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SD2009-0012

April 13, 2009

FROM: Vice President and Corporate Secretary

Summary of Discussion at the Meeting of the Executive Directors of the Bank and IDA, March 24, 2009*

Contents | Page

* This summary consists of staff notes of the discussion and is not an approved record

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NIGER - GROWTH POLICY REFORM GRANT 1

1. The Executive Directors approved a Growth Policy Reform Grant 1 (GPRG-1) of SDR 26.5 million (US$40 million equivalent) to Niger (IDA/R2009-0031/1 dated March 5, 2009).

2. **Staff Introduction.** Staff said that GPRG-1 was the first DPO in the series and would focus on policy reforms that would help make the Nigerien private sector more competitive and diversified. Its intended impact was to encourage the growth of the larger formal sector through tax reforms and business environment reforms, to increase access to finance through the set-up of FINAPOSTE, following WAEMU banking regulation criteria, and to inject some working capital into the economy through full repayment of internal debt arrears. Through this operation, the Government would continue to channel financing to the Road Maintenance Fund and would focus on the efficiency of the marketing input system to allow small farmers access to inputs at better prices. It would support public finance reforms such as the introduction of electronic processing of payables to private suppliers and would improve transparency and procurement controls of public markets. Finally, the GPRG-1 would support the implementation of Niger's demographic policy.

3. **Important Objectives.** A number of speakers expressed support for the grant. One of these speakers said that the objectives of the GPRG were very important for improving productivity, competitiveness, and linkages across sectors, as well as for removing the incentive for enterprises to operate in the informal sector, thus laying the groundwork for the diversification of the economy. Several speakers favorably noted that the alignment of the DPL with the Bank's CAS and Niger's PRSP would be further strengthened by coordination with other development partners and the common policy matrix.

4. A speaker expressed the view that the policy constraints that were being addressed had the potential to accelerate private sector development in the country and thereby propel economic growth. Measures to reform agriculture and rural development, especially the land tenure reforms and expansion of irrigation schemes should help to significantly reduce rural poverty.

5. Several speakers commended the authorities' commitment to publicly disclose the mining receipts and encouraged them to continue toward validation under the Extractive Industries Transparency Initiative (EITI). One of these speakers expressed hope that the IFC's recent scoping mission would result in viable investment projects in the oil and mining sector.

6. Some speakers expressed concern about the ambitious scope of reforms to be addressed in the operation.

7. Staff noted that the proposed project was the first of a series of DPOs and part of a Medium-Term Framework instead of a one-year framework. While some of the reforms, especially those related to investment climate, were far-reaching and difficult, the dialogue around them had already started. They were not identified as prior actions at this stage, but would be proposed as triggers for the second operation to allow for consensus to be built and also to allow the Government to achieve the objectives that it was setting for itself.

8. **Demographic Issues**. A number of speakers discussed demographic issues.

9. Staff said that the current budget support operation was supported by an investment lending operation on demographics. The Multi-sector Demographics Program came into effect in 2008 and supported Niger's population policy action plan. Specifically, it aimed at (i) strengthening the Government's capacity to coordinate, monitor and evaluate large demographic interventions, and (ii) launching a nation-wide communications campaign on demographics and reproductive health issues. In parallel, some efforts were being made to provide more resources to the Ministry of Population and Social Reforms and to strengthen capacity. While the issue of demographics was presently scheduled to be phased out in the series of growth budget support operations, the Bank would continue to actively work on them with the Government through the Multi-sector Demographics Program. At this stage, it was not

expected that there would be a follow-on trigger on demographics in GPRG-2. The expected outcome of reforms in this area was to put in place a framework to allow for the management of population growth.

10. A speaker said that the country's reform efforts needed to be based on very high quality analytical work and he stressed the importance and usefulness of Poverty and Social Impact Assessments.

11. Staff discussed the Bank's monthly, country-by-country economic assessments and its engagement with its clients on contingency plans.

12. **Impact of the Financial Crisis on Niger**. A number of speakers commented on the possible impact of the financial crisis on Niger.

13. Staff said that the ongoing financial crisis and recession might have a moderate impact on Niger in the short term, given the large investments currently being made and strong 2008 growth. Should the crisis be prolonged, regional demand for traditional agriculture and livestock could fall while the terms of trade for oil and electricity could deteriorate, therefore affecting Niger's growth prospects. While recent large investments in the mining sector would provide more fiscal resources to the Government and within the context of EITI to the regions concerned, informal activities based on trade would be affected by the general slump. In response to these risks, the Government had been strengthening its debt management capacity so that it could keep its debt levels sustainable. The Government was also launching several reforms, including those supported through this budget support operation, to encourage the growth of the formal sector and the diversification of the economy.

14. The Bank's response to the financial crisis was two-fold. On the policy and advisory side, the Bank was increasing efforts with the IMF to encourage the Government to control spending and to manage mining revenues transparently. Tax policies to alleviate the immediate impact of the crisis on the private sector had been discussed and measured in the context of the current budget support operation. The Bank was providing technical assistance to help strengthen capacity at the institutional level and a technical assistance operation focusing on public finance was under preparation. Anticipating a possible decrease in resource flow, the size of the Bank's budget support operations, investment lending operations and the commitment of other donors to deliver ODA was also being discussed. At this stage, the current level of ODA could compensate for a revenue shortfall, but in the face of a prolonged crisis, the Government might request additional Bank financing. On the project side, the implementation of projects supporting the agriculture sector as well as measures to stimulate private sector growth, also supported through the GPRG series, were being put in place to help mitigate the short-to-medium-term risk of the crisis. Finally, the continued program of infrastructure investments in the transport sector, also financed by the Bank, would help to respond to the possible impact of the crisis.

15. **Donor Harmonization**. A speaker asked about donor harmonization.

16. Staff said that proposed ODA had been reviewed and confirmed in the context of the preparation work for the second review of the IMF's Poverty Reduction Growth Facility. Regular consultations with development partners had taken place during the GPRG-1 preparation and took place in the broader context of the implementation of the second PRSP. Furthermore, well-functioning donor coordination mechanisms were in place.

17. **Stability of the CFA Franc**. A speaker asked about the stability of the CFA Franc.

18. Staff said that the exchange rate in Niger had been relatively stable through the CFA arrangements and parity with the Euro. There had been fluctuations in the Naira-CFA exchange rate which might affect the border trade, even though at present it did not prevent it. ECOWAS' medium-to-long term plans called for the harmonization of exchange and trade policy, through a common currency and external tariffs. The timing for the realization of this objective remained uncertain.

19. **Impact of the Operation on Poverty Reduction.** A speaker asked about the impact of the operation on poverty reduction. He asked how these effects would be monitored on the baselines and/or

ex ante targets related to job creation, income tax collection, and the rural population's standard of living at the end of the series of budget support operations targeting private sector growth.

20. Staff said that the operation would help put in place reforms that would have an impact on job creation, by addressing business environment bottlenecks, infrastructure constraints, rural development, public finance reforms and demographics. It was expected that job creation would have a direct impact on poverty levels. The results framework under the DPO series proposed to measure the broadening of the tax base and the increase in firms entering the formal sector.

21. **Scope of the Business Environment Reform.** Some speakers asked about the scope of the business environment reforms.

22. Staff said that the immediate measures to accelerate business environment reforms were being sustained under the DPO series and had already started through reforms in the areas of corporate taxation. As indicated in the CAS, it was expected that these reforms would be complemented through an investment lending operation under preparation. While a lowering of the corporate tax rate could lead to a decrease in tax receipts, it was expected that the tax base would broaden, compensating for a possible shortfall in revenues. A technical assistance project in the area of public finance reforms, currently under preparation, would help build capacity and set up a comprehensive tax system in the medium term.

23. **Commitment to Public Finance Reforms**. A speaker asked about the Government's commitment to public finance reform.

24. Staff said that the reform agenda in the area of public finance reform was supported through a PEMFAR 2 currently under preparation, in cooperation with other donors. A technical assistance operation focusing on public finances was also under preparation to address the issue of low institutional capacity. The preparation of GPRG-1 allowed the team to provide candid feedback on the pace of reform with the Nigerien authorities and to register their continued commitment to the reform agenda.

25. **The Agriculture Sector**. Some speakers commented on the Bank's support to the agricultural sector.

26. Staff said that the Bank's support to the sector was provided through the policy reforms proposed under the GPRG series and complemented by the Agropastoral Export Promotion operation, to be presented to the Board in the near future, as well as the rest of the rural development portfolio. Modernization, access to technology and capacity building were addressed under these investment lending operations.

27. **Restructuring of FINAPOSTE**. A speaker asked about the restructuring of FINAPOSTE.

28. Staff said that the prospects for the completion of the restructuring of FINAPOSTE were sound. This restructuring was also supported by a technical assistance project in the financial sector. The full recapitalization of FINAPOSTE was expected in 2009, which would lead to the issuance of a banking license and start of operations in 2010.

29. **Statement of the Office of the Executive Director Representing Niger**. A speaker representing the Executive Director whose constituency includes Niger expressed the appreciation of his Nigerien authorities for the Board's support of the operation.

TUNISIA - INTEGRATION AND COMPETITIVENESS DEVELOPMENT POLICY LOAN

30. The Executive Directors approved an Integration and Competitiveness Development Policy Loan of US$250 million to Tunisia (R2009-0041, dated March 3, 2009).

31. **Staff Introduction.** Staff said that the operation was underpinned by a strong and vibrant dialogue with the Government of Tunisia and by solid analytical work and technical assistance. The World Bank, the African Development Bank and the European Union jointly supported the operation and

the three institutions had worked closely with the Government to align it with the 11th National Development Plan. While the main thrust of the operation was to facilitate a deeper integration with the global economy, it would also help Tunisia to respond to the global financial crisis. The Government considered the operation to be a key instrument to accelerate reforms and send a positive signal to investors.

32. **Improving Competitiveness.** A number of speakers expressed support for the development policy loan. Some of these speakers said that the three objectives of the DPL, i.e., reducing trade transaction costs, improving the business climate to encourage private investment and facilitate business operations, and enhancing the development of the financial sector, would contribute to improving the competitiveness of the Tunisian economy.

33. A number of speakers favorably noted that the operation was well aligned with the current CAS and fully complementary with the current lending portfolio. One of these speakers said, however, that it would have been preferable to discuss the operation together with the new country strategy which was still under preparation.

34. A number of speakers commended the Tunisian authorities for their prudent management of economic policy and the country's economic performance over the last decade.

35. A speaker noted that the operation had been increased by US$ 100 million to help Tunisia finance its budget deficit. He said that, while his authorities acknowledged the case made for the scaling-up, it was important for such crisis-related operations to follow specific terms. He said that he looked forward to the upcoming discussion on lending instruments to help the Bank adapt its toolkit to the global financial crisis.

36. A speaker welcomed the range of analytical work that underpinned the DPL.

37. A number of speakers favorably noted the process of collaboration with the European Commission and the African Development Bank, which was built on the successful experience under previous development policy loans.

38. **Second Tranche Triggers**. A speaker asked about staff expectations regarding the feasibility of non-performing loan and stock market capitalization targets that were triggers for the second tranche.

39. Staff said that, based on discussions with Government and the Central Bank, it was confident that the targets for reducing non-performing loans and increasing stock market capitalization would be met on time.

40. **Trade Issues**. Some speakers commented on international trade issues. One of these speakers asked whether increasing worldwide protectionism was a risk for Tunisia.

41. Staff said that, while renewed protectionism could not be ruled out, at this point the Bank was not observing any such trend affecting Tunisia's access to its principal export markets. In the meantime, the World Bank continued to work with countries as well as global and regional organizations to discourage new trade restrictions.

42. A speaker highlighted the importance of export diversification for Tunisia.

43. Staff said that the Government was aware of the need to diversify its export products and markets and had been expanding trade agreements with non-EU partners in recent years. The Bank had supported Tunisia in these efforts through an export development loan.

44. **Employment**. Several speakers commented on Tunisia's employment challenge and asked about measures to tackle it. One of these speakers asked for information on any envisaged support for the further development of the small and medium-sized enterprises (SME) sector.

45. Staff said that the Government recognized the importance of reducing unemployment and had initiated discussions with the Bank and the EU to support appropriate reforms in labor market and

business regulations. Support for SME was a crucial element in the strategy for reducing unemployment. The current project supported SME development through reducing the costs of business registration and enabling easier access to market information. An SME finance study was currently underway and its findings were likely to be reflected in future lending operations to support SME development.

46. A speaker asked how high levels of unemployment could be reconciled with high rates of economic growth.

47. Staff said that, in recent years, growth had come largely from new sectors such as telecommunications and finance which were not very labor-intensive. At the same time, Tunisia was undergoing a structural shift way from public sector employment while large labor-intensive sectors (textiles and tourism), facing heightened competition, were not creating as many jobs as in the past.

48. **Human Capital Development**. A speaker asked how the goals with respect to human development and consolidation of the middle class were integrated with the national development strategy.

49. Staff said that human capital development was the third pillar in Tunisia's development strategy. Measures to improve human capital through continued reforms in education, health and social protection would, in turn, help growth.

50. **Macroeconomic Data**. A speaker asked about the credibility of the macroeconomic data underpinning the operation. He said that he would have preferred for the Program Document to include a letter of assessment from the IMF

51. Staff said that the macroeconomic data provided in the Program Document was the latest available as of mid-February. The Bank expected growth to decline over the next few years, but did not think this would compromise macroeconomic stability. Both Bank and IMF staff thought that the balance of payments and the fiscal position was expected to remain manageable.