

INTERNATIONAL MONETARY FUND



Staff Country Reports

Niger: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Niger

In the context of the second review under the three-year arrangement under the Poverty Reduction and Growth Facility and request for a waiver of performance criteria, the following documents have been released and are included in this package:

- the staff report for the Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on March 17, 2006, with the officials of Niger on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 5, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Press release summarizing the views of the Executive Board as expressed during the June 19, 2006 Executive Board discussion of the staff report that completed the review and request.
- a statement by the Executive Director for Niger.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Niger*
Memorandum of Economic and Financial Policies by the authorities of Niger*
Technical Memorandum of Understanding by the authorities of Niger *
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

NIGER

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria

Prepared by the African Department
(In consultation with other departments)

Approved by Jean A. P. Clément and Anthony Boote

June 5, 2006

- Discussions on the second review under the Poverty Reduction and Growth Facility (PRGF) arrangement were held in Niamey during March 3–17, 2006. The mission team comprised Messrs. Rogers (head), Sacerdoti, Farah, and Fontaine, and Ms. Kim (all AFR). The team was assisted by Mr. Laporte, the Fund's Resident Representative in Niger. Mr. Turbat, the World Bank's Resident Representative in Niger, also participated in the discussions.
- The mission met with the Prime Minister, Mr. Amadou; the Minister of Finance and Economy, Mr. Zeine; the National Director for the Central Bank of West African States (BCEAO), Mr. Soumana; and other senior government officials, as well as donor representatives.
- The Executive Directors approved the PRGF arrangement in January 2005 in an amount equivalent to 10 percent of quota. The first review was concluded in November 2005, at which time Directors approved an augmentation of access under the PRGF arrangement to SDR 26.32 million, or 40 percent of quota to provide additional resources for the government's food relief program. Upon completion of the second review, a disbursement in the amount of SDR 5.875 million would become available.
- In January 2006, Executive Directors approved debt relief under the Multilateral Debt Relief Initiative (MDRI) in the amount of SDR 77.6 million, including Heavily Indebted Poor Countries (HIPC) relief of SDR 17.7 million. In March and April 2006 the IDA and the African Development Fund (ADF) provided respectively debt relief to Niger under the MDRI in the amounts of SDR 506 million and SDR 54.4 million.
- All quantitative performance criteria were observed, although two out of five structural performance criteria were not met. In the attached letter (Appendix I) the government reports on recent developments, sets forth objectives and policies for 2006, and requests waivers and completion of the review.
- Niger is a member of the West African Economic and Monetary Union (WAEMU) and shares a common fixed exchange rate and external tariffs with other members. The BCEAO conducts monetary and exchange rate policies at the regional level. Relations with the Fund and World Bank are summarized in Appendices II and III, respectively.

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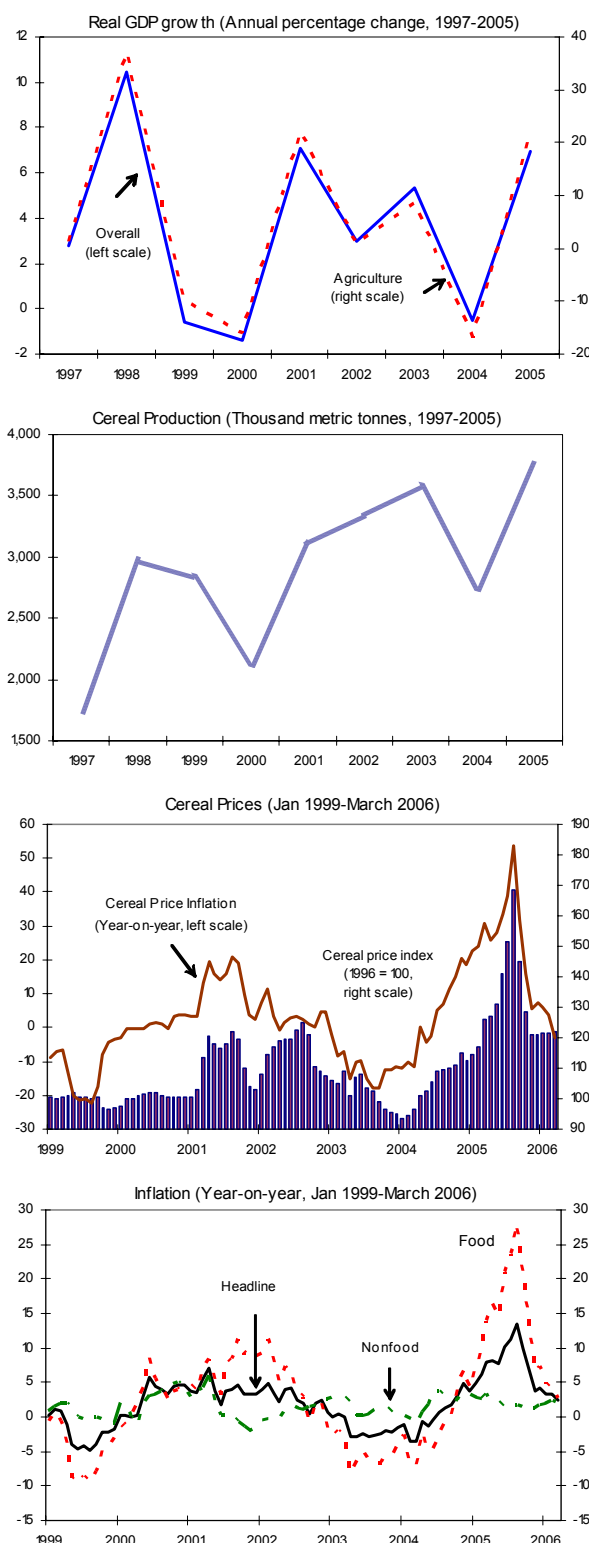
EXECUTIVE SUMMARY

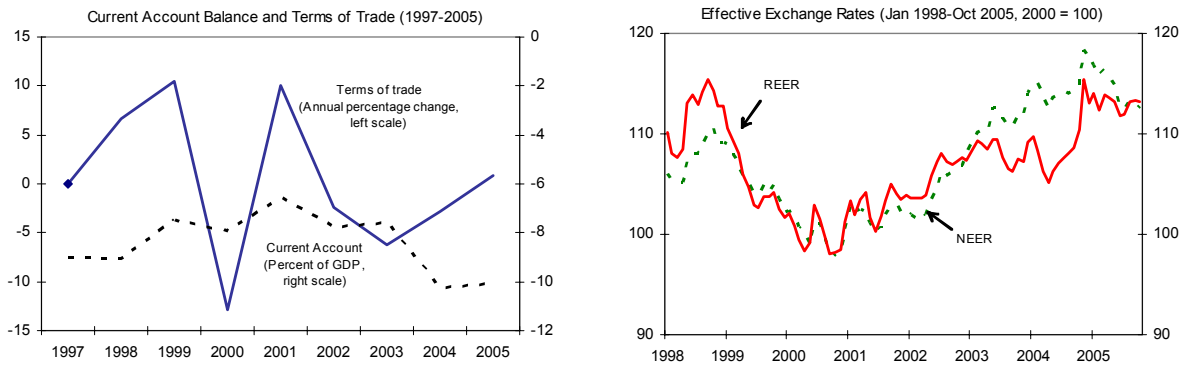
- **After a severe drought in 2004, a strong recovery by the agriculture sector in late 2005 improved macroeconomic performance.** Real growth rebounded to 7 percent in light of a record agriculture harvest late in the year. Falling food prices helped ease inflationary pressures by end-year. However, food insecurity remains a serious concern; an estimated 1.8 million people remain vulnerable to food shortages due to losses of livestock and high level of indebtedness incurred during the 2004-05 drought.
- **The program's fiscal targets for end-December 2005 were met,** owing to higher revenue and also because of underspending on food security. The latter reflected the limited time available before year-end to commit external budget support disbursed late in the year. On structural measures, although two of five performance criteria were missed, all related measures have since been implemented except for the number of taxpayer audits. The performance criterion pertaining to the domestic pricing mechanism for petroleum products was observed; however, retail fuel prices were unchanged during August–December 2005, as government deferred petroleum-based taxes and margin payments to the state-owned petroleum company to stabilize domestic prices in the face of a volatile world market.
- **Discussions focused on the 2006 macroeconomic framework, food security needs, implementation of priority investment projects, and domestic petroleum pricing policy.** Real growth is projected to fall to 3½ percent as agricultural output returns to trend. Inflation is forecast to be about 1 percent on an end-period basis, reflecting the recent decline in food prices. The cost of food security is estimated at 2.7 percent of GDP, of which about half is to be covered by additional donor pledges announced in a conference held in Niamey in March 2006. The balance would be covered by identified budgetary resources. The authorities requested support from donors for investment projects to strengthen food security over the medium term. While donors did not commit additional resources, they urged the authorities to include these projects in the revised poverty reduction strategy paper (PRSP) to be finalized by the end of the year. Domestic resources will finance some components of these projects in 2006.
- **The revised fiscal program provides for food security needs.** The fiscal deficit is targeted to be 1.4 percent of GDP above the original program, reflecting higher spending on food security. The higher financing requirement is covered by domestic financing (including carry over of unspent resources from 2005) and flow debt relief provided by the Fund under the Multilateral Debt Relief Initiative (MDRI). The revised program includes a number of new measures, including those to strengthen fiscal revenue, and a more precise policy for domestic petroleum pricing.
- **Staff supports the authorities' request for waivers for the nonobservance of two structural performance criteria and the completion of the review, given the strength of the revised program and the government's commitment to its timely implementation.**

I. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

1. **During 2004-05, Niger experienced serious social and economic challenges.** The combined effects of drought and locust infestation in 2004 resulted in a food crisis that affected a quarter of the population. Surging food and fuel prices reduced household incomes and further aggravated already poor socio-economic conditions. In these conditions, government attempts to remove VAT exemptions in early 2005 on key food items were met by widespread social unrest. In addition, avian flu arrived in the country during the year. However, the fourth quarter of 2005 brought some relief. The cereal harvest in late 2005 was the largest on record, pushing real GDP growth up to 7 percent for the year as a whole, and bringing cereal prices down close to pre-drought levels by early 2006. This eased overall inflationary pressure (Table 2).

2. **The external current account deficit remained broadly unchanged in 2005, reflecting an improvement in the terms of trade.** Export receipts increased on account of higher uranium and gold prices, offsetting higher imports partly due to increased cost of fuel. The average real effective exchange rate moderately appreciated in 2005.





3. **All quantitative performance criteria were observed** (MEFP, Table 1a). Fiscal revenue was higher than programmed, on account of higher trade-related taxes induced by more buoyant imports (excluding food relief) and improvements in customs and tax administration (Table 3). Overall expenditure was lower than envisaged because of underspending on food security, subsidies and transfers, as well as on the Francophonie Games. The underspending in the first two categories reflected the limited time available before year-end to commit external budget support disbursed late in the year (including from the Fund), capacity and coordination constraints within government, and shortfalls in external budget support. Immediate need for food security spending was also somewhat reduced by the recent good harvest. As a result, the overall fiscal deficit and net domestic financing were significantly smaller than programmed.¹

4. **Progress in implementing structural reforms was mixed.** Three of the five structural performance criteria were observed (MEFP, Table 2): (i) the monitoring of the performance of main customs offices; (ii) the establishment of joint import verification teams; and (iii) the application of the petroleum pricing mechanism. Notwithstanding the observance of the latter, domestic fuel prices remained unchanged for August-December 2005 as the government deferred payment of some petroleum-based taxes and reduced margin payments to the state-owned oil importing company (SONIDEP).² The two structural performance criteria related to the turnover threshold for large taxpayers and the establishment of an office to carry out issue-oriented audits for medium-sized taxpayers were implemented with a delay, except that the targeted number of audits were not completed. The authorities explained that this target was overly ambitious given the recent creation of the audit office. They were confident that the audits will be completed by the end of the year. Further progress was made, with World Bank assistance, on strengthening expenditure management and restructuring the financial sector.

¹ The program's fiscal targets would have been achieved even if the authorities had spent the entire amount allocated for food security in 2005.

² The deferred taxes and margin payments were estimated at CFAF 1.0 billion, with each category representing about half of the total.

II. REPORT ON POLICY DISCUSSIONS

5. **The discussions focused on key macroeconomic policies and objectives for 2006:** (i) the 2006 macroeconomic framework; (ii) revising the program to incorporate expenditures on food security, including, and to the extent possible, previously unfinanced priority investment projects; (iii) measures to enhance revenue performance and expenditure management; (iv) pricing of domestic petroleum products; (v) the implications of the MDRI on debt sustainability and achieving the Millennium Development Goals (MDGs); and (vi) other structural reforms and the PRSP.

A. Macroeconomic Framework for 2006

6. **Real GDP growth for 2006 was revised from 4¼ to 3½ percent to reflect the return of agricultural production to its trend.** Given the recent decline in domestic food prices, year-on-year inflation for 2006 is projected at 1 percent. The fiscal and external current account deficits are projected to widen as spending on food security increases. The BCEAO will continue to conduct monetary and exchange rate policy at the regional level with a view to supporting the exchange rate peg and keeping inflation low. The medium-term outlook remains broadly unchanged from that in the previous staff report.³

Selected Economic and Financial Indicators, 2004-2008

(Annual percentage change, unless otherwise indicated)

	2004	2005		2006		2007	2008
	Est.	1/	Est.	1/	Rev. Prog.	Rev. Prog.	
GDP at constant prices	-0.6	4.5	7.0	4.2	3.5	4.2	4.3
CPI (end of period)	3.7	5.1	4.2	1.1	1.1	2.0	2.0
External current account balance ²	-10.3	-11.0	-10.1	-10.9	-12.1	-8.6	-7.6
Terms of trade (deterioration -)	-2.8	-7.2	0.9	-1.2	-0.2	0.2	1.6
Overall fiscal balance (cash basis, excluding grants) ²	-10.4	-9.7	-7.9	-9.9	-11.3	-8.5	-7.0
External public debt (end of period) ^{2 3}	60.1	59.4	61.2	64.9	36.3	37.9	37.8

Sources: Nigerien authorities; and staff estimates and projections.

¹IMF Country Report No. 06/40; 02/06/06.

²Percent of GDP.

³Including obligations to the IMF.

B. Fiscal Policy and Food Security

7. **The 2006 fiscal program has been revised to incorporate food security needs and new priority investment projects.** Revenue is now projected at 11.2 percent of GDP, somewhat higher than previously envisaged on the basis of the rebound in economic growth late in 2005, the introduction of a new real estate tax, the collection of deferred

³ IMF Country Report No. 06/40; 02/06/06.

petroleum-based taxes, and measures to improve tax and customs administration.

Expenditure will be about 22 percent of GDP, with all of the increase relative to the program arising from additional spending on food security and new priority investment projects. The revised program is fully financed (including with budget support from the World Bank, the European Union, African Development Bank, and France) and incorporates debt relief provided by the Fund under the MDRI.⁴ With a view to

streamlining conditionality, the quantitative performance criterion on the basic fiscal balance has been eliminated, as it is redundant given the performance criterion on domestic financing; however, it remains as an indicative target.

Financial Operations of Central Government				
	2005		2006	
	1/	Est.	1/	Rev. Prog.
	(Percent of GDP)			
Total revenue	10.4	10.4	10.8	11.2
Total expenditure and net lending	19.6	17.7	20.4	22.2
Balance (commitment)	-9.2	-7.2	-9.6	-11.0
Basic balance	-2.6	-1.3	-1.5	-2.8
Change in payments arrears	-0.6	-0.7	-0.3	-0.3
Balance (cash)	-9.7	-7.9	-9.9	-11.3
Financing	9.7	7.9	6.0	7.7
External financing	7.4	8.0	7.1	10.4
Grants	4.9	5.6	4.7	8.0
of which : IMF MDRI assistance	0.0	0.0	0.0	3.2
Other (Net)	2.5	2.4	2.3	2.4
Domestic financing	1.0	-0.1	-1.1	-2.6
Financing gap (+)	1.3	0.0	3.9	3.6
Identified financing	0.0	0.0	3.5	3.6
Residual financing gap	1.3	...	0.4	0.0

Sources: Nigerien authorities; and IMF staff estimates.

1/ IMF Country Report No. 06/40; 02/06/06.

8. **Despite the record cereal harvest in 2005, food security remains a concern.** The country as a whole has a modest food surplus, but the effects of the drought aggravated already fragile socioeconomic conditions and resulted in high household debt levels and large losses of livestock. This has hampered the access to food of poor households in some areas, and about 1.8 million people (about 15 percent of the population) remain vulnerable to food shortages. The authorities are strengthening the capacity to implement the food security program with assistance from the World Food Program and other donors. The total cost for 2006 is estimated at CFAF 51 billion (2.7 percent of GDP). In a conference held in Niamey in March 2006, donors pledged to cover some CFAF 30 billion of the cost through financial and in-kind support. The 2006 revised fiscal program would cover the balance (CFAF 21 billion). If resources needed for food security are lower than projected, what remains could be used to rebuild the national grain reserve up to 100,000 tons, combating avian flu, or to reduce domestic financing below the establish targets.

⁴ The amount of MDRI relief that is spent (the flow relief) is equal to the debt service payments to the Fund that were due in 2006 but that now do not have to be paid. Debt relief under the MDRI was approved by IDA and the ADF after program discussions were concluded, and this relief is not incorporated into the baseline program. The flow relief in 2006 from the two institutions amounts to CFAF 3.0 billion. The program contains adjusters that allow for the spending of this relief on priority programs.

Box 1: The Food Security Situation in Niger

Niger's food security situation remains a serious concern and the authorities have developed a plan to address it. The government's food security program, developed with assistance from WFP and other donors, is aimed at assisting people that are still suffering from the effects of the 2004 drought and developing contingency plans for future droughts. It comprises the reconstitution of the strategic cereal reserves, food distribution and nutritional support.

In 2006, the cost of the program is estimated at CFAF 51 billion. Donors pledged thus far CFAF 30 billion in cash and in kind, while the balance will need to be financed through the budget. The

proposed program envisages increasing national grain reserves from 15,000 metric tons to 50,000 metric tons and providing emergency food relief to 1.8 million people. The government has also reiterated its commitment to reconstitute its strategic grain reserves to 100,000 tons by 2007, and is seeking support from development partners in this regard.

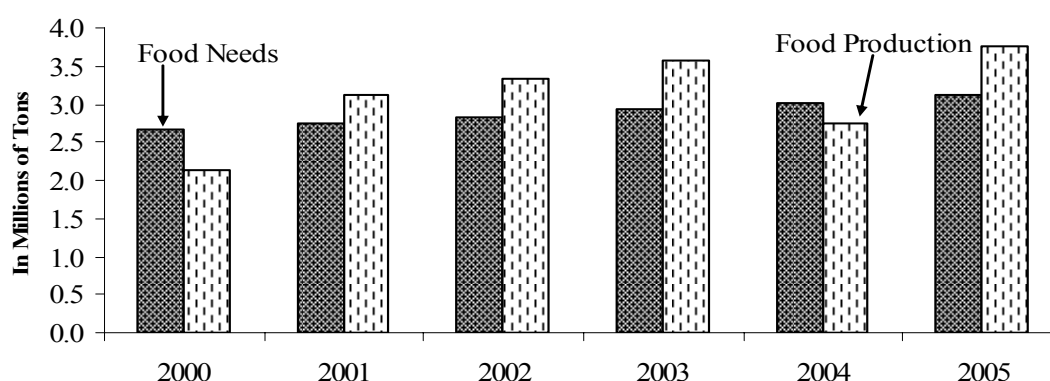
2006 Food Security Program (Billions of CFAF)

Total needs	50.6
Acquisition of food ¹	22.0
for stock rebuilding	7.3
for distribution	14.7
Nutritional programs and other	28.6
Funding identified	50.6
Donor assistance	29.7
Food pledges	9.1
Financial resources	20.6
Budgetary (incorporated in the revised program)	20.9
Memorandum item	
Unspent resources in 2005	17.3
Programmed amount in 2005	18.0
of which: additional financing from PRGF (November 2005)	7.5
Resources spent in 2005	0.7

Source: Nigerien authorities.

¹This is equivalent to 110,000 metric tons of cereal

Box Figure 1. Niger: Food Needs and Production, 2000-05



A critical element of Niger's security program is to strengthen contingency plans to prepare for the effects of recurring droughts. The World Food Program and the Government's Early Warning System and other relevant agencies continue to assess vulnerability to food insecurity so as to guide appropriate response. Further, government plans to work closely with development partners (including the World Bank) to incorporate these assessments into programs that would be presented in donor yearly conferences that would be synchronized with budget and agriculture cycles from now on.

9. **The revised program incorporates expenditures on priority investment projects aimed at improving food security over the medium term.** The original program had previously contained some CFAF 25 billion (1.3 percent of GDP) of contingent priority expenditure (for irrigation projects, an abattoir, restocking the strategic grain reserve, and coal mining to increase domestic energy production and reduce the risk of deforestation) that would be undertaken if additional donor support could be mobilized. In the March conference, donors expressed interest in the proposed projects and encouraged the authorities to include them in the PRSP for 2007–09, which should be finalized by end-2006. Donors would consider providing financial support in the context of the updated PRSP. Meanwhile, about half of the proposed projects are included in the revised 2006 program, including all of the amounts sought for rebuilding the grain reserves, with financing coming from a better revenue outlook, higher domestic financing relative to the original program,⁵ and resources provided by the Fund under the MDRI. The higher domestic financing does not have adverse macroeconomic implications because it mainly reflects a run down of deposits related to underspending in 2005.

C. Revenue Administration and Expenditure Management

10. **Niger has one of the lowest revenue-to-GDP ratios in Sub-Saharan Africa, and strengthening revenue mobilization is key to increasing poverty-reducing expenditures while ensuring fiscal sustainability.** Drawing on Fund technical assistance, the authorities are implementing a three-year program to strengthen tax and customs administration. Key measures planned for 2006 include: (i) reducing the number of VAT non-filers at the large taxpayers office; (ii) strengthening the auditing of large enterprises; and (iii) establishing ex-post control of import valuation and exemptions in key border posts. The authorities have also committed to sell all the villas constructed for the Francophonie Games through transparent public auctions.

11. **Strengthening economic governance is critical for the effective implementation of the poverty reduction strategy.** The 2004 HIPC Assessment and Action Plans indicated that Niger met only 5 of 16 Public Expenditure Management indicators and failed to meet the two HIPC criteria on expenditure tracking. Against this background, and in line with the 2004 recommendations of a Public Expenditure Management and Financial Accountability Review (PEMFAR), key reforms include:⁶ (i) strengthening the preparation and execution of budgetary operations, including through reforms of the Treasury and reinforcing the

⁵ This will arise from reissuing six-month treasury bills on the WAEMU regional market, and drawing down government deposits accumulated in 2005. Treasury bills held by financial institutions in other WAEMU countries are treated as nonbank financing.

⁶ These reforms are to be supported by a proposed World Bank credit, which will also support reforms in rural and social sectors.

collaboration between line ministries and the Ministry of Finance and Economy; (ii) aligning budgets with the poverty reduction strategy; (iii) enhancing internal and external controls of public financial operations, including through securing additional human and financial resources for the office of internal audit and the Audit Office (*Champres des Comptes*). The authorities plan to finalize the medium-term expenditure frameworks for the rural and transport sectors by end-2006 and integrate them into the 2007 budget. They will further refine, with World Bank assistance, the unified list of priority programs aimed at strengthening the monitoring and execution of poverty-reducing programs.

12. The government is finalizing a medium-term plan to reduce domestic arrears. Following the evaluation by the internal audit office of the Ministry of Finance and Economy in December 2005, the stock of domestic arrears is estimated at CFAF 136 billion (7.2 percent of GDP);⁷ a detailed report with proposals on how to settle these arrears has been prepared, and is being considered by the government. The bulk of the arrears is towards suppliers, and public enterprises and agencies.

D. Petroleum Product Pricing

13. The authorities agreed to adhere to the flexible petroleum pricing system. In January 2006 some deferred taxes were recuperated and margins increased. During February-May 2006 the retail pricing mechanism was fully implemented (except for a small tax deferment in March), and resulted in significant retail price increases in April and May. In the future, the authorities intend to allow a complete pass-through of world prices without deferring taxes or margins.⁸ If world prices fall, domestic prices will not be adjusted downward until all previously deferred taxes and margin payments have been collected. The government noted that it might revisit this policy, after consulting with the Fund, if sharp increases in oil prices were to jeopardize social cohesion.

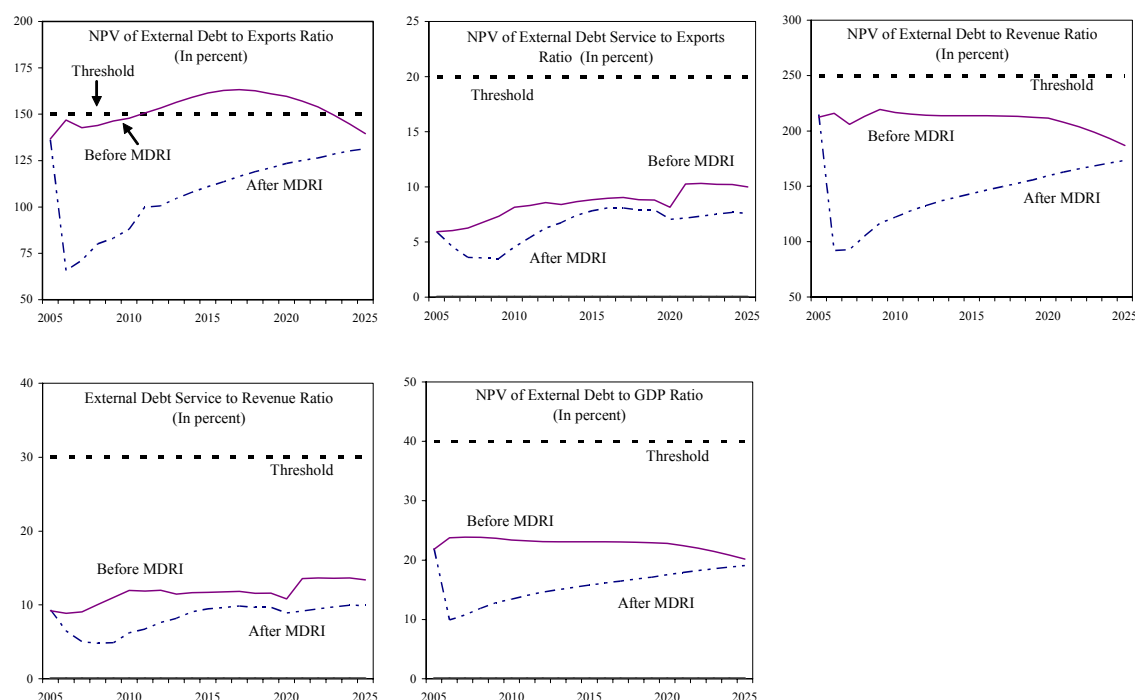
E. Debt Sustainability and the Implications of the MDRI

14. The authorities welcomed the debt relief provided under the MDRI, and the additional resources provided by the Fund have been incorporated in the 2006 program. The proposed program contains adjustors to the quarterly fiscal targets that would allow for spending on priority programs of all flow relief provided by IDA and the ADF. Relief under the MDRI would significantly reduce debt ratios to levels well below the

⁷ Excluding obligations mostly related to the BCEAO.

⁸ TMU, Appendix I, Attachment II, paragraph 22.

External Debt Indicators, 2005-2025 (50 percent concessionality)



Source: Nigerien authorities, World Bank and IMF staff estimates and projections.

policy-based indicative thresholds of the low-income debt sustainability framework.⁹ A prudent external debt strategy will be pursued, including through the strengthening of the external debt management unit at the Ministry of Finance and Economy, with assistance from donors.

F. The PRSP and Structural Reforms

15. **The updating of the PRSP is advancing, albeit with some delay.** Programs for the road and transport sector strategy have been costed, and the costing of the programs for the rural sector strategy is expected by end-June 2006. This, together with ongoing work to strengthen understanding of the country's poverty profile, should allow the government to finalize a revised PRSP in time to discuss it at the proposed donor round table in December 2006. In the meantime, the government will issue a third annual progress report on the

⁹ Under the World Bank's Country Policy and Institutional Assessment Rating System, Niger is classified as a "medium performer." The debt sustainability thresholds applied for these countries, in terms of NPV of debt to exports, GDP, and revenue are 150 percent, 40 percent and 250 percent, respectively.

implementation of the PRSP by end-June 2006. Donors at the March 2006 conference reiterated that the PRSP should be the unique vehicle for mobilizing donor financing and urged the authorities to work expeditiously to finish the document. They also urged the authorities to deepen the dialogue with them and to increase the flow of information regarding the implementation of the PRSP in general, and expenditure reform under the PEMFAR, in particular.

16. **Deepening financial intermediation and privatizing public utility companies are needed to improve economic growth prospects.** With assistance from the World Bank, the authorities intend to fully privatize *Crédit du Niger* by end-December 2006, and to complete the restructuring of the National Postal and Savings Office. For the latter, the remaining main task is to tender 25 percent of Niger-Post's shares to the private sector. The other banks comply with most prudential regulations. The authorities continue to work toward privatizing the petroleum-importing and electricity companies with financial and technical assistance from the World Bank.

III. MACROECONOMIC, HUMANITARIAN, AND PROGRAM RISKS

17. **The macroeconomic outlook and the program are subject to risks.** Niger's economy is susceptible to recurrent natural calamities and negative terms of trade shocks in the context of a narrow export base. Over the medium to long term, these vulnerabilities can be addressed by sustained reforms supported by higher levels of development aid. In the immediate future, if the 2006 harvest is substantially below normal, food insecurity would intensify and economic growth prospects would deteriorate. Rising world oil prices would weaken the balance of payments and put upward pressure on domestic petroleum product prices, which could exacerbate social tensions and weaken support for reform.

IV. STAFF APPRAISAL

18. **After a drought-induced food crisis during 2004-05, a record harvest in late 2005 has improved the food security situation and contributed to an economic rebound.** Consequently inflationary pressures subsided with significant declines in food prices. Despite the impact of the drought, all key program measures except one were implemented as envisaged or with only a short delay. However, staff regrets the delay in implementing the food security program for 2005. Notwithstanding the record harvest, food insecurity is still a concern, with a large section of the population vulnerable to food insecurity.

19. **The program for 2006 appropriately provides for additional expenditure for food security.** The government has already released a portion of these resources to strengthen food security. Staff encourages the authorities to work closely with international food relief agencies, and to continue to release programmed resources for food security as soon as they are needed. The program also provides for resources to initiate the implementation of proposed priority investment projects, including those for irrigation, that are aimed to strengthen food security and growth prospects over the medium term. The

authority's commitment to work closely with development partners (including the World Bank) in implementing proposed projects is welcome.

20. **The fiscal program for 2006 is fully financed by highly concessional donor resources, including debt relief provided by the Fund under the MDRI.** If development partners rapidly supply more food aid than is currently foreseen, the entire amount programmed for food security may not be needed. In this regard, staff supports the authorities' decision to use any unspent amounts for faster buildup of the national grain reserves, addressing emergencies related to avian flu, and reducing net domestic financing.

21. **A timely implementation of the medium-term revenue mobilization strategy and continued commitment to strengthen expenditure management is crucial.** Timely execution of the revenue mobilization strategy is needed to increase Niger's low revenue-to-GDP ratio and meet the expenditure needs associated with the MDGs. The strategy appropriately focuses on improving tax and customs administration, addressing tax evasion and strengthening informal sector tax compliance. Successful implementation of these reforms will require both sustained efforts and a strong political will. On expenditure management, the authorities should expedite reforms to strengthen budget preparation and execution as well as internal and external controls. These reforms are critical for the implementation of the poverty reduction strategy and the mobilization of higher levels of development aid.

22. **The authorities' commitment to use resources provided through MDRI for advancing toward the MDGs is appropriate.** Debt relief provided under the MDRI will substantially reduce Niger's external debt burden. Nonetheless, the authorities should continue to seek financing on highly concessional terms, preferably in the form of grants, to enable them to accelerate progress toward the MDGs without undermining debt sustainability. In this regard, the staff encourages the authorities to seek assistance from development partners to strengthen capacity to manage external debt.

23. **The staff welcomes the authority's commitment to allow a full pass-through of international oil price movements.** Staff recognizes the authorities' concerns about the impact of higher domestic petroleum prices on social conditions, which motivated the freezing of domestic retail prices during the August–December of 2005 by deferring taxes and reducing margin payments to the oil importing company. Nevertheless, given Niger's low revenue-to-GDP ratio and substantial expenditure needs associated with the MDGs, lowering or deferring taxes will inhibit the government's ability to execute its poverty reduction strategy.

24. **Staff encourages the authorities to quicken the pace of structural reforms.** The privatization of the *Crédit du Niger* and the restructuring of the National Post and Savings Institution will help promote financial intermediation and extend financial services in rural areas. Staff urges the authorities to advance, with World Bank assistance, the development of a privatization strategy for public utility companies.

25. **Timely completion of the revised PRSP is critical for mobilizing additional donor resources.** The authorities are encouraged to work with donors to streamline and harmonize donor conditionality and to enhance the flow of information. Success in this regard will help improve the timeliness of donor disbursements, so as to ensure the full implementation of anti-poverty programs and help mobilize additional donor support.

26. **The staff believes that risks to the program are manageable.** The economy remains highly vulnerable to external shocks, including recurrent droughts. A possible poor harvest in 2006 could further weaken food security and reduce economic growth. Concerns about food insecurity could be mitigated by rapidly implementing the 2006 program for food security and by working closely with relief agencies. The revenue-enhancing measures to be implemented in 2006 would reduce risks to revenues related to a drought-induced weaker economic growth. Over the medium term, the vulnerability of the economy to terms-of-trade shocks and droughts should be addressed by sustained structural reforms to diversify the economy and improve its supply response. This will need to be supported by higher levels of development aid.

27. **In light of the strength of the program, and the authorities' commitment to its timely implementation, the staff recommends Board approval of the authorities' request for waivers, and the completion of the second review under the PRGF arrangement.**

Table 1. Niger: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2006-08

Amount	Date	Conditions Necessary for disbursement ¹
SDR 5.875	June 30, 2006	Executive Board approval of the second review under the PRGF arrangement
SDR 5.875	July 15, 2006	Observance of the performance criteria for June 30, 2006, and completion of the third review under the arrangement
SDR 0.940	January 15, 2007	Observance of the performance criteria for December 31, 2006, and completion of the fourth review under the arrangement
SDR 0.940	July 15, 2007	Observance of the performance criteria for June 30, 2007, and completion of the fifth review under the arrangement
SDR 0.940	January 15, 2008	Observance of the performance criteria for December 31, 2007, and completion of the sixth review under the arrangement

Source: International Monetary Fund.

¹In addition to the general conditions under the Poverty Reduction and Growth Facility Arrangement.

Table 2. Niger: Selected Economic and Financial Indicators, 2004-2008

	2004	2005		2006		2007	2008
	Est.	^{1/}	Est.	^{1/}	Rev. Prog.	Rev. Proj.	
(Annual percentage change, unless otherwise indicated)							
National income and prices							
GDP at constant prices	-0.6	4.5	7.0	4.2	3.5	4.2	4.3
GDP deflator	-0.6	6.6	8.0	2.0	0.0	2.1	2.5
Consumer price index							
Annual average	0.4	7.6	7.8	0.3	0.0	2.0	2.0
End of period	3.7	5.1	4.2	1.1	1.1	2.0	2.0
External sector							
Exports, f.o.b. (units, CFA francs)	18.5	10.7	15.4	5.4	4.8	6.8	4.5
Imports, f.o.b. (units, CFA francs)	14.4	20.8	12.4	3.6	11.1	-4.8	1.4
Export volume	5.8	7.3	6.5	2.8	2.4	4.9	2.8
Import volume	3.9	8.6	6.5	-0.2	8.2	-4.3	2.5
Terms of trade (deterioration -)	-2.8	-7.2	0.9	-1.2	-0.2	0.2	1.6
Nominal effective exchange rate (depreciation -)	0.9	...	-0.7	...	...	...	...
Real effective exchange rate (depreciation -)	2.4	...	3.9	...	...	...	...
Government finances							
Total revenue	10.9	7.5	8.8	10.0	11.1	12.3	12.8
Total expenditure and net lending ²	15.3	10.7	0.8	10.7	30.2	-6.1	3.3
of which: Current expenditure	8.0	2.2	-4.3	15.0	32.3	-7.0	7.7
Capital expenditure	24.7	21.7	7.5	20.6	36.3	-10.9	-1.4
Money and credit							
Domestic credit ³	24.1	5.7	2.3	...	-14.2	...	...
Credit to the government (net) ³	14.8	1.4	-6.3	...	-19.1	...	...
Credit to the economy ³	9.3	4.3	8.7	...	4.9	...	...
Net domestic assets ³	24.3	7.9	1.7	...	-13.0	...	...
Money and quasi money	20.3	9.9	6.5	...	5.1	...	...
Interest rate (money market, in percent; end of period)	...	...	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)							
Government finances							
Total revenue	11.1	10.4	10.4	10.8	11.2	11.8	12.5
Total expenditure and net lending	20.2	19.6	17.7	20.4	22.2	19.6	19.0
of which: Current expenditure	11.0	9.8	9.1	10.0	11.6	10.2	10.3
Capital expenditure	9.2	9.8	8.5	10.4	10.6	9.4	8.7
Basic balance (excluding grants) ⁴	-2.2	-2.6	-1.3	-1.5	-2.8	-1.0	-0.4
Overall balance (commitment basis, excluding grants)	-9.2	-9.2	-7.2	-9.6	-11.0	-7.8	-6.5
Overall balance (commitment basis, including grants) ⁵	-3.5	-4.3	-1.6	-4.9	-3.0	-4.3	-2.9
Gross investment	16.2	16.8	15.4	17.9	18.1	16.9	17.0
of which: nongovernment	6.1	7.0	6.1	6.8	6.9	7.5	8.3
Gross national savings	9.2	10.0	8.8	8.3	7.4	9.6	11.0
of which: nongovernment	3.7	5.5	3.3	3.0	3.2	3.7	4.1
External current account balance							
Excluding official grants	-10.3	-11.0	-10.1	-10.9	-12.1	-8.6	-7.6
Including official grants	-7.0	-6.8	-6.6	-9.7	-10.7	-7.3	-6.0
External public debt (end of period) ⁶	60.1	59.4	61.2	64.9	36.3	37.9	37.8
Debt-service ratio in percent of :							
Exports of goods and services ⁷	12.9	9.3	9.1	10.4	4.3	3.6	5.6
Government revenue ⁷	21.2	14.5	16.0	15.2	6.9	5.6	8.0
(Billions of CFA francs)							
GDP at current market prices	1,569	1,796	1,813	1,908	1,877	1,994	2,131
Overall balance of payments	-25.9	-12.2	15.2	-60.6	-25.3	-54.4	-38.7

Sources: Nigerien authorities; and staff estimates and projections.

¹IMF Country Report No. 06/40; 02/06/06.

²Commitment basis as per payment orders issued.

³In percent of beginning-of-period money stock.

⁴Total revenue, excluding grants, minus total expenditure, excluding foreign-financed investment projects.

⁵Program data and projections include grants for projects and HIPC Initiative assistance. Actual data include budgetary grants.

⁶Including obligations to the IMF, and after MDRI relief starting in 2006.

⁷After HIPC and MDRI debt relief starting in 2006.

Table 3. Niger: Financial Operations of the Central Government, 2004-08

	2004	2005		2006		2007	2008
	Est.	1/	Est.	1/	Rev. Prog.	Rev. Proj.	
(Billions of CFA francs)							
Total revenue	173.8	186.9	189.0	205.6	210.0	235.8	265.9
Tax revenue	167.6	177.4	181.3	196.6	200.8	223.9	251.9
Nontax revenue	1.4	4.0	4.9	5.7	6.8	7.8	9.4
Special accounts revenue	3.9	5.4	2.8	3.3	2.4	4.0	4.6
Total expenditure and net lending	317.6	351.6	320.1	389.3	416.9	391.3	404.3
Total current expenditure	172.7	176.5	165.3	203.0	218.7	203.3	219.1
Budgetary expenditure	155.8	168.4	158.0	195.5	211.2	196.9	212.4
Wages and salaries	59.2	63.1	63.0	69.3	69.3	70.7	72.8
Materials and supplies	50.3	38.4	43.6	55.0	55.0	62.5	66.8
Subsidies and transfers	38.2	44.4	31.9	59.2	75.2	50.2	57.6
of which : Food security	...	3.6	1.4	0.0	16.0	...	...
Francophone games	...	12.0	9.3	0.0	0.0	...	...
Interest, scheduled	8.1	10.5	10.1	12.0	11.7	13.6	15.2
of which : External debt	8.0	8.0	8.0	7.3	7.0	8.6	10.0
Special accounts expenditure	16.9	8.0	7.3	7.5	7.5	6.4	6.7
Capital expenditure and net lending	144.9	175.1	154.8	211.1	211.0	187.9	185.3
Capital expenditure	144.0	175.3	155.0	211.1	211.0	187.9	185.3
Domestically financed	34.0	56.7	47.2	56.3	56.2	52.0	55.2
of which : New priority investment projects	...	...	...	...	7.0	...	...
Food security	...	18.0	0.7	5.0	5.0	5.0	...
Francophonie Games	...	4.9	3.9	0.0	0.0	...	...
Externally financed	110.0	118.6	107.8	154.8	154.8	135.9	130.0
Net lending	0.9	-0.2	-0.2	0.0	0.0	0.0	0.0
Contingent expenditure	...	0.0	0.0	-24.8	-12.8	0.0	0.0
Balance (commitment)	-143.8	-164.7	-131.0	-183.6	-206.9	-155.5	-138.4
Basic balance	-33.8	-46.1	-23.2	-28.8	-52.1	-19.6	-8.4
Change in payments arrears	-19.3	-10.1	-12.4	-5.6	-5.6	-14.0	-11.0
of which : Domestic arrears	-19.3	-10.1	-12.4	-5.6	-5.6	-14.0	-11.0
Overall balance (cash)	-163.1	-174.8	-143.4	-189.2	-212.5	-169.5	-149.4
Financing	163.1	174.8	143.4	115.0	145.4	100.5	104.6
External financing	138.6	133.6	145.6	135.1	195.0	97.2	108.0
Grants	89.2	88.4	102.2	90.6	150.5	70.6	76.8
Budget financing	26.5	30.4	38.7	0.0	0.0	0.0	0.0
Project financing	46.5	42.3	45.3	74.2	74.2	59.9	64.0
HIPC Initiative assistance	16.2	15.7	18.2	16.4	16.4	10.7	12.8
IMF MDRI assistance	...	...	...	0.0	59.9	0.0	0.0
Loans	64.1	55.3	55.0	56.0	56.0	39.9	49.1
of which : Budget financing	17.6	14.8	14.8	0.0	0.0	0.0	0.0
Amortization	-22.4	-11.6	-14.6	-15.8	-15.8	-15.2	-24.0
Debt relief (incl. debt under discussion)	7.7	1.5	3.0	4.3	4.3	1.9	6.2
Domestic financing	24.5	18.5	-2.3	-20.1	-49.6	3.3	-3.5
of which : IMF (net)	0.6	-6.6	1.7	-6.6	-56.7	1.5	0.7
Financing gap (+)	0.0	22.7	0.0	74.2	67.0	69.0	44.9
Identified financing	0.0	0.0	0.0	67.0	67.0	...	...
Residual financing gap	0.0	22.7	...	7.2	0.0	...	...
Residual financing gap	...	...	...	...	0.0	...	...
(Percent of GDP)							
Total revenue	11.1	10.4	10.4	10.8	11.2	11.8	12.5
Total expenditure and net lending	20.2	19.6	17.7	20.4	22.2	19.6	19.0
Total current expenditure	11.0	9.8	9.1	10.0	11.6	10.2	10.3
of which : Wages and salaries	3.8	3.5	3.5	3.6	3.7	3.5	3.4
Capital expenditure and net lending	9.2	9.7	8.5	10.4	10.6	9.4	8.7
Balance (cash)	-10.4	-9.7	-7.9	-9.9	-11.3	-8.5	-7.0
External financing	8.8	7.4	8.0	7.1	10.4	4.9	5.1
Domestic financing	1.6	1.0	-0.1	-1.1	-2.6	0.2	-0.2
Financing gap (+)	0.0	1.3	0.0	3.9	3.6	3.5	2.1
<i>Memorandum item</i>							
NGDP	1,569	1,796	1,813	1,908	1,877	1,994	2,131
MDRI flow relief : WB and AfDB	...	...	...	...	3.0	5.2	5.6
New priority investment projects (excl. grain reserves)	...	...	...	19.8	12.8	...	...
Domestic financing excluding IMF	23.9	25.1	-4.0	-13.5	7.1	1.8	-4.2

Sources: Nigerien authorities; and IMF staff estimates.

¹IMF Country Report No. 06/40; 02/06/06.

Table 4. Niger: Balance of Payments, 2004-08
(Billions of CFA francs, unless otherwise indicated)

	2004	2005		2006		2007	2008
	Est.	1/	Est.	1/	Rev. Prog.	Rev. Proj	
Current account balance	-109.6	-122.0	-118.8	-184.4	-201.3	-146.3	-127.8
Balance on goods	-80.8	-126.2	-83.7	-126.5	-109.7	-72.2	-64.2
Exports, f.o.b	230.7	230.0	266.4	242.4	279.3	298.2	311.7
<i>of which</i> : reexports	21.4	27.3	27.3	28.4	28.7	30.2	31.9
Imports, f.o.b	311.5	356.2	350.1	368.9	388.9	370.5	375.8
Services and income (net)	-96.3	-93.4	-116.8	-98.6	-133.7	-116.7	-119.4
Services (net)	-89.6	-89.0	-109.2	-97.1	-126.1	-110.8	-114.5
Income (net)	-6.6	-4.5	-7.6	-1.5	-7.6	-5.9	-4.9
<i>of which</i> : interest on external public debt ²	-8.0	-8.0	-7.0	-7.3	-7.0	-8.6	-10.0
Unrequited current transfers (net)	67.5	97.6	81.7	40.7	42.0	42.6	55.8
Private (net)	16.2	22.5	18.0	16.2	17.0	17.5	21.1
Public (net)	51.3	75.1	63.7	24.5	25.1	25.2	34.7
Capital and financial account	83.6	109.8	105.1	123.8	176.0	91.9	89.1
Capital account	52.2	46.2	50.3	78.9	131.6	63.5	65.5
Private capital transfers	5.7	3.9	5.0	4.7	3.0	3.6	1.6
Project grants	46.5	42.3	45.3	74.2	74.2	59.9	64.0
Debt relief (IMF, MDRI)	0.0	0.0	0.0	0.0	54.4	0.0	0.0
Financial account	31.4	63.6	54.8	44.9	44.4	28.4	23.6
Direct investment	7.1	3.9	7.7	8.0	7.3	6.4	9.8
Portfolio investment	2.5	17.5	17.5	1.0	6.0	1.1	1.1
Other investment	46.0	42.2	29.5	35.9	31.1	20.9	12.7
Public sector (net) ²	49.8	43.7	40.4	40.2	40.2	24.7	25.1
Other (net)	-3.9	-1.5	-10.9	-4.3	-9.1	-3.8	-12.4
Errors and omissions	-24.1	0.0	28.9	0.0	0.0	0.0	0.0
Balance	-25.9	-12.2	15.2	-60.6	-25.3	-54.4	-38.6
Financing							
Net foreign assets (Central Bank of West African States)	19.1	-12.0	-18.1	-17.9	-44.7	-18.4	-18.7
<i>of which</i> : Net use of Fund resources	0.6	-6.6	1.7	-6.6	-51.2	1.5	0.7
Rescheduling obtained	6.7	1.5	3.0	4.3	3.0	3.8	12.4
Financing gap	0.0	22.7	0.0	74.2	67.0	0.0	0.0
Financing assurances	0.0	15.7	0.0	67.0	67.0	69.0	45.0
Residual financing gap	0.0	7.0	0.0	7.2	0.0	0.0	0.0
(Percent of GDP)							
Exports of goods and services	18.2	14.6	18.2	17.8	18.1	18.2	17.8
Imports of goods and services	29.1	23.7	29.0	28.6	30.6	27.4	26.2
Current account balance (includ. grants)	-7.0	-6.8	-6.6	-9.7	-10.7	-7.3	-6.0
Current account balance (exclud. grants)	-10.2	-11.0	-10.1	-10.9	-12.1	-8.6	-7.6
Memorandum items:							
GDP	1,569	1,796	1,813	1,908	1,877	1,994	2,131
Exchange rate (CFA francs per U.S. dollar, annual average)	527.6	...	527.1	...	...	...	...

Sources: Nigerien authorities; and staff estimates and projections.

¹IMF Country Report No. 06/04; 02/06/06.

²Excludes the impact of the MDRI assistance of the World Bank and African Development Bank.

Table 5 . Niger: Actual and Projected Payments to the Fund, 2004-2014
(Millions of SDRs, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Actual and scheduled disbursements	8.4	11.8	11.8	1.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Debt service obligations on outstanding disbursements ¹	5.1	3.1	0.3	0.4	0.4	0.4	0.5	2.7	2.7	2.7	2.7
Principal repayments ²	4.5	2.5	0.0	0.0	0.0	0.0	0.1	2.4	2.4	2.4	2.4
Interest and charges ³	0.6	0.6	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3
As percent of quota	7.7	4.7	0.5	0.6	0.6	0.6	0.7	4.1	4.1	4.1	4.1
Projected debt service on prospective disbursements ⁴	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.7	2.6	3.0	2.9
Principal repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	2.5	2.9	2.9
Interest and charges	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
As percent of quota	0.0	0.0	0.1	0.1	0.1	0.1	0.1	1.0	4.0	4.5	4.5
Total debt service (on outstanding and prospective disbursements)	5.1	3.1	0.3	0.5	0.5	0.5	0.5	3.4	5.3	5.7	5.6
Principal repayments	4.5	2.5	0.0	0.0	0.0	0.0	0.1	2.9	4.9	5.3	5.3
Interest and charges	0.6	0.6	0.3	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
As percent of quota	7.7	4.7	0.5	0.7	0.7	0.7	0.8	5.2	8.1	8.6	8.6
Outstanding Fund credit	87.2	89.3	23.5	25.4	26.3	26.3	26.2	23.3	18.4	13.1	7.9
As percent of:											
Exports of goods and services	25.8	24.0	5.9	6.0	5.9	5.7	5.4	4.5	3.4	2.3	1.3
Gross official reserves	54.1	53.0	12.3	12.4	12.0	11.4	10.7	8.7	6.3	4.2	2.3
GDP	4.2	3.8	1.0	1.0	0.9	0.9	0.8	0.7	0.5	0.3	0.2
Quota	132.5	135.7	35.7	38.6	40.0	40.0	39.9	35.4	28.0	20.0	12.0
<i>Memorandum items:</i>											
HIPC assistance ⁵	5.2	7.2	17.7								
MDRI debt relief ⁶	0.0	0.0	59.8								

Source: Nigerien authorities; and Fund staff estimates and projections.

¹Based on disbursements made after January 1, 2005.

²After HIPC and MDRI debt relief.

³Projections are based on current PRGF and SDR interest rates. Includes SDR charges and assessments.

⁴Assumes disbursement of the remaining balances of the current PRGF (SDR 4.7 million) and the PRGF augmentation (SDR 9.87 million).

⁵Delivered on a stock basis on January 6, 2006.

⁶MDRI debt relief covers the full stock of debt owed to the IMF at end-2004 that remains outstanding at the time the country qualifies for such relief. The reported figure is the part additional to the HIPC relief.

Table 6 Niger: Monetary Survey, 2003-06

	2003	2004	2005		2006
	Dec.	Dec. ¹	Dec. 2/	Dec. Est.	Dec. Rev. Prog.
(Billions of CFAF; end of period)					
Net foreign assets	75.8	67.9	76.4	79.2	124.2
Central Bank of West African States (BCEAO)	68.1	49.0	64.9	67.1	111.8
Commercial banks	7.7	18.9	11.4	12.0	12.4
Net domestic assets	118.2	165.4	181.5	169.4	137.1
Domestic credit	139.7	186.4	199.7	191.8	156.5
Net bank claims on government	56.6	85.3	88.5	70.5	23.1
BCEAO	56.2	85.6	86.8	75.1	28.7
<i>of which</i> : Statutory advances	33.1	33.1	33.1	32.1	32.1
IMF resources	74.4	73.5	67.5	75.2	18.6
Commercial banks	-2.0	-3.5	-1.5	-7.1	-8.8
Other	2.4	3.2	3.2	2.5	3.2
Credit to the economy	83.0	101.1	111.2	121.3	133.4
Other items, net	-21.5	-21.0	-18.2	-22.4	-19.4
Money and quasi-money	194.0	233.3	257.7	248.6	261.3
Currency outside banks	84.9	97.7	108.8	108.1	112.5
Postal savings institutions	2.4	3.2	3.2	2.5	3.2
Deposits with banks	106.6	132.5	145.7	137.9	145.6
(Annual variation, percent of beginning-of-period broad money; unless otherwise indicated)					
Net foreign assets	37.7	-4.1	1.9	4.8	18.1
BCEAO	42.4	-9.8	5.1	7.8	18.0
Commercial banks	-4.7	5.8	-3.2	-3.0	0.2
Net domestic assets	4.5	24.3	7.9	1.7	-13.0
Domestic credit	7.9	24.1	5.7	2.3	-14.2
Net bank claims on the government	2.6	14.8	1.4	-6.3	-19.1
BCEAO	1.3	15.2	0.5	-4.5	-18.7
<i>of which</i> : statutory advances	0.0	0.0	0.0	-0.4	0.0
Commercial banks	0.8	-0.8	0.9	-1.5	-0.7
Other	0.5	0.4	0.0	-0.3	0.0
Credit to the economy	5.3	9.3	4.3	8.7	4.9
Credit to the economy (% , beginning of year)	9.5	21.7	10.0	20.0	10.0
Other items, net	-3.4	0.3	2.2	-0.6	1.2
Money and quasi money	42.2	20.3	9.9	6.5	5.1
Memorandum items:					
Velocity of circulation of money (GDP/broad money)	8.2	6.7	7.0	7.3	7.2

Sources: BCEAO; and staff estimates and projections.

¹ In 2004, net foreign assets have been revised relative to the figures contained in IMF Country Report No. 06/40; 02/06/06.

² IMF Country Report No. 06/40; 02/06/06.

Table 7. Niger: Millennium Development Goals

	1997	2000	2003	2004
Goal 1: Eradicate extreme poverty and hunger				
Malnutrition prevalence, weight for age (% of children under 5)	.	40	.	.
Prevalence of undernourishment (% of population)	42	.	32	32
Goal 2: Achieve universal primary education				
Literacy rate, youth total (% of people ages 15-24)	.	.	.	37
Persistence to grade 5, total (% of cohort)	.	74	74	74
Primary completion rate, total (% of relevant age group)	16.	16.	19	25
School enrollment, primary (% net)	.	25	36	39
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	.	1	1	1
Ratio of girls to boys in primary and secondary education (%)	.	68.	70.	71.
Ratio of young literate females to males (% ages 15-24)	.	.	.	44.
Share of women employed in the nonagricultural sector (% of total nonagricultural)	.	.	.	.
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	35	34	64	74
Mortality rate, infant (per 1,000 live births)	.	159	.	152
Mortality rate, under-5 (per 1,000)	.	270	.	259
Goal 5: Improve maternal health				
Births attended by skilled health staff (% of total)	.	15.	.	.
Maternal mortality ratio (modeled estimate, per 100,000 live births)	.	1,60	.	.
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children orphaned by HIV/AIDS	.	.	24,00	24,00
Contraceptive prevalence (% of women ages 15-49)	.	14	.	.
Incidence of tuberculosis (per 100,000 people)	.	.	.	157.
Prevalence of HIV, total (% of population ages 15-49)	.	.	1	1
Tuberculosis cases detected under DOTS (%)	19	34.	49.	45.
Goal 7: Ensure environmental sustainability				
CO2 emissions (metric tons per capita)	0.	0.	0.1	.
Improved sanitation facilities (% of population with access)	.	.	12	.
Improved water source (% of population with access)	.	.	46	.
Nationally protected areas (% of total land area)	.	.	7.	7.
Goal 8: Develop a global partnership for development				
Aid per capita (current US\$)	31.	17.	35	39.
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	14	8	6	5
Fixed line and mobile phone subscribers (per 1,000 people)	1.	1.	7.	12.
Internet users (per 1,000 people)	0	0.	1.	1.
Personal computers (per 1,000 people)	0.	0.	0.	0.
Total debt service (% of exports of goods, services and income)	20	8	8	8
Fertility rate, total (births per woman)	8.	8	7.	7.
GNI per capita, Atlas method (current US\$)	180	160	180	210
GNI, Atlas method (current US\$) (billions)	1.	1.	2.	2.
Gross capital formation (% of GDP)	10.	11.	14.	15.
Life expectancy at birth, total (years)	42.	43.	44.	44.
Literacy rate, adult total (% of people ages 15 and above)	.	.	.	28.
Population, total (millions)	10.	11.	13.	13.
Trade (% of GDP)	40.	43.	41.	41.

Source: World Development Indicators database, April 2006.

Niamey, June 5, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A

Dear Mr. de Rato

1. Niger faced difficult socioeconomic conditions during 2004-2005. A drought and locust infestation triggered a food crisis that affected a quarter of the population. A surge in food prices, together with higher fuel prices, reduced real incomes and further aggravated already weak socioeconomic conditions. Despite these difficult conditions, the government satisfactorily implemented policies and reforms envisaged under our PRGF-supported program. All the performance criteria relevant for the second review were achieved, except for two structural measures for which the government has taken corrective actions. Despite a record harvest and an economic rebound in late 2005, food insecurity remains a concern, with 1.8 million people requiring emergency assistance.
2. Against this back drop, the 2006 program, which is spelled out in the attached Memorandum of Economic and Financial Policies (MEFP), focuses on advancing our policies and reforms to strengthen economic growth and reduce poverty while addressing food security needs. The fiscal program has been revised to incorporate a more favorable revenue outlook, required food security needs, and key priority investment projects. It envisages reforms to strengthen revenue mobilization and expenditure management. The government plans also to advance financial sector reforms, the privatization program, and the costing of programs underpinning PRSP-based strategies. The latter will underpin a revised PRSP, which the government will finalize later in the year.
3. Accordingly, the government of Niger requests the completion of the second review of the PRGF-supported program and waivers for nonobserved performance criteria. As in the past, the government consents to the publication by the Fund of this letter of intent, the MEFP, the technical memorandum of understanding, and the staff report. In this context, the government of Niger believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become

appropriate for this purpose. Niger will consult with the Fund on the adoption of these measures and in advance of any revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

Sincerely yours,

/s/

Ali Lamine Zeine
Minister of Finance and Economy

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Memorandum of Economic and Financial Policies of the Government of Niger for 2006

I. BACKGROUND AND PROGRAM IMPLEMENTATION

1. **The past year has presented Niger with substantial social and economic challenges.** The combined effects of drought and locust infestation in 2004 resulted in a food crisis that affected a quarter of our population. A surge in food and fuel prices reduced household incomes and further aggravated socioeconomic conditions. Under these conditions, the government's attempt to remove VAT exemptions on sugar, flour and milk resulted in wide-spread social unrest. The periodic closing of borders by our neighbors and regional insecurity also disrupted supply lines. However, the fourth quarter of the year brought some modest relief. The 2005 harvest was one of the largest on record, pushing real GDP growth up to 7 percent for the year as a whole and bringing cereal prices close to pre-drought levels by early 2006.
2. **Despite the extremely unfavorable environment throughout most of the year, the government maintained fiscal discipline while continuing to advance its poverty reduction strategy.** The economic rebound late in the year, strong growth of imports, and improvements in tax and customs administration resulted in revenues that were moderately higher than programmed. Expenditure was substantially lower than envisaged, primarily because of the short time available at the end of the year to engage additional resources for food relief, and also because of delays in obtaining donor budget support. In view of the delays and associated cash flow constraints, the government issued six-month treasury bills on the regional financial market in April and November. External budget support disbursed later in the year was used to retire the treasury bills issued in April. The food security program was financed by budgeted resources as well as support by the national and international community. In this context, the basic fiscal deficit and domestic financing were much smaller than programmed and all quantitative performance criteria for the second review under the PRGF were observed (Table 1a).
3. **The three structural performance criteria pertaining to the petroleum pricing mechanism, monthly indicators for main customs offices, and institution of joint import verification teams were observed (Table 2a).** Two other structural performance criteria—the minimum turnover threshold for large taxpayers, and the establishment of an issue-oriented audit unit for medium-sized taxpayers—were not met; however, the actions required have since been taken, except that we were not able to complete all the audits targeted for the audit unit.
4. **On other reforms, the government has advanced the implementation of the recommendations of the Public Expenditure Management and Financial Accountability Review (PEMFAR).** In this context, a Treasury-Budget interface (*liaison retour*) was established to improve the monitoring of government expenditure. A unified list of priority

outlays was established in September 2005 and fully incorporated into the 2006 budget, facilitating the monitoring of the execution of these programs and evaluation of their effectiveness.

5. **We have advanced financial sector reforms and privatization with World Bank assistance.** The restructuring of the National Post and Saving Institution (ONPE) is underway with the establishment during the first quarter of 2006 of separate financial (FinaPoste) and postal (NigerPoste) branches. The new institutions will contribute to enhanced financial intermediation, given their large nationwide network, and result in a more efficient postal service. In the privatization area, the government has completed the financial assessment of *Crédit du Niger* and determined that the government's net debt to the institution amounts to CFAF 1.6 billion.

II. ECONOMIC AND FINANCIAL POLICIES FOR 2006

A. Background and Macroeconomic Framework

6. **Despite the rebound in agricultural production late in 2005, we still face substantial challenges in 2006.** The effects of the drought and locust infestation persist and nearly 1.8 million drought-affected persons remain highly vulnerable. Many households exhausted their savings, including selling their livestock, and went into debt to survive, and not all regions of the country have experienced increased food production. We are working closely with UN agencies, NGOs and donors to implement our food security program and to help contain the spread of the avian flu virus (H5N1). We have begun destroying affected birds and compensating affected households.

7. **Real GDP growth is projected to slow to about 3½ percent as agricultural production returns to its trend.** Inflation is projected to ease to less than 2 percent, reflecting mainly the recent decline in food prices. The fiscal deficit (excluding grants) is programmed to rise as a share of GDP as we address urgent food security needs. Correspondingly, the external current account deficit is also projected to widen and we anticipate a small balance of payments deficit. Monetary and exchange rate policy will continue to be conducted at the regional level by the BCEAO. The medium-term outlook remains broadly unchanged from that contained in our November 2005 Memorandum of Financial and Economic Policies (MEFP).

B. Fiscal policies

8. **The fiscal program for 2006 has been revised to incorporate a more favorable revenue outlook, the carryover of food relief expenditures that had been programmed for 2005,** some of the priority investment projects identified in our previous letter, and the impact of debt relief provided by the IMF under the MDRI. Revenue projections have been revised upward from CFAF 205.6 billion to CFAF 210 billion (11.2 percent of GDP) on the basis of rebound in economic growth late in 2005, introduction of a new broad based real

estate tax, the collection of deferred petroleum-based taxes, and continued strengthening of tax and customs administration. The government is committed to selling all the villas constructed for the 5th Francophonie Games and related assets. To advance the process, it established by the Decree (No. 0031/ME/F/CAB) of February 21, 2006, a commission to assess the value of government investment in the project and to propose a divestment strategy. The commission has submitted its report to government. On this basis, government has established a commission to sell, through public auctions, the villas and related assets.

9. **The Nigerian authorities are in close contact with development partners to obtain financing for the new priority investment projects listed in the 2006 budget law,** a total of CFAF 20 billion, excluding resources for replenishing national grain reserves that are covered under the food security program. These projects are for irrigation, a new slaughterhouse, a coal mine, rehabilitation of the housing bank, and establishing a specialized agricultural bank. Thus far CFAF 13 billion remains to be identified. These projects are consistent with the government's poverty reduction strategy. The government will share with all development partners' quarterly information regarding implementation of the priority investment projects.

10. **Total expenditures are programmed at CFAF 417 billion (22.2 percent of GDP), including CFAF 21 billion for the food security program,** which we are implementing with assistance from donors. This amount includes CFAF 5 billion that was budgeted for replenishing strategic grain reserves, which the government plans to increase to 50,000 metric tons by end-2006 and to 100,000 metric tons by 2007. The government is paying particular attention to ensuring that food relief is available in the country in a timely manner. Accordingly, we have already disbursed CFAF 5.0 billion in April and another CFAF 2.5 billion in May, allowing us to purchase significant amount of cereals. If the full amount of CFAF 21 billion is not needed for food security in 2006, the remainder could be used to increase the stock of national grain reserves to 100,000 metric tons, addressing the emergency related to avian flu, or reducing the quarterly targets of net domestic financing.

11. **The overall fiscal deficit (on a cash basis and excluding grants) would rise to 11.3 percent of GDP.** Net external financing, comprising grants (including debt relief provided by the IMF under the MDRI) and highly concessional loans, amounting to 14 percent of GDP has been identified. Net domestic financing (excluding IMF financing through the BCEAO) is targeted at CFAF 7 billion, which we will mobilize by issuing government securities and drawing down bank deposits. However, cumulative domestic financing over the two program years 2005–06 (excluding IMF financing) will be lower than initially envisaged under the program.

12. **Strengthening revenue mobilization is a key element of Niger's program.** Accordingly, the Customs and Income Tax Departments of the Finance and Economy have prepared medium-term revenue mobilization strategies and associated time-bound action plans. Elements of the plans—improving border controls, addressing tax evasion, and strengthening informal sector tax compliance—that will be implemented during 2006

include, as performance criteria: (i) the reduction of the number of VAT nonfilers at the large taxpayers office (LTO) to a maximum of 5 percent by September 2006; (ii) auditing a minimum of 60 large enterprises under the LTO by September 2006; and (iii) establishing offices for ex-post control of imports valuations and exemptions in the 3 largest regional customs offices by December 2006. Other measures constituting structural benchmarks are presented in Table 2b.

C. External Debt Management

13. **We will continue to pursue a prudent external debt strategy following the debt relief obtained under the MDRI.** The implications of the MDRI on external debt sustainability will be fully incorporated into our revised poverty reduction strategy, which will include a plan for utilizing the debt relief in a manner most effective to reach the Millennium Development Goals. To preserve the benefits of the MDRI, we will continue to contract debt only with a grant element of at least 50 percent in 2006. To ensure the implementation of this policy, the Department of Debt at the Ministry of Finance and Economy has been further strengthened, with assistance from donors, through training of staff and the provision of equipment. These actions will be followed, with assistance from AFRITAC, by preparing a procedure manual for debt management and by further deepening staff training on the use of relevant computer software.

D. Structural Policies

14. **The government is committed to strengthening expenditure management.** In line with the recommendations of PEMFAR and with financial and technical assistance from the World Bank, the focus is on: (i) improving the preparation and execution of the budget, including through strengthened coordination between the Ministry of Finance and Economy and line ministries; (ii) strengthening internal and external controls, including through the provision of additional financial and material resources to the internal audit office and the Audit Office (*Champres des Comptes*); and (iii) aligning budgets with the poverty reduction strategy. Following completion in late 2005 of the medium-term expenditure frameworks (MTEFs) for basic education and health, we are now preparing the MTEFs for rural development, transport, and secondary education. These will be completed in 2006 and will be integrated into the 2007 budget. We will ensure that the MTEFs are consistent with the poverty reduction strategy to be updated before end-2006. Further, we plan to finalize the costing of the programs for the rural sectoral strategy by end-June 2006. Following the comprehensive evaluation completed by our Inspection des Finances in December 2005, the stock of domestic arrears is estimated at CFAF 172.3 billion. We have accordingly established a repayment schedule for 2006-2007.

15. **The authorities will continue to implement the monthly pricing mechanism for retail petroleum products in accordance with the decree of August 2001.** During August-December 2005, we used the mechanism to smooth the impact of the surge in world oil prices that occurred during the second half of the year. In particular, the government deferred

some tax payments due and reduced the profit margin of the government-owned oil importing company (SONIDEP) to temporarily stabilize retail prices. We recovered some deferred taxes in January 2006 when the international oil prices declined and implemented the monthly pricing mechanism without tax and margin deferments since then except for small deferments in March 2006. In the future, we will adjust domestic retail prices downward only after all deferred taxes have been collected. With a view to strengthening the national consensus to permit the smooth application of the petroleum retail pricing mechanism in place since August 2001, the government will organize shortly a meeting with all stakeholders. Henceforth government policy is to continue applying the pricing policy established by the decree of August 2001 and to ensure that domestic retail prices reflect movements in international oil prices. In case of an emergency situation that would require the review of this policy, the government will consult with the Fund concerning the adoption of appropriate measures.

16. **The government will continue to advance financial sector reforms with World Bank assistance.** Consistent with the protocol signed by the government with *Crédit du Niger (CDN)*, the government will settle arrears with the bank and accelerate the search for a private strategic partner to take over control and management of the bank. The government is confident that the rehabilitated CDN will be able to play a central role in boosting residential construction and related economic activity.

E. PRSP Issues and Donor Coordination

17. **During the March 13–14 donor conference in Niamey, the government reaffirmed its commitment to adopting the PRSP as the unique vehicle for mobilizing donor support to assist us in achieving the MDGs.** We are in the process of updating the PRSP for 2007–09, with participation of the civil society and donor community. We will issue the final document before convening a round table conference expected in early December 2006, at which we will be seeking commitment of financial and technical assistance from our development partners. In the meantime, we will issue the annual progress report on the implementation of the PRSP during 2004 by end-June 2006. Further, we will put in place a framework to better coordinate and harmonize budget assistance with a view to streamlining conditionality and improving the flow of information between the government and its development partners, especially as regards to the implementation of the recommendations of the PEMFAR.

III. PROGRAM MONITORING

18. **Program monitoring will be based on quantitative performance criteria and benchmarks and quarterly structural performance criteria and benchmarks** (Tables 1b and 2b). The definitions of performance criteria and benchmarks are provided in the Technical Memorandum of Understanding (TMU; Attachment II). With a view to streamlining conditionality and enhancing the monitoring of the program, the government requests that the quantitative performance criterion on the basic fiscal balance be eliminated,

as it is largely redundant given the performance criterion on domestic financing. Program ceilings on domestic financing (net of the position vis-à-vis the IMF) will be adjusted for deviations in external budget support relative to program projections. This will allow the smooth implementation of priority poverty reducing outlays, and, in the case of higher than projected external budget support, permit faster implementation of these programs (Table 1b). In case of shortfalls relative to projections in external budget support, the quarterly ceilings on net domestic financing will be adjusted upward by a maximum of CFAF 7.5 billion. In case of higher than projected external budget support, the quarterly ceilings on net domestic financing will not be adjusted downward up to CFAF 5 billion. We will provide the IMF with the information required to monitor the program in accordance with a revised TMU. During the program period, the authorities will not introduce or strengthen restrictions on the making of payments and transfers for international current transactions without consultation with the Fund, introduce or modify any multiple currency practices, conclude any bilateral payment agreements that are incompatible with Article VIII of the Fund's Articles of Agreement, or introduce import restrictions for balance of payments reasons.

Table 1a. Niger: Quantitative Performance Criteria and Indicative Targets for the Period January 01, 2005-December 31, 2005

(Billions of CFA francs)

	End-March,2005 Indicative Targets				End-June 2005 Performance Criteria				End-September 2005 Indicative Targets				End-December 2005 Performance Criteria			
	Prog.	(Adj.)	Est.	Status	Prog.	(Adj.)	Est.	Status	Prog.	(Adj.)	Est.	Status	Prog.	(Adj.)	Est.	Status
A. Quantitative performance criteria and indicative targets (cumulative from December 31, 2004)																
Domestic financing of the budget ^{1 2}	5.5	12.8	-0.7	✓	12.8	20.1	11.7	✓	13.9	18.3	-22.9	✓	18.5	25.7	-2.3	✓
Basic budget balance (commitment basis, excl.grants) ^{3,4}	0.2	0.2	0.1	X	-5.9	-5.9	-15.2	X	-36.2	-36.1	-14.5	✓	-46.1	-46.1	-23.2	✓
Reduction in government domestic payments arrears ⁵	4.2	4.2	-1.2	X	8.4	8.4	-2.3	X	5.1	5.1	3.2	X	10.1	10.1	12.4	✓
Memorandum item:																
Exceptional external budgetary assistance ⁶	1.4	...	-6.8		7.1	...	-7.8		35.7	...	31.3		49.6	...	33.9	
B. Continuous quantitative performance criteria																
Accumulation of external payments arrears	0.0	...	0.0	✓	0.0	...	0.0	✓	0.0	...	0.0	✓	0.0		0.0	✓
External debt contracted or guaranteed by the government with maturities of 0-1 year ⁷	0.0	...	0.0	✓	0.0	...	0.0	✓	0.0	...	0.0	✓	0.0		0.0	✓
Nonconcessional external debt contracted or guaranteed by the government with maturities over 1 year ⁸	0.0	...	0.0	✓	0.0	...	0.0	✓	...	...	...		...	...	...
C. Indicative Targets (cumulative from December 31, 2004)																
Total revenue ⁹	45.8	...	41.5	X	93.7	...	87.0	X	136.5	...	136.7	✓	186.9		189.0	✓
Wage bill ¹⁰	15.7	...	15.1	✓	31.5	...	31.2	✓	47.3	...	47.1	✓	63.1		63.0	✓

Note: The terms in this table are defined in the TMU.

¹Performance criteria for program indicators under A and B; indicative targets otherwise.²The ceiling on domestic financing of the budget will be adjusted if disbursements of external budgetary assistance, as defined in footnote 6, exceed or fall short of program forecasts.

If disbursements are less than programmed, the ceiling will be raised in line with the observed shortfalls, to a maximum of CFAF 7.5 billion at end-March 2005, CFAF 7.5 billion at end-June 2005, CFAF 7.5 billion at end-September 2005, and CFAF 7.0 billion at end-December 2005. If disbursements of assistance exceed programmed amounts by more than CFAF 3.0 billion, the ceilings will be lowered by any amount beyond CFAF 3.0 billion unless the excess assistance is used to reduce domestic payments arrears beyond the programmed reduction.

³Minimum. If external budgetary assistance defined in footnote 6 exceeds the amounts programmed by up to CFAF 3.0 billion, the basic budget balance will be decreased only by that amount.⁴Total revenue, excluding grants and revenue from settlement of reciprocal debts, minus total expenditure excluding foreign-financed investment outlays.⁵Accumulation of arrears (-).⁶External budgetary assistance (including traditional debt relief, but excluding IMF financing) less external debt service (excluding IMF repayment) and payments of external arrears.⁷Except for ordinary credit for imports or debt relief.⁸Excluding debt relief in the form of rescheduling or refinancing.⁹Minimum. Excluding (i) revenue from the settlement of reciprocal debts between the government and Nigerien enterprises; and (ii) revenue from the privatization of public enterprises that is included in financing.¹⁰The scope of the wage bill is defined in the technical memorandum of understanding.

Table 1b. Niger: Quantitative Performance Criteria and Indicative Targets for the Period January 01, 2006-December 31, 2006

(Billions of CFA francs)

	End-March Indicative Targets	End- Performance Criteria	End- Indicative Targets	End- Performance Criteria
A. Quantitative performance criteria and indicative targets (cumulative from December 31, 2005)				
Domestic financing of the budget ¹	27.	44.2	-	7.
Reduction in government domestic payments arrears ³	2.	2.	4.2	5.
Memorandum				
Exceptional external budgetary assistance ⁴	5.	7.	55.	64.
B. Continuous quantitative performance criteria				
Accumulation of external payments arrears	0.	0.	0.0	0.
New external debt contracted or guaranteed by the government with maturities of 0-1 year ⁵	0.	0.	0.0	0.
New nonconcessional external debt contracted or guaranteed by the government with maturities over 1 year ⁶	0.	0.	0.0	0.
C. Indicative Targets (cumulative from December 31, 2005)				
Basic budget balance (commitment basis, excl.grants) ⁷	-	-	-	-
Total ⁸	50.	92.7	154.	210.
Wage bill ⁹	17.	34.5	51.	69.

Note: The terms in this table are defined in the TMU.

¹Performance criteria for program indicators under A and B; indicative targets otherwise.²The ceiling on domestic financing of the budget will be adjusted if the amount of disbursements of external budgetary assistance, as defined in footnote 4, exceeds or falls short of program forecasts. If disbursements are less than the programmed amounts, the ceiling will be raised pro tanto, up to a maximum of CFAF 7.5 billion at the end of each quarter of 2006. If disbursement exceeds programmed amounts by more than CFAF 5.0 billion, the ceilings will not be adjusted downwards for the first CFAF 5.0 billion.³Minimum⁴External budgetary assistance (including traditional debt relief including HIPC assistance and resources freed up under the MDRI, but excluding net financing from IMF) less external debt service (excluding IMF repayment) and payments of external arrears.⁵Excluding ordinary credit for imports or debt relief.⁶Excluding debt relief obtained in the form of rescheduling or refinancing; 50 percent minimum concessionality for new loans from 2006.⁷Minimum, defined as the difference between total revenue, excluding grants and revenue from the settlement of reciprocal debts between the government and enterprises, and total expenditures, excluding externally financed capital expenditures. If external budgetary assistance defined in footnote 4 exceeds the amounts programmed by up to CFAF 5.0 billion, the basic budget balance will be decreased only by that amount.⁸Minimum. Excluding (i) revenue from the settlement of reciprocal debts between the government and Nigerien enterprises; and (ii) revenue from the privatization of public enterprises that is included in financing.⁹The scope of the wage bill is defined in the technical memorandum of understanding.

Table 2a. Niger: Program Implementation: Prior Action and Structural Performance Criteria and Benchmarks for the 2005-06 Program

Measures	Date	Status
Prior action		
Present revenue mobilization measures to parliament, including (i) extension of the VAT to processed food products (milk, sugar, wheat flour); (ii) reduction of VAT exemptions on water and electricity consumption; and (iii) application of the excise tax to soft drinks and sodas.		Executed in January, but VAT measures repealed in April.
Structural performance criteria		
Apply the pricing system for petroleum products adopted on August 1, 2001.	Continuous	Executed
Adopt monthly performance indicators for the main customs offices and consistently track compliance with these indicators by producing monthly implementation reports for submission to the IMF.	Continuous starting March 1, 2005	Executed
Institution of joint pre-shipment company-customs imports verification teams at the following border offices: Dan Issa, Gaya, Konni, Maradi, Matamey, Torodi, and Zinder.	End-January 2006	Executed
Set up the issue-oriented audit unit (brigade de controle pronctuel) in the medium-size taxpayer office (DPME) and audit 30 percent taxpayer of the concerned taxpayers.	End-January 2006	Not observed. The brigade was established on Feb. 24, 2006, but the audit of 30% of taxpayers was not achieved.
Raising the turnover threshold from CFAF 50 million to CFAF 100 million so that the large taxpayer office (LTO)'s activities are refocused on the 300-400 largest taxpayers.	End-January 2006	Not observed. Implemented on Feb. 24, 2006.
Use of a pre-shipment inspection company's imports valuation lists for imports taxation purposes.	End-September 2006	
Structural benchmarks		
Prepare a list of customs exemptions and a credible plan to reduce them.	End-March 2005	Executed
Prepare a report clarifying the status of the government's domestic arrears and adopt a timetable for their elimination.	End-June 2005	In progress
Computerize the financial operations of five provincial pay offices.	End-June 2005	Executed
Implement the bidirectional treasury-budget computer link.	End-June 2005	Executed
Establish a master list of expenditures directly related to poverty reduction and a monthly mechanism to track their execution.	By end-September 2005	Executed
Prepare and adopt an operating strategy and detailed plan of action (based on the recommendations of the 2003 IMF technical assistance mission) to enhance the mobilization of tax revenues.	Prior action for completion of second PRGF review	Executed

Table 2b. Niger: Proposed New and Modified Structural Performance Criteria and Benchmarks for 2006

Measures	Proposed Date	Comments
Prior Action for Second Review		
Prepare and adopt an operating strategy and detailed plan of action (based on the recommendations of the 2003 IMF technical assistance mission) to enhance the mobilization of tax revenues.	Prior action for completion of second PRGF review	Executed
Structural performance criteria		
Apply the pricing system for petroleum products as defined in paragraph 15 of the MEFP and paragraph 22 of the TMU.	Continuous	Modified, but already included under the program.
Adopt monthly performance indicators for the main customs offices and consistently track compliance with these indicators by producing monthly implementation reports for submission to the IMF.	Continuous	
Reduce the number of VAT non-filers at the large taxpayers' office (LTO) to maximum of 5 percent.	End-September 2006	New
Audit a minimum of 60 large enterprises under the control of the LTO by September 2006.	End-September 2006	New
Set up, in the three largest regional customs offices, the units for ex-post control of imports valuations and exemptions.	End-December 2006	New
Structural benchmarks		
Design a time schedule to audit entities that benefit from tax and customs duty exemptions, with the objective of auditing 30 percent of revenue foregone in each year.	End-June 2006	New
Reduce the number of non-filers at the medium sized taxpayer office to a maximum of 10 percent.	End-December 2006	New
Computerize the management of customs transit between Torodi and Niamey, including electronic exchange of messages.	End-December 2006	New; UNCTAD to be involved in ASYCUDA implementation.

INTERNATIONAL MONETARY FUND

NIGER

Technical Memorandum of Understanding

Niamey, June 5, 2006

1. This technical memorandum of understanding updates the definitions of the quantitative performance criteria and indicative targets for Niger's program under the Poverty Reduction and Growth Facility (PRGF) arrangement approved by the Executive Board in January 2005 (IMF Country Report No. 05/79; 03/05). The quantitative performance criteria and indicative targets for March, June, September, and December 2006 are set out in Table 1b attached to the government's memorandum of economic and financial policies (MEFP) dated June 5, 2006. The memorandum also sets out the data-reporting requirements for monitoring the program.

I. DEFINITION OF TERMS

2. For the purpose of this technical memorandum, the following definitions of "debt," "government," "payments arrears," and "government obligations" will be used:

(a) As specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 24, 2000, **debt** will be understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property.

For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt. The external debt excludes treasury bills and bonds issued in CFA francs on the regional financial market of the West African Economic and Monetary Union (WAEMU).

(b) **Government** refers to the central government of the Republic of Niger; it does not include any political subdivision, the central bank, or any government-owned entity with a separate legal personality.

(c) **External payments arrears** are external payments due but not paid. **Domestic payments arrears** are domestic payments due (following the expiration of a 60-day grace period, excluding obligations with a specific grace period and for which this grace period applies) but not paid.

(d) **Government obligation** is any financial obligation of the government verified as such by the government (including any government debt).

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Net Domestic Financing of the Government

Definition of the performance criterion

3. Net domestic financing of the government is defined as the sum of (i) **net bank credit to the government**, as defined below; (ii) **net nonbank domestic financing of the government** (including government securities issued in CFA francs on the WAEMU regional financial market and not held by resident commercial banks) proceeds from the sale of government assets, and privatization receipts net of the cost of structural reforms to which these proceeds are earmarked.

4. **Net bank credit to the government** is defined as the balance of the government's claims and debts vis-à-vis national banking institutions. Government claims include cash holdings by the Nigerien Treasury, deposits with the central bank and commercial banks, and secured obligations. Government debt to the banking system includes debt vis-à-vis the central bank (excluding net financing from the IMF's Poverty Reduction and Growth Facility (PRGF), but including government securities) and to commercial banks (including government securities), and deposits with the postal checking system.

5. The scope of the net bank credit to the government as defined by the BCEAO includes all central government administrations. The targets are based on the variation of

stock in net bank credit to the government from December 31, 2005 to the date considered for the performance criterion or the indicative target.

6. The net bank credit to the government and the net amounts of government treasury bills and bonds issued in CFA francs on the regional financial market of the WAEMU are calculated by the BCEAO, and nonbank financing is calculated by the Nigerien Treasury, whose figures are those deemed valid within the context of the program.

Adjustment

7. The quarterly **ceilings on net domestic financing** will be subject to adjustments if disbursements of external budgetary support less external debt service and arrears payments (excluding net financing from the IMF's PRGF) exceed or fall short of projected amounts. External budgetary support includes resources freed up under the Multilateral Debt Relief Initiative (MDRI). External budgetary assistance is calculated from end-December 2005.

8. In the event disbursements exceed projected budgetary assistance by up to a limit of CFAF 5 billion, the quarterly ceilings on net domestic financing will not be adjusted downward. The excess budgetary support provided under the MDRI by the IDA and African Development Fund can only be used for unfinanced priority projects (irrigation, an abattoir, and coal mining) and other priority programs in health, education, and rural sector development. If disbursements exceed programmed budgetary assistance by more than CFAF 5 billion, the ceilings on net domestic financing will be adjusted downward pro tanto by the amount of the excess disbursements beyond the CFAF 5 billion.

9. In the event disbursements fall short of projected external budgetary assistance, the quarterly ceilings on net domestic financing will be raised by a maximum of CFAF 7.5 billion.

10. In the event government expenditure on the 2006 food security program is lower than programmed (CFAF 21 billion), the ceilings on net domestic financing for end-2006 will be adjusted downward pro tanto for the unspent amounts unless they are used to fully rebuild the national grain reserves up to 100,000 metric tons, or to address emergencies related to the Avian Flu. In this case the adjustor will be the difference between the CFAF 21 billion and the amount spent for the two uses indicated above.

11. Niger's HIPC Initiative-generated debt-service savings will continue to be transferred to a central bank account and used to finance new poverty reduction programs that have been approved in the budget law and are in line with the poverty reduction strategy paper (PRSP).

Reporting requirement

12. Detailed data on domestic financing to government will be provided monthly within six weeks following the end of each month.

B. Reduction of Domestic Payments Arrears on Government Obligations

Definition of the performance criterion

13. **Domestic payments arrears** on government obligations are reduced through the payment of these obligations as defined under paragraphs 2c and 2d above. The government undertakes not to accumulate any new domestic payments arrears on government debt as defined in paragraph 2 above. For obligations other than government debt, the government undertakes not to accumulate arrears beyond six months. The Centre d'Amortissement de la Dette Intérieure de l'Etat (CADIE—the government domestic debt-amortization center) and the Treasury keep and update the inventory of domestic payments arrears on government obligations and maintain records of their repayments.

Reporting requirement

14. Data on the outstanding balance, accumulation, and repayment of domestic payments arrears on government obligations will be provided monthly within six weeks following the end of each month.

C. Nonaccumulation of External Payments Arrears

Definition of the performance criterion

15. **Government debt** is outstanding debt owed or guaranteed by the government. Under the program, the government undertakes not to accumulate external payments arrears on government debt (including treasury bills and bonds issued in CFA francs on the WAEMU regional financial market), with the exception of external payments arrears arising from government debt being renegotiated with creditors, including Paris Club creditors.

Reporting requirement

16. Data on the outstanding balance, accumulation, and repayment of external payments arrears will be provided monthly within six weeks following the end of each month.

D. External Nonconcessional Loans Contracted or Guaranteed by the Government of Niger

Definition of the performance criterion

17. The government will not contract or guarantee external debt with original maturity of one year or more with a grant element of less than 50 percent. Nonconcessional external debt is defined as all debt with a concessionality level of less than 50 percent. To calculate the level of concessionality for loans with a maturity of at least 15 years, the discount rate to be used is the ten-year average commercial interest reference rate (CIRR), calculated by the IMF on the basis of the rates published by the OECD; for loans of less than 15 years, the six-month average CIRR is to be used.

18. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. However, this performance criterion does not apply to financing provided by the Fund, to debt rescheduling in the form of new loans, and to treasury notes and bonds issued in CFA francs on the WAEMU regional financial market.

Reporting requirement

19. Details on any external government debt will be provided monthly within four weeks following the end of each month. The same requirement applies to guarantees extended by the central government.

E. Short-Term External Debt of the Central Government

Definition of the performance criterion

20. The government will not contract or guarantee external debt with original maturity of less than one year. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are short-term, import-related trade credits and short-term treasury notes issued in CFA francs on the regional financial market.

Reporting requirement

21. Details on any external government debt will be provided monthly within six weeks following the end of each month. The same requirement applies to guarantees extended by the central government.

F. Pricing of Petroleum Products

Definition of the performance criterion

22. The government will continuously implement the monthly retail pricing mechanism for retail petroleum products in accordance with the decree of August 2001. From June 2006 and onwards, in case international oil prices decline, domestic retail prices for petroleum products will be adjusted downward only after all deferred taxes during August-December 2005 have been collected. Otherwise, the pricing mechanism established under the decree of August 2001 will be implemented without changes in tax rates or deferment in taxes and margin payments to the oil importing company. In case of an emergency situation that would require the review of this policy, the government will consult with the Fund concerning the adoption of appropriate measures.

III. INDICATIVE TARGETS

A. Definitions

23. Total revenue is an indicative target for the program. It includes tax, nontax, and special accounts revenue, but excludes revenue from the settlement of reciprocal debts between the government and enterprises.

24. The civil service wage bill is another indicative target of the program. Wage bill data are provided by the budgetary accounts and exclude the salaries paid for the reinstatement of former rebellion members, the medical and training indemnities, the contributions from the budget to the national retirement fund, and the wage refunds. The wage bill includes cash vouchers.

B. Reporting Requirement

25. This information will be provided to the IMF monthly within six weeks following the end of each month.

IV. ADDITIONAL INFORMATION FOR PROGRAM-MONITORING PURPOSES

A. Public Finances

26. The government will report to IMF staff the following:
- detailed monthly estimates of revenue and expenditure, including social expenditure and the payment of domestic and external arrears;
 - complete monthly data on domestic budgetary financing, to be provided monthly within six weeks following the end of each month;
 - quarterly data on implementation of the public investment program, including details on financing sources, to be provided quarterly within eight weeks following the end of each quarter; and
 - monthly data on debt service, to be provided within six weeks following the end of each month.

B. Monetary Sector

27. The government will provide the following information within eight weeks following the end of each month:

- the consolidated balance sheet of monetary institutions and, as appropriate, the balance sheets of selected individual banks;
- the monetary survey, eight weeks after the end of each month, for provisional data;
- borrowing and lending interest rates; and
- customary banking supervision indicators for bank and nonbank financial institutions (as needed, indicators for individual institutions may also be provided).

C. Balance of Payments

28. The government will provide the following information:
- any revision to balance of payments data (including services, private transfers, official transfers, and capital transactions) whenever they occur; and
 - preliminary annual balance of payments data, within six months following the end of the year concerned.

D. Real Sector

29. The government will provide the following information:
- disaggregated monthly consumer price indices, monthly within two weeks following the end of each month;
 - preliminary national accounts, no later than six months after the end of the year; and
 - any revision in the national accounts.

E. Structural Reforms and Other Data

30. The government will provide the following information:
- any study or official report on Niger's economy, within two weeks following its publication; and
 - any decision, order, law, decree, ordinance, or circular with economic or financial implications, upon its publication or, at the latest, when it enters into force.

F. Summary of Main Data Requirements

Type of Data	Tables	Frequency	Reporting Lag
Real sector	National accounts	Annual	Six months
	Revisions of national accounts	Irregular	Eight weeks following revision
	Consumer price indexes, disaggregated	Monthly	End of month + two weeks
Public finances	Net government position in the banking sector	Monthly	End of month + six weeks
	Table of indicators, including breakdown of revenue, expenditure, and repayment of domestic wage and nonwage arrears	Monthly	End of month + six weeks
	Provisional table of government operations (TOFE)	Monthly	End of month + six weeks
	Investment expenditure execution	Quarterly	End of quarter + eight weeks
	Petroleum product pricing formula, tax receipts, and pricing differentials	Monthly	End of month + six weeks
Monetary and financial data	Monetary survey	Monthly	End of month + six weeks for provisional data, and + ten weeks for final data
	Consolidated balance sheet of monetary institutions and, as appropriate, balance sheets of certain individual banks	Monthly	End of month + eight weeks
	Borrowing and lending interest rates	Monthly	End of month + eight weeks
	Banking supervision ratios	Quarterly	End of quarter + eight weeks
	Balance of payments	Annual	Six months
Balance of payments	Revised balance of payments data	Irregular	When revisions occur
	Outstanding external payments arrears and repayments	Monthly	End of month + six weeks
External debt	Terms of new external loans		End of month + six weeks

Niger: Relations with the Fund
(As of April 30, 2006)

I. Membership Status: Joined: 04/24/1963; Article VIII

II. General Resources Account:	SDR Million	%Quota
Quota	65.80	100.00
Fund holdings of currency	57.19	86.92
Reserve position in Fund	8.61	13.09

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	9.41	100.0
Holdings	0.18	1.90

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
Enhanced Structural Adjustment Facility (ESAF)		
Arrangements	11.75	17.86

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
	01/31/2005	01/30/2008	26.32	11.75
PRGF				
PRGF	12/22/2000	06/30/2004	59.20	59.20
PRGF	06/12/1996	08/27/1999	57.96	48.30

VI. Projected Payments to Fund (SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Principal					0.09
Charges/interest	<u>0.30</u>	<u>0.38</u>	<u>0.38</u>	<u>0.38</u>	<u>0.38</u>
Total	0.30	0.38	0.38	0.38	0.47

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	12/20/2000
Decision point date	
Assistance committed	
by all creditors (US\$ Million) ^{1/}	663.10
of which: IMF assistance (US\$ million)	42.01
(SDR equivalent in millions)	31.22
Completion point date	April 2004
II. Disbursement of IMF assistance (SDR million)	
Amount disbursed	31.22
Interim assistance	6.68
Completion point balance	24.55
Additional disbursement of interest income ^{2/}	2.74
Total disbursements	33.96

1/ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

2/ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of MDRI assistance:

Total Debt Relief (SDR million) ^{1/}	77.55
of which: MDRI	59.82
HIPC	17.73

1/ The Multilateral Debt Relief Initiative (MDRI) provide 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004, which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative.

IX. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union. A new safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment found that progress has

been made in strengthening the BCEAO's safeguards framework of the bank since 2002 when the last safeguards assessment took place.

The BCEAO now publishes a full set of audited financial statements and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). Furthermore, an internal audit charter has been put in place, mechanisms have been established to improve risk management and risk prevention, and follow-up on internal and external audit recommendations has been strengthened.

The new assessment identified a number of areas where further steps would help solidify the progress made. The main recommendations relate to improvements in the external audit process (including the adoption of a formal rotation policy), further enhancement of the transparency of the financial statements by fully adopting IFRS, and further strengthening of the effectiveness of the internal audit function.

X. Exchange Arrangements:

Niger is a member of the West African Economic and Monetary Union (WAEMU). The exchange system, common to all members of the WAEMU, is free of restrictions on the making of payments and transfers for current international transactions. The WAEMU's common currency, the CFA franc, is pegged to the French franc. On January 12, 1994, the CFA franc was devalued by 50 percent in foreign currency terms, and the exchange rate was adjusted from CFAF 50 = F 1 to CFAF 100 = F 1. Effective December 31, 1998, the parity was switched to the Euro at a rate of CFAF 655.96 = EUR 1. On April 30, 2006, the rate of the CFA franc in SDR terms was SDR 1 = CFAF 772.9.

XI. Article IV Consultation:

Niger is on the 24-month consultation cycle, and the last Article IV consultation discussions were held in Niamey in April 2004, and discussed by the Executive Board on June 28, 2004.

XII. Technical Assistance:

Dept.	Type of Assistance	Time of Delivery	Responsibility
FAD	Staff	June 2000	Fiscal review of data and improvement of budgetary procedure
FAD	Staff	February 2001	Tax and customs administration

Dept.	Type of Assistance	Time of Delivery	Responsibility
FAD	Staff	April 2001	Public accounting, public expenditure process, and budget classification
FAD	Resident expert	April 2001 to date	Budget preparation, public accounting, and automation of budget execution
FAD	Resident expert	June 2001 to May 2003	Assistance for tax administration
FAD	Staff	May 2002	Public accounting and fiscal operations table
STA	Staff	January 2003	Multisector statistical mission
FAD	Staff	October 2003	Tax policy and revenue administration
STA	Staff	March 2005	ROSC
FAD	Staff	September 2005	Tax policy and revenue administration

XIII. Resident Representative:

Mr. Pierre La Porte has been Resident Representative in Niger since December 2005.

Niger: Relations with the World Bank Group (As of April 30, 2006)

Partnership in Niger's development strategy

1. Niger's poverty reduction strategy paper (PRSP), which was adopted in January 2002, presents a thorough poverty diagnosis and identifies key development challenges. The Government reconfirmed the main thrust of the PRSP through a second progress report. Bank and Fund staff prepared a Joint Staff Advisory Note (JSAN) which was discussed at the IMF Board in January 2005 and distributed at the Bank's Board in March 2005. The PRSP outlines a sound strategy for poverty reduction centered around four strategic pillars: (i) a macroeconomic framework ensuring economic and financial stability while promoting sustained and sustainable economic growth; (ii) the development of productive sectors, especially in rural areas; (iii) the development of basic social services; and (iv) the promotion of good governance and the strengthening of human and institutional capacities. The Government has begun using the PRSP to improve coordination of development efforts in the country, including donor-supported activities.

2. A donors' forum was held in Niamey on June 7-8, 2003. At this forum, donors reaffirmed their endorsement of the PRSP as a strategic anchor for their assistance, and agreed on a progressive shift from project to program financing, and the need for further coordination and harmonization of policies and procedures. In this regard, the signing of a protocol relating to coordination among all donors supporting the education sector is a positive outcome. The third PRSP Progress Report should be finalized by June 30 after comments were provided by the IMF, EU, UNDP and WB in December 2005. The Government is behind schedule in the preparation of its second PRSP, which is expected to be finalized by end-December 2006. This was as a result of delays registered in launching the analytical background papers. The World Bank will mobilize a PRSP trust fund to support the preparation of the revised PRSP together with a trust fund intended to foster Gender issues in the document.

Areas in which the Bank leads

3. **Privatization and regulatory reform.** Key utility sectors, such as telecommunications and water supply have been liberalized and privatized, supported by a Bank credit. However, the privatization of the electricity company (NIGELEC) has been delayed mainly due to the difficulty in finding private companies ready to invest US\$60-100 million required for expansion and rehabilitation of the power system. The privatization of the whole sale petroleum product distribution company (SONIDEP) has failed in part because of difficulties in finding sound foreign private partners interested in investing in Niger. With Bank's assistance, the authorities revisited their objectives and approach in private provision of infrastructure. The restructured project seeks to enhance corporate governance agenda for selected state owned companies (NIGELEC, SONIDEP) and on the design of a Government unit to implement it. The Fund is also a key partner in this policy dialogue and has included

elements of the public enterprise reform agenda, such as the continuous implementation of a petroleum pricing system.

4. **Rural development.** The Bank has provided support for developing and implementing a comprehensive rural development strategy, which aims at mitigating vulnerability and stimulating income generation, especially in rural areas. A rural development strategy was completed in November 2003 and is centered on three pillars: (i) improving the access of rural populations to economic opportunities; (ii) protecting rural populations against risks and improving food security and managing natural resources sustainability; and (iii) enhancing the capacity of public institutions and rural organizations to improve the management of the rural sector. Bank assistance in this sector is provided through three ongoing operations: Private Irrigation; the Emergency Locust Project aiming to reduce Niger's vulnerability to ' future desert locust infestations by supporting improved strategies for prevention, early warning systems, reactions, and mitigation at both the national and regional levels; and Community Action Program. Decreasing the dependence of the vast majority of Niger's population on rain-fed subsistence agriculture is a key objective of this strategy. Bank support in this area emphasizes the promotion of small-scale irrigated agriculture, livestock, farm and non-farm income-generating activities and cereal bank construction.

5. **Social sector reforms.** The Bank has assisted the Government in the preparation of a ten-year development plan in the education sector (PDDE) that is based on the PRSP and includes a medium-term expenditure framework for the basic education sector. It has also provided assistance and played a key role in Niger's eligibility for participation in the Education for All—Fast-Track Initiative. In addition, a post primary education study has been completed. Improvement of access of the poor to social services is one of the strategic pillars in the PRSP. The Bank supports this objective through ongoing lending operations, which combine project assistance with program support, as well as analytical work, notably on population, gender, and poverty. There has also been close collaboration between the Bank and the Government in the design and implementation of reforms in the education and health sectors, such as the introduction of decentralized recruitment of teachers ("volunteer teachers") and health workers on a contractual basis. This contractual recruitment program has helped address issues of human resource shortages and supply-side constraints while keeping payroll costs sustainable.

6. In the health sector, the Bank has worked with the Government on the preparation of the Strategic Orientations for Health Sector Development. In 2002, the Government adopted a ten-year health policy strategy (2002-2011). 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. With a view to make this strategy more operational, the Government has adopted the five-year development plan for the sector in January 2006. The Bank approved in January 2006 a health SWAP of US \$ 35million which includes a reproductive health and malaria components. . The RSRC 1 will help the government consolidate and enhance these reforms by: (i) improving personnel management and allocations in both sectors; (ii) promoting

governance and accountability through information sharing and empowering the community in the education sector; (iii) increase access and provision of quality service in both sectors. A multi-sector demographics operation is also under preparation.

7. **Poverty monitoring.** The Bank worked closely with the Government in preparing a poverty profile that served as the basis for the PRSP poverty diagnosis. While this diagnosis has been judged as thorough and comprehensive by the joint staff assessment (JSA), it is based on household survey data from 1993. Updating the existing database is therefore an important concern of the Government. A nationwide census was recently completed, and preparations for a new household survey partially funded by the government is scheduled to be launched in the second half of 2006. A Demographic and Health survey and the 2005 Bank financed Core Welfare Indicators Survey (CWIQ) which should be completed by end June 2006 will provide updated social indicators most needed for the PRSP update and an assessment of progress towards PRSP targets (together with the Country Economic Memorandum under preparation). The Bank, together with other donors, is also advising the authorities on strengthening institutional arrangements for the monitoring and the evaluation of poverty in the context of the PRSP. In addition, the Bank has financed the revision of the 2001 Participatory Poverty Assessment (PPA) as a contribution to the Government's efforts to update and strengthen the knowledge base on poverty and social development.

Areas where Bank and Fund share the lead

8. **Poverty reduction strategy.** Together with other external development partners, the Bank and Fund have jointly provided assistance to the Government in the preparation of its PRSP. Since its completion, both institutions have jointly advised the authorities on the refinement and implementation of the strategy. The first and second progress reports on the implementation of the PRSP have been prepared with the assistance of the Bank and the Fund and both provided comments and advice for the elaboration of the third Progress Report expected in June 2006.

9. **Debt sustainability.** The Bank and Fund supported the Government's efforts to reach the HIPC completion point in April 2004 with additional relief ("Topping-Up") granted to Niger. The country is still at debt distress as evidenced by the last DSA completed in September 2005 conjointly by Bank and Fund staff on end-2004 debt data. Hence, the authorities need to pursue sound macroeconomic policies and reforms and prudent debt policies (essentially, respecting that all new loans have a minimum grant element of 50 percent). Niger also benefited of the Multilateral Debt Relief Initiative (MDRI), but the effect will be short-lived as the NPV of debt to exports ratio will raise rapidly from 58 percent in 2006 to 124 percent by 2025 due to limited internal revenue mobilization capacities and huge financing requirements. The need to build technical and institutional capacity for managing Niger's external debt has been stressed by the Fund and the Bank. Several measures to strengthen the external debt unit were implemented as structural benchmarks under the previous PRGF. Bank and Fund staffs have also supported the external evaluation of the use of HIPC resources under the President Special Program. As agreed in the Bank's Public Expenditure Reform operation (PERCG), the government integrated HIPC

resources into sectoral programs of HD sectors in 2006 Budget Law and intends to expand the measure to rural development ministries upon completion of the rural sector MTEF (scheduled for June 2006) and the elaboration of sector Program Budget.

10. Budgetary and public expenditure reforms. Strengthening public finances is a prerequisite for success of Niger's broader reform agenda. The Bank and Fund share the lead in this area. Both institutions have played key roles in helping the Government reduce domestic and external arrears. While the Fund is leading the dialogue on revenue-enhancing measures, the Bank is concentrating its efforts on budgetary reforms, in particular in the area of public expenditure. The Fund is also making key contributions to improving budgetary processes: a number of important measures, such as preparation of budget review laws and computerization of budgetary expenditure, have been included as structural benchmarks in the previous PRGF arrangement. In 2004, the Bank prepared jointly with the Government and EU a comprehensive assessment of Niger's Public Expenditure Management Systems and Capacities (Public Expenditure Management and Financial Accountability Review: PEMFAR). The Bank has supported budgetary reforms through four adjustment operations (PEAC I, PEAC II, PERCG and the upcoming RSRC I). Consolidating and deepening these reforms (based on PEMFAR priority action plan) is a critical objective of the ongoing RSRC I which should be presented to the Board in June 2006. The Country Procurement Assessment Report (CPAR) was updated in 2004.

11. Financial sector reform. The Government launched a comprehensive financial sector reform program in 2002. Supported by a World Bank project, the program covers the regulatory and legal environment, the banking sector, micro-finance, postal financial services and social security.¹⁰ Some progress has already been realized. Two commercial banks, BCN and BINCI and three insurance companies were restructured and recapitalized. Audits of all major micro-finance institutions have been completed. Restructuring plans for the post office have been designed and staff reduction has started. In the next two to three years, measures will be taken to improve the legal and judicial environment (modification of legislation for the issuing of land titles, improvement of the legal framework for the taking of guarantees, training of magistrates, etc.). The Housing Bank (CDN) will be either privatized or liquidated by end December 2006; the Community Lending Bank (CPCT) will be restructured. Micro-finance institutions will be restructured on the basis of the results of the audits, and the supervisory unit at the Ministry of Finance and Economy will be strengthened. The post office was split into two entities in 2005, Niger Post, for pure mail transactions, and FinaPost, a financial services affiliate. Finally, an actuarial audit was conducted of the CNSS, the social security institution.

12. Civil service reform and decentralization. The reform and modernization of the civil service is an important element of Niger's PRSP, yet there has been little progress in this

¹⁰ The Financial Sector Technical Assistance Loan was approved by the Board in February 2004.

area so far. The authorities are currently making an effort to put in place an integrated civil service database. By allowing a more transparent and effective management of the civil service, this database should improve control over the wage bill. Controlling the wage bill is important for maintaining fiscal balance, as recognized by the previous PRGF arrangement, which had set quantitative benchmarks for the wage bill. Planning for the implementation of the legal framework for political decentralization of 1996 has recently gained momentum. The first local elections took place on July 24, 2004. However, important concerns regarding this reform remain, such as the lack of capacity at the local level and the fiscal implications of decentralization. To help the Government address some of these concerns, the Community Action Program will help build capacities in rural communities in planning, implementing, and monitoring micro-development projects as well as the upcoming Local Urban Infrastructure Development Project.

Areas in which the Fund leads

13. **Macroeconomic management.** The main objectives of Niger's macroeconomic program, as stated in the PRSP, are to ensure economic and financial stability while promoting sustainable and robust growth. The Fund is supporting this program through its PRGF framework by providing financial and technical assistance, as well as through dialogue on macroeconomic policy reforms. The program has made satisfactory progress since approval of the first PRGF arrangement in 2000 by achieving most of its benchmarks and overall positive fiscal performance. A second PRGF was approved in January 2005 and two reviews were successfully completed to date. In the context of the macroeconomic framework underlying the PRSP, the Bank has provided technical assistance in building capacity in the Ministry of Finance and Economy to monitor economic performance; elaborate MTEF and Program Budget in key sectoral ministries (Education, Health and rural Development); and macroeconomic modeling.

14. **Fiscal policy.** Fiscal consolidation is a key objective of the PRGF and is supported by a number of performance criteria and benchmarks. Increasing budgetary revenue in order to progressively lower the Government's reliance on external assistance is particularly important, given Niger's low level of revenues, compared with regional partners in WAEMU. In terms of expenditures, the Fund is mainly concerned with overall budget envelopes, while the Bank focuses on inter and intrasectoral allocations and protection of key expenditure items in Education, Health and Rural Development at budget execution phase.

15. **Monetary policy.** The Fund leads the policy dialogue on monetary policy, which is set by the regional monetary authorities (BCEAO).

World Bank Group Strategy

16. The Bank's new Country Assistance Strategy (CAS) for the period 2003 to 2005 was approved by the Bank Board in January 2003. It supports the implementation of the PRSP. A new CAS is under preparation.

17. As of April 30, 2006, the World Bank lending portfolio in Niger consisted of nine IDA active operations, with a total commitment of US\$ 255 million, of which \$131.5 million is undisbursed. IDA assistance has helped reduce the volatility in ODA by compensating short-term declines in assistance from other partners. IDA has also been responsive to exogenous shocks. For instance, an Africa Emergency Locust Project (AELP) aiming at fighting the locust's infestation in West Africa was delivered in FY05. A Health sector SWAP and a Development Policy lending were delivered in FY 06 (, Board date the DPL which covers more than 41 percent of Niger's 2006 financing gap is scheduled for June 13, 2006).

Table 1. Niger: Status of World Bank Portfolio (all IDA)
(In millions of U.S. dollars, as of September 30, 2005)

	Commit Amount (US\$ mil)	Undis- bursed	Approval Date	Closing Date
Instit. Strengthening & health Sector Support Program (ISHSS)	35	35	05-01-06	30-01-2011
Locust Emergency	9.9	8.8	16-12-04	30-06-09
Privatization/Regulatory Reform TA	18.6	6.0	15-09-98	31-12-06
Water Sector	48.0	2.9	03-05-01	31-12-06
Private Irrigation Promotion	38.7	13.7	19-03-02	31-12-07
Community Action Program	35.0	16.8	20-03-03	30-06-07
Basic Education	30.0	18.3	17-07-03	31-12-07
Multisector STI/HIV-AIDS	25.0	18.5	04-04-03	30-06-08
Financial Sector TA	14.8	11.5	19-02-04	30-04-08
TOTAL	255	131.5		

18. The AAA program helps the Government in areas such as poverty analysis, gender, population growth, and sources of growth and the Millennium Development Goals (MDGs). The AAA program also aims at reinforcing public sector capacity in pursuit of the PRSP's objectives and in preparing Niger for the transition to consolidated programmatic lending. In support of these objectives, sector work on population, rural development, Public Expenditure Management and Financial Accountability Review (PEMFAR), CPAR, and Participatory Poverty Assessment have been completed. A Country Economic Memorandum (CEM) focusing on accelerating growth and achieving the MDGs in Niger is under preparation.

19. The Bank is committed to enhancing external partnerships in the framework of the Government's current efforts to mobilize and coordinate donor support for PRSP implementation. Besides the strong partnership with the Fund, the Bank is collaborating with

a number of donors in different areas, including the European Union, the African Development Bank (AfDB), the United Nations Development Program (UNDP), and key bilateral donors involved in development issues in Niger.

Prepared by World Bank and IMF staff. Questions may be addressed to Mr. Madani Tall, Country Director for Niger; Emmanuel Pinto Moreira, Country Economist for Niger; Francoise Perrot, Operations Officer for Niger; or Thomson Fontaine (Economist, IMF).

Niger: Table of Common Indicators Required for Surveillance
(As of April 30, 2006)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange Rates	Current	Current	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹					
Reserve/Base Money	Feb. 2006	May. 2006	M	I	M
Broad Money	Feb. 2006	May. 2006	M	I	M
Central Bank Balance Sheet	Feb. 2006	May. 2006	M	I	M
Consolidated Balance Sheet of the Banking System	Feb. 2006	May. 2006	M	I	M
Interest Rates ²	Apr. 2006	May. 2006	I	I	M
Consumer Price Index	Mar. 2006	Apr. 2006	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴					
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Feb. 2006	Apr. 2006	Q	Q	I
Stocks of Central Government and Central Government-Guaranteed Debt ⁵					
External Current Account Balance	Dec 2005	Mar. 2006	A	I	A
Exports and Imports of Goods and Services	Dec 2005	Mar. 2006			
GDP/GNP	Dec 2005	Mar. 2006	A	I	A
Gross External Debt	Dec 2005	Mar. 2006	Q	I	A
¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions. ² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds. ³ Foreign, domestic bank, and domestic nonbank financing. ⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. ⁵ Including currency and maturity composition. ⁶ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).					



Press Release No. 06/136
FOR IMMEDIATE RELEASE
June 19, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes the Second Review Under Niger's PRGF Arrangement and Approves US\$8.7 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed today the second review of Niger's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review enables the release of a further SDR 5.875 million (about US\$8.7 million), which will bring the total amount drawn under the arrangement to SDR 17.625 million (about US\$26.1 million). Niger's PRGF arrangement was approved on January 31, 2005 (see [Press Release No.05/20](#)) and augmented in November 2005 (see [Press Release No. 05/251](#)).

The Board also granted waivers for the nonobservance of two structural performance criteria.

Following the Executive Board's discussion of Niger, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, stated:

“Despite a good harvest in late 2005 that allowed a rebound of GDP growth and easing of inflation, the effects of the 2004 drought continue. There have been large losses of livestock and a high level of household indebtedness; moreover, an estimated 1.8 million people remain vulnerable to food shortages. Notwithstanding these difficulties, the authorities persevered with the implementation of policies and reforms.

“The revised fiscal program aims at strengthening food security and advancing policies and reforms to promote growth and reduce poverty. It accommodates the cost of the 2006 food security program, as well as priority investment projects to reduce Niger's vulnerability to droughts. The program incorporates reforms to strengthen revenue and expenditure management, which are critical for fiscal sustainability and implementing pro-growth and pro-poor programs.

“The authorities are committed to using prudently the resources freed up by the Multilateral Debt Relief Initiative (MDRI), which will reduce significantly Niger's external debt burden, to advance toward the Millennium Development Goals (MDGs). The authorities should continue seeking highly concessional financing to safeguard debt sustainability, while strengthening further their external debt management capacity.

“The authorities place a high priority on reforming the financial sector and privatizing public utilities. They intend to finalize public sector disengagement from *Crédit du Niger*, and complete the restructuring of the National Postal and Saving Institution.

“A timely revision of the Poverty Reduction Strategy Paper (PRSP) will be essential for mobilizing additional donor support and expediting reforms to strengthen growth and reduce poverty. The authorities will work closely with donors in streamlining and harmonizing donor conditionality, costing the MDGs, and improving coordination and information flow, to ensure timely disbursement of resources for the budget and poverty reduction programs,” Mr. Carstens said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in the [Poverty Reduction Strategy Paper \(PRSP\)](#). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

Statement by Damian Ondo Mañe, Executive Director for Niger
June 19, 2006

I. Introduction

On behalf of my Nigerien authorities, I would like to convey their appreciation for the constructive relationship with the Fund. In particular, they thank staff for the collaborative engagement. Their valuable policy advice has been critical in contributing to maintain the PRGF program on track, in spite of the profound social and economic disruptions experienced during 2004-05. My authorities appreciate the analysis on the main challenges facing the country over the medium and long term, and they look forward to continued dialogue on the policy priorities for the period ahead.

As regards the food security situation, drawing the lessons of the last severe food crisis, my Nigerien authorities have focused their efforts on assisting people that are still suffering from the effects of the 2004 drought and developing contingency plans for future droughts so as to react effectively when any food crisis occurs in the future. With the support of the international community, steps are being taken to break off from past practices and render the economy more resilient to exogenous shocks, especially those related to drought and locust invasion. To that end, the government envisages the building of an agriculture production system less vulnerable to weather vagaries by promoting the development of important irrigation projects and other rural infrastructure aimed at increasing agricultural production.

While taking steps to strengthen the resiliency of the Nigerien economy, my authorities remain committed to preserving the macroeconomic stability as well as promoting a broad-based growth by exploiting all the economic potentialities set out in the PRSP. Their determination to achieve the program's objectives, despite the fiscal implications of the food crisis, has contributed to keep the program on track. In accordance with the staff's policy advice, they are considering the appropriate way to ensure the best use of the debt relief provided under the MDRI.

II. Recent Economic Developments and Performance under the Program

The Nigerien economy experienced a number of adverse shocks in 2004-05, including drought, locust invasion, high oil prices and avian flu. These shocks have resulted in a food crisis that affected more than 3.4 million people in 2005. Despite the invaluable support of the international community and the exceptional hike in agricultural production recorded at end 2005, about 1.8 million people are still under the threat of food shortages. The other resulting effects of the shocks have been significant livestock destruction and a drastic reduction of household income particularly in rural areas. In many cases, this situation compelled the population to increase its private indebtedness in order to meet its food needs.

The severe food shortages and higher prices led to violent and growing social unrests throughout the country, and placed a severe threat to the still fragile democratic process. As a result my authorities were obliged to suspend the removal of VAT exemptions on food imports.

Notwithstanding such a difficult social context, my Nigerien authorities remained determined to keep the program on track. As a result of their firm engagement, all quantitative performance criteria were observed. Fiscal revenue was higher than programmed, due to higher trade-related taxes on account of larger imports and improvements in customs and tax administration. Overall expenditure was lower than envisaged due, not only to the late disbursements of external budget support for food security, transfers and subsidies, but also the efforts made by the government to reduce other lower-priority spending, especially those related to Francophonie Games.

Turning to structural reforms, three out of the five performance criteria were met. As regards the criterion for the application of the petroleum mechanism, the government deferred payments of some petroleum-based taxes and reduced margin to the state-owned oil importing company with the view to render bearable domestic prices, and to preserve the fragile social situation. The two remaining structural performance criteria were also met but with a delay. Regarding the establishment of an office to carry out specific-oriented audits for medium-size taxpayers, given that this structure has been already created, the government plans to complete the required number of audits by the end of this year. However, the authorities believe that the initial date projected to achieve the audits became not realistic given the recent creation of the audit office. Commendable progress was made, with World Bank assistance, on strengthening expenditure management and restructuring of the financial sector.

III. The Economic Outlook and Policy Discussions

For 2006, the macroeconomic outlook shows a growth rate of 3.5 percent of GDP, an inflation estimate at 1 percent and higher external and fiscal deficits, reflecting the authorities' priority focused on the need for ensuring food security by increasing related spending.

Fiscal policy

On the revenue side, my authorities are implementing a three-year program to strengthen tax and customs administration. In this regard, they intend for 2006 to reduce the number of VAT non-filers at the large taxpayers office, strengthen the auditing of large enterprises, and establishing the ex-post control of import valuation and exemptions in key border posts. Many other measures, including the sale of villas built for the Francophonie Games, the introduction of a new real estate tax, the collection of deferred petroleum-based taxes, have

been envisaged. My authorities expect that these measures will help to raise the revenue-to-GDP ratio.

Regarding the expenditure side, my authorities' immediate concern is centered on the need to ensure food security, in particular on behalf of the 1.8 million people identified as highly vulnerable. Accordingly, the program was reviewed to take into account the additional costs, including food security needs as well as that of the new priority investment comprising irrigation projects, the replenishment of strategic grain reserve and the coal mining. My authorities envisage to use the resources drawn from the Fund MDRI to finance those projects aimed at improving the food security situation over the medium-term. In order to find a definitive solution to the effects of recurring droughts, the government, in collaboration with development partners, in particular the World Food Program is working towards the elaboration of contingency plans that would be presented to donors for assistance.

IV. PRSP and Structural Reforms

The recent food crisis calls for the need to strengthen the resilience of Niger economy to shocks, create the conditions of sustainable growth and accelerate the pace of poverty reduction as reflected in the PRSP. As prior task to the achievement of these objectives, my authorities have put emphasis on the process of updating the PRSP. To that end, they have taken steps to finalize by end-June 2006 the third annual progress report on the implementation of this important document deemed as the only vehicle for mobilizing donor financing.

With regard to structural reforms, my authorities are committed to press ahead with the implementation of the reform agenda. In this regard, they intend to give a new impulse to the process of deepening the financial intermediation by fully privatizing the *Crédit du Niger* by end-December 2006, and completing the restructuring of the National Postal and Saving Office. As regards the electricity and petroleum-importing companies, a new strategy for sale is being considering by the authorities with the financial and technical assistance of the World Bank.

Aside from the privatization and restructuring reforms as described above, other reforms aimed at reinforcing the economic governance are underway. They are focused on the following recommendations of the Public Expenditure Management and Accountability Review (PENFAR): (i) strengthening the preparation and the execution of budgetary operations, including through reforms of the Treasury and reinforcing collaboration between line ministries and the Ministry of Finance and Economy; (ii) aligning the budgets with the poverty reduction strategy; (iii) enhancing internal and external controls of public financial operations, including through securing additional human and financial resources for the office of internal audit and the Audit Office (*Cour des comptes*).

Looking ahead, my Nigerien authorities plan to finalize the medium-term expenditure frameworks for the rural and transports sectors by end-2006 with the objective to integrate them into the 2007 budget. Likewise, with assistance from the World Bank, they envisage to introduce improvement to the list of priority programs with the aim to ensure a best use of the Poverty Reduction resources. The government is also finalizing a medium-term plan aimed at reducing progressively the stock of domestic arrears. Given that the preliminary assessment shows a significant part of the arrears stock is due to suppliers, my authorities expect that the reduction of these arrears will contribute to foster the economic activities.

As regards to the pricing of petroleum products, my authorities reaffirm their commitment to ensure a full-pass through in accordance with the decree of August 2001. They underscore that the measure to defer some tax and margin payments taken during August-December 2005 is exceptional and was aimed at avoiding any resurgence of violent social unrests experienced during March and April 2005. My authorities renew their commitment to the flexible petroleum pricing mechanism. However, if new surges in oil prices for which the full pass-through could compromise the social stance, the government will consult the Fund before undertaking any adjustment of the mechanism.

V. Conclusion

Despite, a very difficult domestic environment, Niger made important progress in the implementation of the PRGF-supported program. However, Niger's food security situation remains a serious concern, and could adversely affect program implementation. As described above, my Nigerien authorities are developing a plan to address the recurrent food crisis. They are very grateful for the assistance already provided which has prevented a more serious human tragedy, but in their ongoing efforts they will require the continuous assistance of the international community which they hope will be forthcoming. Fund support will remain critical in developing and implementing the required macro framework. My authorities remain fully committed to the objectives of the program and will pursue steadfastly their implementation efforts. In this context, I would request Directors for their support for my authorities' request of waivers, and the completion of the second review under the PRGF arrangement.