domestically financed	1.8%	1.6%	1.6%	1.4%	**1.6%**
Externally financed	6.9%	6.8%	7.2%	7.0%	**7.0%**
Net lending	0.0%	0.0%	0.0%	0.0%	**0.0%**

Source: MEF, World Bank and IMF.

debt/exports ratio) remains unsustainable, reaching a level above 180 percent at end-2003. This might restrict Niger's ability to attract foreign financing.

Financing Requirements and Pledged Assistance

Based on the assumptions of the medium-term macroeconomic framework, the total financing gap for 2004–2007 is estimated at FCFA 172 billion. This corresponds to an annual average of FCFA 43.0 billion.

Aid pledges for 2004 fell short of projected requirements. The financing gap is estimated at FCFA 58.3 billion (3.5 percent of GDP) while pledges received so far from major donors total FCFA 49.1 billion (See Table 1-10). A large share of loans for budget support is expected to be provided by IDA, with FCFA 13.2 billion provided by the second tranche of PEAC II, while AfDB assistance would amount to FCFA 3.0 billion. Grants for budget support provided by the EU would amount to FCFA 17.9 billion while other bilateral donors would provide total grant financing of FCFA 16.4 billion.[17] Domestic financing

17. In 2004, IDA budgetary assistance would consist of the second tranche of PEAC II (US$25 million) expected for disbursement by end-July. EU grant financing consists of two tranches: a fix tranche of Euros 19 million and a variable tranche of maximum Euros 10 million. The key condition for the release

Table 1-10. Financial Operations of the Central Government, 2004–2007
Projections of overall balance and financing (in percent of GDP)

	Projections				Average Projections
	2004	2005	2006	2007	2004–2007
Overall balance (commitment basis excl. grants)	–8.3%	–7.0%	–6.8%	–5.7%	–7.0%
Change in payments arrears	–1.1%	–1.0%	–0.8%	–0.5%	–0.9%
Overall balance (cash basis excl. grants)	–9.4%	–8.0%	–7.6%	–6.2%	–7.8%
Financing	9.4%	8.0%	7.6%	6.2%	7.8%
	5.9%	5.1%	5.5%	5.3%	5.4%
	0.1%	0.2%	0.1%	–0.3%	0.0%
Financing gap (+)	3.5%	2.8%	1.9%	1.3%	2.4%
Financing assurances	3.1%	. . .	. . .	. . .	0.8%
Residual financing	0.4%	2.8%	1.9%	1.3%	1.6%

Source: MEF, World Bank and IMF Staff.

would be FCFA 1.2 billion.[18] A residual financing gap of FCFA 8.0 billion (0.4 percent of GDP) would remain. This could be covered by additional bilateral and other assistance in the second half of the year.[19]

The financing gap for 2005 is estimated at FCFA 49.5 billion. The EU indicated that it would provide a maximum of FCFA 23 billion while France would be providing FCFA 6 billion in budget support. The IDA commitment under the CAS base case scenario amounts to US$40 million, equivalent to FCFA 21 billion.[20]

Solvency and Fiscal Sustainability Analysis[21]

Is Niger's current fiscal stance sustainable? If not, how much additional fiscal reduction is needed? How will these fiscal adjustments be affected by external shocks? This section addresses these questions by summarizing the analytical results of solvency and sustainability analysis conducted on Niger's fiscal deficit.

of the fix tranche, expected in the third quarter, is the conclusion of the IMF 6th review of the PRGF program. The release of the variable tranche, expected in the fourth quarter, is conditional upon the adoption of an action plan to strengthen budgetary and financial management following the PEM-FAR exercise and based on performance indicators. France grant assistance in the amount of Euros 10 million will be provided by the end of the second quarter (end-June) and in the fourth quarter (November–December).

18. Net borrowing from the banking sector will contribute to FCFA 4.3 billion to domestic financing while net borrowing from the non-banking sector will turn negative at –3.1 in line with the Government policy of clearing domestic arrears.

19. France has indicated that it will provide Euros 3 million for budgetary assistance by the end of the year. It is also expected that the conclusion of a new PRGF-program with the IMF will result in a disbursement by the Fund during the fourth quarter of 2004.

20. Financing assurances regarding IDA provision of a new loan for budgetary assistance (PEAC III) to Niger will depend on the outcomes of Board discussion of the CAS progress report.

21. This section follows Dinh (1999).

With a level of basic budget deficit (excluding grants for budgetary assistance and foreign-financed capital expenditure) at 1.8 percent of GDP in 2002, Niger's fiscal stance appears to be sustainable. However, the conventional practice of scrutinizing only the budget deficit to assess fiscal efforts and the sustainability of a fiscal stance is often inadequate because fiscal policy is an integral part of the overall policy framework and cannot be assessed independently. In Niger, a deficit level may be adequate one year but not the next depending on such factors as economic growth and policies to achieve external and internal balance.

The appropriateness of a particular fiscal deficit target depends on targets for growth, inflation, and external and internal debt, because of the strong linkages among fiscal, monetary, and other macroeconomic policies. In the context of Niger, the obligation to adhere to WAEMU convergence criteria add an additional level of complexity, as Niger's budgetary policy depends to a large extent to macroeconomic policies determined at the regional level. Unless these linkages are brought out explicitly, conventional fiscal measures (such as the deficit to GDP ratio or the government debt service to revenues ratio) shed little light on the appropriate level of the fiscal deficit and consequently on the appropriate speed of fiscal adjustment. Solvency and sustainability analysis addresses these shortcomings of conventional analysis by incorporating the debt dynamics and other macroeconomic targets of growth, inflation, and external and internal debt. According to this analysis, a public sector is solvent when its discounted revenues are sufficient to cover the public sector debt (including external and domestic debt); it is sustainable if this debt can be serviced without incurring new debt.

In order to evaluate Niger's fiscal stance, the level of the primary deficit that would make the public sector solvent was first determined, given the stock of public debt at the end of the previous period, the real interest rate, and the real revenue growth rate.[22] This

Table 1-11. Public Sector Solvency and Sustainability in Niger (in percent of GDP)

	2002	2003
Solvency		
Primary balance	–6.3	–6.4
Real GDP growth	7.0	4.7
Domestic debt	3.5	3.6
External debt outstanding and disbursed	90.0	73.4
Primary balance for solvency	5.5	6.2
Central government solvency adjustment	**11.7**	**12.6**
Sustainability		
Grants	4.9	4.7
Sustainable primary balance	6.8	5.4
Actual central government primary balance	–6.3	–6.4
Central government sustainability adjustment	**13.0**	**11.9**

Source: World Bank staff calculations.

22. Both the real interest rate and the real revenue growth rate were assumed to be constant throughout the period.

solvent primary deficit was then compared with the actual (or expected) primary deficit to find the adjustment needed to obtain public sector solvency. For fiscal sustainability, the primary deficit needed to achieve debt sustainability (that is, to maintain the ratio of debt to GDP at the same level) was first calculated. In a second step, the required adjustment is calculated by comparing this sustainable primary deficit with the actual (or expected) primary deficit. All variables and resulting measures (in percent of GDP) are presented in Table 1-11.

The results of the analysis reveal that, as of the end of 2003, Niger's fiscal balance remained far from the level required for solvency and sustainability. If grants were excluded and Niger was to borrow at non-concessional rates, it would have needed to adjust its deficit by 12.6 percent. Past international experience indicates that an annual fiscal adjustment of more than 3 percent would be difficult for any country to achieve. It is neither feasible nor desirable for Niger to bear the burden of an adjustment of such magnitude by expenditure cuts and/or revenue-enhancing measures.

This underlines the challenging and fragile nature of Niger's public finance situation. Niger will depend on concessional financing in the form of grants (about 5 percent of GDP) and highly concessionary external borrowing for the foreseeable future.

CHAPTER 2

Public Expenditure Review

Objectives of the Public Expenditure Review

The principal objective of the Public Expenditure Review (PER) is to assess the extent to which the observed public expenditure patterns during 2000–2003 reflect the priorities of Niger's poverty reduction strategy. In addition, the PER assesses the functional and economic composition of public expenditure in terms of standard criteria used for reviewing public expenditure choices:[23]

- Are they efficient (do they correct market failures)?
- Are they equitable (do they correct socially undesirable distributional consequences of market outcomes)?
- Are they realistic (do they take into account the capacity of Government to deliver goods and services)?

The analysis of public expenditures centers on whether sufficient resources are being allocated to implement programs in priority sectors. It then tries to explain differences between actual public expenditure choices and PRSP spending targets by looking at the following factors:

- the impact of HIPC resources and external financing on functional distribution of public expenditures;

23. See Stiglitz (2000, p. 249) for a discussion of the rationale for public programs according to public expenditure theory.

- the economic composition of expenditures, in particular the influence of fixed or quasi fixed expenditures such as wages and salaries or debt service, on public expenditure choices; and
- the impact of public expenditure management practices, notably budget regulation and cash management, on budget outcomes and differences between budgeted and actual expenditure levels.

The analysis of public expenditure structure is complemented by an analysis of spending in the priority sectors—education, health, road infrastructure and rural development—to determine whether allocation and use of public resources has been consistent with the PRSP and sector strategies. It also reviews the internal and external efficiency of public programs in the sectors and their impact on the poor. The scope of sectoral analysis was limited, however, by the short timeframe, lack of experience of line ministry staff involved in the exercise and insufficient support. The analysis in these sectors will have to be deepened in future rounds of PERs.

Finally, the analysis also compares observed expenditure patterns in Niger with those of other countries in the region and assesses the geographical distribution of spending in Niger with the incidence of poverty.

Scope of Analysis and Data Constraints

This PER covers the period 2000–2003. The year 2000 marks the beginning of the ongoing public finance reform and is also the year of adoption of the I-PRSP. In addition, the most recent sectoral PERs for health, education and rural development cover up to 1999.

A number of data constraints have limited the scope and depth of the PERs, the most important ones being:

- A new budget classification system was introduced with the 2003 budget (see Chapter 3 for more details) and it is difficult to analyze budgetary allocations and outcomes using the pre-2003 budget classification system. A complicated reclassification exercise had to be conducted in order to convert the administrative classification into a functional classification and to make it comparable with the new budget classification.[24] Even after reclassification, certain data could not be extracted (expenditure by region). The new classification has corrected many of these limitations, using software that facilitates compilation of budgetary data by sector, type, and location of expenditure items.
- Incompatibility between the old budget classification and the chart of accounts has made it difficult to reconcile accrual data (budgetary accounts) with cash data at the payment stage (treasury accounts).[25] The analysis of budget execution in this PER is

24. See Appendix C.1 and C.2 for a presentation of the reclassification exercise.

25. The incompatibility between the (old) budget classification and the chart of accounts is a key reason for the backlog in producing budget review laws (*loi de règlement*). The latest available budget review law dates back to the 2000 budget year. However, the introduction of the new budget classification and charter of accounts in the 2003 budget year has corrected this shortcoming, with the two instruments being completely compatible with each other (see Chapter 3 for more details on this issue).

based on payment order (*ordonnancement*) data from the Budget Directorate's electronic database (*situation des crédits*), which is not reconciled with treasury data on payments. The experience of the 2000 budget review law (*loi de règlement*) exercise shows that there can be considerable discrepancies between budget data at the payment order and the payment stage.

- The magnitude of directly executed donor projects is probably underestimated. The PER has tried to integrate all externally financed capital expenditures by using data of the Department for Investment Financing (DFI) of the MEF.[26] However, monitoring of extra-budgetary projects is handled manually by DFI and there are doubts about the accuracy and comprehensiveness of these data. In addition, all donor-financed project outlays are recorded as capital expenditure, while a sizeable portion is probably used for recurrent spending.
- With the exception of the education sector, scope and reliability of data on expenditure allocation and use within sectors is weak. Most line ministries do not systematically collect expenditure data. For the purpose of this exercise, the four priority sectors carried out expenditure data searches through their regional offices. The resulting data sets differed greatly from those of Budget Directorate's electronic database. As a consequence, sector PERs are based on DGB data. The data collection and analysis capacity of line ministries will need to be strengthened in support of future PER exercises.

Analysis of Public Expenditure Structure

Spending Targets for Priority Sectors

The process of preparation and approval of the I-PRSP (2000) and PRSP (2002), created a strategic basis for Government action that enjoys a broad consensus among stakeholders. The I-PRSP set the directions for the reform program, which was initiated in late 1999 with the aim of fostering economic growth and reducing poverty. The Government then strengthened and consolidated the strategy through a series of consultations with a wide array of stakeholders and adopted a full PRSP in early 2002.[27] Since then, a number of sector strategies (basic education, rural development strategy, health policy statement) have been elaborated, refining and complementing the PRSP.

The PRSP emphasized the importance of increasing resources made available to priority sectors.[28] For this purpose it outlined an indicative medium term expenditure framework (MTEF), which set a number of spending targets for priority sectors. These spending

26. According to DFI, directly executed projects amounted to FCFA 30 billion in 2000–2002—about 11 percent of total capital outlays.

27. The PRSP confirms the Government's commitment to reducing the proportion of the population living in poverty by half by 2015. It is built on four strategic pillars: (i) creation of a macroeconomic environment that promotes strong and sustainable economic growth; (ii) development of the productive sectors, especially in rural areas, to reduce vulnerability and increase income generation, (iii) improvement of access of the poor to quality social services, and (iv) strengthening of institutional and individual capacity for good governance (World Bank 2002).

28. PRSP (World Bank 2002, p. 103): "to reflect the Government's priority to poverty reduction, its public spending policies will emphasize tighter control of expenditures with increased allocations to essential sectors."

targets were a refinement of a similar set of targets set by the I-PRSP for 2000–2005 (World Bank 2000). The targets were derived from a rough estimate of the funds needed to deliver a minimum level of public services in priority sectors. The PER uses these targets and others defined in sectoral strategies as basis for assessing the functional distribution of public expenditures (see Table 2-1).

Table 2-1. Quantitative Targets for Priority Sector Spending

Sector	Targets	Source
Education	20 % of total public spending	PDDE*, 2002
Of which: basic education	50 % of public spending on education	PDDE 2002
Health	17 % of total public spending	PRSP 2002
Of which: basic health	66 % of public spending on health	I-PRSP 2000
Rural Development	12 % of total public spending	PRSP 2002
Road infrastructure	12 % of total revenues	PRSP 2002
Water	3.3% of total public spending	PRSP 2002

**Plan décennal du développement de l'éducation (PDDE).*

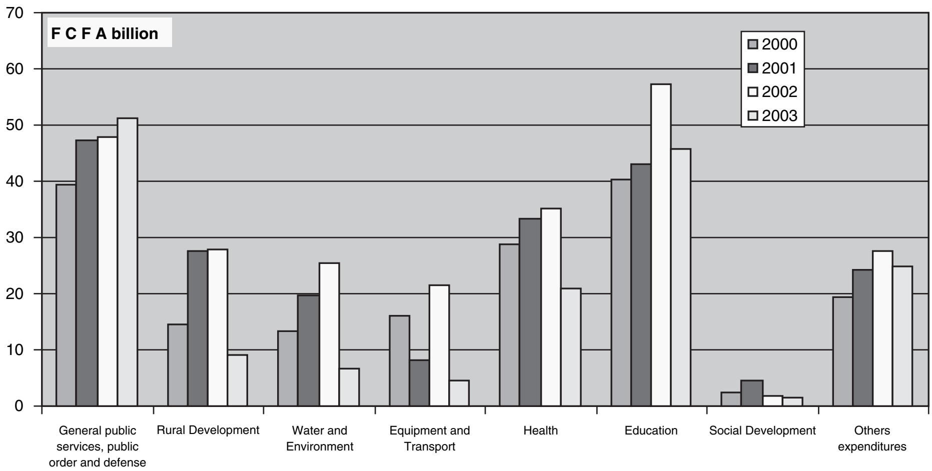
Analysis of Public Expenditure by Functional Classification

Public spending for PRSP priority sectors accounted for about two thirds of total expenditure (recurrent and capital, excluding debt service) and has benefited from a slight increase in its share over 2000–2002.[29] The steady decrease in the share of the health sector in total expenditures is a notable and worrying exception. Chart 2-1 and Table 2-2 summarize the main findings of the inter-sectoral analysis of public expenditure by functional classification:

- In nominal FCFA amounts, priority sectors received 46 percent more resources in 2002 than in 2000, which is marginally higher than the increase experienced in total expenditures (40 percent). Consequently, the share of the priority sectors has increased slightly (from 66.3 to 69.1 percent), at the expense of other expenditure categories, notably the "sovereignty" expenditures (general public services, public order and defense).
- Spending on rural development and water and environment had the highest growth rates of all sectors in 2000–2002. Nominal expenditures in these two sectors almost doubled and the share of rural development in total expenditures increased from 8.4 to 11.4 percent and water and environment rose from 7.6 to 10.4 percent.
- After a marked drop in 2001 (from 9 percent in 2000 to 4 percent) the share of the equipment and transport sector in total expenditures regained its initial level in 2002.
- The education sector absorbs the highest share of public resources among the priority sectors. Nominal spending on education increased by 42 percent in 2000–2002 and its share of total expenditures has remained stable at around 23 percent.

29. Due to a lack of final data on 2003 expenditures, this year is not taken into account in the analysis.

Chart 2-1. Evolution of Public Expenditure by Functional Classification, 2000–2003
Total expenditures (payment order stage), in FCFA billion



Note: All figures include extra-budgetary capital expenditures, exclude debt service; figures for 2003 are projected on the basis of end-September data.

Source: MEF, World Bank, EC.

Table 2-2. Functional Distribution of Public Spending (Total Expenditures)
Actual expenditures—payment order stage (in FCFA billion)

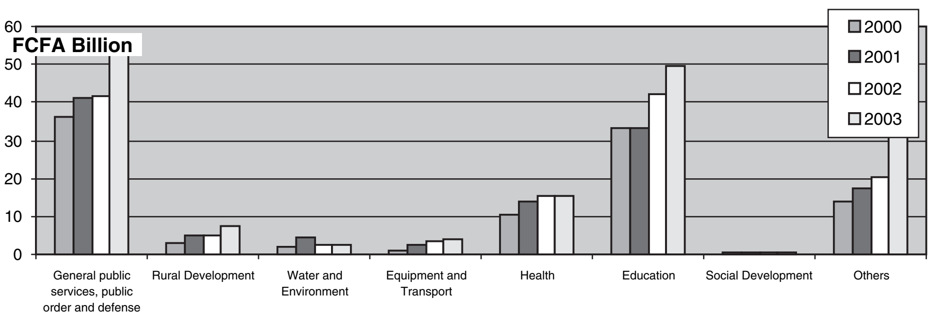
	2000	2001	2002	2003[a]	Average Share 2000–2002
General Public Services, Public Order and Defense	39.47	47.14	47.67	51.11	22%
PRSP Priority Sectors	115.39	136.47	168.52	88.62	67%
Rural Development	14.55	27.62	27.75	9.19	11%
Water and Environment	13.28	19.34	25.34	6.77	9%
Equipment and Transport	16.21	8.06	21.47	4.53	7%
Health	28.78	33.39	35.08	20.96	16%
Education	40.23	42.97	57.14	45.77	23%
Social Development	2.34	4.59	1.75	1.40	1%
Other Expenditures	19.34	24.11	27.70	24.83	11%
TOTAL (excluding Debt Service)	174.2	207.72	243.89	164.56	100%

Note: All figures include extra-budgetary capital expenditures.
[a]Figures for 2003 are projected on the basis of end-September data.
Source: MEF, World Bank, EC.

- Health is the only priority sector that experienced a decline in its share in total expenditures. In nominal terms, public spending on health increased by 23 percent, but its share in total expenditures fell from 17 to 14 percent.

The share of recurrent expenditures on priority sectors declined from 50 percent of total expenditures in 2000 to 47 percent in 2003. They were dominated by education outlays, which accounted for over 60 percent of recurrent expenditures on priority sectors. Their share of total expenditures increased from 28 to 33 percent in 2000–2003 (see Chart 2-2 and Table 2-3). Nominal recurrent outlays on health were the second largest category, but the share of the sector declined from 12 to 9 percent of total recurrent expenditures.[30]

Chart 2-2. Evolution of Recurrent Expenditure by Functional Classification
Recurrent expenditures (payment order stage), in FCFA billion



Note: Excludes interest payments.
Source: MEF; World Bank and EC staff calculations.

Actual Expenditures Compared to PRSP Spending Targets

Measured by total expenditures (including recurrent and all capital expenditures), spending on priority sectors has shown positive trends in relation to PRSP targets since 2000 (see Chart 2-3). The health sector is an exception, with large and increasing gaps between actual and targeted expenditure. This indicates either that the sector has not received high priority in budget allocation decisions and/or suffers from poor execution rates. Levels of spending on rural development, equipment and transport[31] and particularly on water and environment fared relatively well against their PRSP targets.

A comparison of actual recurrent expenditures with PRSP targets[32] reveals a troublesome picture (see Chart 2-4). Only the education sector consistently achieved its recurrent

30. The different patterns emerging from the analysis of recurrent and total expenditure point to a strong impact of donor-financed investments. Often, the launch of a single large investment project can lead to doubling total outlays in one specific sector.

31. The level of actual expenditure relative to PRSP targets in the equipment and transport is expected to be overestimated, as the target only refers to road infrastructure.

32. PRSP targets are calculated as percentage targets (taken from Table 2-7) times the total budget envelope of the year in question.

Table 2-3. Functional Distribution of Public Spending (Recurrent Expenditure), 2000–2003
Actual expenditures, payment order stage (in FCFA billion)

	2000	2001	2002	2003[/a]	Average share 2000–2003
General public services, public order and defense	36.41	40.94	41.69	53.51	33%
PRSP priority sectors	50.10	58.94	68.87	79.56	50%
Rural development	3.01	4.83	5.15	7.52	4%
Water and environment	1.91	4.28	2.25	2.55	2%
Equipment and transport	1.04	2.48	3.42	3.82	2%
Health	10.35	13.74	15.17	15.46	11%
Education	33.29	33.00	42.20	49.48	31%
Social development	0.50	0.60	0.69	0.73	<0.5%
Other expenditures	14.07	17.24	20.28	33.70	17%
TOTAL	100.58	117.12	130.84	166.77	100%

Note: Excludes interest payments.
[/a]Estimates as of June 2004.
Source: MEF; World Bank and EC staff calculations.

expenditure targets. Recurrent expenditures for water and environment were close to targets, but there was significant and persistent under-spending on health, rural development and transport compared to the targets. The fact that availability of resources for priority sectors is better at the total than at the recurrent expenditure level points to the key role of capital expenditure, to a large extent financed by donors, in funding of priority sector activities. This phenomenon is discussed in more detail in the following sections.

The authorities intend to further increase the share of spending on priority sectors, particularly health and education in the coming years' MTEFs (see Table 2-4). This signals the Government's commitment to implementing the SRP. The success of this approach will also depend on the Government's ability to increase absorptive capacities and enhance resource management in the sectors.

There is a need to revise the PRSP spending targets. Education targets could be increased, but the consistent under-spending on health might indicate that its spending targets have not been realistic. While revising the targets, the authorities should not only take into account its policy priorities, but also the absorptive capacities of the sectors. The revised sectoral targets could be presented in the second full PRSP to be adopted in 2005.

International Comparisons of Functional Distribution of Public Expenditure

In terms of resources allocated to the education and health sectors, Niger appears to fare relatively well in comparison to selected countries in the region (see Table 2-5). Allocations for rural development also appear relatively high, while the transport and equipment sector received rather low levels of resources. However, these comparisons need to be treated with caution, as expenditure categories may be defined differently in these countries.

Chart 2-3. Comparison Total Expenditures—PRSP Spending Targets, 2000–2002
Payment order stage (in FCFA billion)

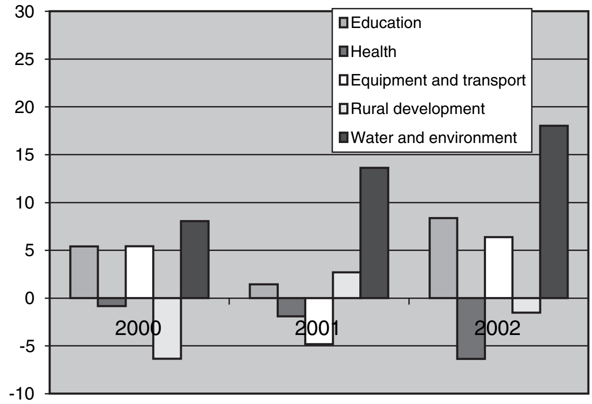
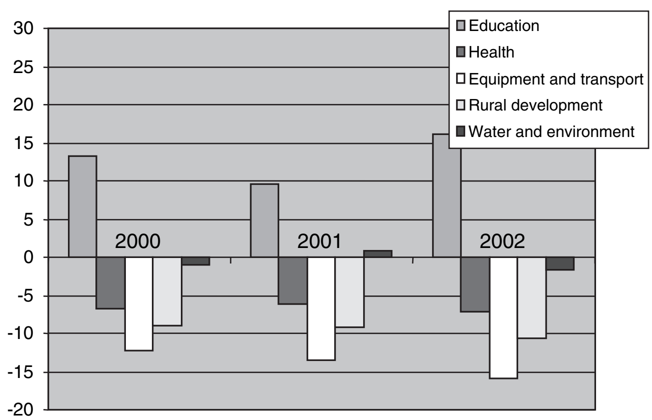


Chart 2-4. Comparison Recurrent Expenditures—PRSP Spending Targets, 2000–2002
Payment order stage (in FCFA billion)



Note: Bars refer to difference between PRSP spending targets (normative targets from Table 2-7 times total budget envelope in a given year) and actual expenditure amount per sector. Figures include extra-budgetary capital expenditure, but do not include debt service.

Sources: PRSP, MEF, World Bank staff calculations.

Factors Determining the Structure of Public Expenditure

Influence of External Financing. External financing has a strong impact on the structure of expenditures since more than 50% of Niger's total public expenditure and more than 70 percent of its capital expenditures in 2000–2002 (see Table 2-6) were financed by external assistance. The strong preference donors have for financing projects and programs in

Table 2-4. Medium Term Projections of Priority Sector Expenditures, 2004–2007

In FCFA billion	2004	2005	2006	2007
Education	49.8	56.0	63.1	71.3
Health	22.6	27.1	32.7	39.8
Agriculture	36.7	38.8	41.1	43.6
Equipment	25.8	27.7	29.5	31.5
In % of total expenditures				
Education	14.2	14.6	15.3	16.1
Health	6.4	7.1	7.9	9.0
Agriculture	10.4	10.1	10.0	9.9
Equipment	7.3	7.2	7.2	7.1

Source: MEF (MTEF calculations). Administrative classification, excludes transfers and subsidies.

Table 2-5. Regional Comparison of Spending on Priority Sectors
In percent of total budget allocations (excluding debt service)

	Niger 2000–2003	Burkina Faso[/a] 1999–2002	Benin 2001–2004	Uganda 2001–2002
Education	22.4	23.8	20.8	19.4
Health	15.7	11.3	9.3	10.8
Rural Development	11.0	N/A	6.7	4.4
Transport and Equipment	7.3	N/A	10.5	13.7

[/a]Budget execution data.
Source: National authorities, Fund and Bank databases.

Table 2-6. Importance of Donor Financing for Public Expenditures
Key ratios regarding donor financing (average 2000–2002)

- External project financing/capital expenditure = 72 percent
- External project financing/total expenditure (excluding debt service) = 32 percent
- Budget support (loans and grants)/recurrent expenditure (including debt service) = 31 percent
- Share of externally financed expenditure in total expenditure (including debt service) = 54 percent

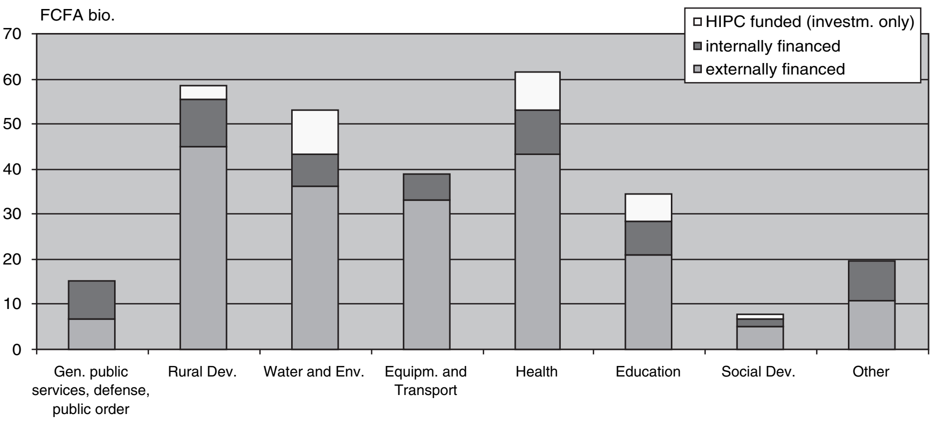
Source: MEF.

priority sectors, as seen in Chart 2-5, has a positive effect on the share of priority sectors in total public expenditure.

Heavy reliance of Niger on external budget support, which has amounted to around 30 percent of recurrent expenditure each year during 2000–2002, reinforces the outside influence on expenditure choices. Both tied and, to a lesser extent, untied budget support require the Government to earmark budget resources for specific sectors and/or types of expenditures. In the case of tied financing (for instance donor support to road maintenance), this link is direct. Yet even untied budget support operations are usually

Chart 2-5. Sectoral Distribution of Capital Expenditures by Source of Financing, 2000–2002

Aggregated total expenditures, payment order stage (in FCFA billion)



Note: Includes extra-budgetary capital expenditures. Internally financed capital expenditure consists of counterpart funds, investments of own resources and tax compensations of project costs.

Source: MEF.

based on an agreement between the authorities and the donor to earmark a certain share of this support to specific sectors. In the context of World Bank-budget support operations,[33] for instance, the Government agreed to ensure budgetary financing for key items of the education and health reform program, such as the salaries of contract teachers and health workers.

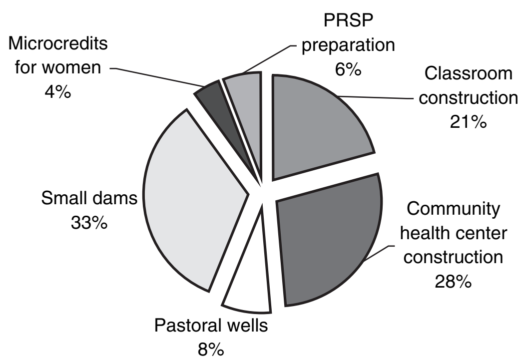
There are clear indications that the strong influence of donor financing on expenditure choices has not been offset by a "fungibility effect" (that is, by a reallocation of the Government's own funding to non-priority sectors, as donor financing for priority sectors became available).[34] An analysis of the fungibility of external financing and domestic resources reveals that the possibility of externally funding expenditures crowding out expenditures that are traditionally financed from domestic sources is limited. External project financing accounts for almost three quarters of Niger's investment budget. In addition, counterpart funding to external projects constitutes a large share of the domestic contribution to the investment budget. The scope for external projects to replace existing domestic investments is therefore very low.

33. World Bank-budget support, in the form of adjustment credits, accounted for around 40 percent of total budget support in 2000–2002.

34. See World Bank (1998) for a discussion of fungibility of foreign aid. Full fungibility would mean that if a donor would provide funding for a project in a specific sector, the Government would spend the same amount of money on this sector as it would if the donor had provided general budget support instead.

The large share of donor financing of Niger's budget has resulted in a lack of autonomy in decision-making by the authorities and a strong vulnerability of spending in these sectors to fluctuations in external financing. The Government has recognized this and has launched a process of enhanced coordination with and among donors within the framework of PRSP implementation. A PRSP-forum was held in July 2003 for this purpose. However, before Government and donors can jointly adopt medium-term spending priorities and integrate their funding, a serious effort toward improving the budget preparation process will need to be made, in particular to eliminate the dichotomy in the formulation of the recurrent and investment budgets (see Chapter 3 for more details on this). Experiences in other countries (for example, Uganda) has shown that it takes a long time and concerted efforts to fully integrate all funds from different domestic and external sources in the budgeting process.

Chart 2-6. Use of HIPC Resources, 2001–2003
Actual expenditures (payment order stage), in percent of total HIPC resources



Source: MEF.

Use of HIPC Resources. To facilitate effective use of HIPC resources for additional spending on PRSP priority sectors, the authorities have adopted a streamlined spending mechanism, the "President's Special Program for Poverty Reduction." The aim of the Special Program is to enhance existing poverty reduction programs through a quick disbursing mechanism for investment projects, such as construction of classrooms and local health centers. As Chart 2-6 indicates, HIPC resources have been used exclusively for construction of infrastructure in priority sectors, primarily construction and equipment of classrooms (21 percent) and community health centers (28 percent) and construction of small dams (33 percent).

The volume of HIPC resources so far has been too limited to have a major impact on the inter-sectoral distribution of expenditure. In the 2001–2003 period, the share of HIPC expenditures in the total budget allocations (excluding debt service) averaged only 4.3 percent. These resources will, however, increase significantly as a result of Niger having achieved the HIPC Completion Point in early 2004. Total amounts of HIPC resources will rise from an annual average of about FCFA 13 billion in 2001–2003 to FCFA 30.4 billion in 2004 and FCFA 40.6 billion in 2005. Thereafter, they will remain at a high level for a number of years before starting to decline and phase out by 2022.

It is probably not desirable to continue using HIPC funds exclusively for infrastructure investments, since this makes it more difficult to balance recurrent and capital expenditures. Instead HIPC resources could also help ensure adequate funding of priority recurrent expenditures like road maintenance or salaries of contract education and health workers.

The Government started to move into this direction in the 2004 Budget Law, as some HIPC resources were allocated for financing of contract teacher salaries, which in earlier years were financed through budgetary resources.

Some important lessons can be drawn from implementation of the President's Special Program. First, although most of the physical and financial targets of the Program activities have been met,[35] the authorities have identified a number of problems in planning and execution. These include insufficient integration of infrastructure built as part of the Special Program with mainstream development programs in the different sectors. These problems are thought to have had a negative impact on the quality of the infrastructure constructed and in making it operational.[36] The Government has therefore launched an independent evaluation of the Special Program, which was scheduled to be completed by mid-2004. One of the benefits of the evaluation will be to indicate whether sufficient budgetary resources were made available for operating and maintaining installations financed through this program.

In conclusion, HIPC funds should be progressively allocated to financing activities that are fully integrated in sectoral programs. An optimal use of HIPC funds would consist of financing of a core set of expenditures in priority sectors that merit protection in case of revenue shortfalls. Positive features of the President's Special Program, such as streamlined execution procedures and involvement of local communities in designing and implementing public programs, could be replicated on a larger scale.

Economic Composition of Public Expenditures[37]

The High Share of Fixed or Quasi-fixed Expenditures. Analysis of the economic structure of public expenditures in Niger in 2000–2002 reveals a high share of expenditures that are fixed over the near term, including outlays such as civil service remuneration and external debt service, where the Government has little or no room for maneuver in allocating public resources in the annual budget preparation process. Chart 2-10 shows that about 80 percent of budgetary outlays are fixed or quasi-fixed. The Government has little room to adjust the size and remunerations of the civil service from year to year (they account for 22 percent of total expenditures).[38] Debt service (24 percent) is fixed. Capital expenditures (34 percent) are largely determined by donor preferences. The scope for adjustment during the budget execution process is also constrained by the priority treatment of debt service and wage payments, which are centrally administered and treated as priorities in the cash management system.

35. Average budget execution rates (payment orders/allocations) for 2001–2002 were 96.6 percent for community health centers, 98 percent for small dams and 99.5 percent for classrooms.

36. See Niger PRSP Annual Progress Report and Joint Staff Assessment 2003 (p. 15) for details regarding achievements in physical execution of the Special Program of the President. The authorities cite problems like the lack of technical feasibility studies prior to constructions, insufficient involvement of beneficiary population and a lack of horizontal (between ministries) and vertical (between territorial levels) coordination in planning and execution of the works.

37. See Tables 1-4 and 1-5 in Chapter 1 for a detailed set of data on the evolution of the economic composition of public expenditures.

38. This includes spending on contract Government workers, contrary to the Government's practice of excluding their salary costs in calculating the wage bill.

Table 2-7. Economic Structure of Total Expenditures, 2000–2002
Excluding debt service and externally financed expenditures

Indicators	2000	2001	2002	Average 2000–2002
Wages and salaries/goods and services (allocated)	120 %	114 %	115 %	117 %
Wages and salaries/goods and services (executed)	185 %	144 %	170 %	166 %
Wages and salaries/total expenditures (allocated)	36 %	36 %	35 %	35 %
Wages and salaries/total expenditures (executed)	53 %	40 %	42 %	45 %

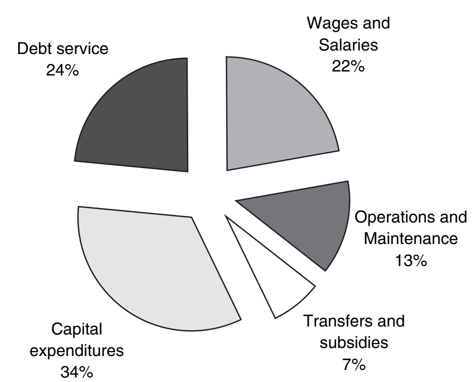
Source: MEF.

Wage and salary payments are protected in budget execution, in spite of persistent revenue shortfalls, while other expenditures are cut. As a consequence, the ratio of salary and wage related expenditures increases from 35 percent of the total expenditures budgeted (allocated) for 2000–2002 to 45 percent actually spent (executed). This is illustrated Table 2-7. Similarly, the ratio of wage and salary outlays actually executed to those for goods and services rises from 117 percent to 166 percent for the same period. This seems to corroborate claims of officials in line ministries about under funding for goods and services (IT, office material, fuel, etc) needed to support their work.

Two key measures are needed to introduce more flexibility in the Government's expenditure policies: (i) improving the overall fiscal situation by augmenting domestic revenues to increase the volume of available resources, and controlling expenditures, particularly wages and salaries; and (ii) moving towards program-oriented budgeting with the aim of better informing the Government about how to translate policy priorities into budget requirements and strengthening the Government's ability to shift resources within the budget.

There are, in addition, specific measures that would enable the Government to increase its control over debt service as well as wage and salary payments. The Government should continue its policy of only contracting loans with a grant element over 60 percent. For better control of wage and salary outlays, it should maintain its restrictive policy on new recruitment with the objective of reaching and sustaining the WAEMU convergence criterion of a Government wage bill lower than 35 percent of fiscal revenues by 2007. At the same time, a more flexible human resource policy should be adopted that would

Chart 2-7. Economic Structure of Total Expenditure
Internally financed expenditures only (payment order stage), average 2000–2002



Source: MEF.

allow the Government to better and more quickly adjust positions and staff to policy priorities.[39]

Evolution of Wage and Salary Expenditure. Responding to targets set by the IMF-supported PRGF, the Government has been implementing a policy of zero-net recruitment over the past few years. This policy was successful in reducing the ratio of public sector wages to fiscal revenues from 50.4 percent in 1999 to 35.7 percent in 2003, just short of the WAEMU criterion.[40] This strict wage bill policy has a cost, though, curtailing the Government's capability to replace experienced retiring staff.

Table 2-8. Payroll and Wage Bill 2000–2003

	2000	2001	2002	2003[/b]	*Variation 2000/2003*
Payroll (source Civil Service Ministry[/a])					
Civil servants	32,379	32,375	32,193	31,765	–614
Auxiliary staff	7,128	6,879	6,648	6,538	–590
Total Payroll	**39,507**	**39,254**	**38,841**	**38,303**	***–1,204***
Wage bill (source DGB, in FCFA billion)					
Civil servants and auxiliary staff	55. 5	56. 9	61.3	51.5	*–3.98*
Others	1.1	0.4	0.7	3.7	*+2.6*
Total	**56.6**	**57.3**	**62.0**	**55.2**	***–1.4***

[/a]Includes unpaid agents; does not includes certain paid Government employees like the republican guards and the judges.
[/b]Projected amount on the basis of 10 (out of 12) months of salary payments in 2003.
Sources: MFP, Sectoral Ministries, MEF, World Bank staff calculations.

The total wage bill has remained virtually unchanged from 2000 to 2003 (see Table 2-8). This is the combined effect of savings from retirements (between 300 to 500 new retirees per year) and costs from new recruitments and the effects of a first series of promotions (breaking a policy of promotion freeze) in 2002, increasing the wage bill by about FCFA 4.5 billion.

A simulation conducted in the context of the PEMFAR on the evolution of the wage bill (civil servants only) over the next 5 years revealed that, barring new recruitments, the wage bill would increase modestly as a result of automatic promotions under current rules. Given the current age profile of the civil service and the current retirement rules (50 years old or 30 years of service), 4,613 civil servants (14.5 percent of total civil servants active in 2003) will be retiring during 2004–2008. This would result in savings of FCFA 6.7 billion in the wage bill. During the same period, the application of the reign-

39. Chapter 3 will discuss this issue and suggest solutions for enhancing human resource management in Niger.
40. See Chapter 1 of the report for more details on this.

ing promotion policy to the existing payroll profile will lead to an additional wage bill of FCFA 6.9 billion.

Relationship of Recurrent and Capital Expenditures. There has been a substantial shift in the balance between recurrent and capital expenditures in recent years, reflecting a strong trend towards increasing capital expenditures in priority sectors.

- Capital outlays have increased at a substantially higher rate (54 percent from 2000 to 2002) than recurrent expenditures (30 percent). This can to a large extent be attributed to an increasing availability of external project financing (up 53.6 percent over the period) and, in a small way, to the increasing use of HIPC resources for capital expenditure.
- With the exception of the education sector, the share of capital in total expenditures is higher in priority sectors than in other sectors. Most priority sectors are capital-intensive by nature, with the exception of education. This is a main factor explaining the low ratio of recurrent to capital expenditure in most sectors. Nevertheless, this ratio might also be the result of what officials in the health and equipment ministries claim to be a massive under-funding for operations and maintenance expenditure in their domains.
- The ratio of recurrent to capital expenditure decreased at a higher rate in priority sectors compared to the budget as a whole over 2000–2002 (see Table 2-9). The rising share of capital expenditure in priority sectors can be understood as a sign of renewed interest of Government and external partners in strengthening infrastructure and equipment in these sectors. However, given the lack of coordination in programming and execution of public programs within the Government and between donors and Government, there are some concerns about how far these additional capital outlays are accompanied by sufficient funds for operation and maintenance.

Table 2-9. Ratio of Recurrent to Capital Expenditures, 2000–2002
by sector—payment order stage

Sectors	Average Ratio	Growth Variance
Total expenditures	1.27	0.77
Priority sectors	0.74	0.55
Education	3.64	1.11
Health	0.67	3.27
Equipment and transport	0.23	0.83
Rural development	0.23	0.19
Water and environment	0.18	0.03
Other sectors	5.05	2.26

Note: Growth variance is calculated as increase (%) in recurrent expenditures in 2000–2002 divided by increase in capital expenditure in the same period.
Sources: MEF, World Bank staff calculations.

- The ratio of recurrent expenditures to capital expenditures changed significantly between allocation and execution stage (from 101 percent to 141 percent).[41] This is mainly a result of the protection of wage and salary payments in the budget execution process.

The data underlying this analysis needs to be regarded with some caution, since in Niger all donor-financed expenditures are classified as capital expenditure. While large shares of donor resources are used for investment purposes, there is a certain amount of recurrent charges related to project execution that are financed with donor funds. Some regional and local administrative units rely on projects for funding part of their operating expenses.[42] This leads to an overestimation of capital expenditures and makes it difficult to assess whether recurrent cost implications have been taken into account adequately in the yearly planning of the public investment program.

Impact of Budget Execution on Budget Outcomes

Budget Execution Rates. Budget outturn as measured by executed expenditures (payment orders) in recent years reveals a picture that is substantially different from the originally voted budget. This implies that the budget execution process has strongly distorted public expenditures choices made in the budget preparation process within the Government and subsequently adopted by the National Assembly.[43] The distortions have affected both the functional and economic composition of expenditures.

This problem is particularly serious as, with the exception of education, the execution rates for priority sectors are significantly lower than those in other sectors. As a consequence, the budget at the execution stage is generally less consistent with PRSP priorities than at the allocation stage. Chart 2-8 depicts average execution rates by sector for 2000–2002. The average execution rate was 92 percent. Only two sectors surpassed this: general public services and defense (105 percent) and education (103 percent). Priority sectors—rural development (82 percent), water and environment (80 percent) and health (75 percent)—were well below average and equipment and transport (43 percent) fell short as well.[44]

Different execution rates also affected the economic composition of public expenditures. Wage and salary expenses and debt service are better protected in the budget execution process than other expenditure categories. Table 2-10 shows that the share of wages and salary payments in total expenditures was 29 percent at the payment order stage, as compared to

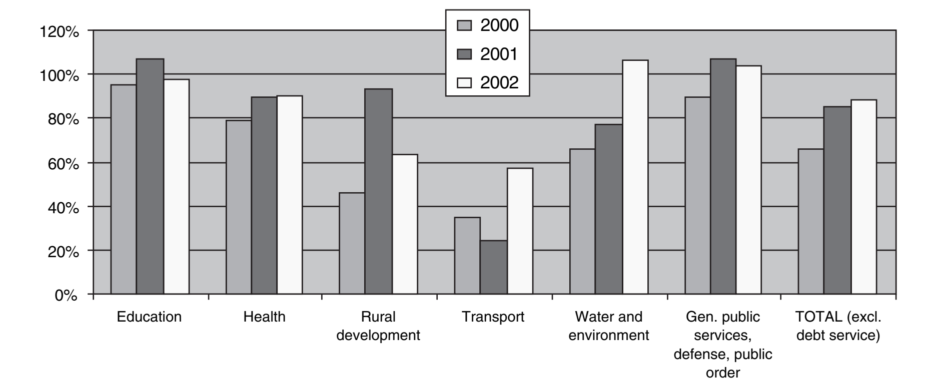
41. Execution rates of capital expenditures need to be regarded with caution, as a number of factors could distort these rates. Extra-budgetary projects are by definition not captured by budget allocation data, while financial transactions for their execution are (partly) recorded by the DFI. Furthermore, projects for which a convention was signed are usually captured in the investment budget, while it usually takes a long time from the convention to the start of implementation, due to procedural and bureaucratic delays.

42. As related to a World Bank mission by local officials in the Tillabery District in June 2003.

43. The distortion relates to the differences between executed budget (payment order stage) and initial budget (*Loi de finance*). A part of these differences has been formalized through the adoption (in 2000, 2001 and 2002) of Budget Revision Laws (*Lois de finance rectificatifs*) by the National Assembly. There are likely to be further distortions between the payment order and the payment stage, yet these could not be measured due to a lack of comparable data (different classifications).

44. The low level of execution in the equipment and transport sectors is explained to a large extent by the non-execution of the budgeted funds for road maintenance in 2000.

Chart 2-8. Execution Rates by Sectors, 2000–2002
Recurrent expenditures only—ratios of payment orders to initial budget allocations



Source: MEF.

20.5 percent at the budget allocation stage. On the other hand, expenditures for operations and maintenance in the health and education sectors only reached average execution rates of 75 and 79 percent, respectively over 2000–2002.

Analysis of budget execution also indicates that with the exception of wages and salaries levels of spending on priority sectors vary considerably from quarter to quarter (see Charts 2-9 and 2-10). The spending rhythm by quarters shows a catch-up effect at the end of the year. In 2002 and 2003, for instance, less than 10 percent of budget credits for maintenance and operation payments and for subsidies and transfers were executed during the first quarter. This phenomenon is a key factor behind the low execution rates: a slow start in budget execution that is not compensated later on in the year. It has also a negative effect on service delivery and implementation of investment programs, which both require regular flow of budgetary funds.

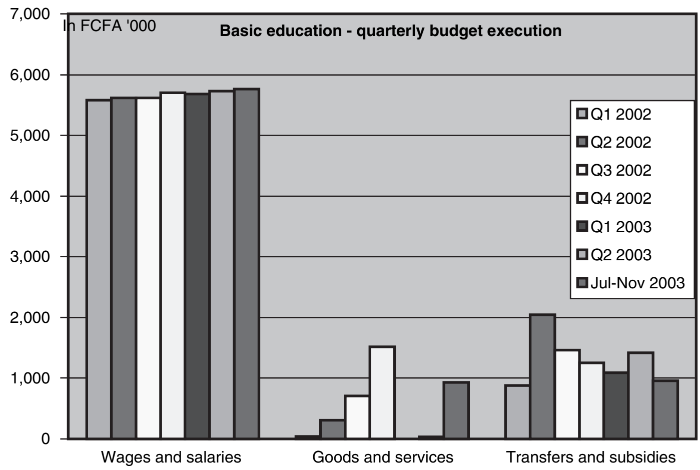
Factors Explaining Low Execution Rates. Two factors can cause underutilization of budget allocations by line ministries: (i) cancellation of budget line allocations or delays in granting of spending authorizations as a result of the budget regulation policy (*régulation budgétaire*), and/or (ii) inability of spending agencies to absorb available budgetary funds. It is difficult to quantify the relative impact of these. Table 2-11 shows the effects of limitations on spend-

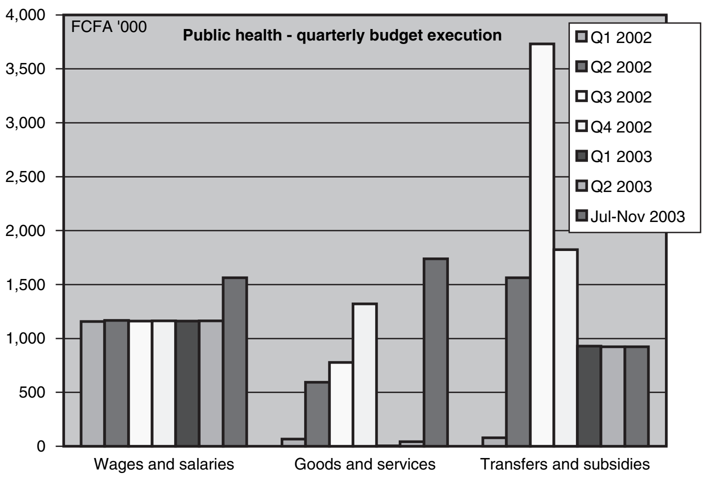
Table 2-10. Ratio of Budget Allocation to Execution by Expenditure Category
Total expenditures (excluding debt service)

Indicators	Averages 2000–2002
Wages and salaries/operations and maintenance payments (allocations)	117 %
Wages and salaries/operations and maintenance payments (executions)	166 %
Wages and salaries/total expenditures (allocations)	21 %
Wages and salaries/total expenditures (executions)	29 %

Source: MEF.

Chart 2-9. Quarterly Fluctuations in Spending on Goods and Services, 2002–2003
On payment order basis (in FCFA thousand)





Note: 2002 figures include reclassified HIPC expenditures, 2003 figures exclude them.
Source: MEF.

ing authorizations (budget credit releases/initial credits) and total execution rates by ministry and economic category (payment orders/initial credits). It demonstrates that most categories and ministries were affected, although not strongly, by credit cancellations as result of the budget regulation policy. In general, Table 2-11 confirms the worrying finding of weak execution rates in priority sectors. Basic education is the only priority sector that has achieved execution rates as high as defense and interior. Allocations for wages and salaries are strongly protected at both stages of the execution process, resulting in average execution rate of at least 100 percent in the years observed. In contrast, expenditures on goods and services as well as transfers and subsidies suffer from relatively low execution rates, with average rates of 78 and 73 percent respectively over the period.

Table 2-11. Execution Rates by Budget Execution Stage, 2000–2003
Average ratios

	Budget credit releases/ initial credits/[a]	Payment orders/ initial credits
Administrative classification (selected ministries)		
Basic Education	98 %	93 %
Secondary and higher education	100 %	79 %
Public health	96 %	67 %
Agricultural development	98 %	66 %
Equipment	95 %	44 %
Water and environment	94 %	66 %
Defense	99 %	93 %
Interior	96 %	91 %
Economic classification		
Personnel	100 %	103 %
Goods and services	97 %	78 %
Transfers	95 %	73 %
TOTAL	**98 %**	**78 %**

[a/]Open budget credits refer to the amounts by budget lines for which the line ministries received spending authorizations; initial credits refer to budget allocations in the revised budget laws.
Source: MEF.

There are strong indications that from 2002 onwards budget regulation was a major factor behind low execution rates in PRSP priority sectors (see Box 3). To mitigate the impact of serious shortfalls in domestic revenues and/or delays in disbursement of budget support, the MEF uses a budget regulation mechanism, which controls the release of allocations to each ministry. Whenever the mobilization of domestic revenues and external funds is on schedule, the budget regulation mechanism tends to release automatically 25 percent of budget allocations for each quarter. When the MEF expects a possible shortage of cash, budget regulation gives priority to specific expenditure categories, mostly wages and salaries and external debt service payments.

In the first few months of 2003, the budget regulation policy had a particularly severe impact on budget execution. In response to lower than expected domestic revenues and delays in donor disbursements, the Government strictly limited spending authorizations.[45] Many line ministry officials reported not having received any spending authorizations for goods and services before May.[46] According to them, this strongly disrupted their ability to implement their programs.

45. This is not reflected by budget data (*situation des crédits*), which shows a full release of all budget line allocations already at the first quarter. However, this is unlikely to be an accurate picture of the reality of cash releases in early 2003 and raises general doubts about the quality of the 2003 budget data.

46. Another reason for this delay was the delay in adoption of the 2003 Financial Law by the National Assembly, due to procedural and formal problems with the initial submission of the Law.

Box 3. Rationale for and Impact of Niger's Cash Management System

Niger's narrow domestic resource base has resulted in a structural gap between government expenditures and government revenues. Although significant efforts have been made to stabilize expenditures, enhance revenues and reduce the gap, the country remains highly dependent on donor assistance. Niger's fiscal and cash position is therefore vulnerable to possible shortfalls in domestic revenue and external funds. The final outcome may be partial insolvency (inability to finance planned expenditures in a given financial year) or liquidity problems (lack of cash resources at a given time during the fiscal year).

Policy tools available to handle these problems are limited. First the government needs to maintain strict fiscal discipline to meet its obligations vis-à-vis providers of budget support, satisfy PRGF performance benchmarks and achieve WAEMU's convergence criterion. Second, because monetary and exchange rate policies have been delegated to BCEAO, the monetization of the fiscal deficit is impossible. Third, Niger and Guinea Bissau are the only countries in the sub-region that have not tapped regional capital markets to bridge short- and medium-term liquidity problems. Fourth, Niger's external financing requirements must be met by grants and highly concessional loans but access to these resources is limited as demand largely exceeds supply.

To maintain fiscal discipline and prevent accumulation of arrears, as in the 1990s, the government has opted for a strict cash management system based on two types of measures. First, the budget regulation mechanism, introduced in 1998, regulates spending authorizations by budget lines (*libération des crédits*) at the beginning of the budget execution process (commitment stage). Second, a treasury management mechanism, introduced in 2001, regulates cash payments at the end of the process through treasury plans (*plans de trésorerie*).

Mixed results have been obtained. Measured by its original objective of tightly controlling expenditure levels and being able to flexibly and quickly adjust to revenue shortfalls, the cash management system has achieved mixed results. Since its introduction in the late 1990s, the country's fiscal performance has improved, with the overall fiscal deficit decreasing from 5.2 percent of GDP in 1999 to 2.3 percent in 2002. On the other hand, the release of spending authorizations, which is centralized in the Ministry of Finance and the Prime Minister's office, lacks transparency and had a negative impact on budgetary outcomes, notably availability of goods and services critical to support the operations of priority sectors and ministries.

Geographical Distribution of Public Expenditures and Their Poverty Impact

Ultimately, the performance of public expenditure management in Niger would have to be judged by its impact on poverty. However, data limitations allow only for an approximate assessment of whether public expenditures are targeted toward areas with a relatively high incidence of poverty.

There are three major limitations on the ability to assess the impact of public spending on poverty in Niger:

(i) a lack of comprehensive and updated poverty data;
(ii) a lack of systematic assessments of the link between public spending and poverty; and
(iii) a lack of data on geographical destination of budgetary funds.

In order to re-direct public resources to the poorest groups of society and to make sure that these resources are used to have the strongest possible impact on the poor, it is critical to build a strong data basis for analysis of the impact of public spending on poverty. A new baseline of household data would have to be constructed as the last household survey dates back to 1993.[47] At the same time, the knowledge gap on poverty impact of public spending would need to be addressed through analytical work aimed at informing policy makers about the actual impact of public expenditure in Niger.[48] At this stage, the public expenditure review limits itself to an approximate assessment of the regional distribution of public expenditure and comparing it with the relative poverty incidence in Niger's eight regions (*départements*).

Given Niger's highly centralized budget management system and insufficient geographical budget data, it is difficult to identify the regional distribution of public expenditure. Data on geographical destination of public expenditures are available only for regionally administered expenditures (*crédits délégués*),[49] and for HIPC-financed expenditure within the Special Program of the President. No data on geographical destination of public funds are available for the remainder of the budget, even though the new budget classification should make it possible to gather such data. This seriously limits the budget programming, monitoring and evaluation process. In the context of the ongoing reform of budget preparation, ministries should be instructed to systematically include geographical information for all items in their budget proposals, as some already do.

Regional and local (de-concentrated) budget appropriations and HIPC-financed expenditures make up only about 15 percent of total expenditures. It is therefore not possible to derive definite conclusions about the geographical distribution of public expenditures from such limited data. However, Charts 2-10 and 2-11 reveal the following:

- The most developed regions (as measured by the UNDP Human Development Index) benefit most from expenditure de-concentration, as their per capita levels of regionally administered expenditures are higher than those of other regions. This can be caused by a number of factors, but the most plausible explanation is regional differences in absorptive capacity.
- The region of Niamey is an urban commune with a special status and receives the highest per capita allocation of de-concentrated expenditure. This is because of its proximity to the institutions of the central Government[50] and the availability of a relatively strong human and institutional capacity.

47. A Core Welfare Indicator Questionnaire (CWIQ) survey has recently been launched in the context of an ongoing poverty assessment led by the Bank. This CWIQ will allow updating poverty and social indicators within the next year. However, to produce comparable data on consumption and income poverty, the CWIQ will have to be complemented by a more ambitious year-round integrated household survey.

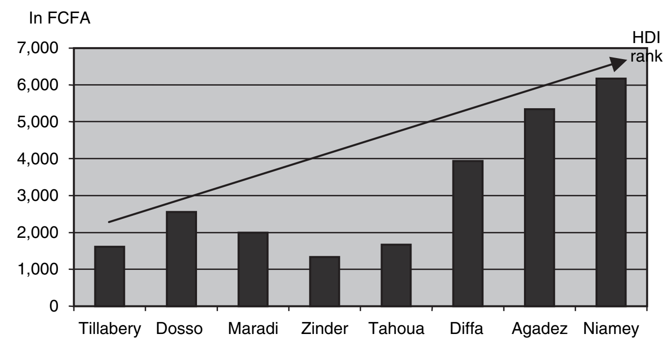
48. For this purpose, two analytical tasks, which have figured on the Government's reform agenda for some time now could be implemented: (a) a Beneficiary Incidence Analysis in the health sector, which would provide insights on the welfare impact of specific items of Government spending on different income groups and (b) a Public Expenditure Tracking Survey (PETS) in the education sector, which would examine the flow of public funds from budget allocations to actual delivery of specific goods and services. The PETS could reveal, for instance, the percentage of non-salary education expenditure that actually reaches the schools.

49. This low level of de-concentrated budget appropriations constitutes an obstacle to effective budget execution, as it involves complex procedures between regional and central administrative units. With the adoption in 2002 of a legal framework that delineates a decentralized administrative and political system, Niger has started a process, which will ultimately lead to a much more decentralized budget management system. However, due to the low levels of human and institutional capacity in the country and the lack of resources in general, it will take many years for the transition from the current highly centralized system to be concluded.

50. Payments for de-concentrated expenditures incurred in Niamey are processed by the national treasury, while those in all other regions pass through the local treasury satellites (*paieries*).

- HIPC financed expenditure within the Special Program of the President is equally distributed across regions, in per capita terms, with the exception of relatively high levels of funding for the two sparsely populated regions Diffa and Agadez.
- The ongoing external evaluation of the Special Program of the President should assess whether this scheme is channeling resources to the poorer areas of the country.

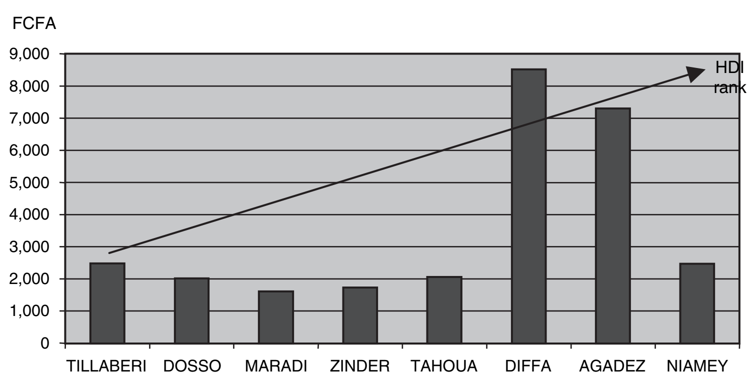
Chart 2-10. Per Capita Levels of Regionally Administered Expenditures by Region, 2000–2002
Cumulated "regularized" payment orders (*apurements*)



Note: Expenditure data correspond to payment orders "regularized" by the central administration (*apurements*).

Source: MEF, World Bank, and EC staff calculations; Human development index (HDI) from the 1999 Niger Human Development Report (UNDP).

Chart 2-11. Per Capita Distribution of Spending in the Special Program of the President, 2001–2003
Payment order stage



Note: Covers the first (2001–2002) and parts of the second phase (2003–2004) of the Special Program.

Source: PRSP Progress Report (World Bank, 2003a).

Box 4. Inter-sectoral Expenditure Structure—Main Recommendations

- Prepare and update annually a global MTEF to ensure consistency between budget allocations to priority sectors and PRSP spending targets.
- Progressively increase the share of priority sectors, notably education, health and road maintenance, in total expenditures in future Budget Laws.
- Revise spending targets as part of the new full PRSP to be adopted in 2005, on the basis of sectoral strategies, taking into account relative absorptive capacity of respective ministries.
- Control the growth of fixed and quasi-fixed expenditures, a) by following a prudent borrowing policy and b) by continuing a restrictive recruitment policy aimed at controlling the wage bill.
- Conduct a study of the appropriate ratio between recurrent and capital expenditures for each priority sector.
- Define for all priority sectors a minimum package of essential recurrent expenditure items to be protected in the budget preparation process and during budget execution (particularly in budget regulation and treasury management).
- Fully integrate HIPC funds into sectoral programs and reallocate gradually these funds for financing recurrent expenditures in priority sectors.
- Improve knowledge about the impact of public expenditures on poverty by conducting: (i) a new household survey, (ii) beneficiary incidence analysis on public expenditures in the health sector; and (iii) public expenditure tracking survey in the education sector.

Sector Expenditure Reviews

Education

Background and Objectives. Despite progress achieved over the past five years,[51] Niger's primary school enrollment rates are much lower than the average for Sub-Saharan Africa and far behind the MDG targets. Regional and gender disparities are considerable, as school enrollment rates for girls and in rural areas are much lower than the national average. With persistently high drop out and repeater rates, the education system is inefficient.

Developing the education sector and making primary education more accessible to the poor are main priorities of the PRSP. To achieve this, the country's poverty reduction strategy envisages a major expansion in education expenditures to 4 percent of GDP by 2005. Thus, in 2002, the Government approved a ten-year plan for education (*Programme décennal pour le développement de l'éducation, PDDE*), the cost of which is estimated at US$300 million. The PDDE gives priority to primary education. Its goal is to raise gross school enrollment rates to 59 percent overall and 43 percent for girls by the end of the plan's first phase in 2007. In addition, the PDDE includes measures aimed at: (i) increasing the efficiency and improving the quality of primary education by reducing repeater and drop out rates, (ii) reducing regional disparities to the benefit of the less developed areas, and (iii) encouraging a greater involvement of local communities in the management of their schools. Niger's main development partners have agreed to support implementation of the PDDE in the context of the Education for All-Fast Track Initiative (EFA-FTI).

51. Primary school enrollment rates increased from 32.2 percent in 1998–1999 to 45.4 percent in 2002–2003.

Table 2-12. Primary Education Indicators

	1993	1997	2002	Sub-saharan Africa (2000)
Gross Enrollment Rate (in %)				
Combined	27.8	30.1	41.7	77
Boys	34.4	38.7	50.1	N/a
Girls	21.0	22.2	33.3	N/a
Completion Rates (in %)				
Combined	N/a	21.6	24.2	51
Boys	N/a	27.1	29.6	56
Girls	N/a	16.2	18.6	46

Sources: Education for All—Fast Track Initiative Request (*République du Niger,* 2002d); Burns, A. Mingat and R. Rakotomala (2003).

Structure of Education Expenditures. Public spending is the main instrument for implementing Niger's education policies. About 88 percent of education expenditures are financed through the budget. The balance is financed by donor projects (11 percent) and local authorities (1 percent).[52] The public expenditure review shows that during 2000–2002 the share of education remained stable at 23 percent of total public expenditures (excluding debt service). Education spending accounts for about 2.9 percent of GDP. This is lower than the average for Sub-saharan Africa (3.4 percent) and far below the PRSP objective (4 percent), but compares favorably with the ratio in other poor Sahelian countries.

Increased availability of resources for the subsector and lower costs for delivery of services have enabled the Government to undertake a major school construction, expansion, and rehabilitation program and rapidly increase the number of teachers. This is regarded as the main factor behind recent improvements in primary school enrollment rates. The following important measures taken by the Government made this possible:

- The share of primary education in the sector's recurrent expenditures increased from 44.5 percent in 1998 to 58.7 percent in 2002. In addition, the donor community increased its project support to primary education. As a result the share of primary education in total public expenditures increased from 13.4 percent in 2000 to 15.1 percent in 2002.
- Since the 1998/99 school year, the Government has recruited almost 13,000 primary school teachers on contracts. These teachers have limited term contracts without benefits and at salaries about half those of civil service teachers. This substantially reduced the unit cost of primary education and facilitated a rapid expansion of teacher corps without increasing the number of civil servants.[53] Formally, the growing number of contract teachers does not increase the wage bill, since their financing is (wrongly) classified as transfers.

52. Excluding contributions from households in cash or in kind. It should also be noted that donor-financed projects are not the only source of external financing for education. Budget support accounts for a significant percentage of donor financing for the sector, yet is counted as budgetary expenditure here.

53. In the context of its economic stabilization program, the Government has adopted a restrictive recruitment policy for the civil service. This policy helped restore fiscal balance but penalizes high priority social sectors, including education, whose development largely depends on staff expansion. See Chapter 3 of the report for more details on this.

Table 2-13. Education Sector—Recurrent Expenditures by Subsector, 1998 and 2002

	1998		2002	
Subsector	Total in FCFA billion	In % of education expenditures	Total in FCFA billion	In % of education expenditures
Pre-School Education	0.6	1.7%	0.8	1.9%
Primary Education	17.2	51.2%	24.8	58.7%
Literacy Training	—	—	0.6	1.4%
Secondary Education	8.0	24.0%	10.1	24.0%
Technical Education & Vocational Training	0.6	1.7%	1.0	2.4%
Higher Education	7.2	21.4%	4.9	11.6%
TOTAL	**33.6**	**100%**	**42.2**	**100%**

Note: All estimates are based on commitment data (*ordonnancements*).
Sources: MEBA (PER for 1998) and MEF (2002).

Main Issues in Education Expenditure Management. While recognizing the progress achieved in education over the past few years, a number of critical public expenditure management issues need to be addressed. The growth of primary education expenditures in recent years was to a certain extent at the expense of other education subsectors, which experienced declines in funding over the same period. While the share of secondary education in total sector expenditures remained stable at approximately 24 percent over 1998–2002, as did secondary school enrollment rates (at 13 percent), the share of higher education fell sharply from 21.4 percent of education expenditures to 11.6 percent (see Table 2-13). Very few other West African countries have been able to control the growth of higher education expenditures for the benefit of primary education. However, it will be difficult to continue squeezing secondary and higher education, as they will need to absorb some of the growing number of primary school graduates. It is therefore critical to consider strategic priorities for the education sector as a whole, as recommended by the 2000 Education PER. A Bank-financed study on post-primary education is well advanced and in early 2004 the Government created a committee responsible for preparing a strategy for post-primary education. Once this post-primary strategy is in place, it should be integrated with the PDDE to form an all-encompassing education sector strategy.

A comprehensive education strategy will have to reflect the comparative advantages and relative costs of alternative programs in different subsectors. Estimates of unit costs in past years show remarkable differences between different levels of the education systems: costs per student in secondary, higher, and technical education were respectively four, twenty three, and thirty nine times higher than in primary education (see Table 2-14).

Table 2-14. Cost of Contract Teachers (in FCFA million)

Subsector (year)	Unit costs
Primary education (1998)	36,972
Primary education (2002)	31,552
Secondary education (2002)	119,950
Technical education (2002)	1,232,049
Higher education (2002)	722,197

Sources: MEF, Statistical Yearbooks on Education, World Bank staff calculations.

Even in primary schools, special efforts are needed to moderate cost increases. In the 2002/03 school year, the cost of contract teachers *had* already reached FCFA 4.3 billion (see Table 2-15). To further improve school enrollment rates in coming years, the Government plans to recruit 2500 new contract teachers every year for the first cycle of primary education. This, by itself, would increase the cost of contract teachers to FCFA 9.6 billion in 2008. In September 2003, a Government decree redefined the status of contract teachers and granted them a 31 percent increase in salaries and benefits. Consequently, the total cost of contract teachers is now likely to reach FCFA 12.6 billion by 2008. The main advantage of the contract teacher policy (quick and substantial increase in the teacher force without exorbitant cost implications) would be lost if union pressures were to lead to further salary and benefit increases, while a full integration of contract teachers into the civil service would completely erode this advantage.

The authorities must remain vigilant about the quality of education provided by contract teachers. The first generation of contract teachers employed for the first cycle of primary school was composed of high school graduates without training in pedagogical skills. Since the 2002/03 school year, all contract teachers are supposed to undergo a short introductory course at a teachers' college. Although quality of teaching by contract teachers remains a major concern, studies of teacher performance in Niger have revealed that civil servant teachers do not perform significantly better than contract teachers.

To improve the access of the poor to education services, a number of key issues will need to be addressed:

- *Administrative costs need to be reduced.* They account for a high percentage of expenditures: 23 percent in primary education and close to 50 percent in secondary education. Many of the experienced teachers currently in administrative positions should return to teaching.
- *School locations and the structure of primary education expenditures are still biased in favor of urban centers and the most developed regions.* Spending per child of school age is 2.5 times higher in Niamey than in Tillabery and Tahoua.[54] The regions where

Table 2-15. Unit Costs by Subsector
By school year (in FCFA million)

	2002/3	2003/4	2004/5	2005/6	2006/7	2007/8
Number of contract teachers	10,267	12,767	15,267	17,767	20,267	22,767
Initial total salary costs/a	4,312	5,362	6,412	7,462	8,512	9,562
Actual total salary costs/b	4,928	6,128	7,328	8,528	9,728	10,928
Actual salary plus benefits/b	5,687	7,072	8,457	9,841	11,226	12,611
Impact of salary increase	1,375	1,710	2,045	2,379	2,740	3,081

/aBased on average initial (i.e. before the September 2003 decree) salaries of *contract teachers* (FCFA 35,000 for first cycle and FCFA 50,000 for second cycle teachers).
/bBased on average actual salaries of contract teachers (FCFA 40,000 for first cycle and FCFA 60,000 for second cycle teachers).
Sources: MEBA, World Bank staff calculations.

54. This ratio is affected by demand for schooling, though. One could assume that less resources are allocated to regions with low demand (and hence low enrolment rates) than to regions with high demand.

this ratio is lowest are at the same time the ones that have obtained the weakest test results in recent years. Similarly, the geographical distribution of school infrastructure (number of schools per child of school age) is very unequal.

- *The cash management system has led to major distortions in the structure of expenditures in the sector.* Wages and salaries are usually not affected by cash rationing, and actual expenditures often exceed initial allocations (see Table 2-5), but budget regulation and cash management plans do not adequately protect other recurrent expenditures. In 2001 for instance, only 16 percent of allocations for school supplies were spent, with serious implications for the effectiveness of education programs. Poor children are the most affected since their families cannot afford to buy school books and other supplies.
- *Budget execution rates are particularly low in higher education.* Only one-third of initial allocations have been effectively transferred to the Abdou Moumouni University. Such large differences between voted and executed expenditures may be due to unrealistic budget goals and major absorptive capacity constraints. They also point to the need to clarify the Government's strategic priorities for higher education.
- *Fellowships and other welfare activities accounted for a high proportion, about 50 percent, of higher education expenditures (in 2002).* This contrasts with outlays for personnel (27 percent of total) and other administrative costs (16 percent). In addition, about two-thirds of fellowships are for 3,111 students studying abroad (2002). Developing a strategy for higher education should include a review the structure of subsector expenditures and a comparison of the costs and benefits of alternative programs and activities.

Table 2-16. Economic Classification of Education Expenditures (in FCFA billion)

	2000	2001	2002	Execution Rates
Recurrent Expenditures	**33.3**	**33.0**	**42.2**	**103%**
Salaries	24.8	23.79	29.8	112%
Other Goods & Services	5.5	6.49	6.1	79%
Transfers & Subsidies	3.0	2.72	4.3	109%
Capital Expenditures	**6.9**	**9.97**	**15.0**	**94%**
Total	**40.2**	**42.97**	**57.2**	**100%**

Source: MEF.

Challenges Ahead. In spite of the relative stagnation of the share of education in total public expenditures, Niger has achieved significant progress in basic education, the key subsector for poverty reduction. The increases in the share of basic education in total education spending and the reduction of unit costs have facilitated large increases in primary school enrollment. Nevertheless, there are still important challenges for expenditure management in the education sector:

- The policy of using contract teachers for primary education should be continued as long as it retains its cost advantage.

- Increasing primary enrollment rates, reflecting the 3.3 percent population growth rate will require a major sustained increase in investment and recurrent expenditures to finance school construction, recruitment, and training of teachers, and operational expenditures. It will also require continued efforts to reduce unit costs.
- There is scope to increase the efficiency in the use of existing resources and their impact on the poor through re-allocations within the education sector. Three areas are particularly promising in this respect: (i) a significant reduction in administrative expenditures in favor of activities directly related to schooling, such as redeployment of experienced teachers from administrative to teaching positions; (ii) a review of the fellowship program in higher education; and (iii) a redistribution of resources in favor of the poorest population groups and regions. Budget regulation and cash management plans should give priority to operational expenditures, including textbooks and other school supplies.
- An overall education strategy is needed, which would continue to emphasize primary education but would also consider the priority needs of other subsectors.
- Issuing three year rolling program budget for primary education budget for 2005–2007 should be feasible. The PDDE contains most of the data, analysis, and cost estimates necessary for developing a sound three year rolling program budget for primary education. It should be in line with the medium-term expenditure framework for the subsector, which is now under preparation. Similar budget-programming exercises should be undertaken for the other subsectors following the formulation of appropriate strategies.
- Improved aid coordination based on sound sector strategies should help mobilize additional donor funding for school construction and high-priority recurrent expenditures and ensure its sustainability. This is critical to successful implementation of the PDDE. The primary education sector should also benefit from the increased volumes of HIPC funds available in the coming years.[55]

Box 5. Education—Main Recommendations

- Develop a 2005–2007 program budget for primary education, on the basis of the existing PDDE and consistent with a MTEF under preparation.
- Prepare strategies for the other subsectors, including higher education, as a basis for the design of future MTEFs and program budgets.
- Improve the structure of education expenditures for the benefit of poor regions and vulnerable groups.
- Control unit costs. Resist pressure for adjusting salaries of contract teachers.
- Reduce administrative expenditures. Redeploy experienced teachers towards teaching positions.
- Increase allocations for critical operational expenditures and protect them against major cuts in the context of cash management. Use HIPC resources to contribute to the funding of these expenditures.
- Evaluate the comparative advantages of fellowships for studies in Niger and in foreign universities. Increase cost recovery.

55. In the 2004 Budget Law, the Government started financing salaries of *contract teachers* with HIPC resources.

Health

Background and Objectives. During the 1990s, the Government launched an ambitious reform program for the health sector, with the main objective of improving access to basic health care. Significant results have been obtained in terms of better access to health services and availability of essential drugs in health centers. Access rates (percentage of population living less than 5 kilometers from a health facility) increased from 32 percent in 1994 to 47 percent in 2003. However, regional disparities have not disappeared. About 70 percent of the urban population but only 28 percent of rural people have access to health services (World Bank 2004f).

Health indicators have improved over the past ten years but remain poor (see Table 2-17). Child malnutrition is high and infant and child mortality rates are among the highest in the region. The following factors are behind Niger's poor health indicators:

Table 2-17. Health Indicators

	1992	2000	Sub-Saharan Africa (2001)
Infant mortality (per 1000)	135	126	107
Mortality of children under 5 (per 1000)	326	280	173
Maternal mortality (per 100,000 live births)	—	700	822
Fertility (per woman 15–49)	7.5	7.5	5.4
Life expectancy at birth (years)	—	48	49
Chronic child malnutrition (% of children under 5)	36	39.6	31

Sources: EDS 1992; UNICEF (2001).

- *High incidence of infectious and parasitic diseases:* Meningitis, rubella, and other pediatric diseases are widespread. The incidence of malaria and tuberculosis is particularly high among the poor. According to a 2002 survey, the HIV prevalence rate is low at below 1 percent, but the pandemic is expanding.
- *High fertility rate:* The fertility rate of Nigerien women, one of the highest in the world, is largely responsible for high maternal and infant mortality. Proper medical assistance could prevent many deaths occurring during pregnancy and delivery, but access of women to family planning and reproductive health care is limited. Health care services for infants and children are underutilized. Immunization programs are becoming more effective but mainly in urban centers.
- *Poor living environment and behavioral factors:* Many health problems could be avoided if people lived healthier lives. Inadequate access to safe water and sanitation is a major factor behind the rapid spread of infectious diseases. Child malnutrition is due to inadequate food intake and unbalanced diet. Low literacy and school enrollment rates, notably among women, affect the efficiency of programs aimed at improving health-related behavior.

An integrated approach to health development is required to improve health conditions, reduce regional and gender disparities and achieve the MDGs. In 2002, the Government adopted a ten-year health policy strategy for 2002–2011 (République du Niger 2002c). Its main objectives are to further improve access to health services (from 47 percent in 2000 to 80 percent in 2011) and to reduce the incidence of infectious diseases, by promoting new approaches, including preventive action. In order to operationalize this objective, the Government has initiated the preparation of a five-year development plan for the sector.

Structure of Health Expenditures. Health expenditures have increased over the past few years (from FCFA 10.4 billion in 2000 to 15.2 billion in 2002), but less rapidly than public expenditures in other priority sectors. As a result, the share of health in total public expenditures has declined significantly, from 16.5 percent in 2000 to 14.4 percent in 2002. The budget law for 2004 further reduced the share of the sector and the draft medium-term expenditure framework for 2005–2007 provides for only a modest increase (see Table 2-4).

Absorptive capacity problems and low execution rates are among the factors behind the slow expansion of health expenditures. As shown in Table 2-18, the sector utilized only 75 percent of its initial budget allocations in 2000–2002. Actual expenditures for wages and salaries exceeded initial allocations but for other recurrent expenditures, including drugs and supplies for health centers, only 58 percent of initial allocations were utilized. This indicates that budget regulation and cash management plans are not sufficiently protecting these high priority expenditures.

Data on sources of financing for health programs are incomplete and outdated and the formulation of a health development plan would benefit from a detailed assessment on sources of financing for health services. For this purpose, the Government plans to update the national health accounts (the last edition dates back to 1999). The main sources of financing for the sector are the national budget, donor funds, NGOs, Social Security (*Caisse nationale de sécurité sociale*), and households (cost recovery).

Table 2-18. Economic Classification of Health Expenditures (in FCFA billion)

	2000	2001	2002	Execution Rates (Averages)
Recurrent expenditures	**10.4**	**13.7**	**15.2**	**75%**
Wages and Salaries	4.9	5.0	5.2	102%
Goods and Services	3.3	5.3	5.5	58%
Transfers and Subsidies	2.2	3.5	4.4	74%
Capital expenditures	**18.4**	**19.7**	**19.9**	**94%**
Total	**28.8**	**33.4**	**35.1**	**85%**
Share in Total Expenditures (exc. debt service)	**16.5%**	**16.1%**	**14.4%**	

Source: MEF; World Bank and EC Staff Calculations.

Donors finance more than half of Niger's health expenditures, but donor contributions to the health sector are declining (by 17 percent from 2000 to 2002).[56] Because of the closing of a large Bank-financed project (Health 2) in 2003, the budget law for 2004 projects a sharp decrease in donor-financed capital expenditures. This illustrates how strongly the functioning of the sector depends on external financing.

Cost recovery mechanisms have been extended to health centers during the 1990s and now represent a significant source of financing. The new cost recovery policy has produced mixed results. According to the World Bank (2004b) report on Health and Poverty in Niger, cost recovery levels have increased from FCFA 0.8 billion in 1998 to 1.7 billion in 2001. This represents more than 10 percent of recurrent public expenditures (in 2001). It suggests that basic health services outside of the urban centers depend more and more on financing through cost recovery. The report states that increased user contributions (and the lack of fee structures taking into account income levels of patients) have limited the demand of the poor for health care, while available health centers remain underutilized. The cost recovery policy has also provided local health officials with an incentive to promote those services that generate user fees. This tends to favor curative over prevention activities.

Main Issues in Resource Management in the Health Sector. The ongoing elaboration of the Health Development Plan (*plan de développement sanitaire 2005–2009*) offers an opportunity to review the expenditure structure in the sector and to enhance efficiency in resource use. At this stage, lack of detailed data on public spending by health programs and of a comprehensive strategy makes it difficult to judge the consistency of public expenditure allocation with sectoral priorities. Nevertheless, a number of critical issues emerge from the analysis.

- *Existing data on geographical distribution of resources suggest that criteria such as health conditions, population density, and incidence of poverty are not sufficiently taken into account in the allocation of health expenditures.* The urban population enjoys better access to health services (including private facilities) and per capita health expenditures are much higher in cities than in rural areas, where mortality and morbidity rates are particularly high. Only 37 percent of health staff works in rural areas where more than 84 percent of the population lives.
- *The management of health resources is heavily centralized.* In the 2000–2002 period, 82 percent of recurrent public expenditures were centrally managed (see Table 2-19). This concerns not only personnel expenditures and transfers to hospitals, but also salaries and supplies for local health structures. This is in spite of a de-concentration policy initiated during the 1990s that provided for the creation of health districts (*districts sanitaires*), which contributed to improving access to health services.
- *The shortage of health personnel and its uneven distribution is a key problem in resource management in the sector.* As in the education sector, restricted recruitment of civil servants is a major obstacle to increasing staff and improving distribution. Niger has only one physician for 46,290 people, while the WHO norm is one for 10,000. A similar deficit exists for midwives, while availability of nurses is better (see Table 2-20).

56. Including HIPC contributions.

Table 2-19. Health Sector—Recurrent Expenditures by Level
Actual expenditures in FCFA billion—payment order stage

LEVEL	2000	2001	2002
TOTAL	**10.4**	**13.7**	**15.2**
Other Ministries	**0.5**	**0.6**	**0.6**
Central Level	**8.0**	**10.1**	**11.7**
Of which: transfers to parastatals	2.2	3.5	3.9
Delegated Expenditures	**1.7**	**2.6**	**2.7**
Tillaberi	0.2	0.3	3.3
Dosso	0.2	0.3	0.3
Maradi	0.2	0.4	4.0
Zinder	0.3	0.3	0.4
Tahoua	0.3	0.4	0.4
Diffa	0.2	0.2	0.2
Agadez	0.1	0.3	0.3
Niamey	0.3	0.4	0.3

Source: MSP, MEF; World Bank and EC Staff Calculations.

These ratios are significantly worse in poor and rural areas than in richer urban areas. Niamey stands out with a surplus of physicians, midwives and nurses measured against the WHO norms. Niamey and to a lesser extent other urban centers attract health professionals with better opportunities for additional income and career growth and better living conditions than rural areas. Additional incentives would need to be created for health workers to take up positions in poor rural areas and remain there.

Table 2-20. Ratios of Health Workers to Population by Region (2000)
Ratio of WHO norms[57] to actual number of health workers, regions ranked according to poverty incidence (poorest to richest)

	Physicians	Midwives	Nurses
1. Tillaberi	17.7	10.0	3.0
2. Dosso	8.5	9.0	2.4
3. Maradi	11.1	13.6	3.2
4. Zinder	8.8	12.3	2.2
5. Tahoua	7.4	11.8	3.0
6. Diffa	1.8	3.6	0.7
7. Agadez	3.2	3.7	1.2
8. Niamey	0.7	0.8	0.5
Niger total	5.1	5.9	1.9

Source: World Bank (2004b), poverty incidence according to the World Bank's poverty assessment (World Bank 1996).

57. WHO norms are 1 physician per 10,000 inhabitants and 1 midwife and nurse per 5,000 inhabitants.

Although the de-concentration policy helped significantly improve the availability of medicines in health facilities since the early 1990s, this remains one of the key problems in Niger's health system. With the exception of the two richest regions (Niamey and Agadez) and Zinder, all other regions experienced relatively frequent stock interruptions in 2000 and 2001 (World Bank 2004b).

Challenges Ahead. Four main priorities need to be addressed to enhance the management of the health sector: (i) improving the programming of future resources and activities; (ii) decentralizing the management of the sector and reducing regional disparities in resource availability; (iii) increasing numbers and enhancing quality of staffing of health facilities; and (iv) reforming the structure of the Health Ministry and other key sector institutions.

A five-year development plan is currently being prepared by the Government, in cooperation with the main donors involved in the sector. To serve as a sound basis for programming and monitoring the use of resources in the health sector, this plan would need to include: (i) a detailed description of sectoral priorities; (ii) a review of the performance of past programs, in particular the absorptive capacity problems that have affected the execution rates; (iii) detailed implementation programs with realistic cost estimates and performance indicators; and (iv) a sustainable financing strategy. In order to serve as strategic framework for the sector as a whole, the plan would have to be built through an extensive consultation process involving all stakeholders, including donors, communities and private health service providers.

Given the precarious data situation in the health sector, the formulation of the development plan would have to be accompanied by the production and analysis of data on service provision and demand, and financial data. This would require strengthening the National Health Information System (*Système national d'information sanitaire—SNIS*) by making it more user-friendly. It would also require producing a new set of national health accounts (2000–2003), to provide data on financing of health activities.

Once the development plan is in place, it would have to be translated into a program budget and sector MTEF for operationalization through the national budget.

Further efforts towards gradual de-concentration and decentralization of resource management need to be made to improve access to health services and reduce regional disparities. This reform would ultimately lead to a full delegation of authority over programming and management of resources for local health facilities to local authorities, with active participation of the local population. The decentralization process could start with instituting local management committees (*Comités de gestion*) comprised of health officials and representatives of local communities.

The strengthening of the role of local health administrations (*Districts sanitaires*) in programming of health activities is a promising first step in the de-concentration reform. The *districts sanitaires* have begun to prepare annual health programs, which include an estimation of costs and reports of activities in the previous year. In addition, the Government is preparing a pilot program involving the direct allocation of funds to *districts sanitaires* on the basis of agreed performance contracts. First results of this pilot program may provide useful lessons for the design and implementation of the de-concentration/decentralization reform of the sector.

An all-encompassing reform of staff recruitment, training and deployment of policies is required for a lasting solution of the staffing problem of the health sector. The five-year development plan should lay the basis for such a reform. In particular, solutions to the dearth of qualified health personnel in poor and remote areas will need to be found. In this respect, the authorities should further explore the use of contract health workers (health staff on limited term contracts with lower salaries and fewer benefits). This would enable the expansion of the health workforce, due to the lower unit costs of this solution.[58]

The Government considers the structure and the management of the Public Health Ministry and other health sector institutions as inappropriate for the challenges the sector is recurrently facing. An organizational audit is envisaged, which would produce the elements of a restructuring program.

Box 6. Health Sector—Main Recommendations

- Review and approve a five-year development plan for the health sector. The plan should include an analysis of the absorptive capacity constraints of the sector, detailed programs, and cost estimates and the definition of a sound strategy for financing the sector.
- On the basis of the five-year development plan, prepare and improve gradually MTEF and program budgets for the health sector.
- Include in the development plan plans for reallocating services, activities and staff on the basis of appropriate criteria, including local health conditions, poverty and population density.
- Prepare and implement a global reform of health staff recruitment, training, and deployment policies.
- Increase the share of health sector expenditures allocated to basic health services, including maternal and child health care.
- To reduce unit costs, recruit contract health workers while minimizing possible negative impact on quality. Consider HIPC financing for contract health workers.
- Verify that incentive systems are able to encourage a redeployment of health personnel in poor, remote, and underdeveloped areas.
- Improve production and dissemination of health information. Prepare national accounts for the health sector. Integrate financial data and information on hospitals in the National Health Information System (*SNIS*).
- Identify a package of high-priority expenditures, including drugs and recurrent costs of health centers, for special protection in the context of budget regulation and cash management plans.
- Undertake an organizational audit of the Ministry of Health and other key health institutions.

Road Transport

Background and Objectives. In the absence of a railroad or a significant river navigation system, road transport provides for 90 percent of Niger's domestic and regional transport needs. During the first 35 years of the country's independence, a major road construction program multiplied the length of the road network fivefold from 3,000 to 15,000 kilome-

58. This policy was already introduced in 2002, when over 900 health contract teachers were hired, mainly nurses and mid-wives. However, procedural errors and political pressure by unions led to a Supreme Court ruling in favor of incorporation of these contract teachers in the civil service. This has blocked the recruitment of contract teachers in the sector in the past months.

ters and expanded the network of paved roads from 100 to 3,800 kilometers. Nevertheless, the density of Niger's road network remains low compared to most of the other countries in the sub-region. Clearly, Niger's long-term economic and social development will require a major road construction, rehabilitation, and maintenance program.

The degradation of road infrastructure resulting from insufficient resources dedicated to road maintenance constitutes the main challenge for the road transport sector. This threatens to cause large-scale damage that can only be repaired through costly rehabilitation works. To avert this crisis, corrective measures will need to be taken to expand and improve maintenance of the road network.

Road transport, particularly the expansion and improvement of the rural road network, occupies a prominent position among the strategic priorities of Niger's poverty reduction strategy. The PRS sees the creation of a viable road network as critical for stimulating production and marketing of food surpluses by connecting Niger's agricultural production areas with the primary roads that serve the main urban centers. This would lead to improving food security and increasing the income of rural poor.

A National Road Transport Strategy (*Stratégie nationale du transport routier*), which includes an Investment Plan for the subsector, is currently being prepared and was scheduled for adoption in July 2004. Its draft outlines the following priorities for the sector: (i) road construction in rural areas; (ii) involving local authorities and local communities in planning and executing rural roads projects; (iii) strengthening the Road Maintenance Fund (*Caisse autonome du financement de l'entretien routier, CAFER*) and increasing resources allocated to road maintenance; and (iv) reviewing the scope of the overall road maintenance program in line with realistic projections of available resources.

Structure of Public Expenditure on Road Transport. The PRS envisaged that 8 percent of total public expenditures would be allocated to the road sector. In 2000–2002, transport and other civil works expenditures of the Ministry of Equipment (*Ministère de l'équipement et de l'aménagement du territoire, MEAT*) averaged FCFA 15.3 billion a year—7.3 percent of total public expenditures (see Table 2-21). Road expenditures are by far the most important component of the MEAT budget and the share of the road subsector in total public

Table 2-21. Public Expenditures for Transport and Civil Works

Transport and civil works expenditures	2000	2001	2002	Average
Initial budget allocations (in FCFA billion)	46.5	33.0	37.7	39.0
Execution (in FCFA billion, on a commitment/ *ordonnancement* basis)	16.2	8.1	21.5	15.3
In % of total expenditures[a/]	9.3%	3.3%	8.8%	7.3%
Execution rates	34.9%	24.5%	57.1%	39.1%
Recurrent expenditures in FCFA billion	1.0	2.5	3.4	2.3
Capital expenditures in FCFA billion	15.2	5.6	18.1	12.9
Ratio recurrent/capital expenditures	6.8%	44.5%	18.9%	17.8%

[a/]Total expenditures, excluding debt service. Capital expenditures include expenditures outside the State Investment Budget (BIE).
Source: MEF; World Bank and EC staff calculations.

expenditures is estimated at close to 7 percent, just short of the PRSP objective. Most of the subsector's capital expenditures were externally funded.

Most of the road sector expenditures are for externally financed investments and the transport and public works sector has the lowest recurrent/capital expenditures ratio (23.4 percent in 2000–2002) of all priority sectors. However, in Niger's budget, capital expenditures include not only road construction, rehabilitation and periodic maintenance, but also routine maintenance.[59] This partly explains the large share of capital expenditures in this subsector.

The lack of funding for road maintenance is the main problem of the road sector today. The Government estimates that a minimum annual budget of FCFA 9 billion should be spent on routine and periodic road maintenance. As shown in Table 2-22, budget allocations for road maintenance increased from an average of FCFA 3.7 billion in 1997–1999 to FCFA 5.2 billion in 2000–2002. However, execution rates, which were close to 100 percent in 1997–99 fell to 44 percent in 2000–2002 and actual road maintenance expenditures decreased to an average of FCFA 2.5 billion during the period.

Execution Modalities and Financing Road Maintenance. In 1999, the Government undertook a sector reform aimed at expanding and improving road maintenance. The reform provided for the privatization of periodic and routine road maintenance and the creation of CAFER. Under this arrangement, road maintenance was to be financed mainly through road user fees, which were to be levied as part of a tax on petroleum products (*redevance pétrolière*). The original idea was to make CAFER a second generation road maintenance fund, directly financed by user fees, with no allocation from the national budget. Other fees, including tolls were to contribute (in a small way) to CAFER's financing. However, after CAFER assumed its operations in 2001, a different funding mechanism was instituted. All receipts from road taxes were transferred to the national budget, which therefore contained allocations to CAFER, independent of the levels of tax receipts.

However, budget allocations for road maintenance in 2000–2002 remained at levels considerably below estimated requirements for road maintenance and low execution rates reduced the actual level of available resources even further (see Table 2-22). In 2003, for instance, the Government's budget allocated FCFA 5.4 billion to road maintenance, but by the end of June 2003, only FCFA 800 million (15 percent of the initial allocation) had been transferred to CAFER. In fact, it was funding from the French Development Agency (*Agence française de développement*) that provided a significant share of CAFER's resources in 2001–2003.

As a consequence, the road maintenance reform has failed in its main objective: road maintenance expenditures have remained grossly inadequate, leading to rapid deterioration of high-priority roads that will need to be rehabilitated at a much greater cost. Niger therefore did not derive the benefits expected from the privatization of road maintenance. Without a stable and secure source of funds, CAFER was unable to adequately conduct the

59. Transfers to CAFER for road maintenance are classified as investment expenditures. This violates the common practice of classifying outlays on routine road maintenance as recurrent expenditures (periodic maintenance is usually classified as capital expenditures). In addition, road projects financed by donors often include financing for road maintenance.

Table 2-22. Budget Allocations for Road Maintenance and Actual Expenditures (in FCFA billion)

Year	Budget allocations	Actual expenditures	Execution rates
1991	2.8	2.0	72.6 %
1993	3.1	3.0	96.2 %
1995	2.5	2.5	99.9 %
1997	3.1	3.1	100 %
1998	3.7	3.7	99.9 %
1999	4.4	4.4	99.9 %
2000	4.2	0.1	2.8 %
2001[a/]	5.7	4.4	77.1 %
2002	5.6	2.9	51.2 %
TOTAL	44.7	35.2	78.8 %

[a/]First year of CAFER operation.
Source: MEF.

bidding and contracting processes and was often unable to pay contractors on time for work completed, building up substantial amount of arrears. This rendered it difficult to promote business development of small local contractors who could have become the main beneficiaries of road maintenance contracts.

Challenges Ahead. Niger's past road construction and rehabilitation program has created a road network, which the Government seems unable to maintain. While the national road system has not been significantly expanded in recent years, as there has been no new construction of major roads, large amounts of (donor) resources have been dedicated to rehabilitation programs.

To enhance allocation and management of resources in the road sector, three main challenges need to be tackled: (i) establishing a reliable funding mechanism for road maintenance; (ii) creating a better balance between different categories of expenditures in the sector; and (iii) strengthening capacities for managing resources.

(i) *Reform road maintenance financing*
Two types of solutions can be envisaged to secure sufficient financing for road maintenance: the establishment of a second generation road fund that receives funding directly from user fee receipts (off-budget solution) or funding of road maintenance through the budget as currently practiced, yet fully protecting these expenditures in the budget execution process (on-budget solution).

- The off-budget solution would provide for a direct transfer of a pre-determined share of the proceeds of the tax on petroleum products (and other user fees) to CAFER. This would have the advantage of making the transfer quasi-automatic. However, it goes against the principle of the budget unity.
- The in-budget solution would require the Government to earmark in the budget a fixed share of petroleum tax proceeds plus additional resources from

other sources for road maintenance and transfer it to CAFER. These transfers would then be protected in budget execution by receiving high priority status in budget regulation and cash management plans.

In any case, resources available from the recurrent financing sources for CAFER (petrol tax, road tolls, and concessions) are far from sufficient to cover the estimated requirement of FCFA 9 billion for periodic and routine road maintenance. Therefore, further financing sources need to be tapped, such as HIPC funds and donor financing. Once a viable solution for CAFER is adopted, the Government could also approach donors to help clear CAFER's arrears with contractors and establish a revolving fund to avoid future arrears.

(ii) *Review and reform the road transport investment program*
A sensible solution would seem to be to reduce the investment program, to give top priority to the projects with the highest return in terms of economic growth and poverty reduction, and to reallocate a larger percentage of donor funds towards road maintenance. This would need to be done until the mobilization of additional domestic resources would enable the Government to assume full responsibility for financing and implementing an appropriate maintenance program. The forthcoming Investment Plan should therefore aim at improving the balance between investment (new constructions, rehabilitation, and periodic maintenance) and routine maintenance expenditures.

(iii) *Strengthen capacity for managing resources in the road sector*
The decision made in 1999 to privatize road maintenance implied a major change in the role of the services responsible for road maintenance, particularly the Department of Public Works (*Direction générale des travaux publics, DGTP*). The DGTP had to reorient itself from direct execution of road works to planning and monitoring works performed by the private sector. This necessitated significant changes in the structure and staffing of the department. This restructuring exercise has not progressed much, though, for a number of reasons.

In this context, the DGTP would need to be equipped with an information system that enables effective planning and monitoring of road construction and maintenance projects. Such a system would produce information on conditions of the road network, progress of works and data on the cost and financing of road construction and maintenance activities. A central road sector information system (*Banque de données routières*) has been established for this purpose and its database was updated in 2003. However, the staff of the department has not been trained to collect and update the data required to evaluate road rehabilitation and maintenance priorities.

Privatization of road maintenance would be very beneficial to the Nigerien economy if medium-sized enterprises and small local contractors could participate actively in these programs. As noted earlier, this was not possible due to insufficient resources made available for road maintenance and delays in payments to contractors. Restructuring CAFER and improving its performance would therefore in itself be an important element of an economic development strategy with a significant poverty reduction component. This would have to be complemented by appropriate technical support to local contractors through existing professional organizations.

Box 7. Road Transport—Main Recommendations

- Select and implement one of the recommended options for improving funding of road maintenance: direct transfer to CAFER of growing amounts of user fees, or transfers through the Treasury, protected by reforms of future cash management plans.
- Settle arrears to contractors and establish a revolving fund to reduce vulnerability of the program to the ups and downs of CAFER funding. Mobilize donor financing for CAFER and the revolving fund.
- Review and revise the road investment program on the basis of the road maintenance capacity of the Government. Consider re-allocating some of the domestic and donor funds to high-priority maintenance activities.
- Strengthen the capacity of the ministry and the *Direction Générale des Travaux Publics,* notably its capacity to collect, update and process data on road conditions for effective planning of road construction and maintenance.
- Provide technical support to small and medium-sized local enterprises through their professional organizations.

Rural Development

Background and Objectives. Although the development of agriculture, livestock, and other rural activities[60] is one of the key priorities of Niger's poverty reduction strategy, the performance of the rural sector in past years has been unsatisfactory. Its rate of growth averaged less than 2 percent over the past 40 years, significantly less than the population growth rate of more than 3 percent (SDR 2003). Traditional cultivation methods dominate and growth of agricultural output is less the result of improved productivity than of expanding area under cultivation. Yields per hectare have actually declined over the past years and are significantly below the average in neighboring countries with similar climatic conditions. Livestock production is based on traditional methods and revenues from domestic sales and exports of livestock products have also declined. Finally, Niger faces major environmental problems. Wood consumption has quadrupled in 40 years and the forest cover continues to shrink. Poor rainfall and overexploitation of land resources accelerate the desertification process.

Niger's agricultural potential is not insignificant and improving cultivation practices and appropriately using fertilizers could increase yields. There are substantial water resources that could be harvested for multiplying the area under irrigation. The main priority at this stage is to create the appropriate incentives for farmers to take advantage of a variety of development and market opportunities within the region. This would help them modernize and intensify their production. In this context, it is important to promote rural savings and micro-finance operations to increase productivity and help farmers better manage climatic risks and economic uncertainties. The public sector should focus on creating an environment favorable to private development by improving roads and other infrastructure as well as strengthening institutions.

60. The rural sector contributes about 40 percent to GDP. Agricultural production accounts for about 52 percent of rural sector output, livestock for 30 percent and forestry and fishing for 18 percent.

Table 2-23. Yields of Cereal Production in Niger—Comparison with other Countries in the Sub-region, 1992–2001
Average yields, in kg/hectare

	Millet	Sorghum	Groundnuts
Niger	**410**	**180**	**390**
Mauritania	300	570	N/A
Senegal	600	760	860
Mali	700	900	91
Chad	410	580	910
Burkina Faso	680	821	850

Source: FAOSTAT.

The Rural Development Strategy (RDS). In November 2003, the Government adopted a rural development strategy (RDS), aimed at reducing rural poverty from 66 to 52 percent by 2015. This strategy covers the sector as a whole and was jointly prepared by the four ministries in charge of rural development.[61] The preparation of the strategy followed a consultative process involving the main donors and other key stakeholders.

A major strength of the RDS is its description of the respective role of the main actors in the sector notably that of the Government, which should create conditions conducive to private sector development. The strategic priorities determined by the RDS are to: (i) support economic growth through better access of the rural population to commercial opportunities; (ii) promote food security and environmental protection; and (iii) strengthen public institutions and build capacity of farmers' organizations. To achieve these objectives, the strategy relies on a variety of initiatives including structural reforms (*programmes structurants*) aimed at creating an enabling environment and high-priority programs (*programmes sectoriels prioritaires*) aimed at promoting the development of certain subsectors.

The RDS is a sound policy document, which is viewed by the Government as the first phase of a more comprehensive strategic exercise. In order to serve as a basis for making strategic decisions about allocating resources within the sector, the Government has recently engaged in preparing a series of action plans.

Structure of Public Expenditures in the Rural Sector. Lack of a comprehensive set of expenditure data on rural development programs and subsectors makes an analysis of the structure of public expenditures in the sector difficult. This is an important limitation for the preparation of the RDS actions plan, as it does not allow for an evaluation of the economic justification and potential poverty reduction impact of ongoing and planned investments. Despite these constraints, available public expenditure data have provided some useful indications about past Government activities in the rural sector (see Table 2-24).

61. These are the following: Ministry for Agricultural Development (*Ministère du développement agricole*), Ministry for Livestock (*Ministère des ressources animales*), Ministry for Water, Environment and Fight against Desertification (*Ministère de l'hydraulique, de l'environement et de la lutte contre la désertification* (MHE/LCD)) and Ministry for Community Development (*Ministère du Développement communautaire*).

- The share of the rural sector in total public expenditures declined considerably from 20 percent at the beginning of the 1990s to 11 percent in 2000–2002. This is slightly below the PRS objective, which sets a target of 12 percent for the share of the rural sector in total public expenditures.
- Investment expenditures averaged FCFA 22 billion during the 1990, fell to FCFA 11.5 billion in 2000, but rose again in 2001 (close to the 1990–1999 average). Two factors are behind the recent increase: (i) the implementation of a number of large rural development projects that began in 2001, and (ii) the allocation of a sizeable share of HIPC funds to investments in the rural sector.
- The recurrent/investment expenditures ratio is relatively low (21–26 percent in 2000–2002) compared to other priority sectors. Wages and salaries account for a large share of recurrent expenditures. More than 30 percent of staff of the rural development ministries is employed in the central administration. This share was considerably lower in the early 1990s (around 15 percent).[62] The trend of concentrating the staff in the central administration is worrisome, as there is a need to increase field staff that can provide direct technical support to farmers.
- Execution rates have varied strongly from year to year during 2000–2002. On average, they reached 67.7 percent, much below the average execution rate for the budget as a whole. Execution rates are high for personnel expenditures (more than 100 percent on average for 2000–2002) but very low for investments and other operational activities.

Challenges Ahead. In order to determine the required level of resources for rural development and the optimal intra-sectoral allocation of these resources, the authorities will have

Table 2-24. Public Expenditures in the Rural Sector
(in FCFA billion)

	2000	2001	2002	Average 2000–2002
Budget allocations (voted budget)	**31.5**	**29.6**	**43.6**	**34.9**
Actual expenditures (payment orders)	**14.6**	**27.6**	**27.8**	**23.3**
Recurrent expenditures	3.0	4.8	5.2	4.3
Wages and salaries	2.1	2.2	2.1	2.1
Goods and services	0.56	0.6	1.5	0.9
Transfers and subsidies	0.4	2.1	1.6	1.3
Capital expenditures	11.54	22.8	22.6	18.9
Share of rural development in total public expenditures	**8.4%**	**13.3%**	**11.4%**	**11.0%**
Execution rates	**46.2%**	**93.2%**	**63.7%**	**67.7%**
Ratio recurrent/capital expenditures	**26.1%**	**21.2%**	**22.8%**	**23.3%**

Source: MEF; World Bank and EC staff calculations.

62. Based on the previous Rural Development PER (2001) and numbers provided by the rural development ministries.

to complete the operationalization of the RDS. For this purpose, the ongoing preparation of action plans should be completed and the plans subsequently translated into a rolling budget program and sectoral MTEF. The RDS action plans should:

- *Take into account lessons learned from many years of implementation of rural development programs.* This would help assess the probable impact of planned programs on productive activities (such as on production and export volumes or productivity). For this purpose an evaluation of past and ongoing programs should be conducted.
- *Maintain the consensus around the RDS built among stakeholders.* This would be maintained by basing the sectoral MTEF on detailed consultations with stakeholders, in particular key donors, who will be the main financiers of the implementation of the action plans.
- *Include in the RDS a detailed description of sector programs, including objectives, quantitative targets, and output and outcome indicators for monitoring progress.*
- *Fully cost the RDS through an MTEF and present a feasible financing strategy.*

Box 8. Rural Development Sector—Main Recommendations

- Complete preparation of a set of action plans based on the objectives of the rural development strategy. The action plans should include: (i) an evaluation of ongoing programs; (ii) a detailed analysis of future programs (including cost estimates and performance objectives); and (iii) a financing strategy.
- Following appropriate consultations with all stakeholders, including donors, the action plans should lead to the preparation of realistic medium-term program budgets based on appropriate performance and result indicators.

CHAPTER 3

Assessment of Public Finance Management Systems

Effective, transparent budget management and accounting instruments are essential to allow Government officials to make the right spending decisions, monitor budget implementation, evaluate the cash position of the Government, and adjust spending levels to available resources as needed. This section of the Report summarizes the detailed comments and recommendations provided in the full Country Financial Accountability Assessment (CFAA) report on the strengths and weaknesses of Niger's public finance management system.

Niger's public finance management system is highly centralized, with the Ministry of Economy and Finance making or controlling most of the decisions concerning the size, structure and implementation of sectoral budgets. At the same time, it uses a wide variety of exceptional procedures and inappropriate accounting systems which make it very difficult for Government officials and outsiders to monitor budget execution and assess the cash position of the Government at any given time.

The Government has recognized these problems and has begun to modernize its budget management and accounting procedures. The reform process will be difficult and continuous efforts will be needed to correct major deficiencies and pave the way for radical improvements in the country's public finance management practices.

The first section of this chapter reviews the budget preparation process; the second section deals with budget execution; the third section is about accounting and cash management; the fourth section evaluates internal and external controls; the fifth section deals with debt management, accounting of non-financial assets and the monitoring of public enterprises; and finally the sixth section addresses institutional and human resources management issues.

Budget Preparation

Niger's budgets have largely reflected allocations of previous years with minor adjustments. Strategic considerations have played only a small role in the budget preparation process and are seldom addressed in the budget debates in the National Assembly. Sectoral programs are not based on clear sectoral objectives, realistic estimates of institutional capacity, monitorable performance, or result indicators. In the past, sectoral ministries were only given a few weeks to prepare their budget proposals, which were not always taken into consideration by the Ministry of Economy and Finance when finalizing its draft Budget Law (*Loi de Finances*).

Efforts to improve budget preparation should aim at making budgets more realistic and more strategic. Budgets should be based on better estimates of domestic and external resources, and absorptive capacity constraints. They should also support unified multi-annual investment and recurrent expenditure programs reflecting the priorities of the country's poverty reduction and sectoral strategies.

Over the past few years, a number of important measures have been taken to improve the budget programming process, marking the beginning of a long-term reform process:

- Recent estimates of tax receipts and other domestic revenue are reasonably accurate but the projection of external resources is more difficult. The Government should enhance collaboration with donors in view of better coordinating development assistance and improve its monitoring of budget support operations.
- In 2002, the Government adopted a new classification of public expenditures (*nomenclature budgetaire*) inspired by recent WAEMU directives. The introduction of the new nomenclature has been accompanied by staff training and the preparation of an operational manual. However, the harmonization process is not complete and many disparities remain between Niger's practices and WAEMU directives. One of the main advantages of the new nomenclature over its predecessor is that it integrates recurrent expenditures and investment. However, the integration process is not yet complete. Planning for domestic and externally-financed activities is still performed separately within the Ministry of Economy and Finance (DGB and DFI) and the sector ministries (DAFs and DPPs).[63] The coherence of the two main components of Niger's budget is therefore not ensured. In several priority sectors, there are indications that the investment programs are too large for the maintenance and operational capacity of sectoral institutions (see Chapter 2).
- In the context of the elaboration of the 2002 PRSP the Government began preparation of three-year Medium Term Expenditure Frameworks (MTEF).

63. The Budget Directorate (*Direction générale du budget,* DGB) is traditionally responsible for preparation and monitoring of the Government budget, which contains all domestically-financed expenditures, including recurrent expenditure and domestically financed capital expenditure. The Investment Finance Directorate (*Direction du financement des investissements,* DFI) is traditionally responsible for preparation and monitoring of the Public Investment Program, which contains all foreign-financed projects and domestic counterpart expenditures. The Financial and Administrative Affaires Directorates (*Directions des Affaires administratives et financières,* DAF) and the Planning and Programming Directorates (*Directions des programmes et du plan,* DPP) play the equivalent role to DGB and DFI, respectively at the sector ministry level.

- In September 2003, an *arrêté ministeriel* modified and structured the budget preparation process and gave more time to sectoral ministries to prepare budget proposals. The *arrêté* also introduced the concept of medium-term program budgets.

The preparation of program budgets could become a useful instrument for developing and monitoring sectoral programs based on strategic objectives. It may also be a good way to make budget support more predictable and to enhance the capacity of national institutions to progress toward full integration of recurrent and investment expenditures in budget planning. The preparation of program budgets will require extensive consultations between DAFs and DPPs in line ministries, and between DGB and DFI at the central level. Detailed program budgets will also give the National Assembly the data and analysis necessary for sound political judgments on the relevance and priority of proposed public expenditure programs.

For most line ministries, the preparation of sound program budgets is likely to be a slow and difficult process. The quality of future program budgets will depend on three factors: (i) the quality of sectoral strategies and action plans prepared and adopted by sectoral institutions and the Government (ii) the extent of cooperation with the main stakeholders, and (iii) the endorsement and support of the main donors involved in the financing of the sectors.

Several line ministries have already begun to develop strategies, action plans, sectoral MTEFs, and program budgets:

- Most advanced in this regard is the Ministry of Basic Education, which has prepared a ten-year development plan for primary education (the PDDE endorsed by the donor community, and a sectoral MTEF). The Ministry should now be able to develop a series of sound program budgets for 2005–2007 and the following years. The next steps should be: (i) the preparation by the other education ministries of a strategy for post-primary education to be integrated into the PDDE, and (ii) the design of program budgets for the education sector as a whole.
- Agriculture, Livestock and Water, Environment and Fight against Desertification have prepared a rural development strategy in close consultation with stakeholders and donors. The strategy focuses on key policy issues but does not provide the elements of a multi-year sector program with cost estimates and clear priorities. A set of more detailed action plans is under preparation. Depending on the quality of the action plans, the Government may be able to initiate the preparation of a series of program budgets in the not too distant future. Future sector programs and program budgets should also be based on realistic evaluations of the relevance, economic justification, and possible success of the multitude of ongoing and planned donor-financed programs and projects which absorb most of the resources allocated to the sector.
- The Ministry of Health has initiated the preparation of a five-year health development plan, which has not yet been discussed with stakeholders and donors. A sound program for the health sector should not only define priorities but also address the absorptive capacity constraints that have led to low execution rates and a significant reduction in the share of the sector in total public expenditures.

To conclude, a gradual approach is recommended to the introduction of program-based budgeting in Niger:

- *The Government could encourage the use of the program budgeting as ministry capabilities increase.* The MEF should be responsible for coordinating the process, with external technical support. Education and perhaps the road sector would seem to be ready for that approach. The preparation of a program budget for the road sector should focus on road maintenance but should also be based on a review of the priorities of the large number of road construction and rehabilitation projects under consideration.
- *In most other sectors, priority should be given to the design of sound sectoral strategies, before embarking on more complex program budgeting exercises.* In most cases, rapid progress towards the development of high-quality program budgets should not be expected. Learning by doing will be critical. A few ministries may be able to prepare increasingly focused and detailed sectoral programs and program budgets based on sound objectives and realistic cost estimates in the not too distant future. As some of the first ministries begin to master the budget-programming instrument, their experience will serve as a model for other ministries and agencies. However, extensive technical support by donors will often be essential to accelerate and improve the process.
- *An important component of future program budgets should be the identification of priority expenditures that require special protection in the context of budget regulation and cash management plans aimed at mitigating the impact of severe revenue shortfalls.*
- *In order to ensure broad-based support for the strategic shift to program-based budgeting, the Government could prepare a detailed implementation plan, which would lay out a timetable and describe capacity building needs.* Joint adoption of this implementation plan by all ministries and by donors would be crucial. The example of Rwanda has shown that a concerted effort to achieve full consensus on the desirability of moving towards program-based budgeting is important for its success.

Box 9. Budget Preparation—Main Recommendations

- Eliminate remaining disparities between WAEMU directives, the new budget nomenclature, and present classification of expenditures.
- Continue preparing annually global MTEFs with sectoral allocations in line with the priorities of the country's poverty reduction strategy.
- Prepare sectoral MTEFs and program budgets for primary education. Prepare a strategy for post-primary education that will provide the elements for a strategy and a series of program budgets for the education sector as a whole.
- Deepen the analysis of sectoral priorities, in consultation with stakeholders and the main donors financing the sector, as a basis for eventual preparation of program budgets.
- Improve the presentation of draft budget laws submitted to the National Assembly. Justify main budget choices in the context of sectoral programs and the poverty reduction strategy. As they become available, program budgets could be attached to the draft budget laws.

Budget Execution

Three major budget execution issues stand out:

- The budget execution process is cumbersome and highly centralized under the control of the DGB.
- Execution of externally-financed expenditures is largely managed by donors and project managers, loosely monitored by the DFI, and not formally integrated in the expenditure chain.
- Processing of funds delegated to regional agencies (*crédits délégués*) is extremely slow and poses an important fiduciary risk due to low capacity of regional and local agencies. This will affect the success of the ongoing deconcentration and decentralization process.

The Budget Execution Process[64]

Niger's budget execution process is cumbersome and slow due to multiple ex-ante controls and a high degree of centralization in the MEF. An assessment of actual practices in budget execution reveals a number of problems. The most prominent are the systematic use of exceptional procedures and the issuance of commitments and payment orders beyond the end of the fiscal year for a significant percentage of budget allocations.

Niger's budget execution procedures, which are based on WAEMU directives, contain multiple ex-ante controls on spending commitments, mainly conducted by units of the DGB.[65] This makes the process very cumbersome and slows down budget execution. Table 3-1 describes the administrative phase (commitment, liquidation, and payment order) of the budget execution process. Tests undertaken in the context of the PEMFAR mission in November 2003 revealed that it takes on average 33 days to complete the administrative phase.

Niger's budget execution process is highly centralized. The final authority on issuing payment orders (*ordonnancement*) rests solely with the Minister of Finance, executed through the Financial Control and Payment Order Directorates. The authority of spending ministries in managing budget execution is further curtailed by MEF controls at virtually every step of the budget execution and by the cash management system, also controlled by the MEF, which limits spending authorizations in times of expected revenue shortfalls (see Box 3 in Chapter 2).

Any advantage of multiple ex-ante controls is defeated by the systematic use of exceptional procedures and other irregularities obscuring the transparency of the budget process. It is likely that the multiplicity of controls in the formal expenditure process encourages Government officials and suppliers to use exceptional procedures. As shown in Box 10 below, close to half of domestically financed expenditures in 2003 were estimated to have been paid

64. For a detailed description of the expenditure process in Sub-Saharan Francophone Africa, see Bouley, Fournel, and Leruth (2002).

65. The DGB intervenes four times during the administrative phase: (i) financial controllers verify commitment proposals; (ii) the accounting center of the DGB validates the decisions; (iii) the Payment Order Directorate intervenes twice first at the liquidation stage and then before *ordonnancement.*

Table 3-1. Niger's Budget Execution Process

Phase and sub-phase	Description	Average processing time
ADMINISTRATIVE PHASE (largely controlled by the DGB)		**33 days**
Commitment sub-phase *(Engagement)*	Credit managers in line ministries initiate the commitment process. Their proposals are verified by the financial controllers, who are posted in line ministries but report to the DGB, and then validated by the accounting division (*Centre comptable*) of the DGB. The commitment process ends with the credit manager notifying the supplier and placing the order.	18 days
Liquidation sub-phase *(Liquidation)*	The liquidation process begins with the credit manager receiving and verifying the supplier's invoice, which is then verified by the accounting division of the payment order department (*Direction de l'ordonnancement,* DO) within DGB, and again by the expenditure division of the Treasury.	12 days
Payment order sub-phase *(Ordonnancement)*	The DGB (*DO*) certifies the validity of the claim and sends a payment order (*ordonnancement*) to the Treasury.	3 days
PAYMENT PHASE (controlled by the Treasury)	Payment of claims by the treasury after verifications.	

Note: Average processing time estimated through compliance tests conducted during the CFAA exercise.
Source: Groupe 2 AC (2003).[66]

through cash advances and direct payments without payment orders (PSOPs), not subject to review by financial controllers. PSOPs have been used to process a variety of expenditures for which exceptional procedures are not really justified. The large volume of PSOPs makes it very difficult to monitor the public finance performance of the Government and evaluate the structure of public expenditures. In periods of revenue shortfalls, large volumes of PSOPs processed outside regular budget regulation and cash management plans may exacerbate liquidity problems experienced by the Treasury.

Commitments and payment orders for a significant percentage of budget allocations are effected after the close of the fiscal year. In principle, no commitment on budget allocations for a given fiscal year should be initiated after the end of that year. A supplementary period (until February 28) is then used to process and pay outstanding commitments of the previous year. This deadline is not respected in practice: commitments and payment orders for supplementary expenditures equivalent to 11.3 percent of 2002 budget estimates were effected during January 1-November 17 of 2003. Such practices delay and complicate preparation of budget execution reports and make it difficult to monitor fiscal performance and the structure of public expenditures. Until these practices are stopped, data and reports pre-

66. The EC financed organizational and technical audit of Niger's control structures and systems provides a detailed description of all the stages and a schematic presentation (Table 2.2, page 37). The Niger CFAA (World Bank 2004a, Table 8) provides a summary of all the stages and responsibilities.

Box 10. Exceptional Procedures

To expedite the commitment and payment process and avoid some of the controls applicable to the administrative phase, Government officials and suppliers often use exceptional procedures, essentially cash advances (*Régies d'avances*) and direct payments (*Paiement sans ordonnancement préalable,* PSOP).

- *Régies d'avances* have been created to pay for small expenditures. When the funds deposited in the *Régie d'avances* are depleted, the manager asks for the replenishment of the *Régie* and provides the supporting documents needed to justify and regularize past expenditures.
- PSOPs are expected to be *used* for emergencies and mandatory expenditures such as debt service and wages and salaries.

The problem in Niger and other West African countries is that cash advances and PSOPs are often used for a variety of other recurrent expenditures. In 2003, about 46 percent of domestically-financed expenditures were processed through exceptional procedures (34 percent through PSOPs and 12 percent through *Régies d'avances*).

pared at the end of each fiscal year cannot provide a complete and accurate view of the country's public finance situation.[67]

Niger's shift to program-based budgeting will have to be accompanied by the devolution of decision-making authority in budget execution to line ministries and sub-national administrative units. It will require giving line ministries the authority to take spending decisions by making them *ordonnateurs.* Such a change will have to be conducted in close consultation with the WAEMU and its member countries. It would significantly increase the autonomy and responsibility of spending ministries, reducing *ex ante* controls by MEF. The increased responsibility of spending ministries for their budget execution should increase efficiency and transparency in budget management and accountability. It would streamline the budget execution process by simplifying procedures and would give spending ministries stronger incentives and better capacity to manage their budgets. The devolution of spending authority to line ministries would also increase their accountability for managing their part of national budget.

In the short and medium-term, a number of technical and organizational measures can be taken to strengthen existing procedures and correct irregular practices and prepare for the deeper reform described above. Measures can be taken to shorten the length and reduce the complexity of the administrative phase. These could include reducing the number of interventions by financial controllers and eliminating the verification of payment orders by the Treasury.

A full computerization of the expenditure process is a prerequisite for simplifying and streamlining the administrative phase and improving its interface with the payment phase. Computerization has already begun with the introduction of a Financial Management

67. While managers of *Régies d'avances* need to regularize expenditures from time to time to obtain the replenishment of their *Régie,* there is no incentive for users of PSOPs to regularize payments. Systematic use of PSOPs is largely responsible for the large amounts of transactions recorded in suspense accounts pending regularization.

Information System (FMIS) in 1999. So far, the scope of the system is limited to the commitment and payment order sub-phase. An interface with the treasury IT system was introduced but is not yet functional. This hampers efforts to reconcile cash and accrual data, despite the fact that the new budget nomenclature and chart of accounts are now fully compatible.

In order to tap the full potential of the FMIS for improved recording, reporting, and safety (tracking) and eventually simplification of the expenditure process, access to the system should be gradually extended. This would first lead to completing the computerization of the administrative phase of the expenditure process, by integrating the liquidation sub-phase and financial control *(visa du controleur financier)* in the FMIS. In a second phase, externally-financed expenditure would be integrated in the computerized expenditure process. Finally, access to the FMIS would be granted to the sectoral ministries to facilitate the deconcentration of the expenditure process.

The Government should regulate and monitor the use of exceptional procedures and require strict implementation of existing rules on the closing of accounts and the length of the supplementary period. Ministries might be less inclined to extend the commitment process beyond the end of the fiscal year if less complex procedures and more effective budget regulation plans enabled them to accelerate budget execution and commit their allocations before the end of the year. Therefore, measures aimed at improving the administrative phase of the chain of expenditures (simplified procedures and access to computerized financial information systems) should also reduce the need for exceptional procedures and delayed commitments.

Externally Financed Development Expenditures

Full integration of externally financed expenditures into the budget execution process is important for Niger's public finance reform: (i) to respond to the gradual integration of donor funds in the budget preparation process as part of the move to program-based budgeting; and (ii) to enhance transparency in budget execution.

In contrast to the proliferation of controls on domestically financed expenditures, no standard procedures regulate the processing of externally financed investments. The department responsible for financing investments (DFI) is expected to project and monitor the flows of external assistance and submit its reports to DGB for integration into budget execution reports. In fact, the DFI does not have the means to provide comprehensive and accurate reports on a timely basis. Clearly, full integration of recurrent and investment spending at the budget execution stage will take considerable time and effort.

Several factors affect the capacity of DFI to monitor investment spending:

- A large proportion of project assistance is executed by donors (46 percent of project grants). Most of the data on these projects are not readily available to the DFI.
- Even for projects executed by national agencies, project managers do not always provide appropriate execution reports on a timely basis. As a result, the DFI reports come too late for the production of consolidated statements covering both recurrent and investment expenditures by DGB. In 2002, only 70–80 per-

cent of the data on externally financed expenditures were included in DGB's consolidated statements.

- Finally, the DFI is not connected to the computerized financial information system managed by the DGB. Most of the data collected by the department are processed manually and, as a result, subject to substantial delays and errors.

The weak capacity of the DFI has serious consequences on the performance of investment projects. It contributes to the inability of project managers and the DFI to project and monitor externally-financed activities. Inadequate cooperation between the DGB and the DFI means that counterpart funds may not be identified as priority expenditures in budget regulation and cash management plans of the Treasury. The shortage of counterpart funds is one of the main factors behind slow implementation of investment projects and slow disbursement of foreign assistance.

The Government needs to strengthen cooperation between project managers, the DFI and the DGB to improve data collection and the mobilization of counterpart funds, in addition to measures aimed at enhancing the capacity of the DFI (training programs, equipment, and direct access to the computerized financial information system). The Government should also discuss with donors ways and means of obtaining adequate information on donor-executed projects on a timely basis.

Processing Delegated Budget Credits (credits délégués)

Existing procedures for execution of public expenditures managed by regional and local agencies (*crédits délégués*) lack clarity and need to be streamlined and modernized. Often the DGB does not make the transfer (release) of funds allocated to these agencies on time and thus delays implementation of the programs. Also, the circulation of accounts and supporting documents between regional agencies and the DGB is extremely slow and delays completion of the administrative and payment phase of the chain of expenditures. In 2000, with the help of the IMF, the Government created payment order sub-centers (*Centres de sous-ordonnancement*) in the Regions to perform many of the control functions that used to be performed by the payment order department within DGB. Despite this sound initiative, the process remains slow and cumbersome. In 2003, more than ten months after the closing of the 2002 fiscal year, about FCFA 1.45 billion in *crédits délégués* had not yet been processed.

So far, budget lines managed at the regional and local levels account for only about 10 percent of total public expenditures. This, however, will change as the Government begins to move towards de-concentrated delivery of public services in the context of the forthcoming decentralization reform.

The success of that policy will require significant reforms in the management and processing of *crédits délégués* and new guidelines are being prepared that should clarify applicable procedures. The institutions responsible for controlling and executing these expenditures, the *Centres de Sous-Ordonnancement* and local treasury offices (*Paieries Départementales*) should be strengthened and connected to the computerized financial information system managed by the DGB. Ideally, the processing of regional expenditures should be carried out in the regions (without any DGB intervention).

Box 11. Budget Execution—Main Recommendations

Domestically financed expenditures

- Devise a plan for de-concentrating budget execution, in consultation with WAEMU, by devolving spending decision authority (*ordonnancement*) to line ministries.
- Streamline the administrative phase of the budget execution process by reducing interventions of financial controllers in the administrative phase and removing the verification of payment orders by the treasury.
- Limit the use of exceptional procedures to specific, well-defined circumstances and set quantitative (maximum) targets.
- Strictly implement rules concerning the closing of accounts and the length of the supplementary period.

Externally financed investments

- Strengthen the capacity of DFI (training, equipment, and computerization).
- Strengthen coordination between project managers, DFI and DGB to improve data collection and the mobilization of counterpart funds.
- Discuss with donors ways and means of obtaining data on donor-executed projects on a timely basis.

Crédits délégués

- Clarify procedures applicable to crédits délégués.
- Accelerate the release of funds to regional agencies; strengthen, modernize and computerize regional agencies; and organize in the regions the processing of *crédits délégués.*

Other reforms

- Gradually extend the FMIS, to fully computerize the expenditure process and to connect DFI, line ministries, and managers of *crédits délégués.*

Public Accounting and Treasury Management

The main challenges in the area of public accounting and treasury management are:

- Important deficiencies remain in public accounting practices, undermining the benefits of newly introduced accounting procedures.
- Budget outcome reporting will have to be improved in terms of quality and dissemination, despite important progress in resuming the preparation of Budget Review Laws and reconciling them with Treasury Accounts.
- Niger's treasury system in its current form neither conforms to Public Accounting Regulations nor WAEMU guidelines. There is no clear separation of normative and accounting functions and the highly centralized structure is not conducive to the envisaged decentralization and de-concentration reforms.
- Cash management consisting of budget regulation at the commitment stage and treasury management at the payment stage of budget execution has often been inconsistent with the Government's strategic objectives and lacks transparency.

Government Accounts

A new Chart of Accounts based on WAEMU directives was completed in January 2003. Although rather complex, the new format has the merit of being fully consistent with the new budget nomenclature.

Adoption of the new chart of accounts has not been accompanied by significant improvements in accounting practices because of three main deficiencies identified in the CFAA report: (i) inadequate monitoring of the cash position of the Government, (ii) inadequate recording of arrears, and (iii) large volume of transactions in suspense accounts pending regularization.

- Contrary to Niger's own Public Accounting Regulations (*Réglement général de la comptabilité publique*) of January 2003, the closing balances for the previous fiscal year are not carried forward into opening balances for the following fiscal year. Thus Treasury accounts record the transactions of the recurrent fiscal year, but do not adequately reflect the cash position of the Government at any given time. This makes it very difficult for the Government to monitor its cash position and adapt its budget regulation and cash management plans accordingly. It also makes it impossible for the Government and the Chamber of Accounts to review and verify cash management accounts (*Comptes de gestion*) produced by the Treasury.
- Government accountants record expenditures only when paid and not at the payment order stage. This practice is not consistent with WAEMU directives and complicates the identification of possible arrears. Arrears are recorded manually by the Treasury outside regular accounting systems.[68] In November 2003, payment of about FCFA 2.2 billion for expenditures committed during the 1999–2002 period was still pending. In 2003, serious liquidity problems increased the volume of arrears.
- Because of excessive use of exceptional budget procedures, suspense accounts record a large number of budget transactions that are not yet regularized. For 2002, transactions in suspense accounts, mainly PSOPs, accounted for 25 percent of total budget expenditures.

These three issues need to be addressed urgently as they constitute a major fiduciary risk. The Government should adopt an *arrêté ministériel* on the preparation and publication of consolidated monthly balances, which should be fully consistent with the country's Public Accounting Regulations. Opening accounts should be integrated into general Treasury balances and the deadline for producing monthly Treasury balances should be shortened to less than 30 days.

Two other issues should also be addressed in the near future to improve public accounting in Niger:

- First, the Government should review the justifications for special accounts (*comptes spéciaux du Trésor*) and correspondent accounts (*comptes de correspondants*) that show abnormal debit balances, notably those of decentralized agencies.

68. Every three months, the Treasury produces a report on arrears, based on a list of outstanding *ordonnancements.*

- Second, Treasury accounts should become more comprehensive. Financial transactions concerning externally-financed investment expenditures that are not recorded by Government accountants should be integrated into Treasury operations.

Reporting (Treasury Accounts and Budget Review Law)

Formal reconciliation of the whole budget for a complete financial year through the preparation of a Budget Review Law (*Loi de règlement*) and compilation of Treasury Accounts (*Comptes de gestion*) to the Chamber of Accounts was completed in 2000 for the first time in 15 years. Since then, the MEF has made a valuable effort to reduce the backlog in producing budget review laws. As of end 2003, the National Assembly had adopted Budget Review Laws up to the financial year 2001. This constitutes important progress in public finance management and should be sustained. Budgetary outcomes presented in the Budget Review Laws are based on payment order data. They reveal a substantial gap between budget execution and allocation, as found in the analysis of public expenditure structure in Chapter 2 of this report.

Notwithstanding the important progress achieved in budget reporting in recent years, quality and dissemination will have to be significantly strengthened in coming years. The process of preparing draft Budget Review Law should be formalized within the DGB. Currently, an *ad hoc* committee is responsible for its preparation. In order to facilitate an indepth discussion of budget outcomes, the draft Budget Review Law should be presented to the National Assembly together with the draft Finance Law. However, knowledge of members of the National Assembly on public finance will have to be strengthened in order to enhance their capacity to appraise budgetary outcomes. To increase the value of the reconciliation of Budget Review Law and the Treasury Accounts, the following two limitations will need to be addressed: (i) Treasury Accounts of the years 1998–2001 have not yet been sanctioned by the Chamber of Accounts; and (ii) as mentioned above, previous years' closing balances are not carried forward into opening balances for the following year.

Treasury System

A network of public accountants under the authority of the General Treasury (*Trésorerie générale,* TG) is responsible for public accounting. This network comprises of 45 public accountants: one TG, eight regional public payment officers (*Paieries*) and 36 local public payment offices (*Perceptions*). The Treasury system is heavily centralized: the accounts of peripheral treasury offices and tax and customs administrations are consolidated on a monthly basis in the accounts of the TG. In the current system, the TG has two main functions: (i) a normative function, through which the treasurer sets the rules for public accounting; and (ii) the management of public funds, including accounting, collection and payment, as well as monitoring and managing the cash position of the Government.

Restructuring the Treasury is a key priority of Niger's public finance reform in the coming years. The Treasury's current structure is not conducive to its proper functioning nor does it conform to the new Public Accounting Regulations or to WAEMU guidelines. Restructuring should lead to the following improvements:

- Strict separation of the normative and accounting functions within the TG.
- De-concentration of the structure of the TG, to adapt it to the proposed reforms leading to de-concentration of public service delivery and decentralization of policy decisions.
- Repositioning the expenditure verifications by the treasury from the administrative to the accounting phase of the budget execution process.
- Strengthening the Treasury Inspectorate through capacity building and decentralization.
- The age profile of the present Treasury staff indicates that a large share of its skilled and experienced personnel will retire in the coming years. This could jeopardize the implementation of the structural reform of the Treasury. It is therefore necessary to prepare and implement a staff renewal plan for the Treasury.

Cash Management

Cash management (described in Box 3 in Chapter 2) was introduced at the end of the 1990s with the aim of tightly controlling expenditures in order to avoid liquidity and solvency problems. Niger's cash management system consists of a budget regulation mechanism (*régulation budgétaire*) and a treasury management mechanism (*plans de trésorerie*). The budget regulation mechanism, introduced in 1998, controls spending authorizations at the commitment stage of the budget execution process. The treasury management mechanism, introduced in 2001 regulates cash payments at the payment stage. Both mechanisms protect important expenditure items in the following order of priority: wages and salaries, external debt service, HIPC financed expenditures and other PRSP priorities (mainly social sector spending).

As shown in Chapter 2, cash management, while contributing to improved fiscal stability, has been partly responsible for the disparities between voted and executed budgets and inadequate execution of priority activities in priority sectors. More important, past budget regulation practices and cash management plans have not fully reflected the priorities of sectoral programs and the PRSP. In addition, decisions related to cash management have not followed a fully transparent process and excluded important actors, in particular representatives from line ministries. In case of treasury management, an inter-ministerial committee has been created to help prepare and monitor cash plans. So far this committee has been meeting infrequently and had therefore virtually no influence on decisions made by the Treasury.

The lack of automatic determination of the cash position of the Government constitutes a further obstacle to the preparation and implementation of effective cash management plans. The cash position of the Government is established manually on the basis of daily statements of the Treasury account at the Central Bank (BCEAO). The balances of the treasury accounts are only reconciled once a month with the Treasury account at the BCEAO.

Increasing budget realism at the budget preparation stage is a prerequisite for strengthening cash management. This requires improving the quality of revenue projections and taking a conservative view of the expected available resources. Ensuring liquidity will require measures to compensate for seasonal fluctuations in resource availability. This could include introducing the issue of Treasury bills to bridge liquidity bottlenecks by establishing adequate cash balances.[69] It would also require enhancing coordination with donors to ensure appropriate spacing of disbursements.

The authorities recognize the need to reform the cash management system, in particular increasing transparency of decision making and protecting priority expenditures. In 2003, the Government undertook a review of its cash management plans with a view to strengthening the links with agreed macroeconomic and sectoral priorities. The reform should also provide for more transparency in decision making by giving the inter-ministerial committee a more systematic role. A similar reform should then be undertaken for the budget regulation mechanism.

Box 12. Accounting and Treasury Management—Main Recommendations

Government accounts

- Integrate opening accounts into Treasury balances.
- Produce daily statements of Treasury accounts and reconcile them with the Treasury's BCEAO account.
- Adopt an *Arrêté ministériel* defining conditions for the preparation and publication of consolidated monthly Treasury balances fully consistent with Public Accounting Regulations.
- Shorten the deadline for producing consolidated monthly Treasury balances to less than 30 days.

Treasury system

- Initiate a treasury system reform to make it compatible with the new public accounting regulation.

Cash management

- Improve projections of available resources. Consult with major donors to improve the planning and disbursement of budget support.
- Consider the feasibility of issuing Treasury bills to cope with major liquidity crises.
- Implement the new cash plans envisaged by MEF, including periodic meetings with the inter-ministerial supervision committee.

Internal and External Controls

Niger uses a wide variety of internal, external, and political controls, but the agencies exercising these control functions lack institutional autonomy, as well as sufficient resources and capacities. The Government, with the help of the EU, has prepared a comprehensive report on financial and administrative controls. The findings and conclusions of that report and its action plan were adopted by the Government in December 2003. They are reflected in the formulation of the PEMFAR and the CFAA.[70]

69. It should be avoided, however, that Treasury bills would be used for financing budget deficit.
70. See also Groupe 2 AC (2003).

Ex-Ante Controls

Financial controllers are responsible for ex-ante controls. Nineteen financial controllers posted in line ministries and other Government agencies verify spending commitments proposed by credit managers. However, the effectiveness of these controls is limited because:

- Financial controllers report to the Directorate of Financial Control (*Direction du controle financier, DCF*), which does not have the necessary autonomy as it reports to the DGB (since 1999). This is not consistent with WAEMU directives;
- Resources available to the DCF are insufficient. Many financial controllers work only part-time. In addition, the DCF and its controllers do not have access to the computerized financial information system managed by the DGB.
- Most important, PSOPs and other expenditures handled through exceptional procedures are never reviewed by financial controllers, even when payments are eventually regularized. As of September 30, 2003, about 42 percent of public expenditures for the ongoing fiscal year had not been reviewed by financial controllers.

The review of commitment proposals by financial controllers should remain the main instrument of the Government for controlling public expenditures. At the same time, the number of *ex-ante* controls at other stages of the administrative phase should be reduced in order to streamline the budget execution process. In addition, *ex-ante* controls should be reinforced through institutional and operational measures:

- The DCF should regain its autonomy and should have access to DGB's information system;
- Staff and other resources available to the DCF should be increased; and
- The use of exceptional procedures should be regulated and limited to well-defined circumstances.

Internal Audit

Three main institutions are in charge of conducting internal audits of public finance management:

- The General Directorate for Financial Inspections (*Direction Générale de l'Inspection des Finances, DGIF*) audits implementation of public finance regulations and the use of public funds. The DGIF has a staff of ten inspectors and operates on the basis of a work program defined by the Minister of Economy and Finance, to whom it is accountable. So far, its reports have addressed mainly non-compliance issues (activities inconsistent with existing regulations). However, a proposal is under consideration for DGIF to also review the overall operational and financial performance of Government agencies and make recommendations on structure and management of these agencies.
- The General Public Inspectorate (*Inspection Générale de l'Etat, IGE*) performs inspections on request of the Presidency. IGE was created in 1997 with a rather broad mandate. Operating within the President's Office, it is empowered to review

compliance with laws and regulations, financial and administrative, in all Government agencies. It is also mandated to comment on institutional structures and operational efficiency. IGE reports directly to the President and its reports are not circulated outside the President's Office. Its staff of fourteen inspectors does not benefit from a special status.

- The Public Dispute Settlement Directorate (*Direction du Contentieux de l'Etat, DCE*) reviews audits from different control institutions and investigates actions that may justify criminal proceedings.

In addition, there are a number of specialized audit institutions, like those with a specific mandate to audit MEF units (treasury, tax and customs inspectorates) and line ministries. The role of the General Inspectorate for Territorial Administration (*Inspection Générale de l'Administration Territoriale, IGAT*) will become more important once the decentralization reform starts taking shape.

All inspection units are limited in the exercise of their role by a lack of qualified staff and material resources (cars, computers, and so forth) as well as by the absence of a homogenous legal status of inspectors and controllers in the administration. In general, there is little harmonization of practices and procedures and limited coordination between the different inspectorates. Only a few inspectorates (DGIF, Customs service inspectorate) work on the basis of procedure manuals and formal work programs are rarely used, as most of the inspection missions are undertaken upon discretionary requests. In most cases, the reports produced by the inspectors do not take into account the viewpoint of the investigated administrative units. The reports also lack standardization as their format and dissemination practices vary considerably from inspectorate to inspectorate.

Inspection reports are often not properly followed up and their recommendations and sanctions not applied. This would be necessary for the Government to fight corruption effectively and create transparency in the management of public institutions. In 2000, the Government decided to give the DCE the additional responsibility of reviewing inspection reports.[71] To enhance its role in following-up on audits, a draft decree clarifying the functions of the DCE was prepared but has not yet been adopted. DCE reports, which should be published, should make recommendations for improving the management of Government agencies.

The authorities have recognized the importance of internal audits for transparency and good governance, as evidenced by several measures initiated in recent years aimed at strengthening inspections. The DGIF has recently benefited from an increase of its resources and introduction in 2001 of a manual of procedures to guide the work of the inspectors. The Government has also prepared a bill to grant finance inspectors a special status (*Corps d'inspecteurs des finances*) and enhance their hierarchical position in the administration.

External Audit

Niger has a Chamber of Accounts and Budget Discipline *(Chambre des comptes et de la discipline budgétaire),* which is institutionally attached to the Supreme Court. Its main respon-

71. The DCE's original mandate is to handle assurance issues related to traffic accidents and litigations against the Government.

sibilities are auditing Government accounts, evaluating institutions that manage public funds and assisting the National Assembly in overseeing the execution of the budget. In recent years, the Chamber has mainly focused on the annual audit of budget review laws (*Lois de réglement*). However, due to capacity constraints and the limitations of public accounts. The Chamber has not been able to audit Government accounts for the 1998–2001 period. Neither has it been able to perform its role of evaluation of institutions nor assisting the National Assembly.

The effectiveness of the Chamber of Accounts and Budget Discipline in acting as a high level control institution is limited due to the institutional, staffing and resource constraints it faces. To improve its functioning, the Chamber has to be staffed with competent judges that can act independently. These judges should be assisted by full-time auditors. At present, several auditors are staff members of the MEF who work only part-time for the Chamber. The Chamber's staff should be trained and operational guidelines and a manual of procedures should be produced to guide their work. Finally, the Chamber's independence from the Supreme Court should be increased, by providing the Chamber with its own operating budget.

Draft legislation (*Loi organique*) has been prepared to strengthen the status of the Chamber by transforming it into a more independent Court of Accounts and extending its control to all agencies and institutions using public funds, including public enterprises and development projects. The creation of a Court of Accounts is consistent with WAEMU directives. The Government should therefore revise and reactivate the proposed legislation.[72] In addition, the authorities might consider submitting Government accounts to the WAEMU's Court of Accounts as provided by the revised WAEMU treaty.

Political Control (National Assembly)

The National Assembly is entitled to review all the main public finance policy and management issues, mainly through the discussion of the draft *Loi de Finances* and the approval of the budget review law (*Loi de Réglement*). However, its capacity is too limited to perform this role effectively.

- Time constraints limit the Assembly's oversight capacity. The Assembly meets each year in two sessions each of two months.
- Staff constraints are important. The Assembly's Finance Committee, which helps it perform its public finance control functions, has 16 members assisted by an adviser and three staff. To be more effective, members of the Committee and their staff need additional training and technical support.
- A strengthened Chamber or Court of Accounts could also provide technical support to the Assembly and its Finance Committee. So far, however, the possibility of requesting the Chamber's assistance, which is granted by Article 97 of the constitution, has never been considered by the Assembly.

72. See Groupe 2 AC (2003, p. 119) for recommendations to strengthen the proposed law.

Box 13. Internal and External Controls—Main Recommendations

Financial controllers

- Reestablish the independence of DCF and post it outside the DGB.
- Increase staff and resources of DCF Give financial controllers access to the computerized financial information system, first through the creation of a *salle d'informatique* and then through direct access to the system.
- Limit use of exceptional procedures which exclude the review of commitment proposals by financial controllers.

Other internal controls

- Adopt the draft legislation defining the status of the *Corps d'Inspecteurs des Finances*.
- Adopt the draft decree defining the functions of the *Direction du Contentieux de l'Etat*.

External audits

- Create a corps of financial judges recruited for their competence and capacity to act independently.
- Provide technical support to the Chamber of Accounts (training and manuals).
- Involve the Chamber in the review of critical public finance issues (exceptional procedures).

Political controls

- Strengthen the Finance Committee of the National Assembly. Activate technical support by the Chamber of Accounts.
- Institutionalize systematic information of the Finance Committee of progress of budget execution, including intra-budgetary transfers.

- The National Assembly and its Finance Committee should be kept informed of progress and problems in the budget execution process. Information about intra-budgetary transfers during the fiscal year should be systematically provided to the Committee.

Non-Financial Assets, Monitoring of Parastatals, and Debt Management

The CFAA report identifies a number of other public finance management and accounting issues: deficiencies in accounting of non-financial assets, monitoring of public enterprises and managing public debt that will need to be addressed over the next few years.

Non-Financial Assets (Comptabilité Matière)

The Directorate of Public Assets, (*Direction Générale du Patrimoine de l'Etat*) is responsible for managing Government buildings, furniture, equipment, vehicles, and other non-financial assets. Within line ministries, the DAF is expected to keep and update an inventory of these assets. The new budget classification contains accounting categories for public assets.

There is an increasing awareness in the administration about the importance of accounting for non-financial assets, but information presently available on Government owned real estate and other physical assets is scarce and unreliable. For instance, no inventory has been made of Government-owned vehicles since 1995. The maintenance of these assets is also inadequate. The CFAA identified five main factors behind the weak capacity of the Government in this field:

- Obsolete procedures.
- Inadequate budget allocations for maintenance.
- Acute shortage of staff for keeping records and managing assets.
- Lack of equipment and IT resources to efficiently conduct public asset accounting.
- Lack of coordination between sectoral ministries and the DGPE.

A system should be put in place to centralize and disseminate information on physical assets (*comptabilité matière*), based on periodic inventories organized at the central and local levels. Furthermore, measures should be devised to strengthen the capacity of central and local agencies responsible for managing the State's non-financial assets (additional resources, staff training, computerization of information systems, and so forth).

Monitoring of Parastatals

Privatization policies have reduced the size of the parastatal sector and its relevance for the economy. Subsidies to public enterprises averaged FCFA 12–13 billion a year in 2003 and 2004 (a modest 3 percent of total public expenditures). However, it is difficult to evaluate the full impact of the parastatal sector on the country's public finance performance since the MEF is not equipped to monitor the management and performance of public enterprises effectively.

Within MEF, the Department of Public and Parastatal Enterprises (*Direction des entreprises publiques et parapubliques,* DEPP) is responsible for monitoring the sector, including evaluation of cross-debts between the Government and parastatal enterprises. The DEPP depends on the enterprises to provide the data and analysis it needs to perform its monitoring function. However, few enterprises provide this information in a timely fashion, and data provided to DEPP are often not reliable. DEPP's estimates of cross-debts are significantly different from the estimates found in financial statements of public enterprises.

The CFAA reviewed the performance of four public enterprises involved in trade and manufacturing activities (*Etablissements publics à caractère industriel et commercial, EPIC*)[73] and three entities performing administrative and social functions (*Etablissements publics à caractère administratif, EPA*).[74] It found that:

- *EPICs produce more reliable reports and financial statements than EPAs.* Three of the EPICS analyzed by the mission used appropriate operational and financial tools to manage their programs and monitor their financial performance. The fourth, the National Cereals Marketing Board (OPVN) seems to have major organizational

73. NIGELEC (power distribution), SONIDEP (petroleum products), SPEN (water supply), and OPVN (food products).

74. INRAN (National Agronomic Research Institute), Hôpital National, and the Abdou Moumouni University.

and managerial problems which could affect its long-term viability.

- *The commitment and payment procedures of EPAs are in line with Government regulations.* This is not surprising since most of the accountants working for EPAs are public accountants seconded by the Government. However, at the time of the CFAA mission, the University was the only EPA that had submitted its financial statements for the 2002 fiscal year. INRAN's most recent financial statements date back to 1998.

In order to strengthen the monitoring of the parastatal sector, the CFAA recommends first, that the Government work with the enterprises, mainly EPAs, to improve their capacity to monitor and manage financial performance. Second, the Government should introduce a standard reporting mechanism that would enable the DEPP to receive reports and financial statements from all the enterprises on a timely basis. Finally, the DEPP should conduct an inventory of cross-debts and reconcile data provided by the enterprises with Government accounts.

Debt Management

Niger's public debt remains high and the Government should be vigilant to avoid the recurrence of debt service problems. This is despite past Government efforts to settle part of the domestic debt and the recent external debt relief measures agreed by the donor community.

Domestic Debt. In 1999, the Government performed an inventory of its domestic debt which, as of December 31, 1999, was estimated at FCFA 296 billion. This included debt to private and public suppliers (44 percent), salary arrears (23 percent), debt to the financial sector (18 percent), and debt to Treasury correspondents (15 percent).

In 2000, the Government created the Autonomous Center for Repayment of the Domestic Public Debt (*Centre Autonome d'Amortissement de la Dette Intérieure de l'Etat, CAADIE*), to manage the domestic debt and implement a settlement program financed by transfers from the Treasury. In addition, the allocation of Government-owned land to Government employees was used for the settlement of salary arrears.

As a result of the settlement program, Niger's domestic debt declined by 21 percent from FCFA 296 billion in 1999 to 233 billion by the end of 2002. Settlement of salary arrears through transfers of land was not transparent as it was not based on well-defined criteria for estimating land values. Only 18 percent of the debt to suppliers and banks was settled and the debt to Treasury correspondents was not reduced.

The CFAA recommends three types of measures to improve the management and settlement of Niger's domestic debt:

- Undertake a new, independent evaluation of the domestic debt to determine the validity of claims on Government agencies and decentralized institutions and provide accurate estimates of cross-debts between Government and public enterprises.
- Prepare a new, comprehensive settlement plan based on clear certification and validation criteria on the basis of this evaluation,
- Reconcile Government accounts and enterprise statements annually following the inventory of cross debts.

External Debt. Debt relief in the context of the HIPC initiative has reduced total indebtedness and drastically reduced present and projected debt service ratios (see Table 1-7 in Chapter 1). Government debt policy is sound (no borrowing with a grant element lower than 60 percent), but the debt situation needs to be carefully monitored in view of the structural vulnerability of the Nigerien economy to climatic and other external factors. For this purpose, debt transactions have been computerized.

The number of agencies involved in debt management is in itself a problem. Five MEF departments—Public Debt (DDP), Financing of Investment (DFI), Payment Order (DO), the Treasury (TG), and the Program Directorate (DGP)—are involved in the management of external debt. In addition, the Public Debt Department, the main actor, is unable to monitor and report accurately changes in the external debt position of the country. This is due to the deficiencies in the processing and accounting of debt-related transactions:

- The Treasury records transactions only when the debt is repaid, not when it is incurred.[75] Its monitoring of external debt is performed manually, on a parallel basis, outside regular accounting systems. Information on payments of maturities by the Treasury is not automatically available to DPP.
- The DFI also records loan draw-downs manually, outside regular accounting systems, and does not project future loan disbursements.
- Externally-financed expenditures are not integrated into monthly Treasury balances and are not systematically controlled and monitored by the DFI.[76]
- Data on guaranteed debt are stored in a separate computer file and the DDP is not connected to the computerized financial information system of the DGB.

A major effort is needed to reorganize the debt management process (loan draw-downs and externally-financed expenditures) and improve the circulation of information among the agencies concerned. This effort should be accompanied by the preparation of manuals on the management of external debt and the financing of Government investments.

Institutional and Organizational Reforms and Human Resources Management

The implementation of budget management reforms and, in a broader sense, of the country's poverty reduction strategy will only be successful if accompanied by far-reaching institutional reform of the structure and organization of the Government, coordination of administrative units, and human resource management. Measures such as full integration of investment and recurrent budgets in budgetary management, de-concentration of expenditure procedures and decentralization of provision of public services will require radical changes in the Government's structure and functions.

75. The Treasury does not have access to the debt data base. It cannot monitor the origination of the debt, nor control its repayment.

76. DFI prepares manually—outside accounting systems—estimates for the *TOFE* (Table of Government Financial Operations).

Box 14. Non-financial Assets, Monitoring of Parastatals and Debt Management—Main Recommendations

Non-financial assets

- Establish a mechanism to centralize information on non-financial assets.
- Carry out periodic inventories.

Public enterprises

- Clarify reporting requirements. DEPP should produce periodic reports on cross-debts and reconcile data provided by public enterprises and Government accounts.
- Launch a financial management capacity-building program for public enterprises (mainly EPAs)

Domestic debt

- Organize an external evaluation of domestic debt.
- Prepare a realistic new settlement plan.
- Suspend allocating land parcels until criteria for estimating land values have been defined.
- Define and publicize criteria for verifying requests for payment of domestic debt.

External debt

- Complete the implementation of new software for debt management and connect it to the FMIS.
- Improve the circulation of external debt data among all the departments concerned.

Institutional and Organizational Reforms

The merger of the planning and finance wing of the Government into a single MEF in 2001 was a key step toward better coordinating budgeting and investment planning. It was a logical response to the Government's intention to move to a more programmatic approach to managing public program and a precondition to the fusion of the recurrent and investment budgets through the new budget classifications adopted in 2002. However, the present structure of the MEF continues to reflect the dichotomy between the management of recurrent expenditures and development programs. A second round of restructuring in March 2004 has led to further integration.[77] However, the integration remains incomplete as there is still some overlapping authority and responsibility of the former planning and finance units.

The MEF has a crucial role in devising and implementing public finance management reforms. Adapting its structure and staff profile to the demands of efficient and transparent governance is essential for the success of the reforms. A new, more comprehensive restructuring of the MEF is necessary to provide strengthened public finance management within the PRS framework.

Institutional reforms are particularly important for strengthening internal and external control agencies. The directorate of financial control (DCF) should regain its autonomy and no longer report to the DGB. The legislation proposing the creation of a *Corps d'Inspecteurs des Finances* should be adopted. Finally the Government should resubmit to the National

77. Decree No. 2004-080/PRN/MEF of March 9, 2004.

Assembly the draft *Loi Organique* aimed at transforming the Chamber of Accounts into a Court of Accounts. In the same vein, the normative and accounting functions of the Treasury should be separated.

The dichotomy between management of recurrent expenditures and development programs that persists in sectoral ministries will have to be overcome for a full integration of budget formulation and execution processes. There is also scope for rationalizing the structure of ministries. The multiplicity of ministries dealing with the same sector, notably in education and rural development, does not facilitate the promotion of a strategic sector-wide approach to sector management.

Improvement of the exchange of information between key departments within the MEF and between the MEF and other agencies (line ministries and decentralized institutions) is a key element of public finance reform. An urgent next step is to improve the computerized financial information system managed by the DGB and to make it accessible to DCF, DFI, DDP and other MEF departments. It should then be extended to line ministries and managers of *crédits délégués.* This could go a long way to accelerating the budget execution process and improving the monitoring of the public finances

Human Resource Management

Two conflicting objectives complicate Government human resource management policies: the need to limit the size of the civil service to control recurrent expenditures and keep fiscal deficits in check and the need to provide a public sector workforce of the size and quality necessary to implement the Government's poverty reduction strategy. For example, increasing school enrollment rates and improving access to health services will require a substantial expansion in the number of teachers and health workers.

To meet the first objective, the Government is currently only recruiting very limited numbers of civil service personnel, mainly to replace departing personnel. Its medium-term goal is to comply with WAEMU's convergence criterion, which limits wages and salaries to a ceiling of 35 percent of tax revenue. The freeze on recruitment has already reduced the number of civil servants from 39,597 in 2000 to 38,303 in 2003, and the Government is very close to complying with WAEMU's convergence criteria.

To meet the second objective, the Government has begun to recruit a number of lower-paid contract workers for the social sectors. The Government has been able to recruit 12,760 contract primary school teachers and 942 contract workers for basic health services. The use of contract staff has considerably reduced the unit costs of primary education and has facilitated the rapid increase in primary school enrollment over the past few years (see Chapter 2). One of the features of this policy is the direct contracting of teachers and health workers by local authorities and local management committees (COGES). This ensures that teachers and health professionals serve where they are most needed, including remote and underdeveloped regions.

This policy involves certain risks. First, the Government may have to recruit under qualified candidates. This may strain the training and supervision capacity of the sector. Second, because of their number, contract teachers have acquired political leverage. This enabled them to obtain significant salary increases in 2003 and they will probably seek additional benefits over the next few years. The advantages of the contract teacher policy would rapidly erode if pressures for salary adjustments were to raise unit costs beyond the level reached following adjustments decided in 2003.

This suggests the following strategy:

- *The Government should continue to recruit contractual workers, while improving training and supervision, as long as it is possible to maintain the present cost advantage over regular civil servants.* Should the salary levels of contractual workers be raised substantially, the Government would have to reduce recruitment, which would probably mean scaling down its objectives in terms of school enrollment and access to other social sector services.
- *Efforts should continue to be made to control the size and the cost of the civil service.* The Government should undertake an inventory of all its employees to eliminate "ghost workers" from the payroll. To improve its monitoring of civil service staff, the Government should develop a reliable staff management information system, which connects staff files kept by line ministries, files of the Ministry of Civil Service and Labor *(Ministère de la Fonction Publique et du Travail, MFP/T)* on payroll and MEF data on the payment of salaries and wages.
- *For the long-term, a major civil service reform is unavoidable.* Its objective would be to control cost, increase productivity and improve the quality of public service through: (i) better planning of staff recruitment based on needs; (ii) improved selection procedures and matching recruitment with job profiles; and (iii) introducing performance-based promotions and rewards systems and, eventually, developing a modern, cost-effective and results-oriented civil service and public administration system.

Box 15. Institutional and Organizational Reforms and Human Resources Management—Main Recommendations

Institutional and organizational reforms

- Conduct an organizational audit of MEF.

Human resources management issues

- Continue to control the size of civil service (through limited recruitments).
- Continue implementing the contractualization policy for key social sector ministries.
- Control the increase in cost of the contractualization policy (revise social sector objectives if necessary to take into account required staff reductions as a result of increases in unit costs).

APPENDIXES

APPENDIX A

Macroeconomic and Government Finance Tables

Appendix A.1: Financing of Government Overall Fiscal Deficits
Cash basis (FCFA billion), 1995–2003

								Average	
	1997	1998	1999	2000	2001	2002	2003[a]	1998–2000	2001–2003
Financing	**92.9**	**104.7**	**74.3**	**216.2**	**129.8**	**150.6**	**131.5**	**131.7**	**137.3**
External financing	**87.0**	**118.4**	**67.0**	**236.3**	**120.5**	**139.9**	**134.2**	**140.6**	**131.5**
Grants	**49.2**	**65.4**	**56.8**	**59.3**	**66.5**	**74.6**	**76.0**	**60.5**	**72.4**
Budget financing	18.1	26.7	12.1	22.2	25.7	18.6	25.1	20.3	23.1
Project financing	31.1	38.7	44.7	37.1	32.7	45.8	39.4	40.2	39.3
HIPC Initiative Assistance	. . .	. . .	. . .	0.1	8.1	10.3	11.5	0.1	10.0
Loans	**42.1**	**52.0**	**26.6**	**54.7**	**53.7**	**78.0**	**68.4**	**44.4**	**66.7**
Budget financing	24.2	30.5	8.1	26.3	30.4	44.2	32.8	21.6	35.8
Project financing	17.9	21.4	18.5	28.4	23.3	33.8	35.6	22.8	30.9
Amortization[b]	**–18.5**	**–25.7**	**–23.8**	**–35.4**	**–41.3**	**–46.2**	**–38.6**	**–28.3**	**–42.0**
Debt relief obtained	**14.1**	**26.8**	**7.5**	**157.7**	**25.0**	**18.8**	**20.3**	**64.0**	**21.3**
Recurrent debt	14.1	14.0	7.5	4.6	25.0	18.8	16.6	8.7	20.1
Arrears	0.0	12.7	0.0	153.1	0.0	0.0	0.0	55.3	0.0
HIPC Initiative assistance[c]	. . .	. . .	0.0	0.0	0.0	0.0	3.7	0.0	1.2
Debt under discussion	. . .	. . .	. . .	. . .	**16.6**	**14.7**	**8.1**	. . .	**13.1**
Domestic financing	**5.9**	**–13.7**	**7.2**	**–20.2**	**9.3**	**10.7**	**–2.7**	**–8.9**	**5.8**
Banking sector	9.4	–11.0	7.8	–28.6	5.0	5.1	4.2	–10.6	4.7
Of which: IMF (net)	. . .	. . .	–3.7	6.7	6.9	12.9	8.2	1.5	9.3
Non-banking sector	–3.5	–4.0	–0.6	0.0	–0.7	8.6	–4.3	–1.5	1.2
Privatization receipts (net)	0.0	1.3	0.0	8.5	5.0	–3.0	–2.5	3.3	–0.2
Financing gap (+)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**–0.1**	**0.0**	**0.0**

[a] Government, World Bank and IMF estimates, April 2004.
[b] In 2001, includes payment of end-1999 external payment arrears vis-à-vis the African Development Bank (AfDB) and the OPEC Fund, as agreed in the rescheduling agreements. In 2002, includes payment of end-1999 external payments arrears vis-à-vis the OPEC Fund, Libya, the Saudi Fund for Development and a commercial bank. In 2003, includes payment of external arrears vis-à-vis the European Investment Bank.
[c] Includes in the 2002 program assistance from IDA and the AfDB that are now classified as grants. For 2003, includes assistance provided through a rescheduling of recurrent maturities by Paris Club creditors (up to the completion point), China, and a portion of the relief from the Islamic Development Bank (IsDB), and the OPEC Fund.
Sources: MEF, World Bank, and IMF.

Appendix A.2: Sources of Net Official Development Assistance, 1997–2001
In US$ million

	1997	1998	1999	2000	2001
Bilateral	**181.2**	**144.6**	**120.2**	**105.8**	**113.6**
France	94.6	66.1	44.9	41.3	37.0
Japan	13.6	11.4	15.9	15.0	13.0
Germany	17.4	20.5	17.7	11.6	15.7
Belgium	3.9	4.5	9.2	9.8	12.7
Switzerland	5.6	6.4	7.2	7.8	7.3
United States	16.0	10.8	6.5	5.3	8.0
Denmark	2.9	3.5	5.6	4.9	5.6
Multilateral	**141.2**	**145.9**	**66.3**	**105.1**	**133.8**
IDA	44.9	42.8	19.3	59.8	64.7
European Union	40.5	46.0	19.2	13.3	38.9
IMF	17.3	19.8	–4.1	9.4	9.5
UNDP	3.9	4.4	5.4	5.5	5.0
WFP	8.1	5.7	2.0	3.0	NA
AfDB	17.9	14.9	12.3	0.1	5.0
Total incl. others	**332.9**	**291.6**	**187.1**	**211.0**	**257.1**
Out of which: grants	262.5	230.2	177.4	160.4	199.1

Source: OECD, *Geographical Distribution of Financial Flows to Aid Recipients* (2003).

Appendix A.3: Selected Economic and Financial Indicators, 2004–2007

Variables	2004	2005	2006	2007
National income and prices	(Annual percentage change)			
GDP at constant prices	4.1	4.1	4.1	4.2
GDP deflator	1.1	2.0	2.0	2.0
Consumer price index				
Annual average	0.4	2.0	2.0	2.0
End of period	1.8	2.0	2.0	2.0
Government finances	In percent of GDP			
Total revenue	10.3	10.9	11.4	11.9
Total expenditure and net lending, of which:	18.6	17.9	18.2	17.7
Recurrent expenditure	9.9	9.6	9.4	9.3
Capital expenditure	8.7	8.3	8.8	8.4
Primary budget balance[/a]	–7.7	–6.4	–6.2	–5.2
Basic balance (excluding grants)[/b]	–1.4	–0.2	0.4	1.2
Overall balance (commitment basis, excl. grants)[/c]	–8.3	–7.0	–6.8	–5.7
Overall balance (commitment basis, incl. grants)[/c]	–4.5	–3.6	–2.7	–1.6
Investment-Savings	In percent of GDP			
Gross investment	16.1	15.9	16.6	16.3
Gross national savings	8.2	9.5	10.7	11.2
External recurrent account balance	In percent of GDP			
Excluding grants for budgetary assistance	–7.9	–6.4	–5.9	–5.1
Including grants for budgetary assistance	–7.9	6.4	–5.9	–5.1
External public debt (end of period)[/d]	62.7	62.9	62.0	60.2
Debt service ratio (before debt relief) in % of:	In percent			
Exports of goods and services	12.4	8.9	9.5	9.8
Government revenue	21.0	15.1	15.1	14.7
	In billion of CFA francs			
GDP at recurrent market prices	1670.8	1774.1	1884.5	2003.6
Government payments arrears (reduction –), of which:	–18.5	–18.4	–15.0	–10.0
Domestic	–18.5	–18.4	–15.0	–10.0
External	0.0	0.0	0.0	0.0
Overall balance of payments[/e]	–58.4	–32.4	–18.5	–7.8

[/a]Total revenue, excluding grants, minus total expenditure, excluding interest payments.
[/b]Total revenue, excluding grants, minus total expenditure, excluding foreign-financed investment projects.
[/c]Projections include grants for projects and HIPC Initiative assistance.
[/d]Including obligations to IMF.
[/e]Before debt relief (Projections include financing gap)
Sources: IMF and World Bank Staff estimates and projections.

APPENDIX B

Public Expenditure Data

Appendix B.1: Total Public Expenditures

- Source: MEF, electronic budget database (*situations des crédits*), except for debt service (IMF).
- Includes *externally-financed capital expenditures* (intra- and extra-budget).
- All figures in FCFA billion.
- Does not include 2003 data, as data on externally financed capital expenditure by sectors is not yet available (as of October 2004).

Appendix B.1 a). Total Public Expenditures, 2000 Allocations (Budget Law)

Sectors	Recurrent expenditures: Wages and salaries	Goods and services	Transfers and subsidies	TOTAL	Capital expenditures	TOTAL
General public services, public order and defense	15.96	20.50	0.56	37.02	7.14	44.16
Rural development	2.22	2.35	0.82	5.39	26.09	31.48
Water and environment	1.54	0.37	0.89	2.79	17.26	20.05
Equipment and transport	0.96	0.28	4.22	5.45	41.04	46.49
Health	5.08	7.56	4.56	17.20	19.24	36.44
Education	22.86	7.60	2.50	32.95	9.35	42.30
Social development	0.33	0.16	0.02	0.50	1.18	1.69
Other	4.85	5.90	14.02	24.77	15.76	40.53
TOTAL (excluding debt service)	53.79	44.72	27.58	126.08	137.06	263.15
TOTAL (including debt service)				177.02		314.09

Appendix B.1 b). Total Public Expenditures, 2000 Execution (Payment Orders)

Sectors	Recurrent expenditures: Wages and salaries	Goods and services	Transfers and subsidies	TOTAL	Capital expenditures	TOTAL
General public services, public order and defense	18.26	17.95	0.20	36.41	3.06	39.47
Rural development	2.10	0.56	0.35	3.01	11.54	14.55
Water and environment	1.44	0.35	0.13	1.91	11.36	13.28
Equipment and transport	0.78	0.21	0.04	1.04	15.17	16.21
Health	4.88	3.30	2.17	10.35	18.43	28.78
Education	24.81	5.52	2.96	33.29	6.94	40.23
Social development	0.38	0.11	0.00	0.50	1.84	2.34
Other	4.62	2.99	6.46	14.07	5.26	19.34
TOTAL (excluding debt service)	57.27	31.00	12.31	100.58	73.62	174.20
TOTAL (including debt service)				157.58		231.20

Appendix B.1 c). Total Public Expenditures, 2001 Allocations (Budget Law)

Sectors	Recurrent expenditures: Wages and salaries	Goods and services	Transfers and subsidies	TOTAL	Capital expenditures	TOTAL
General public services, public order and defense	15.38	19.94	1.02	36.34	7.83	44.18
Rural development	1.46	0.73	1.75	3.95	25.67	29.62
Water and environment	2.11	2.04	0.95	5.10	20.63	25.73
Equipment and transport	0.90	0.19	4.72	5.81	27.12	32.93
Health	4.83	8.28	4.33	17.44	19.78	37.22
Education	21.64	8.39	2.50	32.53	7.66	40.18
Social development	0.31	0.15	0.15	0.61	4.79	5.40
Other	4.31	4.88	9.04	18.22	10.95	29.18
TOTAL (excluding debt service)	50.95	44.60	24.46	120.01	124.44	244.45
TOTAL (including debt service)						313.33

Appendix B.1 d). Total Public Expenditures, 2001 Execution (Payment Orders)

Sectors	Recurrent expenditures: Wages and salaries	Goods and services	Transfers and subsidies	TOTAL	Capital expenditures	TOTAL
General public services, public order and defense	19.20	21.03	0.72	40.94	6.20	47.14
Rural development	2.15	0.59	2.09	4.83	22.79	27.62
Water and environment	2.02	1.79	0.47	4.28	15.56	19.84
Equipment and transport	0.61	0.19	1.68	2.48	5.58	8.06
Health	4.98	5.28	3.48	13.74	19.65	33.39
Education	23.79	6.49	2.72	33.00	9.97	42.97
Social development	0.37	0.14	0.09	0.60	3.99	4.59
Other	4.30	4.26	8.67	17.24	6.88	24.11
TOTAL (excluding debt service)	57.43	39.76	19.93	117.12	90.61	207.73
TOTAL (including debt service)				183.82		274.43

Appendix B.1 e). Total Public Expenditures, 2002 Allocations (Budget Law)

Sectors	Recurrent expenditures: Wages and salaries	Goods and services	Transfers and subsidies	Wages and salaries	Capital expenditures	TOTAL
General public services, public order and defense	16.40	21.96	1.37	39.73	6.51	46.24
Rural development	2.11	2.15	3.33	7.59	35.96	43.55
Water and environment	1.45	0.50	0.64	2.59	21.18	23.77
Equipment and transport	0.90	0.18	4.00	5.08	32.52	37.60
Health	4.83	8.31	4.73	17.86	21.14	39.00
Education	25.42	9.44	4.30	39.16	19.20	58.36
Social development	0.32	0.18	0.25	0.74	1.33	2.07
Other	4.02	5.51	9.74	19.26	5.70	24.96
TOTAL (excluding debt service)	55.44	48.22	28.36	132.03	143.55	275.57
TOTAL (including debt service)				202.47		346.01

Appendix B.1 f). Total Public Expenditures, 2002 Execution (Payment Orders)

Sectors	Recurrent expenditures: Wages and salaries	Goods and services	Transfers and subsidies	TOTAL	Capital expenditures	TOTAL
General public services, public order and defense	21.67	19.14	0.88	41.69	5.98	47.67
Rural development	2.11	1.49	1.55	5.15	22.60	27.75
Water and environment	1.47	0.37	0.41	2.25	23.09	25.34
Equipment and transport	0.72	0.15	2.55	3.42	18.05	21.47
Health	5.22	5.51	4.43	15.17	19.91	35.08
Education	29.80	8.12	4.27	42.20	14.95	57.14
Social development	0.39	0.14	0.16	0.69	1.06	1.75
Other	4.57	3.85	11.87	20.28	7.41	27.70
TOTAL (excluding debt service)	65.95	38.77	26.12	130.84	113.05	243.89
TOTAL (including debt service)				199.64		312.69

Appendix B.2. Domestically-financed Public Expenditures

- Source: MEF, electronic budget database (*situations des crédits*), except for debt service (IMF).
- Includes *only domestically-financed capital expenditures.*
- All figures in FCFA billion.
- Does include 2003 data.

Appendix B.2 a). Domestically-financed Public Expenditures, 2000 Allocations (Budget Law)

	Recurrent expenditures					
Sectors	Wages and salaries	Goods and services	Transfers and subsidies	Wages and salaries	Capital expenditures (domestic)	TOTAL
General public services, public order and defense	15.96	20.50	0.56	37.02	3.81	40.83
Rural development	2.22	2.35	0.82	5.39	2.96	8.35
Water and environment	1.54	0.37	0.89	2.79	1.86	4.65
Equipment and transport	0.96	0.28	4.22	5.45	4.97	10.42
Health	5.08	7.56	4.56	17.20	2.82	20.02
Education	22.86	7.60	2.50	32.95	2.61	35.56
Social development	0.33	0.16	0.02	0.50	0.34	0.84
Other	4.85	5.90	14.02	24.77	4.03	28.81
TOTAL (excluding debt service)	53.79	44.72	27.58	126.08	23.40	149.48
TOTAL (including debt service)				177.02		200.42

Appendix B.2 b). Domestically-financed Public Expenditures, 2000 Execution (Payment Orders)

	Recurrent expenditures					
Sectors	Wages and salaries	Goods and services	Transfers and subsidies	TOTAL	Capital expenditures	TOTAL
General public services, public order and defense	18.26	17.95	0.20	36.41	0.66	37.07
Rural development	2.10	0.56	0.35	3.01	1.18	4.19
Water and environment	1.44	0.35	0.13	1.91	1.16	3.08
Equipment and transport	0.78	0.21	0.04	1.04	1.53	2.56
Health	4.88	3.30	2.17	10.35	1.85	12.20
Education	24.81	5.52	2.96	33.29	0.70	33.99
Social development	0.38	0.11	0.00	0.50	0.19	0.69
Other	4.62	2.99	6.46	14.07	0.88	14.96
TOTAL (excluding debt service)	57.27	31.00	12.31	100.58	8.15	108.73
TOTAL (including debt service)				157.58		165.73

Appendix B.2 c). Domestically-financed Public Expenditures, 2001 Allocations (Budget Law)

	Recurrent expenditures					
Sectors	Wages and salaries	Goods and services	Transfers and subsidies	Wages and salaries	Capital expenditures	TOTAL
General public services, public order and defense	15.38	19.94	1.02	36.34	3.90	40.24
Rural development	1.46	0.73	1.75	3.95	3.37	7.32
Water and environment	2.11	2.04	0.95	5.10	2.16	7.26
Equipment and transport	0.90	0.19	4.72	5.81	3.20	9.02
Health	4.83	8.28	4.33	17.44	2.85	20.29
Education	21.64	8.39	2.50	32.53	2.43	34.96
Social development	0.31	0.15	0.15	0.61	0.90	1.52
Other	4.31	4.88	9.04	18.22	4.42	22.64
TOTAL (excluding debt service)	50.95	44.60	24.46	120.01	23.24	143.25
TOTAL (including				188.89		212.13

Appendix B.2 d). Domestically-financed Public Expenditures, 2001 Execution (Payment Orders)

Sectors	Recurrent expenditures: Wages and salaries	Goods and services	Transfers and subsidies	TOTAL	Capital expenditures	TOTAL
General public services, public order and defense	19.20	21.03	0.72	40.94	4.05	44.99
Rural development	2.15	0.59	2.09	4.83	5.58	10.41
Water and environment	2.02	1.79	0.47	4.28	2.91	7.19
Equipment and transport	0.61	0.19	1.68	2.48	1.51	3.99
Health	4.98	5.28	3.48	13.74	4.43	18.18
Education	23.79	6.49	2.72	33.00	2.99	35.99
Social development	0.37	0.14	0.09	0.60	1.26	1.86
Other	4.30	4.26	8.67	17.24	4.02	21.26
TOTAL (excluding debt service)	57.43	39.76	19.93	117.12	26.75	143.86
TOTAL (including debt service)				183.82		210.56

Appendix B.2 e). Domestically-financed Public Expenditures, 2002 Allocations (Budget Law)

Sectors	Recurrent expenditures: Wages and salaries	Goods and services	Transfers and subsidies	Wages and salaries	Capital expenditures	TOTAL
General public services, public order and defense	16.40	21.96	1.37	39.73	4.39	44.13
Rural development	2.11	2.15	3.33	7.59	4.32	11.91
Water and environment	1.45	0.50	0.64	2.59	2.11	4.70
Equipment and transport	0.90	0.18	4.00	5.08	3.65	8.72
Health	4.83	8.31	4.73	17.86	3.54	21.40
Education	25.42	9.44	4.30	39.16	5.37	44.54
Social development	0.32	0.18	0.25	0.74	0.29	1.03
Other	4.02	5.51	9.74	19.26	3.84	23.10
TOTAL (excluding debt service)	55.44	48.22	28.36	132.03	27.50	159.53
TOTAL (including debt service)				202.47		229.97

Appendix B.2 f). Domestically-financed Public Expenditures, 2002 Execution (Payment Orders)

	Recurrent expenditures					
Sectors	Wages and salaries	Goods and services	Transfers and subsidies	Wages and salaries	Capital expenditures	TOTAL
General public services, public order and defense	21.67	19.14	0.88	41.69	3.63	45.32
Rural development	2.11	1.49	1.55	5.15	3.78	8.93
Water and environment	1.47	0.37	0.41	2.25	3.14	5.39
Equipment and transport	0.72	0.15	2.55	3.42	2.77	6.19
Health	5.22	5.51	4.43	15.17	3.38	18.55
Education	29.80	8.12	4.27	42.20	3.80	45.99
Social development	0.39	0.14	0.16	0.69	0.29	0.98
Other	4.57	3.85	11.87	20.28	3.70	23.98
TOTAL (excluding debt service)	65.95	38.77	26.12	130.84	24.50	155.34
TOTAL (including debt service)				199.64		224.14

Appendix B.2 g). Domestically-financed Public Expenditures, 2003 Allocations (Budget Law)

	Recurrent expenditures					
Sectors	Wages and salaries	Goods and services	Transfers and subsidies	TOTAL	Capital expenditures	TOTAL
General public services, public order and defense	21.81	19.57	5.49	46.87	5.53	52.40
Rural development	2.46	2.10	3.62	8.19	4.41	12.61
Water and environment	1.40	0.25	0.62	2.27	5.10	7.37
Equipment and transport	1.06	1.09	4.86	7.01	4.17	11.18
Health	5.53	5.80	5.66	16.99	4.40	21.39
Education	27.30	3.99	8.18	39.46	3.58	43.04
Social development	0.37	0.03	0.38	0.79	0.86	1.65
Other	4.54	17.31	11.36	33.21	2.32	35.53
TOTAL (excluding debt service)	64.48	50.14	40.17	154.79	30.37	185.16
TOTAL (including debt service)				214.33		244.70

Appendix B.2 h). Domestically-financed Public Expenditures, 2003 Execution (Payment Orders)

	Recurrent expenditures					
Sectors	Wages and salaries	Goods and services	Transfers and subsidies	TOTAL	Capital expenditures	TOTAL
General public services, public order and defense	20.52	15.11	4.51	40.13	3.50	43.63
Rural development	1.91	1.33	2.40	5.64	3.08	8.72
Water and environment	1.37	0.19	0.35	1.91	4.55	6.46
Equipment and transport	0.65	0.93	1.29	2.86	2.58	5.44
Health	4.74	1.80	5.06	11.60	5.92	17.52
Education	27.67	3.08	6.36	37.11	4.72	41.82
Social development	0.36	0.01	0.19	0.55	1.35	1.90
Other	4.25	14.21	6.81	25.27	1.05	26.32
TOTAL (excluding debt service)	61.46	36.66	26.96	125.08	26.74	151.82
TOTAL (including debt service)				180.28		207.02

APPENDIX C

Methodology of Public Expenditure Reclassification Exercise

Appendix C.1. Objectives and Main Tasks

In order to assess consistency between Government spending and strategic priorities of the Government, the presentation of budget data had to be transformed from the administrative categories used in the old budget classification (pre-2003) to a functional presentation (by sectors). The following measures were taken for this purpose:

- Convert the administrative budget classification used in the old budget classification (pre-2003) into a functional classification.
- Re-allocate the budget lines containing general expenditures (*dépenses communes*) at pro-rata to the different sectors.

In order to produce an exhaustive picture of allocation and use of public resources, data on externally financed investment spending had to be added to the general budget data. This was done as follows:

- Classify expenditures undertaken as part of externally-financed investment projects, which are presented by the DFI in a separate classification for 2000, 2001 and 2002, according to the categories used in the general budget.

In order to ensure year-to-year comparability of data sets, the following measures were taken:

- Adapt the presentation of budget data in the old classification to render it comparable to the new classification.
- Adapt the presentation of budget data to ensure compatibility between budget years following re-arrangements in composition of ministries and institutions.

Appendix C.2. List of Reclassifications and Explanations

(This list is presented in French, as it can only be understood in the context of Niger's Budget Laws.)

In 2000–2001–2002 (old classification)

1) Fusion des titres 2 et 3 au sein des chapitres personnel (1), matériel (2), transport (3) et logement (4);

2) Passage des **contractuels** du Ministère de l'Education de Base I et de l'Alphabétisation et du Ministère de l'Enseignement Secondaire et Supérieur et de la Recherche Technologique dans les dépenses de personnel (361-2 ou 461, 306-2 > 361-1, 306-1);

3) Soustraction des lignes **« fiscalité compensée »** et **« contribution au budget d'investissement »** des dépenses de transfert du Ministère de l'Economie et des Finances afin d'éviter une double comptabilisation avec les données désagrégées du budget d'investissement de l'Etat (447);

4) Reclassement, **en 2000 et 2001,** des **dépenses de fonctionnement spécifiques à l'enseignement du second degré** du Ministère de l'Education de Base et de l'Alphabétisation vers le Ministère de l'Enseignement Secondaire et Supérieur et de la Recherche Technologique afin de rendre comparables les budgets respectifs des ministères avant et après le passage de l'enseignement secondaire du premier au second ministère (lignes identifiées du second degré 361-2, 361-3, 361-4 > 306-2, 306-3, 306-4);

5) Retraitement des dépenses communes de personnel (titre 2 et 3) comme suit:
   - Redistribution égale entre les sections des **dépenses communes de personnel du titre 2** (290-1 > toutes les sections-1);
   - Redistribution des **dépenses communes de personnel du titre 3** au prorata des dépenses initiales de personnel de toutes les sections (390-1 > toutes les sections-1);

6) Retraitement des **dépenses communes de matériel** (titres 2 et 3) comme suit:
   - Redistribution égale entre les sections des **dépenses communes de matériel du titre 2** (290-2 > toutes les sections-2);
   - Reclassement des lignes **« appui à la décentralisation »** et **« dépenses électorales »** au matériel du Ministère de l'Intérieur (390-2 > 325-2);
   - Reclassement de la ligne **« remises DGI-TG-Adm centrale »** au personnel du Ministère de l'Economie et des Finances (390-2 > 347-1);
   - Redistribution des lignes **« gratifications », « primes et remises diverses »** et **« service civique national »** au prorata des dépenses initiales de personnel de toutes les sections (390-2 > toutes les sections-1);
   - Redistribution des **autres dépenses communes de matériel du titre 3** au prorata des dépenses initiales de matériel de toutes les sections (390-2 > toutes les sections-2);

7) Redistribution des **dépenses communes de transport** au prorata des dépenses initiales de transport propres aux structures (390-3 > toutes les sections-3);

8) Redistribution égale des **dépenses communes de logement** entre toutes les structures (390-4 > toutes les sections-4);

9) Reclassement des dépenses de fonctionnement du **centre de l'informatique et des nouvelles technologies** du Cabinet du Premier Ministre vers le Ministère de la Communication (303-2 > 308-2);

10) Reclassement des dépenses de fonctionnement de la **cellule crise alimentaire,** du **système d'alerte précoce** et du **système d'information sur les marchés** du Cabinet du Premier Ministre vers le Ministère du Développement Agricole (303-2 > 354-2);

11) Reclassement des dépenses de fonctionnement du **haut-commissariat au barrage de Kandadji** du Cabinet du Premier Ministre vers le Ministère des Mines et de l'Energie (303-2 > 359-2);

12) Reclassement des dépenses de fonctionnement du **haut-commissariat à la réforme de l'Etat et à la décentralisation** du Cabinet du Premier Ministre vers le Ministère de l'Intérieur (203-2, 303-2 > 225-2, 325-2);

13) Reclassement des dépenses de fonctionnement du **conseil national de l'environnement et du développement durable** du Cabinet du Premier Ministre vers le Ministère de l'Hydraulique, de l'Environnement et de la Lutte contre la Désertification (303-2 > 360-2);

14) Reclassement des dépenses de fonctionnement du **programme national de lutte contre le SIDA** de la Présidence vers le Ministère de la Santé (305-2 > 364-2);

15) Reclassement des dépenses de fonctionnement du **conseil supérieur de la magistrature** de la Présidence vers le Ministère de la Justice (305-2 > 317-2);

16) Reclassement des dépenses de fonctionnement du **conseil national solaire** de la Présidence vers le Ministère des Mines et de l'Energie (305-2 > 359-2);

17) Reclassement des lignes de transfert **« dotation au fonds de la décentralisation »** et **« subventions aux partis politiques »** du Ministère de l'Economie et des Finances vers le Ministère de l'Intérieur (447 > 425);

18) Reclassement des lignes de transfert **« programme d'urgence SAP »** et **« sécurité alimentaire »** du Ministère de l'Economie et des Finances vers le Ministère du Développement Agricole (447 > 454);

19) Reclassement de **dépenses d'investissement effectuées sur ressources PPTE** imputées dans les dépenses communes de transfert au:
   - Ministère du Développement Agricole pour les **puits pastoraux** (490 > investissement 54);
   - Ministère de l'Hydraulique, de l'Environnement et de la Lutte contre la Désertification pour les **mini-barrages** (490 > investissement 60);
   - Ministère de l'Education de Base I et de l'Alphabétisation pour les **constructions et équipements de classes primaires** (490 > investissement 61);
   - Ministère de la Santé Publique et de Lutte contre les Endémies pour les **constructions et équipements de cases et centres de santé communautaires** (490 > investissement 64);
   - Ministère du Développement Social pour les **actions spécifiques pour les femmes** (490 > investissement 65);
   - Cabinet du Premier Ministre pour la **préparation du DSRP** mais au titre 3 étant entendu qu'il s'agit de dépenses de fonctionnement (490 > 303-2);

20) Reclassement des **investissements** projet par projet à partir des rapports d'exécution annuels 2000, 2001 et 2002 produits par la Direction du Financement des Investissements et de la Dette (y compris, en exécution, les projets recensés par la DFID mais non pris en compte dans le BIE voté).

In 2003–2004 (new classification)

21) Passage des **contract teachers** du Ministère de l'Education de Base I et de l'Alphabétisation, du Ministère de l'Enseignement Secondaire et Supérieur et de la Recherche Technologique et du Ministère de la Santé Publique et de la Lutte contre les Endémies dans les dépenses de personnel (461, 406, 464 > 261, 206, 264);

22) Reclassement, en 2003, du **transfert à la CAFER** du titre 5 vers le titre 4 du Ministère de l'Equipement (558 > 458)

23) Redistribution pondérée entre les ministères de la **rémunération des membres du Gouvernement** (247 > titre 2 de tous les ministères);

24) Redistribution au prorata de la masse salariale initiale des structures des **cotisations à la CNSS** et de toutes les **dépenses communes de personnel** imputées au Ministère de l'Economie et des Finances (247 > titre 2 de toutes les sections);

25) Redistribution au prorata de la masse salariale initiale des structures de la **contribution au FNR** Ministère de l'Economie et des Finances (447 > titre 2 de toutes les sections);

26) Reclassement des dépenses de fonctionnement et d'investissement du **centre de l'informatique et des nouvelles technologies,** des dépenses de fonctionnement et d'investissement de **l'institut africain d'informatique** et du **projet d'appui aux nouvelles technologies** du Cabinet du Premier Ministre vers le Ministère de la Communication (303, 503 > 308, 508);

27) Reclassement des dépenses de fonctionnement et d'investissement de la **cellule crise alimentaire** et du **système d'alerte précoce** du Cabinet du Premier Ministre vers le Ministère du Développement Agricole (303, 503 > 354, 554);

28) Reclassement des dépenses de fonctionnement du **haut-commissariat au barrage de Kandadji** et du **programme barrage de Kandadji** du Cabinet du Premier Ministre vers le Ministère des Mines et de l'Energie (303 > 359);

29) Reclassement des dépenses de fonctionnement et d'investissement du **haut-commissariat à la réforme de l'Etat et à la décentralisation** du Cabinet du Premier Ministre vers le Ministère de l'Intérieur (303, 503 > 325, 525);

30) Reclassement des dépenses de fonctionnement et d'investissement du **conseil national de l'environnement et du développement durable,** du **projet d'appui institutionnel au CNEDD** et du **programme national environnement et développement durable** du Cabinet du Premier Ministre vers le Ministère de l'Hydraulique, de l'Environnement et de la Lutte contre la Désertification (303, 503 > 360, 560);

31) Reclassement des dépenses de fonctionnement et d'investissement de la **coordination intersectorielle de lutte contre les IST/VIH/SIDA et du projet VIH SIDA** du Cabinet du Premier Ministre vers le Ministère de la Santé (303, 503 > 364, 564);

32) Reclassement de la ligne d'investissement **« réhabilitation de l'ENA »** du Cabinet du Premier Ministre vers le Ministère de la Fonction Publique et du Travail (503 > 541);

33) Reclassement des dépenses de fonctionnement du **programme national de lutte contre le SIDA** de la Présidence vers le Ministère de la Santé (305 > 364);

34) Reclassement des dépenses de fonctionnement du **conseil supérieur de la magistrature** de la Présidence vers le Ministère de la Justice (305 > 317);

35) Reclassement des dépenses de fonctionnement du **conseil national solaire** de la Présidence vers le Ministère des Mines et de l'Energie (305 > 359);

36) Reclassement au titre 3, pour toutes les structures et en prenant en compte les retraitements précédents, des **dépenses d'investissements internes aux administrations,** classées en fonctionnement dans l'ancienne nomenclature, afin de rendre comparables les données de 2003–2004 avec celles de 2000–2002 (investissements des administrations 5XX > 3 XX);

37) Redistribution des lignes **« fiscalité compensée »** et **« contrepartie de nouveaux projets »** entre tous les ministères au prorata des investissements financés sur ressources extérieures (447 > 5XX)

38) Redistribution égale entre toutes les sections de la ligne **« subventions aux EPA »** du Ministère de l'Economie et des Finances (447 > 4XX)

39) Reclassement des lignes de transfert **« secours et aide sociale », « frais de soins médicaux et hospitalisation »** et **« frais médicaux malades »** du Ministère de l'Economie et des Finances vers le Ministère de la Santé (447 > 464);

40) Reclassement des lignes de transfert **« maintien de la paix », « consolidation de la paix »** et **« subvention au compte spécial affrètement d'avions »** du Ministère de l'Economie et des Finances vers le Ministère de la Défense (447 > 415);

41) Reclassement des lignes de transfert **« sécurité », « installation des nouvelles communes », « dotation au fonds de la décentralisation »** et **« subventions aux partis politiques »** du Ministère de l'Economie et des Finances vers le Ministère de l'Intérieur (447 > 425);

42) Reclassement des lignes de transfert **« subvention à l'importation de l'électricité »** et **« subvention pétrole lampant »** du Ministère de l'Economie et des Finances vers le Ministère des Mines et de l'Energie (447 > 459);

43) Reclassement des lignes de transfert **« programme d'urgence SAP »** et **« sécurité alimentaire »** du Ministère de l'Economie et des Finances vers le Ministère du Développement Agricole (447 > 454);

44) Reclassement de **dépenses d'investissement effectuées sur ressources PPTE** imputées au Ministère de l'Economie et des Finances au :

- Ministère du Développement Agricole pour les **puits et forages pastoraux et villageois** ainsi que les **aménagements hydro-agricoles** (547 > 554);
- Ministère de l'Hydraulique, de l'Environnement et de la Lutte contre la Désertification pour les **mini-barrages et seuils d'épandage** (547 > 560);
- Ministère de l'Education de Base I et de l'Alphabétisation pour les **constructions et équipements de classes primaires** (547 > 561);
- Ministère de la Santé Publique et de Lutte contre les Endémies pour les **constructions et équipements de cases et centres de santé communautaires** (547 > 564);
- Ministère du Développement Social pour les **actions spécifiques pour les femmes** et les **crédits groupements féminins** (547 > 565);
- Ministère des Ressources Animales pour les **constructions et équipements de cases vétérinaires** ainsi que le **programme de crédit vaches laitières** (547 > 555);
- Ministère de la Jeunesse et de l'Insertion Professionnelle des Jeunes pour les **crédits jeunes diplômés** (547 > 511);
- Cabinet du Premier Ministre pour la **préparation du DSRP** mais au titre 3 étant entendu qu'il s'agit de dépenses de fonctionnement (547 > 303);

45) Reclassement du **recensement général de la population et de l'habitat,** du **programme UNICEF** et du **projet d'appui au suivi-évaluation en matière de développement et de population** du Ministère de l'Economie et des Finances vers le Ministère du Développement Social (547 > 565);

46) Reclassement du **programme national cadre de lutte contre la pauvreté** du Ministère de l'Economie et des Finances vers le Cabinet du Premier Ministre (547 > 503);

47) Reclassement du **projet Syrene d'appui à l'artisanat** du Ministère de l'Economie et des Finances vers le Ministère du Tourisme et de l'Artisanat (547 > 551);

48) Reclassement du **programme de micro-réalisations de la BAD, du programme d'action communautaire de base** et du **programme de soutien à la paix Nord-Niger** du Ministère de l'Economie et des Finances vers le Ministère du Développement Communautaire (547 > 556);

49) Reclassement du **programme de consolidation de la stratégie de développement de la santé animale (SDSA)** du Ministère de l'Economie et des Finances vers le Ministère des Ressources Animales (547 > 556).

Appendix C.3. Synthesized Table of Reclassifications

(This Table is presented in French, since it can only be understood in the context of Niger's Budget Laws.)

01—Services publics généraux		Sujet	Ligne	Origine
0	Cours Suprême			
1	Assemblée Nationale			
2	Conseil Supérieur de la Communication			
3	Cabinet du Premier Ministre	Préparation DRSP PPTE	490–547	Ministère de l'Economie et des Finances
4	Grande Chancellerie			
5	Présidence de la République			
7	Cours Constitutionnelle			
10	Commission N. Droits de l'Homme			
12	M. Affaires Etrangères et Coopération			
14	M. Intégration Africaine et NEPAD			
	Total 01			
02—Défense				
15	Défense Nationale	Maintien de la paix	447	Ministère de l'Economie et des Finances
	Total 02			

03—Ordre public				
17	M. Justice	Conseil supérieur de la magistrature	305	Présidence
25	M. Intérieur	**Haut Commissariat à la réforme administrative et à la décentralisation (HCRAD) Sécurité**	**303**	**Primature**
		Dotation au fonds de la décentralisation	447	Ministère de l'Economie et des Finances
		Subventions aux partis politiques	447	Ministère de l'Economie et des Finances
		Appui à la décentralisation	447	Ministère de l'Economie et des Finances
		Appui à la décentralisation	547	Ministère de l'Economie et des Finances
		Dépenses électorales	390	Charges communes
		Programme d'Actions	390	Charges communes
		Communautaires (IDA)	390	Charges communes
			554	Ministère du Développement Agricole
	Total 03			
04—Affaires économiques				
8	Communication	Centre de l'informatique et des nouvelles technologies	303	Primature
		Institut africain d'informatique	303	Primature
13	Plan			
41	Fonction publique			
47	Finances et économie	Subventions et autres transferts	447	(secours & aide sociale, réserve budgétaire, et modernisation des AEF)
51	Tourisme et Artisanat	Syrène	547	Minisère de l'Economie et des Finances
52	Commerce et industrie			
53	Transports			
54	Développement Agricole	Cellule de crise alimentaire	303	Primature
		Système d'alerte précoce	303	Primature
		Programme d'urgence SAP	447	Ministère de l'Economie et des Finances

(*continued*)

Appendix C.3. Synthesized Table of Reclassifications (*Continued*)

04—Affaires économiques		Sujet	Ligne	Origine
		Sécurité alimentaire EU	447	Ministère de l'Economie et des Finances
		Puits pastoraux PPTE	490–547	Ministère de l'Economie et des Finances
55	Ressources Animales	Consolidation stratégie de développement SDSA	547	Ministère de l'Economie et des Finances
58	Equipement			
59	Mines et énergie	Haut Commissariat au barrage de Kandadji	303	Primature
		Conseil solaire national	305	Présidence
66	Privatisation			
67	Promotion des PME			
90	Charges communes	Dépenses communes de personnel	247	Ministère de l'Economie et des Finances
		Contributions au FNR	490–547	Charges communes
		Caisse nationale de sécurité sociale	247	Ministère de l'Economie et des Finances
		Charges spéciales	247	Ministère de l'Economie et des Finances
		Rémunération membres du gouvernement	247	Ministère de l'Economie et des Finances
		Autres dépenses de personnel	247	Ministère de l'Economie et des Finances
		Subventions et autres transferts	447	Ministère de l'Economie et des Finances (sauf secours & aide sociale, réserve budgétaire, et modernisation des AEF)
490	PPTE			
	Total 04			
60	Environnement	Conseil national de l'environnement et du développement durable (CNEDD)	303	Primature
		Mini-barrages PPTE	490–547	Ministère de l'Economie et des Finances
62	Hydraulique			
	Total 05			

56 Développement communautaire	Micro-réalisations Nord-Niger (France)	490–547 490–547	Ministère de l'Economie et des Finances Ministère de l'Economie et des Finances
	Projet Action Communautaire de base	490–547	Ministère de l'Economie et des Finances
68 Urbanisme et Habitat			
90 PPTE			
Total 06			
07—Santé			
364 Santé publique	Coordination lutte contre sida	303	Primature
	Secours et aide sociale	447	Ministère de l'Economie et des Finances
	Frais de soins médicaux et hospitaliers	447	Ministère de l'Economie et des Finances
	Transport et frais médicaux	447	Ministère de l'Economie et des Finances
	UNICEF	547	Ministère de l'Econ. et des Fin.
	Centres de Santé PPTE	490–547	Ministère de l'Econ. et des Fin.
	Programme national de lutte contre SIDA	305	Présidence
PPTE			
Total 07			
08—Sports, Culture et religion			
309 Sport et culture			
311 Jeunesse et insertion des jeunes			
Total 08			
09—Education			
306 Enseignement supérieur et secondaire	Contractuels du secondaire Dépenses de personnel	462 361	Enseignement supérieur et secondaire 38,6% des dépenses de personnel du Ministère de

(*continued*)

Appendix C.3. Synthesized Table of Reclassifications (*Continued*)

09—SEducation	Sujet	Ligne	Origine
			l'Education de base I
	Dépenses de fonctionnement second degré	361	Ministère de l'Education de base I
361 Education de base I	Classes primaires PPTE	490–547	Ministère de l'Economie et des Finances
	Volontaires	461	Education de base I
	Pécules volontaires	361	Education de base I
490 PPTE			
Total 09			
10—Protection sociale			
365 DEV.SOC/POP/PF.	Actions spécifiques femmes	490–547	Ministère de l'Economie et des Finances
PPTE			
Total 10			
	Fiscalité compensée	***547***	Ministère de l'Economie et des Finances
TOTAL GENERAL			

References

Ablo, E., and R. Reinikka. 1998. *Do Budgets Really Matter? Evidence from Public Spending on Education and Health in Uganda.* Policy Research Working Paper No. 1926. Washington, D.C.: The World Bank.

Bouley, D., J. Fournel, and L. Leruth. 2002. *How Do Treasury System Operate in Sub-Saharan Francophone Africa.* IMF Working Paper. Washington, D.C.: International Monetary Fund.

Bruns, B., A. Mingat, and R. Rakotomalala. 2003. *Achieving Universal Primary Education by 2015—A Chance for Every Child.* Washington, D.C.: The World Bank.

Castro-Leal, F., J. Dayton, L. Demery, and KMehra. 1999. "Public Social Spending in Africa: Do the Poor Benefit?" *The World Bank Research Observer* 14(1):49–72.

Chukwuma, O. 2004. *The Medium-Term Expenditure Framework: The Challenge of Budget Integration in SSA Countries.* Processed, The World Bank, Washington D.C.

Devarajan, S., V. Swaroop, and H.-F. Zhou. 1996. "The Composition of Public Expenditure and Economic Growth." *Journal of Monetary Economics* 37:313–344.

Dinh, H., A. Adugna, and B. Myers. 2002. *The Impact of Cash Budgets on Poverty Reduction in Zambia.* Africa Region Working Paper Series No. 39. Washington, D.C.: The World Bank.

Dinh, H. 1999. *Fiscal Solvency and Sustainability in Economic Management.* Working Paper No. 2213. Washington, D.C.: The World Bank.

Groupe 2 AC. 2003. "Audit Organisationnel et Technique des Structures et Systèmes de Contrôle de l'Etat (Niger)." Rapport Provisoire. Vincennes. Processed.

International Monetary Fund. 2004a. *West African Economic and Monetary Union (WAEMU): Recent Economic Development and Regional Policy Issues.* IMF Staff Paper. Washington, D.C.

———. 2004b. *Staff Report for the 2004 Article IV Consultation, Sixth Review under the Three Year Arrangement under the Poverty Reduction and Growth Facility.* Washington, D.C.

OECD. 2003. *Geographical Distribution of Financial Flows to Aid Recipients.* Paris.

République du Niger. 1992. *Enquête de Démographie et Santé.* Direction de la Statistique et des Comptes Nationaux.

———. 1999a. *Revue de Dépenses Publiques: Education (1998).*

———. 1999b. *Revue de Dépenses Publiques: Santé (1998).*

———. 2001. *Plan Décennal de Développement de l'Education.* Ministère de l'Enseignement de Base.

———. 2002a. *Etat Consolidé d'Exécution Financière du Budget d'Investissement de l'Etat 2001.* Ministère de l'Economie et de Finances, Direction Générale du Budget.

———. 2002b. *Revue de Dépenses Publiques: Développement Rural (2001).*

———. 2002c. *Déclaration de Politique Sanitaire 2002–2011.* Ministère de la Santé Publique.

———. 2002d. *Education for All—Fast Track Initiative (EFA-FTI): Request Submitted by Niger.* Ministère de l'Enseignement de Base.

———. 2003a. *Annuaires des Statistiques Scolaires 2001–2002.* Ministère de l'Enseignement de Base.

———. 2003b. *Stratégie du Développement Rural.* Ministère du Développement Agricole, Ministère des Ressources Animales, Ministère de l'Hydraulique, de l'Environnement et de la Lutte contre la Désertification and Ministère du Développement Communautaire.

———. 2003c. *Etat Consolidé d'Exécution Financière du Budget d'Investissement de l'Etat 2002.* Ministère de l'Economie et de Finances, Direction Générale du Budget.

———. 2004. *Etat Consolidé d'Exécution Financière du Budget d'Investissement de l'Etat 2003.* Ministère de l'Economie et de Finances, Direction Générale du Budget.

Stiglitz, J. E. 2000. *Economics of the Public Sector.* New York/London: W. W. Norton & Company.

UNICEF. 2001. *State of the World's Children.* New York: UNICEF.

World Bank. 1996. *Niger Poverty Assessment: A Resilient People in a Harsh Environment.* Population and Human Resources Division, Africa Region. Washington, D.C.

———. 1998. *Assessing Aid: What Works, What Doesn't and Why.* Oxford University Press: New York.

———. 2000. "Niger Interim Poverty Reduction Strategy Paper and Joint Staff Assessment." Washington, D.C. Processed.

———. 2002. "Niger Poverty Reduction Strategy Paper and Joint Staff Assessment." Washington, D.C. Processed.

———. 2003a. "Niger PRSP Annual Progress Report and Joint Staff Assessment." Washington, D.C. Processed

———. 2003b. "Mozambique Public Expenditure Review: Phase 2—Sectoral Expenditures." Washington, D.C., Processed.

———. 2004a. "Niger Country Financial Accountability Assessment (CFAA)." Washington, D.C. Processed.

———. 2004b. *Santé et Pauvreté au Niger: Vers les Objectifs du Millénaire pour le Développement.* Département du développement Humaine, Série Documents de Travail # 29083. Washington, D.C.

———. 2004c. "Niger HIPC Completion Point Document." Washington, D.C. Processed.
———. 2004d. *Zambia: Public Expenditure Management and Financial Accountability Review.* World Bank Country Study. Washington D.C.
———. 2004e. *Nourrir, éduquer et soigner tous les Nigériens: La démographie en perspective.* Département du développement Humaine, Série Documents de Travail # 63. Washington, D.C.
———. 2004f. "Concept Note for the Niger Health Sector Support Project (Health 3)." Washington, D.C. Processed.

Eco-Audit

Environmental Benefits Statement

The World Bank is committed to preserving Endangered Forests and natural resources. We print World Bank Working Papers and Country Studies on 100 percent postconsumer recycled paper, processed chlorine free. The World Bank has formally agreed to follow the recommended standards for paper usage set by Green Press Initiative—a nonprofit program supporting publishers in using fiber that is not sourced from Endangered Forests. For more information, visit www.greenpressinitiative.org.

In 2004, the printing of these books on recycled paper saved the following:

Trees*	Solid Waste	Water	Net Greenhouse Gases	Electricity
307	14,387	130,496	28,262	52,480
*40" in height and 6-8" in diameter	Pounds	Gallons	Pounds	KWH

green press INITIATIVE

Public Expenditure Management and Financial Accountability in Niger is part of the World Bank Country Study series. These reports are published with the approval of the subject government to communicate the results of the Bank's work on the economic and related conditions of member countries to governments and to the development community.

Effective, efficient, and transparent management of public resources is particularly important in a poor country like Niger. This study shows how difficult it is for Niger to significantly change its expenditure composition in a short time span. A narrow and volatile domestic resource base, heavy dependence on aid, and a large share of pre-determined expenditures, such as external debt payments, are important factors behind this lack of flexibility. There are ways, though, to create space in the budget for increasing public spending on priority sectors. The study identifies a number of measures in this regard, such as increasing domestic revenues, more realistic and conservative budgeting, strengthening cash management, controlling the wage bill, borrowing prudently, and attracting higher external financing for recurrent costs in priority sectors.

The study also shows that enhancing the efficiency and transparency of public spending is as important as increasing spending for priority sectors. It thoroughly assesses public management systems in Niger and presents an action plan, jointly elaborated by the Government and its main external partners, to address the main challenges in this area. This action plan contains a priority set of measures to improve budget preparation, execution as well as internal and external oversight.

World Bank Country Studies are available individually or by subscription, both in print and online.

THE WORLD BANK
1818 H Street, NW
Washington, DC 20433 USA
Telephone: 202 473-1000
Internet: www.worldbank.org
E-mail: feedback@worldbank.org

ISBN 0-8213-6366-2