

INTERNATIONAL MONETARY FUND



# Staff Country Reports

**Niger: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Nonobservance of Performance Criteria and Augmentation of Access—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Niger**

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

- the staff report for the First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Nonobservance of Performance Criteria and Augmentation of Access, prepared by a staff team of the IMF, following discussions that ended on September 28, 2005, 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 October 28, 2005. 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 its November 14, 2005 discussion of the staff report that completed the review and requests.
- 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\*  
Amendments to the Technical Memorandum of Understanding\*  
\*May also be included in Staff Report

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

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INTERNATIONAL MONETARY FUND

NIGER

**First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Nonobservance of Performance Criteria and Augmentation of Access**

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

Approved by Sharmini Coorey and Anthony Boote

October 28, 2005

- **Political and social Developments.** A drought has triggered a food crisis affecting one-fourth of the population, mainly the rural poor; the government is working with the international community to address the situation. The elimination of VAT exemptions for key food items in January 2005 led to social unrest and the eventual reinstatement of the exemptions in April. The political stalemate in Côte d'Ivoire has so far had little direct spill-over effect on Niger.
- **Poverty Reduction and Growth Facility (PRGF) Arrangement.** The IMF supports Niger's economic program for 2005–07 under a PRGF arrangement approved by the Executive Board in January 2005. Total access under the arrangement is SDR 6.58 million, or 10 percent of quota. The authorities are requesting an augmentation of access to deal with the impact of the drought. If the request is approved, total access will rise to SDR 26.32 million, or 40 percent of quota, of which SDR 0.94 million has been disbursed so far (Appendix I). An additional SDR 10.81 million, including SDR 9.87 million in higher access, will become available upon completion of this review. The World Bank is supporting Niger's program through both project and adjustment credits (Appendix II).
- **Discussions.** During August 23–September 6, and September 23–28, 2005, a staff team conducted the first review discussions under the PRGF arrangement. It met with Finance Minister Zeine, Mr. Soumana, the National Director for the Central Bank of West African States (BCEAO), and other senior government officials, as well as representatives of the donor community. Discussions focused on (i) the economic impact of the 2004 drought; (ii) the draft budget for 2006; and (iii) strategies to strengthen economic growth and make progress toward the Millennium Development Goals.
- **The mission members were** Mbuyamu Matungulu (head), Abdikarim Farah, Thomson Fontaine, Jung Yeon Kim (all AFR), and Frances Hardin (EXR). The team worked closely with a parallel World Bank mission.

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## Executive Summary

- **A drought has triggered a food crisis in Niger and weakened economic performance in 2004 and 2005.** Inadequate rainfall and locust attacks reduced food production in late 2004 and slowed GDP growth. The sharp rise in food prices pushed up inflation in 2005, while the food shortage affected one-fourth of the population, resulting in malnutrition and the spread of diseases, especially among children. Increased drought-related imports and a significant deterioration in the terms of trade, mainly because of higher oil prices, have weakened Niger's external position. Growth is projected to recover in late 2005 with the expected normal harvest, and inflation is likely to decline by year-end. However, the effects of the drought will continue for the next few years in view of the depletion of grain reserves and large losses of livestock.
- **These shocks have weakened government finances in 2005-06 and beyond.** Most immediately, the government will need to replenish the grain reserves while also accelerating public investment in rural development, including irrigation, to reduce future vulnerability. Furthermore, the drought has significantly weakened revenue prospects in relation to the original program mainly because it will be difficult to remove VAT exemptions on food in the foreseeable future.
- **The authorities are proposing a revised program for 2005 and 2006 to respond to the economic shocks.** It is based on financing the unanticipated fiscal effects of the drought while taking additional steps to prevent a sustained deviation of revenue from the original program targets. The determined implementation of measures to strengthen tax and customs administration will be key to strengthening revenues and ensuring fiscal sustainability. For 2006, 1¼ percent of GDP in spending would be contingent on obtaining additional donor support (see below). The authorities will also expedite the implementation of sectoral strategies—developed in the context of their PRS—to strengthen economic growth, reduce poverty, and enhance the economy's resilience to economic shocks.
- **The additional financing needs in 2005 and 2006 entailed by the revised program** would mostly be met by additional domestic financing and increased external budget support, including from the World Bank, for which financing assurances have already been obtained. The authorities also plan to organize a donors' conference in early 2006, with assistance from staffs of the Fund and the World Bank, to mobilize additional funds for drought-related capital expenditure and programs envisaged in the PRSP. In addition, the authorities are requesting an augmentation of access to Fund resources (by 30 percent of quota) to cover the remaining financing gap.
- **Staff supports the authorities' request for augmentation under the PRGF** based on the clear balance of payment need and given that the increased access would not weaken Niger's capacity to repay the Fund.

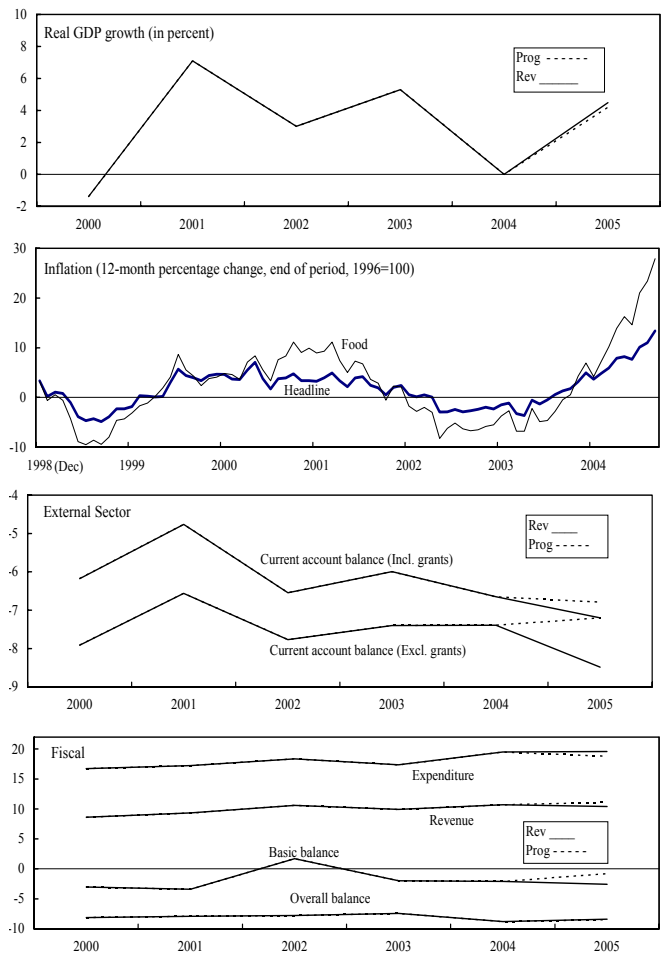
## I. INTRODUCTION

1. **In late 2004, Niger—ranked at the bottom of the UN Human Development Index—was hit by a drought and locust attacks, which aggravated an already fragile socioeconomic situation.** The shock resulted in a significant reduction in food production and a full-blown food crisis in 2005 that affected one-fourth of the population, especially the rural poor. In addition, Niger's terms of trade deteriorated sharply in 2005, mainly on account of higher oil prices. Economic activity declined in late 2004 and the first half of 2005 and inflation accelerated through the third quarter of 2005, as a result of food and fuel price increases. Good rains and a normal harvest in late 2005 are expected to help economic recovery this year, but the drought's effects are likely to be felt over the next few years.

2. **These shocks have weakened government finances in 2005–06, and the authorities are proposing a revised program in response.** Most immediately, the government will need to replenish Niger's grain reserves while also accelerating public investment in rural development, including irrigation, to reduce future vulnerability. Furthermore, the drought has significantly weakened revenue prospects in relation to the original program, mainly because it will be difficult to remove VAT exemptions on food in the foreseeable future. The revised program accommodates higher capital expenditure intended to improve food security and includes new measures that would help raise revenue to program targets by 2007–08. The additional financing entailed by the revised program would be covered mostly by increased external budget support, including from the World Bank, and additional domestic financing. The authorities are requesting additional access to IMF resources to cover the remaining financing gap.

3. **The root cause of Niger's socioeconomic problems is structural.** Despite modest improvement in 2000–03, the economy remains heavily reliant on drought-prone and predominantly subsistence agriculture and growth has been

Figure 1. Niger: Selected Economic Indicators, 2000–2005  
(In percent of GDP, unless otherwise indicated)



Source: Nigerien authorities and staff estimates and projections.

insufficient to reduce poverty. The authorities are committed to addressing vulnerabilities and boosting growth by advancing the implementation of their sectoral strategies, including for the rural sector, and key structural reforms. Implementation of the strategies will require a large infusion of development aid, strengthening economic governance, and building domestic political consensus to strengthen program ownership.

## II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

4. **In 2004 and 2005, a drought compounded by a terms of trade deterioration weakened Niger's economic performance (Figure 1 and Table 2).** Given the poor harvest in the latter part of the year, economic activity stagnated in 2004 and headline inflation reached some 4 percent by year-end, as food prices rose sharply. Inflation accelerated through the third quarter of 2005, with food price inflation reaching over 20 percent. Close to one-fourth of the population faced a food crisis, including malnutrition and starvation, and continues to rely on food relief (Box 1). In addition, Niger's external position weakened as a result of higher food imports and world oil prices.

5. **The drought and expenditure overruns contributed to an increase in the fiscal deficit in the first half of 2005 (Table 3).** The basic budget deficit through end-June reached 0.8 percent of 2005 GDP, 0.5 percent higher than programmed. The higher deficit reflected lower revenue (0.3 percent of GDP) and higher domestically financed spending (0.2 percent of GDP). Revenue was lower mainly because of drought-related factors: (i) the reinstatement of VAT exemptions on key food items (milk, wheat flour, and cooking oil) in April after their removal—amid rising food prices—in January 2005 triggered social unrest; and (ii) increased exemptions on customs duties on food imports. With regard to spending, the authorities had committed in 1999 to hosting the Francophonie Games in December 2005 but now expect spending on the games to significantly exceed the original budget allocation, which had been based on higher expected contributions from other participating countries.

6. **Five of the eight quantitative benchmarks of the program through end-March 2005 have been observed, while five out of the eight quantitative performance criteria and benchmarks and all but one structural performance criteria and benchmarks were observed through end-June 2005 (MEFP, Table 1).** Missed targets include the basic budget deficit and the reduction in government domestic payments arrears (both performance criteria in June), as well as the revenue target (a benchmark). All structural performance criteria and benchmarks (related mainly to fiscal management) have been observed, except for the one relating to the evaluation of domestic payments arrears (MEFP, Table 2). A status report on domestic arrears was completed in August 2005, instead of June 2005, because of delays in the delivery of technical assistance.



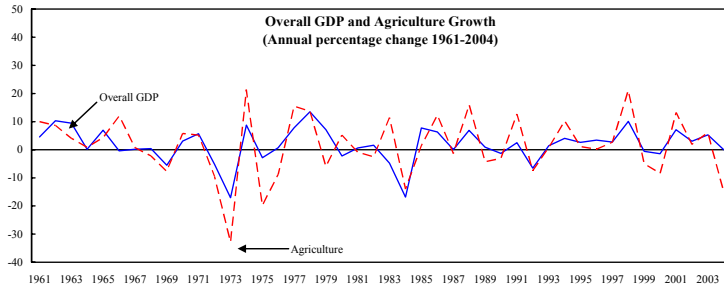
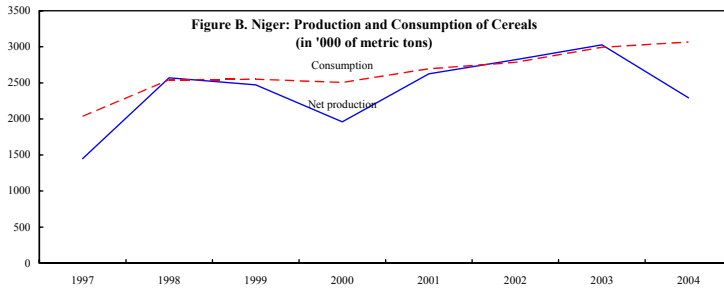
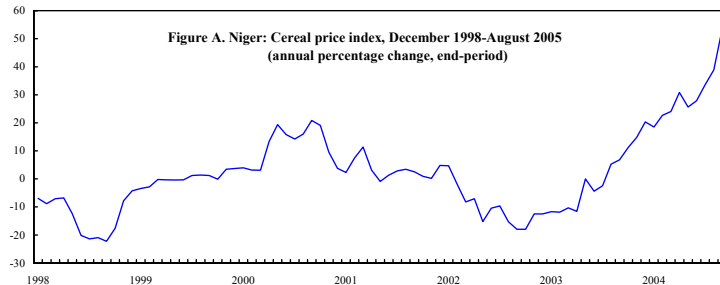
### Box 1. Niger—Impact of the 2004 Drought

**The drought and the locust plague significantly reduced cereal production and resulted in substantial losses of livestock.** This triggered a food crisis in 2005 that severely affected a large proportion of the population and contributed to significant increases in food prices.

**In July 2005, drought-relief efforts funded largely with external assistance picked up.** By mid-September, UN relief agencies had received some US\$41 million in assistance, relative to a requested US\$80 million. Reports indicate that the relief effort has reached a significant proportion of the drought-stricken population. However, large segments of the rural population will continue relying on relief because of the loss of livestock and increased indebtedness by farmers.

**The root causes of Niger's recurrent food crises are structural.** Agricultural and GDP growth has been weak for decades and has not kept up with population growth, which averaged 3.1 percent per year during 1961–2004. Low productivity and high dependence on weather conditions make agriculture (40 percent of GDP) and the economy highly vulnerable to exogenous shocks.

Addressing these vulnerabilities, through irrigation and rural development, will be critical if Niger is to make progress in poverty reduction.



Source: Nigerien Authorities and Staff Estimates

### III. POLICY DISCUSSIONS

7. **Policy discussions focused on the critical need to minimize the socio-economic cost of the drought and to address the associated vulnerabilities.** The authorities emphasized the urgent need for additional donor support, including from the Fund, given increased financing needs and the limited room for fiscal adjustment in the short run. The approach underlying the proposed revisions to the program for 2005 and 2006 is to finance the unanticipated fiscal effects of the drought while taking additional measures to prevent a

sustained deviation of revenue from the original program. In particular the authorities propose to

- implement additional structural revenue measures and strengthen collection efforts to avoid persistent deviations from the revenue targets under the original program.
- increase expenditure in 2005 to partially replenish grain reserves and in 2006 to boost capital expenditure, the latter contingent on additional donor financing.
- expedite the implementation of sectoral strategies to strengthen economic growth and reduce poverty, as well as reforms to improve allocative efficiency and economic governance.

In order to mobilize additional donor assistance to advance the authorities' poverty reduction strategy (PRS) and support higher capital spending to reduce vulnerability to economic shocks, the staff agreed to assist—in collaboration with the World Bank—the authorities in organizing a donor conference during 2006, when the costing of key sectoral strategies will be completed.

#### A. Economic Outlook

8. **The government is revising its PRSP to better articulate a program that will ensure durable growth;** the revision is expected to be completed in 2006. Meanwhile, GDP growth is estimated to reach 4½ percent in 2005, as agricultural output rebounds from the sharp decline in late 2004. In 2006–07, growth is projected at just over 4 percent, in line with program projections. Inflation is likely to fall to about 5 percent by end-2005 and to remain in line with the West African Economic and Monetary Union (WAEMU) threshold (3 percent) over the medium term.

	2004	2005		2006	2007
		Prog	Rev.Prog		
GDP at constant prices	0.0	4.2	4.5	4.2	4.3
CPI (end of period)	3.7	2.0	5.1	1.1	2.0
External current account balance /1	-8.1	-7.2	-8.5	-11.5	-6.7
Terms of trade	-3.1	-2.1	-7.2	-2.1	-0.1
Overall fiscal balance /1	-8.9	-7.7	-9.2	-9.6	-6.9
Basic fiscal balance /1	-2.1	-0.8	-2.6	-1.5	-0.2

Sources: Nigerien authorities; and IMF staff estimates  
1/ In percent of GDP, excluding grants.

The external current account deficit (before official grants) would widen in 2005–06 but is projected to narrow thereafter.

## B. Fiscal Policy

9. **The revised fiscal program focuses on orderly management of the impact of the drought (Tables 4 and 5),** including by strengthening domestic revenue and providing room for higher capital spending to strengthen food security.<sup>1</sup> For 2005, revenue is expected to fall short of the program projection mainly as a result of the repeal of VAT measures (see para. 5). The revised program accommodates the cost of replenishing the grain reserves while requiring—as a prior action for the first review—spending cuts that fully offset the expenditure overruns related to the Francophonie Games.<sup>2</sup> The establishment of a master list of poverty reduction expenditure and the related monthly monitoring mechanism (an end-September 2005 benchmark that is already met) will provide a means to protect priority spending going forward. The net effect of these factors is to raise Niger’s basic fiscal deficit (on a commitment basis, before grants) to 2.6 percent of GDP, 1.8 percent of GDP higher than envisaged under the original program. To finance the higher deficit, the authorities plan to (i) roll over to next year CFAF 15 billion (0.8 percent of GDP)<sup>3</sup> in six-month treasury bills issued in April 2005 on the WAEMU market, and (ii) slow the reduction in domestic arrears (0.5 percent of GDP). The authorities are requesting that the remaining gap of 0.4 percent of GDP be covered by additional resources from the IMF.

Program Deviations and Financing <sup>1</sup> (In percent of GDP, compared with the original program)		
	2005	2006
Shortfall in revenue	0.7	0.9
Additional expenditure	1.1	1.1
Francophonie games	0.8	--
Wages, Goods and services	-0.6	0.2
Subsidies	0.1	0.5
Drought-related capital expenditures	1.0	1.1
<i>Of which: replenishment of grain</i>		
Reserves	1.0	0.3
Other spending	-0.2	-0.7
Additional domestic repayments	--	1.3
Total deviation	1.8	3.3
Deviation due to revision to nominal GDP	-0.1	-0.2
Change in Financing	1.7	3.1
Additional external financing assurances	--	0.9
Additional donor support (to be identified)	--	1.3
Treasury bills	0.8	--
Slower reduction of arrears	0.5	0.5
Residual	0.4	0.4

<sup>1</sup>Figures may not add up to indicated totals due to rounding.

<sup>1</sup> The impact of the drought on the fiscal balance during 2005–06 is estimated at 2.9 percent of GDP, comprising the cost of replenishing the grain reserve (1.3 percent of GDP) and revenue shortfalls (1.6 percent of GDP). The authorities also intend to undertake an additional 0.8 percent of GDP in capital spending to reduce future vulnerability (included under “drought-related capital expenditure” in the text table above).

<sup>2</sup> These cuts are specified in the ministerial order of October 26, 2005.

<sup>3</sup> In view of their relatively small size, Niger’s treasury bill issues are unlikely to significantly affect market conditions in the region.

10. **For 2006, the revised program envisages—contingent on donor support—additional expenditure, mainly on capital projects related to improving food security, including the replenishment of the grain reserves.**<sup>4</sup> These expenditures will need to be compatible with the authorities' poverty reduction strategy and undertaken only if additional support (beyond existing financing assurances) is obtained at the prospective donors' meeting (see para. 7). Given that a shortfall in revenue (0.9 percent of GDP) will remain, the authorities will initiate, starting in 2006, a program of structural revenue measures and strengthen their collection efforts so that revenues can return to the original program path in 2007–08. On this basis, the basic fiscal deficit (including the contingent spending) in 2006 is projected to increase to 2.8 percent of GDP (1.5 percent of GDP excluding contingent expenditure; see Table 5). Taking account of additional repayments of domestic debt within the WAEMU area (1.3 percent of GDP), mainly related to the treasury bills issued in 2005, the remaining financing gap would be covered by (i) a further slowing in the repayment of domestic arrears, and (ii) additional financing from the IMF, as requested by the authorities.

11. **Revenue mobilization remains a pivotal element of Niger's PRGF-supported program.** With the country's revenue-to-GDP ratio (10.5 percent of GDP in 2005) 5 percentage points below the WAEMU average, the authorities agree that new revenue-enhancing measures are critical for long-term fiscal sustainability. In 2006, they plan to impose a presumptive tax of 0.25 percent on the transit and reexports of tobacco products and a land tax. Most importantly, they intend to implement several structural measures to strengthen customs and tax administration. Strong implementation of the latter constitutes the critical policy response, given Niger's relatively high tax rates and commitments under the WAEMU fiscal harmonization rules. Efforts will be needed to strengthen customs valuations and border controls, address tax evasion, and, improve informal sector compliance (MEFP paras. 20 and 30). Four actions in these areas are covered by new performance criteria for the 2006 program (MEFP, Table 2).

12. **To sustain revenue performance over the medium term, the authorities are developing a revenue mobilization strategy based on recommendations made by a recent FAD technical assistance mission.**<sup>5</sup> The adoption of the strategy (a benchmark delayed from September 2005) will be a prior action for the completion of the second review under the PRGF. The revenue measures to be introduced in 2006, together with those derived from the revenue mobilization strategy, would help raise revenue to the level envisaged under the original program in 2007–08. Furthermore, the authorities are expected to receive technical assistance from several development partners, including France and the United States.

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<sup>4</sup> As indicated in the text table, 1.3 percent of GDP in spending in 2006 is contingent on additional donor support, but only 1.1 percent of GDP of this spending is additional relative to the original program path.

<sup>5</sup> The mission visited Niamey during September 6–20, 2005.

### C. PRSP Issues and Structural Reforms

13. **To generate a significant reduction in poverty and increase resilience to economic shocks over the long term, Niger needs to strengthen economic growth, particularly by increasing agricultural productivity.** The focus, as outlined in the PRSP, is on developing irrigation infrastructure and encouraging the use of modern inputs. The authorities have finalized the costing of programs that underpin the road and transport strategy and expect to finalize the costing of the programs for the rural sector strategy by mid-2006. The result of this work will feed into the medium-term expenditure frameworks (MTEFs), and be reflected in budgets starting in 2007. Concomitant efforts are needed to diversify the economy, including through mineral and oil explorations and the promotion of tourism.

14. **Privatization and deepening financial intermediation are important elements of the strategy to strengthen growth.** The focus is on reforming the financial sector and privatizing public utilities (MEFP paras. 28 and 29). The agenda for the financial sector is to finalize (i) the government's disengagement from Crédit du Niger, and (ii) the restructuring of the postal and savings institution. After unsuccessful offers for the sale of the petroleum-importing and electricity companies in 2004, the authorities intend to revisit in the coming months, with World Bank assistance, the privatization strategy for these two public enterprises.

15. **Strengthening economic governance is critical for the effective implementation of the poverty reduction strategy.** Reforms focus on improving expenditure management (MEFP, para. 31). In line with the 2004 recommendations of a Public Expenditure Management and Financial Accountability Review (PEMFAR), the key reforms include: (i) continued strengthening of the computerization program for central and provincial treasury offices; and (ii) strengthening internal and external controls of government financial operations, including a reactivation of the "Cours des comptes" and parliament oversight of government finances. The authorities will clarify the domestic arrears situation by end-2005 and develop a clearance strategy by March 2006. They will also need to formulate, in cooperation with the BCEAO, a timetable to repay outstanding BCEAO statutory advances, as decided by the WAEMU Council of Ministers in 2002.<sup>6</sup> In the meantime, only wage arrears will be cleared (MEFP, para. 11).

16. **Niger requires higher development assistance, preferably in the form of grants, to implement its poverty reduction strategy.** The need for increased external financing is clear, and given Niger's high risk of debt distress (Appendix III), such financing would need to be highly concessional, preferably grants, to avoid adverse debt dynamics.<sup>7</sup> However,

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<sup>6</sup> As of end-June 2005, total outstanding advances from the BCEAO amounted to CFAF 33 billion.

<sup>7</sup> The Multilateral Debt Cancellation Initiative, once implemented, would reduce Niger's annual debt service-to-export ratio by 3 percentage points on average during 2006–08. The ratio of the  
(continued)

given the urgent need for resources in the near term, the authorities have requested that the minimum grant element of new loans under the PRGF-supported program be lowered from 60 percent to 50 percent to permit more development assistance. To minimize the risks to debt sustainability, the government plans to review, with World Bank assistance, all projects that will be funded with resources with a grant element of between 50 and 60 percent.

#### **IV. PROGRAM MODALITIES, CAPACITY TO REPAY THE IMF, AND PROGRAM RISKS**

17. **The attached Letter of Intent describes Niger's progress in implementing the PRGF-supported program and requests completion of the first review.** All applicable structural performance criteria have been observed. The authorities request waivers for the nonobservance of two quantitative performance criteria (the targets on the basic budget balance and on the reduction of government domestic payments arrears), an amendment to quantitative performance criteria and benchmarks for end-December 2005, and an augmentation of access under the PRGF arrangement. A prior action for completion of the review has been implemented: a ministerial order outlining spending cuts to limit the basic fiscal deficit to 2.6 percent of GDP in 2005 was adopted on October 26, 2005.

18. **The staff supports the authorities' request for an augmentation of access,** which is justified on the basis of the balance of payments need caused by the drought and terms of trade deterioration. The authorities have committed to strengthen revenue to ensure that the deviation from programmed levels is temporary. The proposed augmentation of access of 30 percent of quota would increase Niger's total access under the program to 40 percent of quota, which is still within the norm (45 percent of quota) for countries, like Niger, that are on their fourth PRGF arrangement. The augmented resources would be made available in three tranches (see Table 1): 15 percent of quota (0.4 percent of GDP) upon completing this review; and the remaining two tranches (of 7.5 percent of quota each), upon completing the second and third reviews respectively, and fulfilling corresponding quantitative and structural performance criteria (see MEFP, Tables 1 and 2).

19. **The proposed augmentation of PRGF access would not weaken Niger's capacity to repay the Fund.** The augmentation of access of SDR 19.74 million (30 percent of quota) takes into account the country's current indebtedness to the IMF and its record of servicing debt (Tables 6 and 7). During the program period, the annual average repayment to the IMF (after debt relief) would be SDR 3.2 million; and by 2007, it is projected at about 1 percent of export of goods and services and 1.5 percent of government revenue.

20. **Niger's reform agenda faces significant risks,** including droughts and negative terms of trade shocks. The fiscal situation is fragile because of a weak revenue base and heightened expenditure pressures, while implementation capacity remains limited. The

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country's net present value of debt to exports would initially fall before rising again reflecting the country's large external financing requirement.

revised program seeks to address these risks by introducing structural measures to strengthen revenue over the medium term and making expenditure in excess of the programmed level in 2006 contingent on donor support. Determined implementation of the structural revenue measures will be required to achieve the program's original objectives. In addition, better coordinated capacity-building support and additional aid from development partners, including focused technical assistance for the revenue agencies, could mitigate some of the risks.

## V. STAFF APPRAISAL

21. **The drought has had a more severe impact on Niger, a country with the lowest human development indicators in the world, than anticipated.** It significantly reduced food production and economic growth in 2004 and has triggered, in the course of 2005, steep price increases and a food crisis. These problems have been compounded by a sharp deterioration in the terms of trade due to higher oil prices. Niger's development partners responded, albeit late, to assist, in coordination with the government, the affected population. Niger still requires more resources to deal with the implications of the crisis, which include a significant short-term balance of payments need. The staff notes that the authorities are closely monitoring agriculture price developments to minimize the adverse impact of food relief on prices and crop planting.

22. **The authorities' commitment to address the impact of the drought while minimizing sustained deviations from the original program is welcome.** The medium-term expenditure requirement to replenish the grain reserves will be significant, and there is a need to boost public investment to address the factors underlying the country's susceptibility to exogenous shocks. These expenditures, combined with drought-related shortfalls in revenue, have necessitated a revision of the PRGF-supported program, given the limited scope for significant fiscal adjustment in the short run. The staff welcomes the authorities' efforts to minimize deviations from the original fiscal program by making expenditure increases in 2006 contingent on additional donor support, and committing to take action to strengthen domestic revenue, which is key to long term fiscal sustainability. At the same time, the staff regrets the expenditure overruns related to the Francophonie Games that necessitated cuts in other spending in 2005 and urges the authorities to redouble their efforts to protect poverty reduction programs by ensuring that spending is prioritized.

23. **Strengthening revenue is critical for long-term fiscal sustainability.** The staff urges early adoption and rigorous implementation of the envisaged revenue mobilization strategy. This would require a sustained effort involving a renewed strong political commitment. In particular, strengthening tax and customs administration, addressing tax evasion and strengthening informal sector compliance would be key. The authorities should make use of available technical assistance in these efforts.

24. **The medium-term strategy outlined in the PRSP aims to strengthen economic growth and reduce vulnerabilities.** Niger's heavy reliance on rain-fed agriculture underscores the need to expedite the implementation of the rural sector development strategy that focuses on irrigation infrastructure. In this regard, the staff welcomes the authorities'

commitment to finalize the costing of programs that underpin the rural sector strategy by mid-2006, following the recent completion of similar work for the road and transport strategy. The staff also stresses the need to develop other strategies to diversify the economy, including those for tourism and mineral and oil explorations; it encourages the authorities to press ahead with financial sector reforms and the privatization of public utilities to enhance competitiveness.

25. **To ensure effective implementation of its strategy to enhance economic growth and resilience, Niger would need much higher financing than currently identified,** preferably in the form of grants in order to prevent adverse debt dynamics. Nevertheless, staff supports the authorities' request to reduce the grant-element conditionality on new loans given the urgent need for additional resources in the short term and the government's decision to review, with World Bank assistance, all projects funded with a grant element of between 50 percent and 60 percent. Ensuring the productivity of these expenditures will be key to limiting the risks to debt sustainability. Moreover, the staff welcomes the authorities' ongoing efforts to improve public expenditure management—including their plan to develop an arrears reduction strategy—which will enhance the productivity of public spending. To mobilize additional financial support, with satisfactory implementation of the revised program, the Fund and Bank staffs plan to assist the authorities in organizing a donor conference in early 2006.

26. **The staff believes that the risks to the program are manageable.** Niger's susceptibility to droughts and terms of trade shocks, given its narrow production and export base and limited implementation capacity, can be addressed only through higher external support for its investment and reform agenda. The approach adopted in the revised program is to finance the unanticipated fiscal effects of the drought (especially the rebuilding of grain reserves), while requiring additional measures to prevent a sustained deviation of revenue from the original program and keeping expenditures to a manageable level. With the authorities' strong commitment, revenue could return to the program path earlier than 2007/08, but the program remains prudent in not building in a faster recovery at this stage. Nevertheless, the risks to the program from revenue underperformance remain. These risks are mitigated by the fact that the last two disbursements from augmentation totaling 15 percent of quota are conditional on Niger's satisfactory performance under the program, including meeting the additional structural performance criteria related to revenue enhancement and completing the second and third reviews.

27. **In light of the above considerations,** the staff recommends Board approval of the authorities' request for waivers, modifications to the program, completion of the review, and augmentation of access under the PRGF arrangement.



Table 1: Niger: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2005-08

Amount	Available date	Conditions Necessary for disbursement 1/
SDR 0.940	January 31, 2005	Executive Board approval of the three-year PRGF Arrangement
SDR 10.810	November 15, 2005	Observance of the performance criteria for June 30, 2005, and completion of the first review under the arrangement
SDR 5.875	January 15, 2006	Observance of the performance criteria for December 31, 2005, and completion of the second review under the 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

1/ In addition to the generally applicable conditions under the Poverty Reduction and Growth Facility arrangement

Table 2. Niger: Selected Economic and Financial Indicators, 2003-2008

	2003	2004	2005		2006		2007		2008
		Est.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Proj.
(Annual percentage change, unless otherwise indicated)									
National income and prices									
GDP at constant prices	5.3	0.0	4.2	4.5	4.2	4.2	4.3	4.3	4.4
GDP deflator	-0.4	1.6	2.5	6.6	2.0	2.0	2.0	2.2	2.3
Consumer price index									
Annual average	-1.8	0.4	2.4	7.6	2.0	0.3	2.0	2.0	2.0
End of period	-1.5	3.7	2.0	5.1	2.0	1.1	2.0	2.0	2.0
External sector									
Exports, f.o.b. (Units, CFA francs)	-0.1	6.7	12.1	10.7	2.1	5.4	6.1	8.0	4.3
Imports, f.o.b. (Units, CFA francs)	5.3	8.3	10.3	20.8	3.9	3.6	3.8	-2.1	4.0
Export volume	0.4	1.6	10.2	7.3	1.6	2.8	4.1	5.9	1.8
Import volume	-1.8	4.8	3.8	8.6	2.5	-0.2	3.0	-3.2	2.7
Terms of trade (deterioration -)	-6.3	-0.4	-2.1	-7.2	0.2	-1.2	-0.1	0.8	1.2
Nominal effective exchange rate (depreciation -)	2.5	0.9	...	...	...	...	...	...	...
Real effective exchange rate (depreciation -)	-0.8	2.4	...	...	...	...	...	...	...
Government finances									
Total revenue	-2.6	10.9	12.9	7.5	11.0	10.0	10.9	14.5	12.6
Total expenditure and net lending 1/	-1.0	15.3	10.5	10.7	7.7	10.7	5.4	-3.3	6.7
<i>Of which:</i> current expenditure	-1.2	8.0	8.6	2.2	7.5	8.6	3.0	6.2	6.7
capital expenditure	-0.9	24.7	13.3	21.7	8.1	12.8	8.0	-12.5	6.7
Money and credit									
Domestic credit 2/	7.9	24.1	4.7	5.7	...	...	...	...	...
Credit to the government (net) 2/	2.6	14.8	0.8	1.4	...	...	...	...	...
Credit to the economy 2/	5.3	9.3	3.8	4.3	...	...	...	...	...
Net domestic assets 2/	4.5	22.3	-4.7	7.9	...	...	...	...	...
Money and quasi money	42.2	20.3	10.6	9.9	...	...	...	...	...
Interest rate (money market, in percent, end of period)	5.0	...	...	...	...	...	...	...	...
(In percent of GDP, unless otherwise indicated)									
Government finances									
Total revenue	9.9	10.8	11.1	10.4	11.6	10.8	12.1	11.6	12.2
Total expenditure and net lending	17.3	19.7	18.8	19.6	19.1	20.4	18.9	18.5	18.5
<i>Of which:</i> current expenditure	10.1	10.7	9.9	9.8	10.0	10.0	9.6	10.0	10.0
capital expenditure	7.3	8.9	9.0	9.8	9.1	10.4	9.2	8.5	8.5
Primary budget balance 3/	-6.4	-8.4	-7.1	-8.6	-6.8	-9.0	-6.2	-6.3	-5.6
Basic balance (excluding grants) 4/	-2.0	-2.1	-0.8	-2.6	-0.2	-1.5	0.2	-0.2	0.0
Overall balance (commitment basis, excluding grants) 5/	-7.5	-8.9	-7.7	-9.2	-7.4	-9.6	-6.7	-6.9	-6.3
Overall balance (commitment basis, including grants) 5/	-2.7	-3.4	-4.3	-4.3	-3.4	-4.9	-2.6	-2.9	-2.9
Gross investment	14.2	15.8	16.7	16.8	17.1	17.9	17.4	16.2	17.0
Gross national savings	8.2	9.3	9.5	10.0	10.2	8.3	11.1	9.5	10.9
External current account balance									
Excluding grants for budgetary assistance	-7.6	-8.1	-7.2	-8.5	-6.9	-9.7	-6.3	-6.7	-6.1
Including grants for budgetary assistance	-6.0	-6.5	-7.2	-6.8	-6.9	-9.7	-6.3	-6.7	-6.1
External public debt (end of period) 6/	62.7	62.5	63.0	59.4	62.8	64.9	61.9	64.3	62.9
Debt-service ratio in percent of									
Exports of goods and services 7/	24.2	14.1	9.1	9.3	9.9	10.4	10.2	10.6	12.2
Government revenue 7/	38.4	21.2	15.1	14.5	15.1	15.2	14.7	14.9	16.0
(In billions of CFA francs)									
GDP at current market prices	1,587.5	1,612.8	1,738.6	1,796.1	1,848.1	1,908.5	1,965.6	2,034.1	2,172.3
Government payments arrears (reduction -)	-12.2	-19.3	-18.4	-10.1	-15.0	-5.6	-10.0	-14.0	-11.0
Domestic	-12.2	-19.3	-18.4	-10.1	-15.0	-5.6	-10.0	-14.0	-11.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance of payments	-42.6	-20.5	-43.0	-12.2	-29.8	-60.6	-27.7	-40.0	-31.7

Sources: Nigerien authorities; and IMF staff estimates and projections.

1/ Commitment basis as per payment orders issued.

2/ In percent of beginning-of-period money stock.

3/ Total revenue, excluding grants, minus expenditure, excluding interest payments.

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

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

for budgetary assistance.

6/ Including obligations to the IMF.

7/ After HIPC debt relief.

Table 3. Niger: Financial Operations of the Government, Quarterly (Cumulative) Program 2005  
(In billions of CFA francs)

	March		June		September		December	
	Program	Est.	Program	Est.	Program	Rev. prog.	Program	Rev. prog.
Total revenue	45.8	41.5	93.7	87.0	142.1	136.5	193.8	186.9
Tax revenue	44.1	39.3	90.4	84.0	136.2	130.3	184.4	177.5
International trade	22.7	19.0	46.8	40.7	69.6	65.9	93.1	87.9
Goods and services	12.1	9.7	24.3	23.2	36.7	34.3	49.8	47.4
Income	6.8	8.0	13.9	14.9	21.3	22.5	29.1	30.3
Other	2.6	2.6	5.5	5.2	8.6	7.6	12.4	11.9
Nontax revenue	0.8	0.6	1.4	1.4	2.5	2.1	4.4	4.0
Special accounts revenue	0.9	1.6	1.8	1.6	3.4	4.1	5.1	5.4
Settlement of reciprocal debts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	73.4	58.7	155.8	146.3	241.9	259.8	327.1	351.6
Total current expenditure	37.9	37.7	81.7	85.4	126.3	134.1	171.3	176.5
Budgetary expenditure	36.2	36.3	78.0	80.8	120.4	128.0	163.3	168.5
Wages and salaries	15.7	15.1	31.5	31.2	47.3	47.3	63.1	63.1
Materials and supplies	8.3	5.5	20.4	19.6	32.6	30.1	45.4	38.4
Subsidies and transfers	9.6	4.0	21.0	13.0	32.9	29.2	41.6	44.5
Road fund	1.0	0.0	2.1	1.3	3.2	2.7	4.3	5.0
Social measures	1.9	0.1	3.6	1.5	5.5	13.3	7.2	20.5
of which: food crisis	0.0	0.0	0.0	1.3	0.0	2.3	0.0	3.6
Integration - ex-Rebellion	0.4	0.5	0.8	1.1	1.2	1.1	1.6	1.6
New Education Program	1.4	1.0	2.8	4.3	4.3	5.0	5.7	5.7
<i>Of which: salaries</i>	1.4	1.0	2.8	4.3	4.3	5.0	5.7	5.7
Scholarships	0.3	0.0	0.9	0.5	1.5	1.1	2.0	2.0
Petroleum	0.0	0.0	0.0	0.3	0.1	0.3	0.3	0.3
Public health institutions	1.3	1.1	2.7	2.1	4.0	3.2	5.4	5.4
Subsidy on electricity tariff	0.7	0.4	1.0	0.5	1.6	0.6	2.0	2.0
Other	2.7	0.9	5.1	1.4	6.4	1.9	13.1	2.0
Francophonie Games	1.0	8.6	1.5	8.9	2.0	10.0	3.0	12.0
Interest, scheduled	2.6	3.1	5.1	4.6	7.6	7.9	10.2	10.5
External debt	2.0	3.0	4.0	4.0	6.0	6.0	8.0	8.0
Domestic debt	0.5	0.1	1.0	0.6	1.6	1.9	2.2	2.5
Adjustments	0.0	0.0	0.0	3.5	0.0	3.5	0.0	0.0
Special accounts expenditure	1.7	1.4	3.7	4.6	5.9	6.1	8.0	8.0
Capital expenditure and net lending	35.4	21.0	74.1	60.9	115.6	125.7	155.8	175.1
Capital expenditure	35.4	21.2	74.1	61.1	115.6	125.9	155.8	175.3
On budgetary resources	7.7	3.9	17.8	16.9	28.3	38.7	37.2	56.7
Tax component	3.9	3.7	8.3	11.9	13.0	15.1	17.7	17.7
Counterpart funds	0.5	0.1	1.1	1.5	1.7	1.5	2.3	2.3
Equity investment	0.4	0.0	0.8	0.1	0.8	0.2	0.8	0.8
Food reserves	0.0	0.0	0.0	0.0	0.0	9.0	0.0	18.0
Francophonie Games	0.0	0.0	0.0	0.0	0.0	3.9	0.0	4.9
Government projects	2.9	0.1	7.6	3.4	12.9	9.0	16.4	13.0
On grants	9.3	8.0	18.9	19.0	30.1	30.1	42.3	42.3
On loans	9.7	7.0	19.7	20.8	30.4	30.4	40.5	40.5
On HIPC Initiative resources	8.7	2.3	17.7	4.4	26.7	26.7	35.8	35.8
Net lending	0.0	-0.2	0.0	-0.2	0.0	-0.2	0.0	-0.2
Overall balance (commitment)	-27.5	-17.2	-62.1	-59.3	-99.8	-123.3	-133.3	-164.7

Table 3. Niger: Financial Operations of the Government, Quarterly (Cumulative) Program 2005 (concluded)  
(In billions of CFA francs)

	March		June		September		December	
	Program	Est.	Program	Est.	Program	Rev. prog.	Program	Rev. prog.
Basic balance	0.2	0.1	-5.8	-15.1	-12.6	-36.1	-14.7	-46.1
Change in payments arrears	-4.2	1.2	-8.4	2.3	-13.4	-5.1	-18.4	-10.1
Domestic arrears	-4.2	1.2	-8.4	2.3	-13.4	-5.1	-18.4	-10.1
External arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash)	31.7	-16.0	-70.5	-57.0	-113.2	-128.4	-151.6	-174.8
Financing	31.8	16.0	70.5	57.0	113.2	128.4	151.7	174.8
External financing	21.0	16.7	42.5	45.4	65.6	109.6	88.4	133.6
Grants	13.3	15.5	27.0	32.7	42.4	72.8	58.0	88.4
Budget financing	0.0	2.0	0.0	4.3	0.0	30.4	0.0	30.4
Project financing	9.3	8.0	18.9	19.0	30.1	30.1	42.3	42.3
HIPC Initiative assistance	4.0	5.5	8.1	9.4	12.3	12.3	15.7	15.7
Loans	9.7	7.0	19.7	20.8	30.4	45.2	40.5	55.3
Budget financing	0.0	0.0	0.0	0.0	0.0	14.8	0.0	14.8
Project financing	9.7	7.0	19.7	20.8	30.4	30.4	40.5	40.5
Amortization	-2.4	-7.1	-4.9	-9.4	-8.3	-9.7	-11.6	-11.6
Debt relief	0.3	1.3	0.7	1.3	1.0	1.3	1.5	1.5
Current debt	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC Initiative assistance	0.3	0.0	0.7	0.0	1.0	0.0	1.4	0.0
Debt under discussion	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	5.3	-0.7	12.6	11.6	13.4	13.7	3.2	18.5
Banking sector	4.8	2.5	11.6	2.1	11.9	4.2	1.2	3.2
Nonbanking sector	0.5	-3.2	1.0	9.5	1.5	9.5	2.0	15.3
Privatization receipts	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2
Privatization expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	5.5	0.0	15.4	0.0	34.2	5.1	60.1	22.7
Memorandum Item:								
Financing received/assurances	5.5	2.0	15.4	4.3	34.2	45.2	60.1	60.9
France	4.6	2.0	4.6	4.3	6.6	4.3	6.6	7.3
World Bank	0.0	0.0	10.0	0.0	10.0	20.0	20.0	20.0
African Development Bank	0.0	0.0	0.0	0.0	3.5	0.0	3.5	6.4
European Union	0.0	0.0	0.0	0.0	12.5	20.9	25.0	20.9
Others	0.9	0.0	0.8	0.0	1.6	0.0	5.0	6.3
Residual gap	0.0	0.0	0.0	0.0	0.0	5.1	0.0	7.0

Sources: Nigerien authorities; and IMF staff estimates and projections.

Table 4. Niger: Financial Operations of the Central Government, 2004-08

(In billions of CFA francs)

	2004	2005		2006		2007	2008
	Est.	Prog.	Rev. prog.	Prog.	Rev. prog.	Projections	
Total revenue	173.8	193.8	186.9	215.2	205.6	235.3	265.0
Tax revenue	167.6	184.4	177.5	203.9	196.6	223.4	249.8
Nontax revenue	1.4	4.4	4.0	5.6	5.7	6.0	8.4
Settlement of reciprocal debts 1/	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Annexed budgets/special accounts	3.9	5.1	5.4	5.7	3.3	6.0	6.8
Total expenditure and net lending	317.6	327.0	351.6	352.3	389.3	376.5	401.8
Total current expenditure	172.7	171.3	176.5	184.1	203.0	203.5	217.2
Budgetary expenditure	155.8	163.3	168.5	176.0	195.5	197.1	210.5
Wages and salaries	59.2	63.1	63.1	65.0	69.3	71.4	73.5
Goods and services	50.3	45.4	38.4	52.0	55.0	62.5	67.9
Of which: HIPC Initiative resources 2/	0.0	1.9	1.9	2.2	2.0	2.2	6.0
Subsidies and transfers	38.2	41.6	44.5	48.1	59.2	49.4	53.8
Of which: HIPC Initiative resources 2/	3.5	3.2	3.2	3.0	13.7	3.0	3.0
food crisis	0.0	0.0	3.6	0.0	0.0	0.0	0.0
Francophonie Games	0.0	3.0	12.0	0.0	0.0	0.0	0.0
Interest, scheduled	8.1	10.2	10.5	10.9	12.0	13.9	15.2
External debt	8.0	8.0	8.0	8.5	7.3	8.9	10.0
Domestic debt	0.1	2.2	2.5	2.4	4.7	5.0	5.2
Annexed budget/special accounts	16.9	8.0	8.0	8.1	7.5	6.4	6.7
Capital expenditure and net lending	144.9	155.7	175.1	168.2	211.1	173.0	184.6
Capital expenditure	144.0	155.7	175.3	168.2	211.1	173.0	184.6
Domestically financed	34.0	37.2	56.7	34.7	56.3	35.0	48.8
Of which: food reserves	0.0	0.0	18.0	0.0	5.0	0.0	0.0
Francophonie Games	0.0	0.0	4.9	0.0	0.0	0.0	0.0
Externally financed	110.0	118.5	118.6	133.5	154.8	138.0	135.8
Of which: HIPC Initiative resources	17.0	35.8	35.8	36.0	24.6	36.1	17.0
Contingent expenditure 3/	0.0	0.0	0.0	0.0	-24.8	0.0	0.0
Overall balance (commitment basis excl. grants )	-143.8	-133.2	-164.7	-137.1	-183.6	-141.1	-136.8
Basic fiscal balance 4/ 5/	-33.8	-14.7	-46.1	-3.6	-28.8	-3.2	-1.0
Change in payments arrears	-19.3	-18.4	-10.1	-15.0	-5.6	-14.0	-11.0
Domestic arrears (net)	-19.3	-18.4	-10.1	-15.0	-5.6	-14.0	-11.0
External arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash, excl. grants)	-163.1	-151.6	-174.8	-152.1	-189.2	-155.1	-147.8
Financing	163.1	151.6	174.8	152.1	189.2	155.1	147.8
External financing	138.6	88.3	133.6	101.7	135.1	104.4	116.0
Grants	89.2	57.8	88.4	74.8	90.6	82.2	72.7
Budget financing	26.5	0.0	30.4	0.0	0.0	0.0	0.0
Project financing	46.5	42.1	42.3	58.5	74.2	66.4	57.7
HIPC Initiative assistance 2/	16.2	15.7	15.7	16.3	16.4	15.8	15.0
Loans	64.1	40.5	55.3	39.0	56.0	35.5	61.1
Budget financing	17.6	0.0	14.8	0.0	0.0	0.0	0.0
Project financing	46.5	40.5	40.5	39.0	56.0	35.5	61.1
Amortization 6/	-22.4	-11.6	-11.6	-13.6	-15.8	-15.2	-24.0
Debt relief obtained	1.0	1.5	0.0	1.5	1.5	1.9	6.2
Current debt	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC Initiative assistance 2/	0.6	1.5	1.5	1.5	1.5	1.9	6.2
Debt under discussion	6.7	0.0	0.0	0.0	2.8	0.0	0.0
Domestic financing	24.5	3.2	18.5	2.7	-20.1	-5.3	-11.9
Banking sector	28.7	1.2	3.2	0.7	-2.9	-5.3	-11.9
Nonbanking sector	-4.2	2.0	15.3	2.0	-17.2	0.0	0.0
Privatization receipts (net)	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Financing gap (+)	0.0	60.1	22.7	47.7	74.2	56.0	43.7
Financing assurances	...	...	15.7	...	67.0	...	...
Residual financing gap	...	...	7.0	...	7.2	...	...

Sources: Nigerien authorities; and IMF staff estimates and projections.

1/ Revenue from the settlement of reciprocal liabilities such as tax arrears between the government and enterprises.

2/ Heavily Indebted Poor Countries Initiative.

3/ These will be implemented if additional donor support is obtained in 2006.

4/ In 2006, the basic fiscal balance will rise to CFAF 53.4 billion if additional donor support is mobilized and contingent outlays are effected.

5/ Total revenue, excluding grants, minus total expenditure, and excluding foreign-financed investment projects.

6/ Includes HIPC Initiative assistance granted on a stock of debt operation.

Table 5. Niger: Financial Operations of the Central Government, 2004-08

(In percent of GDP)

	2004	2005		2006		2007	2008
	Est	Prog.	Rev Prog.	Prog.	Rev Prog.	Projections	
Total revenue	10.8	11.1	10.4	11.6	10.8	11.6	12.2
Tax revenue	10.4	10.6	9.9	11.0	10.3	11.0	11.5
Nontax revenue	0.1	0.3	0.2	0.3	0.3	0.3	0.4
Settlement of reciprocal debts 1/	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Annexed budgets/special accounts	0.2	0.3	0.3	0.3	0.2	0.3	0.3
Total expenditure and net lending	19.7	18.8	19.6	19.1	20.4	18.5	18.5
Total current expenditure	10.7	9.9	9.8	10.0	10.6	10.0	10.0
Budgetary expenditure	9.7	9.4	9.4	9.5	10.2	9.7	9.7
Wages and salaries	3.7	3.6	3.5	3.5	3.6	3.5	3.4
Goods and services	3.1	2.6	2.1	2.8	2.9	3.1	3.1
Of which: HIPC Initiative resources 2/	0.0	0.1	0.1	0.1	0.1	0.1	0.3
Subsidies and transfers	2.4	2.4	2.5	2.6	3.1	2.4	2.5
Of which: HIPC Initiative resources 2/	0.2	0.2	0.2	0.2	0.7	0.1	0.1
food crisis	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Francophonie Games	0.0	0.2	0.7	0.0	0.0	0.0	0.0
Interest, scheduled	0.5	0.6	0.6	0.6	0.6	0.7	0.7
External debt	0.5	0.5	0.4	0.5	0.4	0.4	0.5
Domestic debt	0.0	0.1	0.1	0.1	0.2	0.2	0.2
Annexed budget/special accounts	1.0	0.5	0.4	0.4	0.4	0.3	0.3
Capital expenditure and net lending	9.0	9.0	9.7	9.1	11.1	8.5	8.5
Capital expenditure	8.9	9.0	9.8	9.1	11.1	8.5	8.5
Domestically financed	2.1	2.1	3.2	1.9	2.9	1.7	2.2
Of which: food reserves	0.0	0.0	1.0	0.0	0.3	0.0	0.0
Francophonie Games	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Externally financed	6.8	6.8	6.6	7.2	8.1	6.8	6.3
Of which: HIPC Initiative resources	1.1	2.1	2.0	1.9	1.3	1.8	0.8
Contingent expenditure 3/	0.0	0.0	0.0	0.0	-1.3	0.0	0.0
Overall balance (commitment basis excl. grants )	-8.9	-7.7	-9.2	-7.4	-9.6	-6.9	-6.3
Basic fiscal balance 4/ 5/	-2.1	-0.8	-2.6	-0.2	-1.5	-0.2	0.0
Change in payments arrears	-1.2	-1.1	-0.6	-0.8	-0.3	-0.7	-0.5
Domestic arrears (net)	-1.2	-1.1	-0.6	-0.8	-0.3	-0.7	-0.5
External arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash, excl. grants)	-10.1	-8.7	-9.7	-8.2	-9.9	-7.6	-6.8
Financing	10.1	8.7	9.7	8.2	9.9	7.6	6.8
External financing	8.6	5.1	7.4	5.5	7.1	5.1	5.3
Grants	5.5	3.3	4.9	4.0	4.7	4.0	3.3
Budget financing	1.6	0.0	1.7	0.0	0.0	0.0	0.0
Project financing	2.9	2.4	2.4	3.2	3.9	3.3	2.7
HIPC Initiative assistance 2/	1.0	0.9	0.9	0.9	0.9	0.8	0.7
Loans	4.0	2.3	3.1	2.1	2.9	1.7	2.8
Budget financing	1.1	0.0	0.8	0.0	0.0	0.0	0.0
Project financing	2.9	2.3	2.3	2.1	2.9	1.7	2.8
Amortization 6/	-1.4	-0.7	-0.6	-0.7	-0.8	-0.7	-1.1
Debt relief obtained	0.1	0.1	0.1	0.1	0.1	0.1	0.3
Current debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC Initiative assistance 2/	0.0	0.1	0.1	0.1	0.1	0.1	0.3
Debt under discussion	0.4	0.0	0.0	0.0	0.1	0.0	0.0
Domestic financing	1.5	0.2	1.0	0.1	-1.1	-0.3	-0.5
Banking sector	1.8	0.1	0.2	0.0	-0.2	-0.3	-0.5
Nonbanking sector	-0.3	0.1	0.9	0.1	-0.9	0.0	0.0
Privatization receipts (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap (+)	0.0	3.5	1.3	2.6	3.9	2.8	2.0
Financing assurances	...	...	0.9	...	3.5	...	...
Residual financing gap	...	...	0.4	...	0.4	...	...

Sources: Nigerien authorities; and IMF staff estimates and projections.

1/ Revenue from the settlement of reciprocal liabilities such as tax arrears between the government and enterprises.

2/ Heavily Indebted Poor Countries Initiative.

3/ These will be implemented if additional donor support is obtained in 2006.

4/ In 2006, the basic fiscal balance will rise to CFAF 53.4 billion if additional donor support is mobilized and contingent outlays are effected.

5/ Total revenue, excluding grants, minus total expenditure, and excluding foreign-financed investment projects.

6/ Includes HIPC Initiative assistance granted on a stock of debt operation.

Table 6. Niger: Balance of Payments, 2002 - 08  
(In billions of CFA francs, unless otherwise indicated)

	2002	2003	2004	2005		2006	2007	2008
			Est.	Prog.	Rev. Prog.		Projections	
<b>Current account balance</b>								
Incl. grants for budgetary assistance	-98.9	-95.1	-104.7	-124.3	-122.0	-184.3	-136.0	-132.8
Excl. grants for budgetary assistance	-117.5	-120.2	-131.2	-124.3	-152.4	-184.3	-136.0	-132.8
<b>Balance on goods</b>	-63.8	-77.5	-87.0	-80.4	-126.2	-126.5	-99.3	-102.5
Exports, f.o.b	194.8	194.7	207.8	242.0	230.0	242.4	261.7	273.0
Uranium	62.5	65.5	65.5	65.3	67.2	67.2	70.9	70.9
Cattle	38.9	29.3	30.2	29.3	30.2	30.6	34.4	39.1
Cowpeas	7.6	9.7	10.7	12.9	7.4	10.4	12.0	12.8
Onions	13.8	13.9	14.6	18.7	14.3	16.3	18.0	19.3
Gold	0.0	0.0	11.1	28.3	32.9	34.7	36.4	38.2
Other exports	72.2	76.3	75.6	87.5	78.0	83.2	90.0	92.7
<i>Of which: reexports</i>	24.0	24.2	26.3	27.3	27.3	28.4	29.6	31.3
Imports, f.o.b	258.7	272.3	294.8	322.4	356.2	368.9	361.0	375.5
Food products	83.0	78.0	87.5	87.4	114.0	94.4	91.0	91.5
Petroleum products	28.4	37.4	43.5	49.0	55.8	64.7	65.4	69.3
Intermediate goods	14.4	17.3	17.8	19.3	20.2	24.0	24.8	27.2
Capital goods	64.9	72.8	70.5	85.3	83.6	94.8	96.2	100.5
Other products 1/	68.0	66.9	75.6	81.4	82.5	91.0	83.7	87.0
<b>Services and income (net)</b>	-87.7	-84.4	-84.0	-91.9	-93.4	-98.6	-79.4	-83.2
Services (net)	-70.9	-76.5	-76.8	-87.1	-89.0	-97.1	-79.6	-84.4
Income (net)	-16.8	-7.9	-7.2	-4.8	-4.5	-1.5	0.2	1.2
<i>Of which: interest on external public debt</i>	-21.2	-16.1	-8.0	-8.0	-8.0	-7.3	-8.9	-10.0
<b>Unrequited current transfers (net)</b>	52.6	66.8	66.3	48.0	97.6	40.7	42.7	52.8
Private (net)	8.6	15.0	15.0	17.3	22.5	16.2	17.2	20.8
Public (net)	43.9	51.8	51.3	30.7	75.1	24.5	25.5	32.0
<i>Of which: grants for budgetary assistance 2/</i>	18.6	25.1	26.5	0.0	30.4	0.0	0.0	0.0
HIPC Initiative assistance 3/	10.3	11.5	16.2	15.7	15.7	16.4	15.8	15.0
<b>Capital and financial account</b>	56.0	52.5	84.2	81.4	109.8	123.8	96.0	101.2
<b>Capital account</b>	53.8	42.9	50.2	46.0	46.2	78.9	70.0	59.3
Private capital transfers	8.0	3.5	3.7	3.9	3.9	4.7	3.6	1.6
Project grants	45.8	39.4	46.5	42.1	42.3	74.2	66.4	57.7
Debt cancellation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition/disposal of nonproduced, nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financial account</b>	2.2	9.6	34.0	35.3	63.6	44.9	26.0	41.9
Direct investment	2.9	13.0	8.1	3.9	3.9	8.0	6.5	9.9
Portfolio investment	1.0	1.0	1.5	2.5	17.5	1.0	1.1	1.1
Other investment	19.9	21.5	34.6	28.9	42.2	35.9	18.4	30.9
Public sector (net)	31.8	29.8	41.7	28.9	43.7	40.2	20.3	37.1
Disbursements	78.0	68.4	64.1	40.5	55.3	56.0	35.5	61.1
Loans for budgetary assistance 4/	44.2	32.8	17.6	0.0	14.8	0.0	0.0	0.0
Project loans	33.8	35.6	46.5	40.5	40.5	56.0	35.5	61.1
Amortization 5/	46.2	38.6	22.4	11.6	11.6	15.8	15.2	24.0
Other (net)	-11.9	-8.3	-7.1	0.0	-1.5	-4.3	-1.9	-6.2
of which: commercial banks' net foreign assets	-0.8	6.4	-11.2	-5.4	7.5	-5.7	-5.9	-6.2
HIPC assistance 6/	0.0	3.7	0.6	1.5	0.0	1.5	1.9	6.2
Errors and omissions	-21.6	-25.9	-10.2	0.0	0.0	0.0	0.0	0.0
<b>Overall balance</b>	-43.0	-42.6	-20.5	-43.0	-12.2	-60.6	-40.0	-31.7

Table 6. Niger: Balance of Payments, 2002-08 (concluded)  
(In billions of CFA francs, unless otherwise indicated)

	2002	2003	2004	2005		2006	2007	2008
			Est.	Prog.	Rev. Prog.		Projections	
Financing	43.0	-33.2	22.3	43.0	12.2	60.6	40.0	31.7
Net foreign assets (Central Bank of West African States)	9.5	-57.9	15.2	-17.1	-12.0	-17.9	-17.9	-18.2
<i>Of which</i> : Net use of IMF resources	12.4	8.2	0.6	-7.5	-6.0	-6.6	-7.1	-7.7
Purchases	15.2	13.7	7.0	0.0	1.5	1.5	1.5	0.7
Repurchases	-2.6	-5.5	-6.4	-7.5	-7.5	-8.1	-8.5	-8.4
Rescheduling obtained 7/	33.5	24.7	7.1	0.0	1.5	4.3	1.9	6.2
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	60.1	22.7	74.2	56.0	43.7
Financing assurances	0.0	0.0	0.0	0.0	15.7	67.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	60.1	7.0	7.2	56.0	43.7
Memorandum items:								
Balance on goods and services	-134.7	-154.0	-163.8	-167.5	-215.1	-223.6	-178.9	-186.9
Total HIPC Initiative assistance	10.3	18.4	30.3	40.9	39.4	41.3	41.3	26.0
of which: stock-of-debt operation 8/	...	3.2	13.5	23.7	23.7	19.8	23.6	4.8
External current account balance (in percent of GDP)								
Including grants for budg. assistance	-6.5	-6.0	-6.5	-7.2	-6.8	-9.7	-6.7	-6.1
Excluding grants for budget. assistance	-7.8	-7.6	-8.1	-7.2	-8.5	-9.7	-6.7	-6.1
GDP	1513	1587	1613	1739	1796	1909	2034	2172
Exchange rate (CFA francs per U.S. dollar, annual average)	695	581	518.0	...	...	...	...	...

Sources: Nigerien authorities; and staff estimates and projections.

1/ Includes purchases of goods in ports and airports by carriers, in line with the 5th edition of the balance of payments manual.

2/ In 2002, a grant of CFAF 8.9 billion was provided by the European Commission (EC) for the settlement of external payments arrears to the European Investment Bank and the EC.

3/ Heavily Indebted Poor Countries Initiative.

4/ In 2002, two loans of CFAF 9.4 billion and CFAF 13.7 billion were disbursed by the Organization of Petroleum Exporting Countries (OPEC) Fund for (i) the settlement of Niger's external payments arrears at end 1999 vis-à-vis the OPEC Fund; and (ii) the OPEC Fund's contribution to the HIPC Initiative.

5/ In 2002, includes payment of end-1999 external payments arrears, whose settlements were agreed with the OPEC Fund, Libya, the Saudi Fund for Development and a commercial bank.

6/ Includes in the 2002 program assistance from IDA and the African Development Bank that are now classified as grants.

7/ Includes debt under discussion of CFAF 14.7 billion in 2002, CFAF 8.1 billion in 2003, and CFAF 2.8 billion in 2006.

8/ Includes assistance from the Islamic Development Bank, the OPEC Fund, the West African Economic and Monetary Union (WAEMU), the Arab Bank for Development (BADEA) and the Kuwait Fund for Arab Economic Development.



Table 7 . Niger: Projected Payments to the IMF, 2004-14  
(In millions of SDRs, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Disbursement	8.4	11.8	11.8	1.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Obligations on existing outstanding disbursements											
Poverty Reduction and Growth Facility (PRGF) repayments	4.5	2.5	2.7	4.4	8.0	11.0	11.9	10.3	7.8	4.1	1.0
Before HIPC	9.7	9.7	10.4	11.0	10.9	11.0	11.9	10.3	7.8	4.1	1.0
HIPC Initiative assistance 1/	5.2	7.2	7.7	6.6	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest 2/	0.6	0.6	0.6	0.6	0.5	0.5	0.4	0.3	0.3	0.3	0.3
Total outstanding obligations	5.1	3.1	3.3	5.0	8.5	11.5	12.3	10.7	8.1	4.4	1.3
As a percent of quota	7.7	4.7	5.1	7.5	12.9	17.4	18.7	16.2	12.3	6.6	1.9
Obligations from prospective disbursements 3/											
Principal PRGF loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.8	4.6	5.0	5.0
Interest and charges (PRGF interest)	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Total prospective obligations	0.0	0.0	0.2	0.2	0.2	0.2	0.2	2.9	4.8	5.1	5.1
As a percent of quota	0.0	0.0	0.2	0.3	0.3	0.3	0.3	4.5	7.2	7.8	7.8
Total outstanding and prospective obligations											
Total principal	4.5	2.5	2.7	4.4	8.0	11.0	11.9	13.1	12.4	9.1	6.0
Total charges and interest (PRGF int. and SDR chg.)	0.6	0.6	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.4	0.4
Total outstanding and prospective obligations	5.1	3.1	3.5	5.1	8.7	11.6	12.5	13.6	12.9	9.5	6.4
As a percent of quota	7.7	4.7	5.3	7.8	13.1	17.7	19.0	20.7	19.5	14.4	9.7
Outstanding Fund credit	87.2	89.3	90.7	81.6	71.6	60.6	48.7	35.6	23.2	14.2	8.1
As a percent of:											
Exports of goods and services	25.8	24.0	22.9	19.3	16.1	13.1	10.0	6.9	4.3	2.5	1.3
Gross official reserves	54.1	53.0	47.3	39.7	32.7	26.2	19.9	13.3	8.0	4.5	2.4
GDP	4.2	3.9	3.7	3.1	2.6	2.0	1.5	1.0	0.6	0.4	0.2
Quota	132.5	135.7	137.8	123.9	108.9	92.2	74.0	54.1	35.3	21.5	12.3

Source: Nigerien authorities; and IMF staff estimates and projections as of October 5, 2005.

1/ Heavily Indebted Poor Countries Initiative.

2/ Projections are based on current PRGF and SDR interest rates.

3/ Assumes disbursement of the remaining balance of the current PRGF arrangement (SDR 5.64 million), and augmentation of access of SDR 19.74 million (30 percent of quota) to be disbursed in three installments.

Table 8. Niger: Monetary Survey, 2002-05 1/

	2002 Dec.	2003 Dec.	2004 Dec.	2005	
				Dec. Prog.	Dec. Proj.
Net foreign assets	24.4	75.8	71.9	37.8	76.4
Central Bank of West African States (BCEAO)	10.2	68.1	52.9	19.5	64.9
Commercial banks	14.2	7.7	18.9	18.3	11.4
Net domestic assets	112.0	118.2	161.5	125.1	180.0
Domestic credit	128.9	139.7	186.4	154.3	199.6
Net bank claims on government	53.1	56.6	85.3	62.7	88.5
BCEAO 2/	54.5	56.2	85.6	60.5	86.8
<i>Of which</i> : statutory advances	33.1	33.1	33.1	25.1	33.1
Commercial banks	-3.1	-2.0	-3.5	-5.4	-1.5
Other	1.7	2.4	3.2	7.6	3.2
Credit to the economy	75.8	83.0	101.1	91.6	111.2
Other items, net	-16.9	-21.5	-24.9	-29.2	-19.6
<i>Of which</i> : revaluation account	-8.0	0.0	0.0	0.0	0.0
Money and quasi money	136.4	194.0	233.3	162.9	256.4
Currency outside banks	39.3	84.9	97.7	42.4	108.8
Private deposits with ONPE (postal savings institution)	1.7	2.4	3.2	7.6	3.2
Deposits with banks	95.4	106.6	132.5	112.9	144.4
Private sector	92.6	104.0	127.1	110.1	139.1
Public institutions	2.8	2.6	5.3	2.8	5.3
Financial institutions	0.0	0.0	0.0	0.0	0.0
(Annual change, in percent of beginning-of-period broad money, unless otherwise indicated)					
Net foreign assets	-6.3	37.7	-2.0	15.3	1.9
BCEAO	-6.9	42.4	-7.8	11.6	5.1
Commercial banks	0.6	-4.7	5.8	3.7	-3.2
Net domestic assets	5.9	4.5	22.3	-4.7	7.9
Domestic credit	10.9	7.9	24.1	4.7	5.7
Net bank claims on the government	3.7	2.6	14.8	0.8	1.4
BCEAO	5.0	1.3	15.2	1.5	0.5
<i>Of which</i> : statutory advances	0.7	0.0	0.0	0.0	0.0
Commercial banks	-1.3	0.8	-0.8	-0.7	0.9
Other	0.1	0.5	0.4	0.0	0.0
Credit to the economy	7.1	5.3	9.3	3.8	4.3
Other items, net	-4.9	-3.4	-1.8	-9.3	2.2
Money and quasi money	-0.4	42.2	20.3	10.6	9.9
Memorandum items:					
Velocity of circulation of money (GDP/broad money)	11.1	8.2	6.9	10.7	7.0
Credit to the economy (Change from beginning of year, in percent)	14.8	9.5	21.7	6.6	10.0

Sources: BCEAO; and IMF staff estimates and projections.

1/ The BCEAO revised member countries' currency in circulation and net foreign assets taking into account updated figures on currency movement between countries in the WAEMU.

2/ In 2002, bank financing includes the impact of the Organization of Petroleum Exporting Countries (OPEC) Fund financing for the settlement of Heavily Indebted Poor Countries (HIPC) initiative assistance.

Table 9. Niger: Millennium Development Goals

	1995	2000	2003
<b>1 Eradicate extreme poverty and hunger (2015 target = \$1 a day poverty and malnutrition rates)</b>			
Population below \$1 a day (%)	61.4	..	..
Poverty gap at \$1 a day (%)	33.9	..	..
Percentage share of income or consumption held by poorest 20%	2.6	..	..
Prevalence of child malnutrition (% of children under 5)	..	40.1	..
Population below minimum level of dietary energy consumption (%)	43	34	..
<b>2 Achieve universal primary education (2015 target = net enrollment to 100)</b>			
Net primary enrollment ratio (% of relevant age group)	24.5	30.7	38.2
Percentage of cohort reaching grade 5 (%)	72.6	71	..
Youth literacy rate (% ages 15-24)	19.8	19.8	24.5
<b>3 Promote gender equality (2015 target = education ratio to 100)</b>			
Ratio of girls to boys in primary and secondary education (%)	58.4	67.5	69.0
Ratio of young literate females to males (% ages 15-24)	39.7	54.3	..
Share of women employed in the nonagricultural sector (%)	..	..	..
Proportion of seats held by women in national parliament (%)	4.0	1.0	1.0
<b>4 Reduce child mortality (2015 target= reduce 1990 under 5 mortality by two-thirds)</b>			
Under 5 mortality rate (per 1,000)	295.0	270.0	262.0
Infant mortality rate (per 1,000 live births)	176.0	159.0	154.0
Immunization, measles (% of children ages 12-23 months)	19.0	34.0	64.0
<b>5 Improve maternal health (2015 target = reduce 1990 maternal mortality by three-fourths)</b>			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	1,600.00	..
Births attended by skilled health staff (% of total)	..	15.7	..
<b>6 Combat HIV/AIDS, malaria, and other diseases (2015 target = halt, and begin to reverse AIDS, etc.)</b>			
Prevalence of HIV, female (% ages 15-24)	..	1.1	1.2
Contraceptive prevalence rate (% of women ages 15-49)	8.2	14.0	..
Number of children orphaned by HIV/AIDS	..	16,000	24,000
Incidence of tuberculosis (per 100,000 people)	136.8	150.2	157.4
Tuberculosis cases detected under DOTS (%)	13.0	37.5	53.7
<b>7 Ensure environmental sustainability</b>			
Forest area (% of total land area)	..	1.0	..
Nationally protected areas (% of total land area)	7.6	7.7	7.7
GDP per unit of energy use (PPP \$ per kg oil equivalent)	..	..	..
CO2 emissions (metric tons per capita)	0.1	0.1	..
Access to an improved water source (% of population)	..	..	46
Access to improved sanitation (% of population)	..	..	12
Access to secure tenure (% of population)	..	..	..
<b>8 Develop a Global Partnership for Development</b>			
Youth unemployment rate (% of total labor force ages 15-24)	..	..	..
Fixed line and mobile telephones (per 1,000 people)	1.5	2.1	3.3
Personal computers (per 1,000 people)	0.2	0.5	0.6

Source: World Development Indicators database, September 2005

Niger: Relations with the Fund  
(As of September 30, 2005)

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

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>%Quota</b>
Quota	65.80	100.00
Fund holdings of currency	57.20	86.93
Reserve position in Fund	8.60	13.08

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Net cumulative allocation	9.41	100.0
Holdings	0.19	1.99

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>%Quota</b>
Enhanced Structural Adjustment Facility (ESAF) Arrangements	80.43	122.23

**V. Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	01/31/2005	01/30/2008	6.58	0.94
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, without HIPC Assistance (SDR Million; based on existing use of resources and present holdings of SDRs.)**

	Forthcoming				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Principal	1.93	10.39	10.99	10.85	11.00
Charges/interest	<u>0.27</u>	<u>0.61</u>	<u>0.56</u>	<u>0.51</u>	<u>0.45</u>
Total	2.20	11.00	11.55	11.36	11.45

**VII. Projected Payments to Fund, with Board-approved HIPC Assistance (SDR Million; based on existing use of resources and present holdings of SDRs.):**

	Forthcoming				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Principal	0.48	2.71	4.41	7.96	11.00
Charges/interest	<u>0.27</u>	<u>0.61</u>	<u>0.56</u>	<u>0.51</u>	<u>0.45</u>
Total	0.74	3.32	4.97	8.47	11.45

**VIII. Implementation of HIPC Initiative:**

Commitment of HIPC assistance	Enhanced Framework
Decision point date	12/22/00
Assistance committed (NPV terms) <sup>8</sup>	End-1999
Total assistance (US\$ million)	663.10
<i>Of which:</i> Fund assistance (US\$ million)	42.01
(SDR equivalent in millions)	31.22
Completion point date	April 2004
Disbursement of IMF assistance (SDR million)	
Amount disbursed	31.22
Interim assistance	6.68
Completion point balance	24.55
Addition disbursement of interest income	2.74
<b>Total disbursement</b>	<b>33.96</b>

**IX Safeguards Assessments:**

The Central Bank of the West African States (BCEAO) is the regional central bank of the West African states, which includes Niger. An updated safeguards assessment of the BCEAO is currently in progress. The previous assessment had proposed specific remedies to alleviate vulnerabilities identified mainly in the areas of the financial reporting framework and internal control systems. Some of these remedies remain outstanding, and the current assessment will pursue their implementation.

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<sup>8</sup> 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.

- **Financial reporting framework.** The Fund staff recommended that the BCEAO formally adopt International Accounting Standards (IAS) and publish a complete set of financial statements, including detailed explanatory notes. The BCEAO and the Fund staff agreed that the **BCEAO would strive to improve its financial and accounting reporting by aligning its practices with those recommended by the IAS**, as adopted internationally by other central banks.
- **Internal controls system.** The staff noted that the absence of oversight of the bank's governance, financial reporting, and internal control practices by an entity external to the management of the BCEAO represented a significant risk. The BCEAO and the Fund staff agreed that, after seeking the opinion of the external auditor (*commissaire contrôleur*), the BCEAO staff will propose to the BCEAO Board of Directors that it adopt a resolution whereby **the external auditor would be required to apprise the Board of Directors, during its annual review and approval of its financial statements, of the state and quality of internal controls within the bank.**

Based on the 2002 financial statements, the staff noted that the BCEAO has improved the explanatory notes to the financial statements and that further changes were scheduled for the next fiscal year, with a view toward a graduate alignment with IAS accounting to the extent applicable to central banks by 2005. The external auditor has appraised the Board of Directors of the BCEAO of the quality of internal controls in June 2003, and the financial statements for the year 2001 were published on the bank's website. The staff will continue to follow up on the progress of the BCEAO in implementing the proposed recommendations as part of the ongoing safeguard-monitoring process.

#### **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 June 30, 2005, the rate of the CFA franc in SDR terms was SDR 1 = CFAF 790.17.

#### **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:**

<b>Dept.</b>	<b>Type of Assistance</b>	<b>Time of Delivery</b>	<b>Responsibility</b>
FAD	Staff	June 2000	Fiscal review of data and improvement of budgetary procedure
FAD	Staff	February 2001	Tax and customs administration
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 was recently appointed as the new Resident Representative in Niger and will begin serving within the next several weeks.

## Niger: Relations with the World Bank Group

(As of September 30, 2005)

### **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. 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 and a great step forward. A revised PRSP is scheduled for preparation in 2006.

### **Areas in which the Bank leads**

2. **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 utility (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 are revisiting their objectives and approach in private provision of infrastructure. 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.

3. **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 around 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; Agro-Pastoral Export Promotion (closing on October 31, 2005); 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.

4. **Social sector reforms.** 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 and new 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. 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.

5. 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 initiated the preparation of a five-year development plan for the sector. The Bank is currently supporting the preparation of a health SWAP which will include a reproductive health component. A multi-sector demographics operation is also under preparation.

6. **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 are under way. A survey for Niamey was completed in 2004. 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 prepared a Participatory Poverty Assessment (PPA) and a Poverty and Social Impact Analysis (PSIA) of revenue-enhancing measures, 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**

7. **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.

8. **Debt sustainability.** The Bank and Fund supported the Government's efforts to reach the HIPC completion point in April 2004. 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. The Bank's Public Expenditure Reform operation (PERCG) supports measures to ensure full integration of HIPC resources into sectoral programs.

9. **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. The Bank has supported budgetary reforms through two adjustment operations (PEAC I and II). Consolidating and deepening these reforms is a critical objective of the ongoing PERCG. In addition, the Bank intends to help strengthen Niger's fiduciary framework through analytical work on public finance issues, in particular the Public Expenditure Management and Country Financial Accountability Assessment (PER/CFAA) and the Country Procurement Assessment Report (CPAR).

10. **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.<sup>9</sup> 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; 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 will be strengthened. The post office will be split into two entities, Niger Post, for pure mail transactions, and Final Post, a financial services affiliate. Finally, an actuarial audit was conducted of the CNSS, the social security institution.

11. **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 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

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<sup>9</sup> The Financial Sector Technical Assistance Loan was approved by the Board in February 2004.

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.

### **Areas in which the Fund leads**

12. **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. 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 and macroeconomic modeling.

13. **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.

14. **Monetary policy.** The Fund leads the policy dialogue on monetary policy, which is set by the regional monetary authorities (BCEAO). The PRGF arrangement includes quantitative benchmarks for net bank credit to the Government.

### **World Bank Group strategy**

15. 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.

16. As of September 30, 2005, the World Bank lending portfolio in Niger consisted of nine IDA active operations, with a total commitment of US\$230.3 million, of which \$123.7 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 locusts infestation in West Africa will be delivered in FY05.

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

	<b>Commit Amount (US\$ mil)</b>	<b>Undis- bursed</b>	<b>Approval Date</b>	<b>Closing Date</b>
Locust Emergency	9.9	8.7	16-12-04	30-06-09
Privatization/Regulatory Reform TA	18.6	5.9	15-09-98	31-12-06
Agro-Pastoral Export Promotion	10.3	0.0	01-06-00	31-10-05
Water Sector	48.0	8.3	03-05-01	31-12-06
Private Irrigation Promotion	38.7	22.8	19-03-02	31-12-07
Community Action Program	35.0	22.9	20-03-03	30-06-07
Basic Education	30.0	21.3	17-07-03	31-12-07
Multisector STI/HIV-AIDS	25.0	21.5	04-04-03	30-06-08
Financial Sector TA	14.8	12.2	19-02-04	30-04-08
<b>TOTAL</b>	<b>230.3</b>	<b>123.7</b>		

17. 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.

18. 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; Jean-Francois Perrault, Operations Officer for Niger; or Thomson Fontaine (Economist, IMF).

### External Debt Sustainability Analysis

1. **This debt sustainability analysis is based on end-2004 data for external debt outstanding provided by the Direction de la Dette for most creditors and Staff estimates for debts outstanding to IDA, the IMF, and the AfDB.<sup>10</sup> This is a joint assessment of the IMF and World Bank.**

2. **Under the baseline scenario, Niger would be at a high risk of external debt distress.<sup>11</sup>** In the baseline, the NPV of debt-to-GDP ratio remains below the indicative threshold for this metric even under various bound tests. However, the dynamics are much less favorable with respect to the NPV of debt-to-exports. The ratio, at approximately 136 percent in 2005, rises to a peak of about 163 percent in 2015 before slowly declining in later years as the current account deficit narrows. By 2025, the NPV of debt-to-exports stands at about 134 percent.

3. **Sensitivity tests show that Niger's debt burden would worsen significantly in the event of an adverse macroeconomic shock or weaker economic performance.** All bound tests and alternative scenarios lead to a marked increase in the risk of debt distress. In particular, less favorable terms on new public borrowing would push the NPV of the debt-to-exports ratio to 229 percent in 2022. A temporary reduction in export growth, in line with historical experience, would put Niger on an unsustainable path in the short-term, with a high risk of distress as early as 2006. This risk is all the more important given Niger's relatively undiversified export base and frequent droughts.

4. **Reducing the grant element to 50 percent materially increases the risk of debt distress (Alternative 3, Table 1b).** Though debt dynamics remain roughly the same, all debt burden indicators peak at higher values, and the NPV of debt-to-exports ratio declines only to 147 percent in 2025.

5. **Debt relief through the Multilateral Debt Cancellation Initiative would only provide temporary relief (Alternative 4, Table 1b).** While G8 debt cancellation substantially reduces the NPV of debt in 2006, the effect is short-lived. The NPV of debt-to-exports ratio rises rapidly; from 58 percent in 2006 to 124 percent by 2025 owing to the country's large financing requirements. Bound tests reflecting higher borrowing costs and weaker exports each lead to a breach in the indicative thresholds.

6. **The results from the DSA stress the need for authorities to pursue sound macroeconomic policies and reforms, with a particular focus on growth-enhancing measures and investments, and prudent debt policies.** The staff's assessment is that

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<sup>10</sup> This analysis does not capture HIPC relief that is in negotiation in 2005. It also does not account for domestic debt, for which no reliable estimates exist.

<sup>11</sup> The indicative debt-burden thresholds for Niger are NPV of debt-to-exports ratio of 150 percent; NPV of debt-to-GDP of 40 percent, and debt service to exports ratio of 20 percent.

there is a high risk of debt distress, and the DSA suggests that this risk will become greater in the next few years. This highlights the need to ensure quality of expenditure that would broaden export base and reduce vulnerability to external shocks. Additional financing should come from grants rather than loans in the long term, and contracted loans should be highly concessional to reduce the likelihood of debt distress going forward.

### **Box 1. Baseline scenario assumptions**

The baseline and alternative scenarios for 2005–25 is based on the following assumptions, which are broadly consistent with those used in the HIPC Completion Point document:

- Over the length of projection period, real GDP growth is expected to rise from its historical average of 3.4 percent to an average of 4.3 percent in the medium term (2005–08), continuing to about 5 percent by 2025. This results from investments in irrigation and infrastructure, which would raise productivity in the agriculture sector. These, combined with efforts to diversify the economy, including through the development of tourism, would reduce vulnerability to macroeconomic shocks.
- Average inflation, as measured by the implicit GDP deflator, would average at about 2.0 percent.
- The revenue to GDP ratio is projected to rise gradually from 10.4 percent in 2005 to 12.2 percent by 2008 and to about 17 percent by 2025, reflecting the gradual convergence of the tax revenue ratio to the 17 percent WAEMU norm.
- Public expenditures, currently at 19.6 percent of GDP would stabilize at about 19 percent by 2008, reflecting the authorities' budgetary efforts to prioritize expenditures. Over the 2009–25 period, total expenditures remain at about 20 percent of GDP, with a slightly higher proportion spent on capital expenditures, with the aim of enabling the authorities to make progress towards meeting the Millennium Development Goals (MDGs).
- Total exports of goods and services, which benefited from a temporary boost in gold exports in 2005, are projected to grow at an annual average rate of 6.2 percent, spurred by the strengthening of non-mineral exports over 2009–25. Imports are projected to grow at an annual average of 5.8 percent, broadly in line with nominal growth. These assumptions lead to an improvement in the non-interest current account deficit from an average of 7 percent of GDP in 2006–10 to about 5 percent of GDP by 2025.

As of 2009, the baseline scenario assumes that 50 percent of total external financing needs (including project assistance) will be in loans with a minimum of 60 percent grant element excluding the borrowings from the IMF, while the remaining financial requirements are met by grants and net-FDI. Two sensitivity analysis are included (alternative-1 and 2), and the third alternative scenario reflects the effect of reducing the grant element to 50 percent (alternative-3). Finally, the last scenario (alternative-4) takes into consideration the effect of the Multilateral Debt Cancellation Initiative applied on top of alternative-3 scenario.

Table 1a. Niger: External Debt Sustainability Framework, Baseline Scenario (60 percent grant element on loans), 2004-2025 1/  
(In percent of GDP, unless otherwise indicated)

	Actual	Historical Average 7/	Standard Deviation 7/	Estimate				Projections					
	2004			2005	2006	2007	2008	2009	2010	2005-10 Average	2015	2025	2011-25 Average
<b>External debt (nominal) 1/</b>	<b>63.0</b>			<b>58.9</b>	<b>60.4</b>	<b>59.2</b>	<b>57.0</b>	<b>56.6</b>	<b>56.4</b>		<b>54.5</b>	<b>47.5</b>	
o/w public and publicly guaranteed (PPG)	63.0			58.9	60.4	59.2	57.0	56.6	56.4		54.5	47.5	
Change in external debt	-5.2			-4.1	1.5	-1.2	-2.1	-0.4	-0.2		-0.5	-0.9	
Identified net debt-creating flows	-2.3			4.0	6.9	3.9	3.2	3.5	3.8		3.4	2.0	
<b>Non-interest current account deficit</b>	<b>6.1</b>	<b>5.7</b>	<b>0.7</b>	<b>6.4</b>	<b>9.3</b>	<b>6.3</b>	<b>5.7</b>	<b>5.9</b>	<b>6.3</b>		<b>5.8</b>	<b>4.2</b>	5.3
Deficit in balance of goods and services	10.2			12.0	11.7	8.8	8.6	8.8	9.2		8.6	6.5	
Exports	16.2			16.1	15.8	16.2	16.0	15.5	14.8		13.6	13.6	
Imports	26.4			28.1	27.5	25.0	24.6	24.2	23.9		22.2	20.0	
Net current transfers (negative = inflow) 2/	-4.1	-3.1	0.9	-5.4	-2.1	-2.1	-2.4	-2.3	-2.3		-2.2	-1.7	-2.1
<b>Net FDI (negative = inflow)</b>	<b>-0.5</b>	<b>-0.5</b>	<b>0.5</b>	<b>-0.2</b>	<b>-0.4</b>	<b>-0.3</b>	<b>-0.5</b>	<b>-0.4</b>	<b>-0.4</b>		<b>-0.4</b>	<b>-0.3</b>	-0.4
<b>Endogenous debt dynamics 3/</b>	<b>-7.8</b>			<b>-2.1</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-2.1</b>	<b>-2.0</b>	<b>-2.0</b>		<b>-1.9</b>	<b>-1.9</b>	
Contribution from nominal interest rate	0.4			0.4	0.3	0.4	0.4	0.5	0.5		0.5	0.3	
Contribution from real GDP growth	0.0			-2.5	-2.3	-2.4	-2.4	-2.5	-2.5		-2.4	-2.2	
Contribution from price and exchange rate changes	-8.2			...	...	...	...	...	...		...	...	
<b>Residual 4/</b>	<b>-2.9</b>			<b>-8.2</b>	<b>-5.4</b>	<b>-5.1</b>	<b>-5.3</b>	<b>-3.9</b>	<b>-4.1</b>		<b>-3.9</b>	<b>-2.9</b>	
o/w exceptional financing	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 5/	21.7			21.9	22.2	22.5	22.8	22.8	22.8		22.2	18.2	
In percent of exports	133.4			136.0	141.0	139.2	143.2	147.5	154.4		163.0	134.5	
<b>NPV of PPG external debt</b>	<b>21.7</b>			<b>21.9</b>	<b>22.2</b>	<b>22.5</b>	<b>22.8</b>	<b>22.8</b>	<b>22.8</b>		<b>22.2</b>	<b>18.2</b>	
In percent of exports	133.4			136.0	141.0	139.2	143.2	147.5	154.4		163.0	134.5	
Debt service-to-exports ratio (in percent)	13.5			5.9	5.8	6.2	6.8	7.5	8.7		9.2	9.8	
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>13.5</b>			<b>5.9</b>	<b>5.8</b>	<b>6.2</b>	<b>6.8</b>	<b>7.5</b>	<b>8.7</b>		<b>9.2</b>	<b>9.8</b>	
Total gross financing need (billions of U.S. dollars)	0.2			0.3	0.4	0.3	0.3	0.3	0.4		0.4	0.7	
Non-interest current account deficit that stabilizes debt ratio	11.3			10.5	7.9	7.5	7.9	6.3	6.5		6.2	5.1	
<b>Key macroeconomic assumptions</b>													
Real GDP growth (in percent)	0.0	3.4	36.8	4.5	4.2	4.3	4.4	4.6	4.7	4.4	4.6	4.9	4.7
GDP deflator in US dollar terms (change in percent)	13.7	4.7	9.8	6.8	2.1	2.3	2.3	2.0	2.0	2.9	2.3	2.0	2.2
Effective interest rate (percent) 6/	0.7	0.7	0.3	0.7	0.6	0.7	0.7	0.9	0.9	0.8	0.9	0.7	0.8
Growth of exports of G&S (US dollar terms, in percent)	18.1	7.9	40.0	11.0	3.9	9.6	5.2	3.6	1.8	5.8	6.5	7.5	6.4
Growth of imports of G&S (US dollar terms, in percent)	19.9	9.7	41.0	18.9	3.9	-3.0	4.9	5.4	5.5	5.9	5.6	5.9	5.7
Grant element of new public sector borrowing (in percent)	...	...	...	30.0	52.2	52.0	52.0	52.0	52.0	48.4	52.0	52.0	52.0
<i>Memorandum item:</i>													
Nominal GDP (billions of US dollars)	3.1			3.5	3.7	3.9	4.2	4.5	4.8		6.7	13.2	

Source: Staff simulations.

1/ Includes both public and private sector external debt.

2/ For the purpose of DSA, it is assumed that some donors continue to provide grants.

3/ Derived as  $[r - g - \rho(1+g)] / (1+g+\rho+g)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate, and  $\rho$  = growth rate of GDP deflator in U.S. dollar terms.

4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

5/ Assumes that NPV of private sector debt is equivalent to its face value.

6/ Current-year interest payments divided by previous period debt stock.

7/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 1b. Niger: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2005-25  
(In percent)

	Estimate		Projections											
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2022	2025
<b>NPV of debt-to-GDP ratio</b>														
<b>Baseline</b>	21.9	22.2	22.5	22.8	22.8	22.8	22.7	22.6	22.5	22.4	<b>22.2</b>	22.0	20.0	18.2
<b>A. Alternative Scenarios</b>														
A1. Key variables at their historical averages in 2006-25 1/	21.9	21.9	21.9	22.2	22.1	21.7	21.4	21.1	20.9	20.7	<b>20.6</b>	20.5	20.3	20.3
A2. New public sector loans on less favorable terms in 2006-25 2/	21.9	23.0	24.1	25.3	26.0	26.7	27.4	28.0	28.6	29.2	<b>29.6</b>	30.0	30.6	29.7
A3. Grant element of 50 percent on new loans	21.9	22.4	22.9	23.4	23.5	23.6	23.7	23.7	23.7	23.7	<b>23.6</b>	23.5	21.7	19.9
A4. Alternative 3 with MDCl	21.9	9.1	10.3	11.5	12.5	13.4	14.3	14.9	15.5	15.9	<b>16.2</b>	16.4	17.1	16.8
<b>Bound Tests</b>														
B1. Key variables at their historical averages in 2006-25 1/	21.9	21.9	21.9	22.2	22.1	21.7	21.4	21.1	20.9	20.7	<b>20.6</b>	20.5	20.3	20.3
B2. New public sector loans on less favorable terms in 2006-25 2/	21.9	23.0	24.1	25.3	26.0	26.7	27.4	28.0	28.6	29.2	<b>29.6</b>	30.0	30.6	29.7
B3. Real GDP growth at historical average minus one standard deviation in 2006-07	21.9	23.4	25.0	25.3	25.3	25.3	25.2	25.1	24.9	24.8	<b>24.6</b>	24.4	22.1	20.2
B4. Export value growth at historical average minus one standard deviation in 2006-07 3/	21.9	22.9	24.8	25.1	25.0	24.9	24.8	24.6	24.4	24.2	<b>23.9</b>	23.6	20.9	19.0
B5. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	21.9	24.3	27.1	27.4	27.4	27.4	27.3	27.1	27.0	26.8	<b>26.6</b>	26.4	24.0	21.9
B6. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	21.9	22.4	22.8	23.1	23.1	23.0	23.0	22.8	22.7	22.5	<b>22.4</b>	22.1	20.1	18.3
B7. Combination of B1-B4 using one-half standard deviation shocks	21.9	23.8	26.7	27.0	27.0	26.9	26.8	26.7	26.5	26.3	<b>26.1</b>	25.8	23.3	21.2
B8. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	21.9	31.5	31.9	32.3	32.3	32.3	32.2	32.0	31.9	31.7	<b>31.4</b>	31.1	28.3	25.8
<b>NPV of debt-to-exports ratio</b>														
<b>Baseline</b>	136	141	139	143	147	154	160	162	163	163	<b>163</b>	162	149	134
<b>A. Alternative Scenarios</b>														
A1. Key variables at their historical averages in 2006-25 1/	136.0	138.9	134.9	138.9	142.4	147.3	150.4	151.5	151.8	151.6	<b>151.3</b>	150.9	151.8	150.0
A2. New public sector loans on less favorable terms in 2006-25 2/	136.0	145.7	149.0	158.4	167.7	180.9	192.5	200.7	207.6	213.2	<b>217.7</b>	221.1	228.6	219.2
A3. Grant element of 50 percent on new loans	136.0	142.1	141.4	146.5	151.8	160.0	166.5	169.9	172.2	173.3	<b>173.5</b>	173.0	161.7	147.1
A4. Alternative 3 with MDCl	136.0	57.7	63.3	72.2	80.7	90.9	100.3	107.0	112.3	116.2	<b>119.0</b>	121.0	127.3	123.9
<b>Bound Tests</b>														
B1. Key variables at their historical averages in 2006-25 1/	136	139	135	139	142	147	150	151	152	152	<b>151</b>	151	152	150
B2. New public sector loans on less favorable terms in 2006-25 2/	136	146	149	158	168	181	192	201	208	213	<b>218</b>	221	229	219
B3. Real GDP growth at historical average minus one standard deviation in 2006-07	136	141	139	143	147	154	160	162	163	163	<b>163</b>	162	149	134
B4. Export value growth at historical average minus one standard deviation in 2006-07 3/	136	159	194	199	204	213	220	223	224	224	<b>222</b>	219	197	177
B5. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	136	141	139	143	147	154	160	162	163	163	<b>163</b>	162	149	134
B6. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	136	142	141	145	149	156	161	164	165	165	<b>164</b>	163	150	135
B7. Combination of B1-B4 using one-half standard deviation shocks	136	145	159	163	168	176	182	184	186	186	<b>185</b>	183	167	151
B8. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	136	141	139	143	147	154	160	162	163	163	<b>163</b>	162	149	134
<b>Debt service-to-exports ratio</b>														
<b>Baseline</b>	5.9	5.8	6.2	6.8	7.5	8.7	9.0	9.3	9.0	9.2	<b>9.2</b>	9.3	10.4	9.8
<b>A. Alternative Scenarios</b>														
A1. Key variables at their historical averages in 2006-25 1/	5.9	5.8	6.1	6.8	7.5	8.6	8.9	9.2	8.9	9.0	<b>8.9</b>	9.0	10.2	10.0
A2. New public sector loans on less favorable terms in 2006-25 2/	5.9	5.8	6.1	7.2	8.3	8.7	8.9	8.8	8.3	8.3	<b>8.7</b>	9.2	12.8	13.0
A3. Grant element of 50 percent on new loans	5.9	5.8	6.2	6.9	7.6	8.7	9.0	9.4	9.1	9.3	<b>9.5</b>	9.7	11.0	10.5
A4. Alternative 3 with MDCl	5.9	4.6	3.4	3.3	3.4	4.4	5.0	6.0	6.5	7.2	<b>7.6</b>	7.9	7.7	7.6
<b>Bound Tests</b>														
B1. Key variables at their historical averages in 2006-25 1/	5.9	5.8	6.1	6.8	7.5	8.6	8.9	9.2	8.9	9.0	<b>8.9</b>	9.0	10.2	10.0
B2. New public sector loans on less favorable terms in 2006-25 2/	5.9	5.8	6.1	7.2	8.3	8.7	8.9	8.8	8.3	8.3	<b>8.7</b>	9.2	12.8	13.0
B3. Real GDP growth at historical average minus one standard deviation in 2006-07	5.9	5.8	6.2	6.8	7.5	8.7	9.0	9.3	9.0	9.2	<b>9.2</b>	9.3	10.4	9.8
B4. Export value growth at historical average minus one standard deviation in 2006-07 3/	5.9	6.4	7.9	9.0	9.8	11.3	11.6	12.0	11.7	12.1	<b>12.7</b>	12.7	13.8	13.0
B5. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	5.9	5.8	6.2	6.8	7.5	8.7	9.0	9.3	9.0	9.2	<b>9.2</b>	9.3	10.4	9.8
B6. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	5.9	5.8	6.2	6.9	7.6	8.7	9.0	9.3	9.0	9.2	<b>9.2</b>	9.3	10.4	9.9
B7. Combination of B1-B4 using one-half standard deviation shocks	5.9	6.0	6.9	7.7	8.4	9.7	10.0	10.3	10.0	10.2	<b>10.4</b>	10.5	11.7	11.1
B8. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	5.9	5.8	6.2	6.8	7.5	8.7	9.0	9.3	9.0	9.2	<b>9.2</b>	9.3	10.4	9.8
<b>Memorandum item:</b>														
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	<b>51.7</b>	51.7	51.7	51.7

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

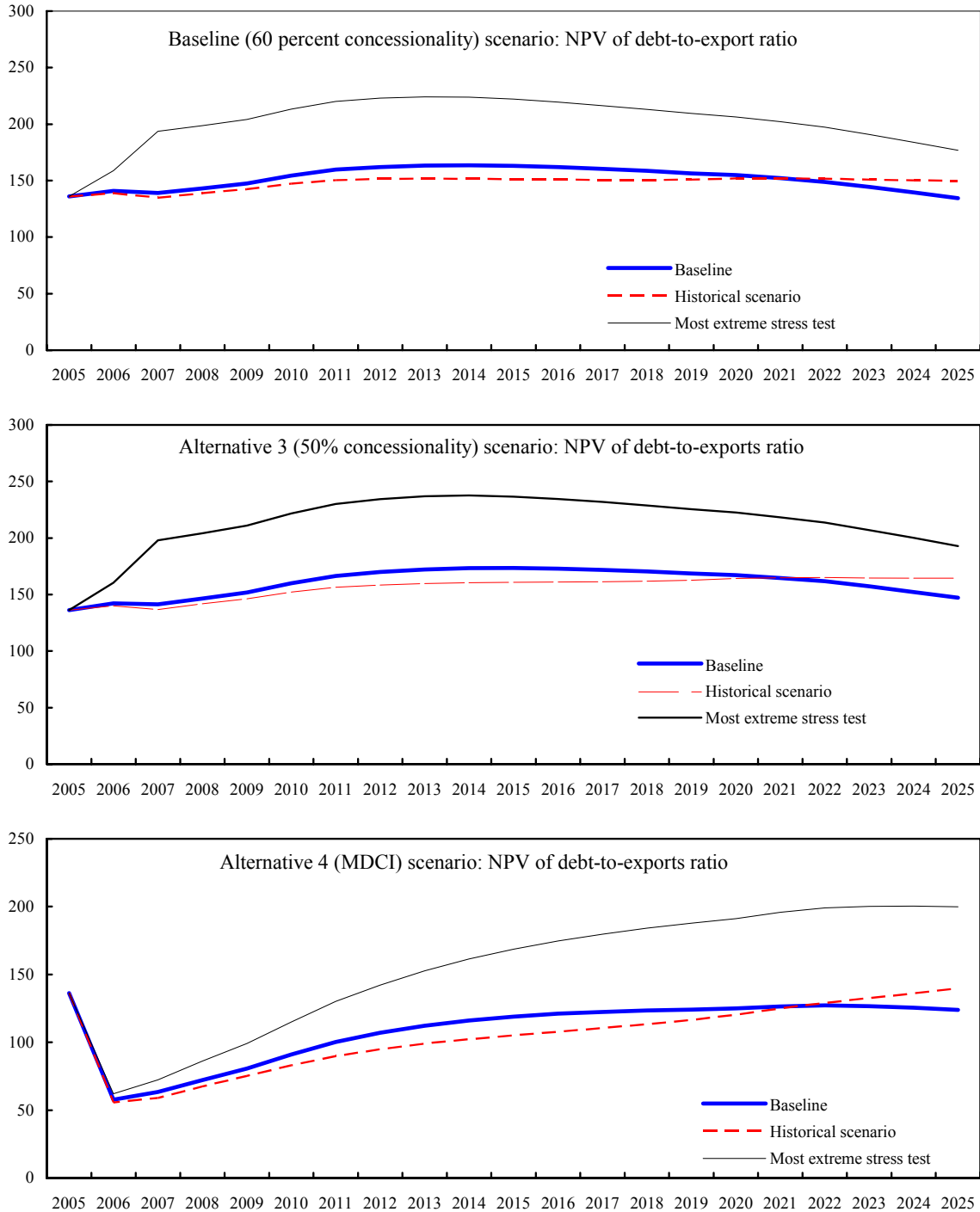
4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.



Figure 1. Niger: External Debt to Exports Ratio, 2005-2025  
(In percent)



Source: Staff projections and simulations.

Niger: Table of Common Indicators Required for Surveillance  
(as of October 15, 2005)

	Date of latest observation	Date received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Frequency of publication <sup>6</sup>
Exchange Rates	Current	Current	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>					
Reserve/Base Money	July 2005	Oct 2005	M	V	M
Broad Money	July 2005	Oct 2005	M	V	M
Central Bank Balance Sheet	July 2005	Oct 2005	M	V	M
Consolidated Balance Sheet of the Banking System	July 2005	Oct 2005			
Interest Rates <sup>2</sup>	Sep 2005	Oct 2005	V	V	M
Consumer Price Index	Aug 2005	Sep 2005	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>					
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government					
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>					
External Current Account Balance	Dec 2004	Sep 2005	A	V	A
Exports and Imports of Goods and Services	Dec 2004	Sep 2005			
GDP/GNP	Dec 2004	Sep 2005	A	V	A
Gross External Debt	Dec 2004	Sep 2005	Q	V	A

<sup>1</sup>Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup>Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup>Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup>The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup>Including currency and maturity composition.

<sup>6</sup>Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

Niamey, October 28, 2005

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

Dear Mr. de Rato

1. On behalf of the government of Niger, I am pleased to send you the memorandum of economic and financial policies (MEFP) prepared in the context of the first review of the government of Niger's three-year program, which is supported by the IMF under the Poverty Reduction and Growth Facility (PRGF). The intense drought and locust attacks of 2004 have had a severe socio-economic impact on our country. In addition, the rise in food imports and deterioration in Niger's terms of trade caused by higher world oil prices have considerably weakened government finances and our external position in 2005 and beyond. The Government of Niger is determined to forcefully address these challenges and requests waivers for the nonobservance of performance criteria for end-June 2005 on the basic budget balance and reduction of government domestic payments arrears, amendments to the quantitative performance criteria and benchmarks of the program for end-December 2005, and augmentation of access under the PRGF arrangement in an amount equivalent to SDR 19.74 million (30 percent of quota).

2. Program implementation through end-June 2005 was adversely affected by the economic shocks. Although the government removed the VAT exemptions on food in January, in line with program commitments, it had to reinstate them in April following social unrest, given that food prices were already rising due to the drought. This, together with sluggish economic activity and increased exemptions on customs duties on food imports in response to the food shortage, caused revenue to be weaker than programmed in 2005. With the additional difficulties in reducing expenditure in the face of spending pressures, the performance criteria relating to the basic budget deficit and the reduction in domestic payments arrears could not be met. All structural performance criteria and benchmarks were observed except for the June benchmark on the evaluation of the status of domestic payments arrears, which was finalized in August.

3. The medium-term fiscal framework has been revised to take into account the effects of the drought. In 2005, the revised program accommodates additional expenditure for the replenishment of grain reserves and shortfalls in revenue, noted above. It also ensures spending cuts—a prior action for this review—that fully offset the costs of the Francophonie Games, which will be higher than budgeted because the financing contributions from other participating countries were not as high as the government had originally expected. The resulting additional financing gap in 2005 is expected to be covered in part by a smaller-than-programmed reduction in domestic payment arrears, and the issue of treasury bills in the latter part of the year. However, a financing gap equivalent to 0.4 percent of GDP remains. For 2006, revenues are projected to turn out lower than programmed mainly because it will not be possible to remove VAT exemptions on food in the foreseeable future, given the

continuing concerns about food security. The government would also like to undertake additional capital spending on projects aimed at enhancing Niger's food security so as to prevent the recurrence of the difficult conditions experienced in 2004 and 2005. However, given the tight budgetary situation, the government has agreed to make expenditure equivalent to 1.3 percent of GDP contingent on obtaining additional donor support. We intend to organize, with the assistance of the staffs of the Fund and the Bank, a donors' conference in 2006 to obtain the financing for these projects as well as for the programs supporting our Poverty Reduction Strategy. The government will pursue a prudent debt management policy, and is requesting the lowering of the grant element for new loans from 60 percent to 50 percent. We will review with World Bank assistance all projects funded with resources bearing a grant element of between 50 percent to 60 percent. The remaining financing requirement for 2006 would be met mainly by existing financing assurances and a further slowing in the reduction of domestic arrears, with the residual financing gap limited to 0.4 percent of GDP. The requested augmentation of access to Fund resources of 30 percent of quota (0.8 percent of GDP) would be sufficient to close the remaining financing gaps in 2005 and 2006.

4. The government is determined to minimize deviations from the original program and is pressing ahead with efforts to reduce vulnerabilities and strengthen growth. In this context, we have introduced revenue-enhancing measures to reverse the fall in revenues and regain the trend envisaged under the program by 2007–08. Also, we have completed the costing of key sectoral strategies for education, health, and the road and transport sectors, and plan to finalize in 2006 the costing of the programs for the rural sector strategy. On this basis, we plan to revise the 2002 PRSP and medium term expenditure frameworks for the above-noted sectors. The government also plans to continue restructuring the financial sector and disengaging from public utilities.

5. The second review of the program, which will be based on performance under the end-December 2005 performance criteria and relevant structural performance criteria, is expected to be completed no later than January 15, 2006. As in the past, the government consents to the Fund's publication of this letter of intent, the MEFP, the technical memorandum of understanding, and the staff report. The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, and it will take any further measures required for this purpose. Niger will consult with the Fund on the adoption of these measures in advance of revisions to the policies contained in the MEFP and in conformity with the rules of 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 2005

### I. INTRODUCTION

1. **Notwithstanding a severe drought in 2004 as well as a subsequent deterioration in the terms of trade, Niger's reform program—supported by the Poverty Reduction and Growth Facility (PRGF)—made some headway in 2005.** Given the prospect of a normal harvest, economic growth is expected to recover, and inflation should begin slowing down by the final quarter of 2005. With support from the international community, the government has mobilized to contain the socio-economic damage of the food crisis, which affected some 3 million Nigeriens. The economic shocks have weakened the government's finances and the fiscal targets for 2005 are unlikely to be achieved. However, some progress has been made in the implementation of structural reforms. Looking ahead, the government is committed to prudent macroeconomic policies and pressing ahead with its structural reform agenda, which are critical for the success of Niger's poverty reduction strategy.

2. **The drought experienced in 2004 has had severe socioeconomic repercussions.** Food shortages caused malnutrition, especially among vulnerable groups such as children and the elderly, and exacerbated health problems. In addition, there have been significant losses in animal stock such as cattle and small ruminants that will take several years to rebuild. Accordingly, the effects of the drought will be felt over several years.

3. **Despite the temporary setback caused by the drought, the government is pressing ahead with its reform program, and this memorandum describes the economic and financial policies for the remainder of 2005 and the medium term.** The government is aware that macroeconomic stability must be strengthened and structural reforms pursued to bolster economic growth and reduce poverty. In the near future, we will expedite the preparation of programs to boost economic growth, strengthen human capital formation, and expand access by the poor to social services.

### II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

4. **In 2004, macroeconomic performance weakened.** Economic activity stagnated as agricultural output shrank by 15 percent. Accordingly, per capita income declined for the first time in several years. Inflation ticked upward during the final quarter and by year end reached nearly 4 percent on a year-on-year basis. The external current account deficit (excluding official transfers) widened to 8.1 percent of GDP, from 7.6 percent in 2003, as higher food imports and oil prices more than offset lower interest payments on the external debt and new gold exports. Unanticipated expenditures on the 2004 elections—an important element of Niger's democratization process—pushed the fiscal deficit to 8.9 percent of GDP, relative to 7.6 percent of GDP in 2003. Over the same period, government net borrowing from the banking sector rose to 5.3 percent of GDP from 3.5 percent of GDP; the bulk of which from the Central Bank of West African States (BCEAO). This increase contributed to a significant expansion of monetary aggregates and a reduction in international gross reserves.

5. **During the first six months of 2005, inflation accelerated, and the fiscal outturn fell short of program objectives.** At end-June, the inflation rate reached 10 percent on a year-on-year basis, with significant increases in food prices. The basic budget deficit (a performance criterion) stood at CFAF 15.1 billion (0.8 percent of GDP for 2005), compared to the program objective of CFAF 5.8 billion (0.3 percent of GDP). The higher deficit reflected mainly the impact of lower revenue collection, which stood at CFAF 87 billion at end June, CFAF 6.7 billion lower than targeted. The weak revenue performance, which was more pronounced in the first quarter of the year, was due to (i) the reinstatement in April of the VAT measures adopted in January 2005 owing to the social unrest triggered by their adoption in an environment of rising food prices; (ii) a sluggish economic activity attributable to the effects of the drought; (iii) a significant increase in duty-free food imports to combat the food crisis; and (iv) frequent border closings with Nigeria and other neighboring countries, which negatively affected customs revenue performance. However, revenue collection improved modestly during the second quarter owing to stepped-up efforts to improve tax and customs administration, including mainly through a better assessment of VAT obligations and enhanced collection efforts.

6. **On the expenditure side, the government endeavored to contain the spending increases, despite pressures.** Domestically financed expenditure reached CFAF 102.3 billion, CFAF 2.8 billion higher than budgeted, partly due to higher-than-expected spending on the preparation for the Francophonie Games, which became necessary as financing contributions from other participating countries turned out lower than originally anticipated. Nevertheless, the government continued to adhere to a prudent wage policy and implemented expenditure programs for certain priority sectors such as education and health, albeit at a very low execution rate in the case of education.

7. **A shortfall in external financing and the higher fiscal deficit led to the accumulation of domestic arrears.** At end-June, exceptional external budgetary assistance was CFAF 15 billion lower than programmed. With domestic financing of the budget nearly at the programmed level of about CFAF 13 billion, this resulted in the accumulation of domestic arrears of CFAF 2.3 billion. The main source of domestic financing was the issuance of six-month treasury bills equivalent to CFAF 15 billion on the West African Economic and Monetary Union (WAEMU) regional market.

8. **Five of the eight quantitative benchmarks of the program through end-March 2005 have been observed (Table 1).** Missed targets include the basic fiscal balance, net reduction of domestic payment arrears, and the domestic revenue target. However, all the structural performance criteria and benchmarks were observed (Table 2).

9. **Through June 2005, five out of the eight quantitative performance criteria and benchmarks have been met, and all but one structural performance criteria and benchmarks were observed.** The objectives that have not been met pertain to the basic budget deficit and the reduction in government domestic payments arrears (both performance criteria), as well as the revenue target (a benchmark). All structural performance criteria and benchmarks have been observed, except for the one relating to the evaluation of domestic

payment arrears. A status report on domestic arrears was completed in August 2005, instead of June 2005, because of delays in the delivery of technical assistance.

10. **Regarding structural reforms more generally, the government continues to strengthen revenue mobilization and expenditure management.** The Customs Department established performance indicators for its main offices, and intensified monthly monitoring of revenue collection. These efforts are being deepened with an expansion of the range of monitorable performance indicators (Annex 1). Further, a revenue mobilization strategy and an associated action plan are currently being prepared (structural benchmark for end-September), and the slippage is due to delayed technical assistance delivery. On expenditure management, the government has initiated, with technical and financial assistance from the World Bank,<sup>12</sup> the implementation of the recommendations of the Public Expenditure Management and Financial Accountability Review (PEMFAR). The programmed computerization of five treasury offices was completed as planned. A Treasury-Budget computer interface (*liaison retour*) was established last May, and this is expected to further improve the monitoring of government expenditures. However, the interface needs improvements, especially regarding the production of user friendly summary statistics; there is also a need to provide training and additional staff to the Treasury and Budget Departments. These shortcomings will be addressed in the near future.

11. **The government initiated an in-depth examination of the status of domestic payments arrears.** At end 2004 the stock of domestic arrears is estimated at CFAF 208 billion (12.6 percent of GDP) down from CFAF 296 billion (23.6 percent of GDP) at end 1999.<sup>13</sup> The assessment identifies constraints in the management and monitoring of domestic payments arrears, recommends further verification of certain alleged arrears to ensure their legitimacy, and the development of an arrears reduction strategy. The report also proposes the strengthening of the Unit at the Ministry of Finance responsible for domestic debt management, including through the recruitment and training of staff. The government intends to prepare a final report by end-December 2005 that addresses the concerns raised by the preliminary report. Further, on the basis of the recommendations of the report, the government will develop an arrears reduction strategy by end-March 2006, with technical assistance from development partners if needed. In the meantime, repayment of arrears will be limited to those related to salaries.

12. **The restructuring of the financial sector has advanced.** In early June, Parliament approved a restructuring plan prepared with assistance from the World Bank. Under the plan, the National Postal and Savings Office will be split into two entities. NigerPoste will be

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<sup>12</sup> In May 2005, the World Bank Executive Board approved a public expenditure reform credit of SDR 29 million.

<sup>13</sup> Except for those attributable to the financial and banking sectors, the government has not contracted new domestic debt during the period under consideration, except for CFAF 15 billion new six-month treasury bills, which were issued in April 2005.

responsible for the management of postal activities, and FinaPoste will provide financial services. Preparations for the privatization of Crédit du Niger, in which the government holds a 53 percent equity stake, have advanced with the recruitment, in August 2005, of a consultant responsible for assessing the bank's financial situation.

13. **Progress has been made in implementing sectoral strategies for the poverty reduction strategy (PRS).** Strategies consistent with the PRS have been prepared for the education and health sectors and associated medium-term expenditure frameworks (MTEFs) will be fully incorporated into the 2006 budget. Further, work to operationalize the rural sector development strategy has been advanced. Fourteen priority programs have been proposed for the rural sector, and these are being finalized in consultation with concerned technical ministries.

### III. ECONOMIC AND FINANCIAL POLICIES FOR THE SECOND HALF OF 2005

#### A. Macroeconomic framework

14. **Macroeconomic performance is expected to improve in 2005 and medium term prospects remain broadly unchanged relative to those contained in our original MEFP.** In 2005, economic growth is expected to reach about 5 percent, as agriculture output rebounds in the latter part of the year. Year-on-year inflation is expected to decline from 13 percent in August to 5 percent in December, reflecting the improvement in food supply. The external current account deficit (excluding official transfers) is projected at 8.5 percent of GDP, some 1.3 percent of GDP higher than the original program projection, largely as a result of higher food imports and world oil prices. In 2006–07, economic growth is expected to average some 4 percent per annum. Beyond 2007, economic growth would strengthen with the implementation of strategies to promote development of the rural sector—the mainstay of the economy—as well as other sectors with strong growth potential, such as tourism. Average inflation is targeted to be in line with the WAEMU convergence criterion (3 percent) over the medium term.

#### B. Fiscal policies

15. **The budget outlook for 2005 is less favorable than initially anticipated.** The basic and overall budget deficits (commitment basis, excluding grants) are estimated, respectively, at CFAF 46 billion (2.6 percent of GDP) and CFAF 165 billion (9.2 percent of GDP), respectively 1.8 percent of GDP and 1.5 percent of GDP higher than initially targeted. With net reduction of domestic payments arrears reduced to CFAF 10 billion (compared to an initial target of CFAF 18.4 billion) and taking into account identified net domestic and external financing, the residual financing gap is CFAF 22.7 billion (1.2 percent of GDP). The gap will be partially covered by a rollover of treasury bills equivalent to CFAF 15 billion (0.8 percent of GDP); the government is requesting additional Fund resources to cover the remaining gap of about CFAF 7 billion (0.4 percent of GDP).

16. **Domestic revenue mobilization is likely to fall short of target reflecting drought-related factors.** Revenue is expected to reach CFAF 187 billion, (10.4 of GDP), or 0.7 percent



of GDP below the initial target. This shortfall is due mainly to the reinstatement of VAT exemptions (on wheat, milk, electricity and water consumption) in April 2005, following the social unrest that ensued after their elimination in January 2005, amidst rising food prices.

17. **On the expenditure side, some outlays will be cut to meet the envisaged fiscal targets.** Excluding expenditure on the grain reserves building<sup>14</sup> and food relief (just over 1 percent of GDP), and the estimated revenue shortfall, the government is determined to meet its initial fiscal targets for 2005. Accordingly, as a prior action for this review, the government has identified expenditure cuts equivalent to CFAF 7 billion, and issued a ministerial order for this purpose. Further, the government will continue with its prudent wage bill policy, as specified in the 2005 budget.

18. **The government plans to recover the real estate investments made in the context of the Francophonie Games.** In particular, it will sell physical assets such as houses after the conclusion of the games. The government plans to finalize preparations for the sale of assets and include potential receipts under the 2006 budget. However, given the uncertainty at this point in time regarding the size of these potential receipts, they are not included in the revised fiscal program for 2006.

19. **The government has initiated the preparation of the 2006 budget.** The proposed budget is consistent with the objectives of Niger's poverty reduction strategy. The revenue/GDP ratio is targeted at 10.8 percent, and expenditure at 21.7 percent of GDP, with continued focus on education, health, and other key priority areas that would facilitate a move to a higher economic growth path and the reduction of poverty. However, in view of the lower revenue levels and limited external financing assurances so far, expenditure equivalent to 1.3 percent of GDP will be made contingent on obtaining additional donor assistance. Accordingly, the basic and overall fiscal deficits will be limited, respectively to 1.5 percent of GDP (excluding contingent expenditure) and 2.8 percent of GDP (including contingent expenditure). In this regard, efforts will be made to organize, with the assistance from the Fund and World Bank, a donors' conference during 2006 when the costing of key sectoral strategies is completed. After taking into account a slower reduction of domestic payments arrears (0.5 percent of GDP), the remaining financing gap for 2006, estimated at 3.9 percent of GDP, is expected to be mainly covered by identified financing assurances from development partners (3.5 percent of GDP). The government is requesting additional Fund resources to recover the remaining gap (0.4 percent of GDP).

20. **To ensure that revenue objectives for 2007-08 are met, the government plans to implement, in the months ahead, key revenue measures to expand the tax base and strengthen collection efforts.** Accordingly, the government will put in place by January 1, 2006 (i) a presumptive tax of 0.25 percent on transit/reexport of tobacco products; and (ii) a property tax on land. Most importantly, it will focus on strengthening tax and customs

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<sup>14</sup> The financing for rebuilding strategic food reserves in 2005 amounts to CFAF 18 billion (100,000 tons of grain).

administration by implementing the recommendations of a recent technical assistance mission from the Fund. Key actions are in the areas of streamlining customs clearance procedures, strengthening customs valuations, enhancing audits for major taxes and duties and closely monitoring the use of exemptions. Measures serving as performance criteria under the program have been identified (Table 2). In addition, in 2006, the government is committed to:

- Automation of information flow between customs offices and immediate collection of suspended duties if transit is not effected;
- Strengthening, through training, of personnel involved in customs declaration inspection and strict monitoring of the use of duty-exempted imports;
- Strengthening internal inspection offices (in terms of staffing and material resources) at the central and regional levels;
- Recruitment of new staff for the tax intelligence unit in order to identify important non-compliant tax payers;
- Setting quantitative objectives for reducing the number of non-filers (5 percent at the large taxpayer unit and 15 percent at the medium-size taxpayer unit as a first step) and increasing the number of desk audits;
- Instituting systematic procedures to monitor tax arrears and strengthen collection enforcement; and
- Strengthening the audit of tax and customs exemptions with an objective of auditing 30 percent of granted exemptions.

21. **In addition, the government is preparing, in consultation with the Fund, a revenue mobilization strategy to further strengthen revenue over the medium term.** The adoption of this strategy and associated action plan will be a prior action for completing the second review under the PRGF arrangement. We are confident that this overall approach will minimize any sustained deviation of revenue from the original program objectives.

22. **Government expenditure, while prudent, will be further geared toward addressing Niger's vulnerability to external shocks, especially droughts, and more generally supporting ongoing poverty reduction efforts.** To improve the delivery of social services and enhance the efficiency of the fiscal agencies, the wage bill will increase by 10 percent in 2006, to about CFAF 69 billion (3.6 percent of GDP). This will help accommodate new recruitments in critical areas, such as customs and tax administration, and enhance the civil service incentive structure. The proposed new wage bill is in line with the relevant WAEMU convergence criteria. Provided that additional support (in relation to the original program) is mobilized as noted above, capital expenditure will be significantly boosted in 2006 to advance key projects aimed at reducing vulnerability to droughts and improving food security, and to strengthen economic growth more generally in the context of our Poverty Reduction Strategy (see below). To raise needed resources, we are requesting that

the minimum grant element of new loans under the PRGF-supported program be lowered from 60 percent to 50 percent. To minimize the risks to debt sustainability, the government will review all projects funded with the resources bearing a grant element between 50 to 60 percent with World Bank assistance.

### **C. Money and credit**

23. **The BCEAO will continue to conduct monetary policy at the regional level.** The April 2005 increase in the required reserve ratio from 5 to 9 percent, combined with prudent government borrowing policy, would slow down the expansion of net domestic assets of the banking system; in 2005, net credit to the government and private sector is expected to increase by 3.8 and 10 percent, respectively. Broad money growth is expected to decelerate from 20.3 percent in 2004 to 10 percent in 2005. The proposed monetary program is consistent with Niger contributing modestly to the strengthening of the BCEAO's external position.

24. **Recent efforts to improve monetary statistics are bearing fruit.** BCEAO has revised currency holdings and net foreign assets of member countries<sup>7</sup> on the basis of updated coefficients for estimating banknotes circulating in individual WAEMU members. Initially, the exercise focused on the period 2003–2004. This exercise is expected to improve monetary policy design and implementation within the WAEMU countries.

### **D. Balance of payments and external debt**

25. **Niger's external position weakened in 2005, but the balance of payments situation is expected to improve over the medium term.** The external current account deficit (excluding grants) is expected to widen, mainly reflecting higher food and energy imports. Medium-term prospects in the external sector would be affected by government plans to invest in export-supporting activities, such as irrigation, that would facilitate the emergence of marketable new and higher-volume agricultural products. Further emphasis is being placed on minerals and oil exploration, as well as on developing tourism. On this basis, the external current account deficit would narrow to 6 percent of GDP by 2008.

26. **The government is committed to prudent external debt management.** The net present value of foreign debt is estimated at around US \$670 million and represents 133 percent of exports at end-2004. Given the importance of external debt management for debt sustainability, the government plans to strengthen its external debt management unit at the Ministry Finance, including through increased training to relevant personnel, and to ensure that debt management policy remains geared towards avoiding deterioration of debt sustainability.

27. **The government plans to improve Niger's balance of payments statistics.** As part of the process of enhancing the reliability of foreign trade data, the government is determined to improve the collection and analysis of customs data and to use such data more systematically in the design and implementation of policies for promoting exports and foreign trade in general.

## E. Structural policies

28. **Structural reforms are critical for enhancing economic efficiency, and strengthening the transparency of, and accountability for, government operations.** The focus of our agenda is financial sector reform, privatization, and reforms to strengthen revenue mobilization and expenditure management.

### Financial sector

29. **The financial sector reform program has received a fresh impetus.** Preparations are continuing for the government's divestiture from Crédit du Niger (CDN). The bank's financial situation is being assessed, and a privatization consultant has been appointed with effect from November 2005. The government plans to offer the bank for sale during the first half of 2006. Concerning the restructuring of the National Post and Saving Institution (ONPE), the government intends to set up the management of NigerPoste, which will be responsible for postal services. An independent financial branch of the postal system (FinaPoste) has been established and a license application for this institution is expected to be filed with the Banking Commission.

### Privatization

30. **The government is continuing to reassess its privatization strategy for NIGELEC and SONIDEP.** The government is receiving financial and technical support from the World Bank, and plans to organize in the coming months a technical seminar on divestiture options for the two companies.

### Fiscal management

31. **The government plans to strengthen tax and customs administration.** In addition to those outlined in paragraph 20, other important measures currently in progress are: (i) the evaluation of tax arrears and preparation of a timetable for eliminating them; and (ii) the establishment of quarterly verification of the use of granted exemptions to minimize fraud. The results of these audits will be reported to Fund staff on a quarterly basis.

32. **Measures to improve budget preparation and execution will continue.** The government plans to complete by March 2006 the current assessment of the opening statements for the various Treasury accounts for the period 1997–2003, with the aim of restoring stock-flow consistency for the period concerned. Further efforts will be made to ensure medium-term expenditure frameworks are consistent with the poverty reduction strategy. The MTEFs for health and education—which have been revised and substantially improved—will be incorporated into the 2006 budget. With regard to rural sector development, proposed action plans and their costing will be finalized in the first half of 2006. Subsequently, prioritized MTEFs will be prepared and included in budgets starting in 2007. Efforts will also be made to continue strengthening internal and external controls of government financial operations, including a reactivation of the “Cours des comptes” and parliament oversight of government finances.

33. **On other reforms, the government, with UNDP support, is preparing a public sector modernization project**, focusing on the sector's size and incentive structures, as well as the efficiency of public service delivery. The government also plans to detach the Fonds National de Retraite (FNR) from the Treasury and organize it as an independent entity. The recommendations arising from this work will be discussed with Niger's development partners prior to their implementation.

34. **We plan to further strengthen expenditure tracking.** With technical support from the World Bank (and financial assistance from Japan), the government has prepared a list of poverty-reducing expenditures, which will be monitored closely. This will improve monitoring of the poverty reduction strategy.

#### **F. Poverty Reduction Strategy Paper (PRSP)**

35. **The government is reviewing the implementation of its poverty reduction strategy.** It plans to update the strategy, which was adopted in 2002. This will require completion of ongoing analysis of the poverty profile and sources of growth that is critical for strengthening and/or preparing development strategies for priority sectors. The completion of above-noted work will form the basis for revising the medium expenditure frameworks for priority sectors, and the preparation of a donor conference during 2006 to mobilize the required additional resources to advance the PRS. In the meantime, the government is committed to advancing ongoing work in the following areas:

- updating poverty analysis by completing the planned surveys (including the household expenditure survey) and conducting a qualitative assessment of socioeconomic vulnerabilities;
- costing the programs accompanying the rural sector strategy, and the development of strategies for other key areas such as tourism development;
- strengthening the MTEFs, especially those for priority sectors, and ensuring their use in annual budget preparation, starting with the 2006 fiscal year;
- adopting a strong population policy;
- strengthening further the management of HIPC resources; and
- mobilizing additional resources for supporting the PRS.

Pending completion of this work, in November 2005 the government will issue its third annual status report on the poverty reduction strategy.

#### IV. MONITORING PROGRAM IMPLEMENTATION

36. **Completion of the first review of the PRGF arrangement for Niger depends on the following prior action:** adoption of a ministerial order outlining cuts of expenditures as specified in paragraph 17 above. This prior action was completed on October 27, 2005.

37. **The monitoring of the revised program will be based on quantitative performance criteria and benchmarks and quarterly structural performance criteria and benchmarks (Tables 1 and 2).** The authorities will provide the IMF with the information required to monitor the program in accordance with the Technical Memorandum of Understanding (attachment under reference Country Report No. 05/79, [www.imf.org](http://www.imf.org)). During the program period, the authorities will not introduce or strengthen 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.

38. **The second review of the PRGF arrangement is expected to be completed by mid-January 2006.**

## General Directorate of Customs—Performance Indicators

Indicator	Comments
Average duration of customs clearance for imports and/or number of import declarations not cleared within 48 hours	Indicator of progress achieved in: (i) facilitating foreign trade; and (ii) improving the general efficiency of customs services
Number of customs violations/number of customs inspections	The proportion should increase so as to bring out the improvement in risk analysis
Value of goods seized	This indicator may be used (preferably quarterly) to evaluate the success of operations to combat fraud
Number of customs transit declarations not settled one month after the goods have left	Transit is a major problem as Niger is a landlocked country
Value of exempted goods whose final use has been verified/total value of exempted goods	Exemptions are generally granted on condition that they are put to a specific use. We may reasonably expect that customs check 30 percent of exempted goods declared during the preceding year.

Table 1. Niger: Quantitative Performance Criteria and Indicative Targets for the Period January 01, 2005-June 30, 2006  
(In billions of CFA francs)

	End-March 2005			End-June 2005			End-September 2005		End-December 2005		End-March 2006 1/	End-June 2006 1/ 2/
	Indicative targets			Performance criteria			Indicative targets		Performance criteria		Indicative targets	
	Program	Est.	Status	Program	Est.	Status	Program	Rev. Prog.	Program	Rev. Prog.		
<b>A. Quantitative performance criteria and indicative targets</b> (cumulative from December 31, 2004)												
Domestic financing of the budget 3/ 4/	5.3	-0.7	√	12.6	11.6	√	13.4	13.7	3.2	18.5	-1.9	-12.9
Basic budget balance (commitment basis, excl.grants) 5/ 6/	0.2	0.1	X	-5.8	-15.1	X	-12.6	-36.1	-14.6	-46.1	2.3	0.5
Reduction in government domestic payments arrears 7/	4.2	-1.2	X	8.4	-2.3	X	13.4	5.1	18.4	10.1	-0.4	-0.8
Memorandum item:												
Exceptional external budgetary assistance 8/	1.4	-6.8		7.2	-7.8		20.9	35.9	41.9	49.8	0.2	13.6
<b>B. Continuous quantitative performance criteria</b>												
Accumulation of external payments arrears	0.0	0.0	√	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 9/	0.0	0.0	√	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 10/	0.0	0.0	√	0.0	0.0	√	0.0	0.0	0.0	0.0	0.0	0.0
<b>C. Indicative targets</b> (cumulative from December 31, 2004)												
Total revenue 7/ 11/	45.8	41.5	X	93.7	87.0	X	142.1	136.5	193.8	186.9	45.2	94.2
Wage bill 5/ 12/	15.7	15.1	√	31.5	31.2	√	47.3	47.3	63.1	63.1	17.3	34.7

Note: The term "debt" has the meaning set forth in point number 9 of the Guidelines on Performance Criteria with Regard to Foreign Debt, adopted on August 24, 2000, and also applies to commitments contracted or guaranteed for which value has not been received.

1/ Cumulative, starting January 1, 2006

2/ Will be converted to performance criteria at the time of the second PRGF Review discussions.

3/ Performance criteria for program indicators under A and B; indicative targets otherwise.

4/ The ceiling on domestic financing of the budget will be adjusted if the amount of disbursements of external budgetary assistance, as defined in footnote 8, exceeds or falls short of program forecasts.

If disbursements are less than the programmed amounts, the ceiling will be raised in line with the observed shortfalls, up 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 additional amount beyond this CFAF 3.0 billion unless the excess assistance is used for a reduction of domestic payments arrears in excess of the programmed reduction.

5/ Maximum. If external budgetary assistance defined in footnote 8 exceeds the amounts programmed by up to CFAF 3.0 billion, the basic budget balance will be decreased only by that amount.

6/ Total revenue, excluding grants and revenue from settlement of reciprocal debts, minus total expenditure excluding foreign-financed investment outlays.

7/ Accumulation of arrears (-)/Minimum.

8/ External budgetary assistance (including traditional debt relief, but excluding IMF financing and HIPC Initiative interim assistance) net of external debt service (excluding IMF repayment) and payments of external arrears.

9/ Except for ordinary credit for imports or debt relief.

10/ Excluding debt relief obtained in the form of rescheduling or refinancing; 50 percent minimum concessionality for new loans.

11/ 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.

12/ The scope of the wage bill is defined in the technical memorandum of understanding.



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

Measures	Date	Status
<b>Prior action</b>		
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
<b>Structural performance criteria</b>		
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	New
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	New
Raising the turnover threshold from CFAF 50 million to CFAF 100 million so that the large taxpayer unit (LTU)'s activities are refocused on the 300-400 largest taxpayers.	End-January 2006	New
Use of a pre-shipment inspection company's imports valuation lists for imports taxation purposes.	End-September 2006	New
<b>Structural benchmarks</b>		
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.	By end-September 2005	Revised to a prior action for completion of second PRGF review

## Amendments to the Technical Memorandum of Understanding (ATMU)

(October 28, 2005)

1. This memorandum contains amendments to the definitions and adjustments of the quantitative performance criteria and benchmarks in the original TMU (Country Report No 05/79, [www.imf.org](http://www.imf.org)). The new definitions and adjustments provided below supersede those contained in the original TMU. Except for the amendments described below, definitions and adjustments of the quantitative performance criteria and benchmarks of the TMU annexed to Country Report No. 05/79, [www.imf.org](http://www.imf.org) remain unchanged.

### QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS

#### A. Basic Budget Balance

2. The basic budget balance is defined as the difference between total revenue, excluding grants and revenue from the settlement of reciprocal debts between the government and enterprises, and total expenditure, excluding externally financed capital expenditures (including investment expenditures financed by resources freed up as a result of the HIPC Initiative assistance). The performance criterion and indicative targets are based on the cumulative basic budget balance from end-December 2004 for the 2005 program and from end-December 2005 for the 2006 program.

#### Reporting requirement

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

#### Adjustment

4. If external assistance is larger than programmed in the revised program, the performance criterion and indicative targets will be adjusted pro tanto up to CFAF 3 billion for 2005 and up to CFAF 25 billion for 2006.

#### External Nonconcessional Loans Contracted or Guaranteed by the Government of Niger

5. 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 grant element of less than 50 percent, excluding IMF loans. To calculate the grant element for loans with a maturity of at least 15 years, the discount rate to be used is the ten-year average commercial interest rate reference (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.



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November 14, 2005

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Completes the First Review of Niger's PRGF Arrangement and Approves US\$15.4 Million Disbursement Along With a US\$28.1 Million Augmentation**

The Executive Board of the International Monetary Fund (IMF) completed today the first review of Niger's economic performance under the Poverty Reduction and Growth Facility (PRGF), and approved an augmentation of IMF support amounting to SDR 19.7 million (about US\$28.1 million), which will bring total access under the arrangement to SDR 26.32 million (about US\$37.5 million).

The Board also granted waivers for the nonobservance of the end-June 2005 quantitative performance criteria on the basic budget deficit and the reduction in government domestic payments arrears.

As a result of the completion of the review, Niger will be eligible to draw an amount equivalent to SDR 10.81 million (US\$15.4 million), bringing the total amount disbursed under the arrangement to SDR 11.75 million (about US\$16.7 million). Niger's PRGF arrangement was approved on January 31, 2005 (see [Press Release No.05/20](#)).

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

“A drought in 2004 has had a severe impact on Niger that affected a quarter of the population and caused acute malnutrition and starvation in the course of 2005. The drought and a significant deterioration in the terms of trade in 2005 due to higher oil prices reduced economic growth and triggered steep price increases. These adverse shocks have weakened economic performance and government finances, necessitating a revision to the original IMF-supported program and augmentation of access to Fund resources, especially needed to replenish depleted strategic grain reserves.

“The revised program addresses the impact of the drought while minimizing sustained deviations from the original IMF-supported program. It accommodates additional expenditure for rebuilding strategic grain reserves and boosting public investment to address the factors underlying the country's vulnerability to exogenous shocks, and envisages tax and customs administration reforms that will strengthen revenue over the medium term. Spending will be prioritized to ensure adequate financing for pro-growth and pro-poor programs.

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“Going forward, Niger’s main challenge is to strengthen economic growth and reduce its vulnerabilities to alleviate poverty. This will require a strong commitment to implementing growth-enhancing sectoral strategies. As outlined in the country’s Poverty Reduction Strategy, priorities include the implementation of a rural sector strategy, with an emphasis on developing irrigation infrastructure, and diversifying the economy including through the development of tourism. Success in the implementation of these strategies will hinge on strengthened economic governance, increased external support, and domestic consensus to strengthen program ownership. The authorities plan to organize a donor conference in early 2006 to mobilize much-needed development finance.

“The authorities have reiterated their commitment to reforming the financial sector and privatizing public utilities. The government intends to finalize its disengagement from *Crédit du Niger* and to restructure the National Postal and Saving Institution; it also plans to revisit the privatization strategy for the petroleum-importing (SONIDEP) and electricity (NIGELEC) companies. The authorities recognize that successful implementation of their reform agenda is predicated on continued strengthening of Niger’s weak institutional capacity, in collaboration with development partners,” Mr. Carstens said.

The PRGF is the IMF’s concessional facility for low-income countries. PRGF loans carry an annual interest rate of 0.5 percent, and are payable over 10 years with a 5½ -year grace period on principal payments.

**Statement by Damian Ondo Mañe, Executive Director on Niger  
November 14, 2005**

**I. Introduction**

On behalf of my Nigerien authorities, I would like to thank the Board, Management, and Staff for their continuous involvement and support for Niger. IMF advice has helped my authorities design a macroeconomic strategy, in the context of profound economic disruption, the wake of the food crisis, and the social unrest which arose in early 2005.

As Directors may recall, Niger has experienced a severe food crisis in 2005 which has clouded the commendable progress in macroeconomic stabilization made during the last PRGF program 2000-2003. The crisis which resulted from the drought and locust plague in late 2004, showed once again the high vulnerability of the Niger economy to exogenous shocks as well as the in-country limited means to fight against these natural disasters. Even though important efforts have been made both by the government and the international community to bring relief to the three million people affected by the crisis, the impact of food shortages has led to a further deterioration of the social indicators profile.

My authorities are grateful to the international community for its support in helping to mitigate the adverse effects of food shortage in 2005, but they recognize that much more support is needed. The government's intention is to break off from the past and render the economy more resilient to exogenous shocks, including those related to drought or locust invasion. The achievement of such objectives requires the building of an agriculture production system less vulnerable to weather vagaries, namely by encouraging, among others, the development of important irrigation projects. Despite their limited capacity, my authorities remain firmly determined to address these challenges, in close collaboration with its development partners.

In view of the adverse shocks experienced lately, my authorities are proposing a revised program for this year and 2006, one that is based on financing the unexpected fiscal effects through the strengthening of domestic revenue collection, the acceleration of sectoral reforms, the enhancement of growth and the economy's resilience to shocks. However, the financing needs are daunting, requiring urgent external assistance. Therefore, they are requesting an augmentation of access to Fund resources to complement the already committed resources from the World Bank. The contribution of bilateral donors are also mostly desired.

**II. Recent Developments and Performance Under PRGF program**

The combined-effects of drought, locust plague, higher oil prices and lower-than-projected external assistance had a significant adverse impact on macroeconomic performance in 2004 and 2005. Due to a 15 percent decline in agricultural output, real GDP stagnated in 2004, against an annual average growth rate of 5.1 percent during the last PRGF program 2000-2003. Inflation was driven by food price increases and accelerated especially in early 2005,

while the external position weakened, affected by the impact of higher food imports and world oil prices. The severe shocks to the economy also weakened government finances, as the primary budget deficit increased to 8.4 percent of GDP in 2004, and is projected at 8.6 percent for 2005.

The simultaneous consequences of food shortages and the introduction of VAT on milk, wheat flour, and cooking oil also contributed to trigger a strong civil unrest which paralyzed activities in the country during several weeks. In view of the hardships being felt by the population, and the need to ensure social stability in an already fragile political context, my authorities took the decision to repeal the VAT measures and also suspended customs duties on food imports.

Despite the large shocks to the economy, my authorities have remained determined to keep the program on track. In this regard, it is to be noted that all structural performance criteria and benchmarks, at end-June 2005, have been observed except for one which was met on August 2005, due to delays in receiving the needed external technical assistance. Five out of the eight quantitative criteria and benchmarks have been observed. The targets missed were related to the impact of the food crisis-which induced more spending than projected and less revenue collection. Thus, my authorities are requesting a waiver of nonobservance of performance criteria.

### **III. The economic outlook and policies**

For the near-and-medium-terms outlook, the authorities are focusing their efforts on meeting the challenge caused by the food crisis. They are also making efforts to strengthen the revenue collection in order to preserve the program on track beyond 2005 while tackling the major challenge of putting the Niger economy on the path of sustainable growth. In particular, they are envisaging, with donor support, to replenish grain reserves so as to reinforce the food security mechanism dried up by the later crisis, implement effectively sectoral strategies, and boost irrigation and rural development projects.

#### **Fiscal Policy**

On the revenue side, my authorities are well aware that raising the level of revenue collection remains critical. In this connection, they intend to introduce in 2006 a tax of 0.25 percent on the transit and reexports of tobacco products. They have also identified several structural measures to strengthen customs and tax administration. As for the medium-term, a strategy of revenue mobilization, based on recent FAD technical assistance, is being developed. To ensure that this strategy will be effectively elaborated in the needed time limit, my authorities have requested technical assistance from several development partners.

On the expenditure front, my authorities' immediate concern is on the need to ensure an orderly adjustment which would take into account the impact of drought and locust invasion estimated at 2.9 percent of GDP. To this end, in collaboration with the staff, the program was revised to accommodate the cost of replenishing the grain reserves. With a view to limiting the imbalance resulting from this revision as well as that due to the expenditures related to

the Francophonie Games, my authorities have taken the decision to reduce government spending by 7 billion of CFA franc, while protecting priority spending. They have thus ordered the establishment of a master list of poverty reduction expenditure as well as a monthly mechanism to ensure their monitoring. For 2006, the revised program, based on donor support, envisages an additional expenditure aiming at improving food security.

### **PRSP and Structural Reforms**

The main objectives, over the medium term, remain the strengthening of the resilience of Niger economy to shocks, creating the conditions of sustainable growth and accelerating the pace of poverty reduction as reflected in the PRSP. My authorities' intention is to expedite the implementation of sectoral strategies described in this program, which include developing the irrigation infrastructure and improving the agricultural productivity. In this regard, they have already completed the costing of the sectoral program of road and transport and expect to finalize by mid-June 2006 that of the sectoral program for the rural sector strategy. In light of the 2005 international community mobilization which has been effective in mitigating the food crisis, my authorities would like to organize, in collaboration with the World Bank, a donor conference during 2006 which will be devoted to the financing of these sectoral strategies. In order to better align the budget with the PRSP objectives, the costing of sector strategies will be reflected through the budget of 2007.

As regards structural reforms, my authorities are committed to press ahead with the implementation of the reforms agenda. For the financial sector, they intend to finalize: (i) the government's disengagement from *Crédit du Niger*, and (ii) the restructuring of the postal and savings institution. Important progress has been made, with World Bank support, towards the achievement of these objectives. Given the poor response shown so far by investors, my authorities are considering a new strategy of privatization, with World Bank assistance, to make more attractive the offers for the sale of NIGELEC and SONIDEP, respectively the electricity and petroleum-importing companies .

My Nigerien authorities, to reinforce economic governance, are implementing the following reforms related to the 2004 recommendations of Public Expenditure Management and Financial Accountability Review (PENFAR): (i) continued strengthening of the computerization program for central and provincial treasury offices (ii) strengthening internal and external controls of government financial operations, including a reactivation of the “*Cour des comptes*” and Parliament oversight of government finances. Concerning the domestic arrears situation, my authorities are committed to clarify it by end-December 2005 and elaborate a clearance strategy by March 2006. They are working with the regional central bank, BCEAO, on a timetable to repay statutory advances.

In view of the large financing needs for implementing sectoral strategies set forth in the PRSP and for creating necessary conditions for sustainable growth compatible with the objective of significantly reducing poverty, my Niger authorities appeal to the international community to provide for adequate and more predictable aid. To avoid the worsening of the existing difficult debt burden, my authorities express their preference for alternative sources of financing, including grants. However, given the magnitude of the current difficulties

which demand urgent financing, that may not be obtainable at the concessional rates required in the program, I appreciate the staff's recognition and support for my authorities' request for a reduction of the grant element conditionality in order to enable them to mobilize the financing needed to address the current aftermaths of the drought and locust plague. Going forward, my authorities are committed to review, with World Bank assistance, all projects with a grant element of between 50 percent and 60 percent. They stress the need for more support from the Fund, in particular in playing its catalytic role towards the mobilization of aid from development partners.

#### **IV. Conclusion**

Niger has under the last PRGF program implemented sound macroeconomic policies and made important progress in the stabilization of the macroeconomic stance. These achievements have created a strong foundation for the full implementation of the poverty reduction strategy. However, the recent economic and social disruption in the wake of drought and locust invasion that occurred in the last quarter of 2005 has once again shown the high vulnerability of the Niger economy to shocks. My authorities believe that a relevant response to the vulnerability requires continued efforts to diversify production and put the economy on a sustainable growth path, which would render it less dependent on weather conditions. In particular, they stress the need to encourage the development of irrigation infrastructure and the use of modern technology to improve agricultural productivity. To this end, they are committed to pursue their reforms agenda as well as the implementation of sectoral strategies developed in the PRSP. They also rely on the continuous support of the Fund and the international community to assist them in addressing these daunting challenges. I would like, therefore, to ask Directors for their support for the proposed decision, including an augmentation of access under PRGF arrangement.