

Niger: First Review Under the Three-Year Poverty Reduction and Growth Facility—Staff Report; Staff Statement; and News Brief on the Executive Board Discussion

In the context of the first review under the three-year Poverty Reduction and Growth Facility Arrangement, the following documents have been released and are included in this package:

- the staff report for the first review under the three-year Poverty Reduction and Growth Facility Arrangement, following discussions that ended on **July 4, 2001**, with the officials of Niger. **Based on information available at the time of these discussions, the staff report was completed on July 20, 2001.** 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 staff statement of **August 3, 2001** updating information on recent economic developments.
- a News Brief summarizing the **views of the Executive Board as expressed during the August 3, 2001 Executive Board discussion** of the program.

The documents listed below have been or will be separately released

Letter of Intent*
Memorandum of Economic and Financial Policies*
Technical Memorandum of Understanding*

*May also be included in Staff Report.

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NIGER

**First Review under the Three-Year
Poverty Reduction and Growth Facility Arrangement**

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs,
Policy Development and Review, Statistics, and Treasurer's Departments)

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July 20, 2001

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EXECUTIVE SUMMARY

Recent developments

- **Economic performance was affected in late 2000 by unfavorable climatic conditions, resulting in food shortages, and by delays in the delivery of external budgetary assistance.** Notwithstanding these difficulties, the authorities have continued the implementation of their economic, social, and political agenda approved by the National Assembly in April 2000.
- **Overall performance under the program was broadly satisfactory in 2000.** All end-December 2000 benchmarks were observed, except for a slight overshooting of the wage bill by 1 percent and an increase of domestic payment arrears. The programmed reduction of domestic payments arrears was not effected as a result of delays in the disbursement of expected external aid in 2000.
- **Performance under the program in the first half of 2001 has been mixed, reflecting persistent weaknesses in administrative capacity and a reorientation of budgetary policy.** The authorities decided in particular to make use of large inflows of external assistance in early 2001 to speed up the execution of the 2001 budget, instead of correcting for slippages in the reduction of domestic payments arrears in 2000. These developments, as well as a weakening in the authorities' monitoring of the program implementation, resulted in the nonobservance of two program benchmarks and three performance criteria at end-March 2001, but the key performance criterion on net bank credit to the government was observed.
- **The reform program to improve budget execution and public accounting progressed at a slower pace than envisaged, but performance under the privatization program has been broadly satisfactory.**

Policies for the remainder of 2001

- **The discussions centered around measures to address the slippages in 2001 and program-implementation weaknesses.** Understandings were reached on corrective measures to bring policy implementation back on track and to justify the authorities' requests of waivers for the nonobservance of performance criteria at end-March 2001. The authorities will strengthen in particular the administrative capacity to implement the program.
- **The revised program for 2001 aims at ensuring the attainment of original objectives,** in the context of a macroeconomic framework that takes into account the impact of the drought and the HIPC Initiative benefits. Economic growth in 2001 would reach 4 percent; inflation would decline to 3.6 percent, year on year, at end-December 2001; and the external current account deficit (excluding official transfers)

would reach 11.5 percent of GDP in 2001. The external financing gap is expected to be filled, based on financing assurances already received.

- **The overall budget deficit, on a commitment basis and excluding grants, would increase by nearly one percentage point of GDP to reach 8.8 percent of GDP in 2001, mainly due to additional expenditure financed by resources freed as a result of the HIPC Initiative assistance.** After taking into account the correction of end-2000 slippages in the reduction of domestic payments arrears, the domestic financing requirement would increase by 1 percent of GDP, of which 0.7 percent of GDP would be covered by the utilization of privatization proceeds.
- **On the structural side, a new petroleum product pricing system that is transparent, automatic, and flexible will be introduced in August 2001.** This important reform also includes a revised taxation of petroleum products that will contribute to the attainment of the 2001 revenue objectives.
- **The reform to improve the budget execution and public accounting will be brought back on track.** In collaboration with the World Bank, a reform of the financial sector will be initiated and privatization of the main remaining public enterprises will continue apace.
- **The authorities are validating the poverty reduction strategy by ensuring the participation of all social partners** in its development and intend to complete the preparation of their full PRSP by end-2001, in order to reach their completion point under the enhanced HIPC Initiative by December 2002.

In light of the corrective measures taken by the authorities to bring program implementation back on track, the staff recommends that the Executive Board approve the requested waivers and complete the first review under the PRGF arrangement.

I. INTRODUCTION

1. **Discussions on the first review of the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF)** were held in Niamey during May 14-28, 2001 and in Washington during June 27-July 4, 2001.¹ The arrangement, covering the period October 2000-September 2003, was approved by the Executive Board in an amount of SDR 59.2 million (90 percent of quota) on December 14, 2000 (EBS/00/244, 11/29/00; and EBS/00/235, 11/21/00).

2. **Niger's decision point under the enhanced Heavily Indebted Poor Countries Initiative (HIPC Initiative)** was also approved on December 14, 2000 (EBS/00/256, 12/06/00). In this context, the poverty reduction strategy of the authorities has been outlined in their interim poverty reduction strategy paper (I-PRSP) of October 6, 2000 (EBD/00/108, 12/01/00). With a net present value (NPV) of external debt estimated at US\$1,089 million and a debt-to-exports ratio (after full use of traditional debt-relief mechanisms) of 322 percent in 1999, the base year, the total amount of assistance required to bring this ratio to a sustainable level of 150 percent was estimated at US\$521 million in NPV terms. The implied common reduction factor for all creditors was estimated at 53.5 percent.

3. In the memorandum of economic and financial policies (MEFP) dated July 19, 2001 (EBS/01/123, Sup. 1, 07/20/01), the Nigerien authorities review developments in 2000 and early 2001 and present their revised program and related policies for the remainder of 2001.

4. **Niger's use of Fund resources is relatively moderate**, at SDR 56.8 million (or 86.3 percent of quota) at end-June 2001. If the full amount under the PRGF arrangement is disbursed, and taking into account scheduled loan repayments, Niger's use of Fund resources would amount to SDR 95.9 million (145.8 percent of quota) at end-December 2003 (Table 1). Niger's relations with the Fund are summarized in Appendix I.

5. **The World Bank** provided support to the authorities' program with a public finance recovery loan amounting to US\$35 million in September 2000. This loan was supplemented by an additional credit of US\$9.5 million in January 2001 to alleviate the financing requirements caused by the surge of oil prices in 2000. For the period ahead, a fiscal and structural adjustment credit (SAC) is being appraised. Other World Bank assistance will

¹ The staff representatives were Mr. Maret (head), Mr. Pérez, Ms. Guichard (EP), Ms. Le (Research Assistant), (all AFR), and Mr. N'guiamba, the Fund Resident Representative in Niger. Mr. Ismael, Advisor to the Executive Director for Niger, took part in the discussions in Niamey and Washington. The World Bank attended most of the discussions. The Nigerien representatives included Mr. Gamatié, Minister of Finance; Mr. Soumana, National Director of the Central Bank of West African States (BCEAO); and other senior government officials. President Tandja and Prime Minister Amadou also met with the mission.

focus on reforms in the agricultural, financial, transportation, and education sectors. Niger's relations with the World Bank are summarized in Appendix II.

II. BACKGROUND AND RECENT DEVELOPMENTS

6. **The main events that affected performance in 2000 and early 2001 include irregular rainfalls and some delays in foreign assistance at end-2000:**

- **Climatic conditions.** Inadequate and irregular rainfalls in the second half of 2000 resulted in a lower-than-expected agricultural production. The uneven geographical distribution of rains prevented an early assessment of the extent of production losses and their consequences. External assistance has thus been slow in responding to a shortfall in cereal production now estimated at about 160,000 tons and the emergence of isolated famine areas.
- **Foreign aid.** The authorities have been successful in restoring relations with the donor community, but actual flows of external aid in 2000 were lower than anticipated as a result of administrative delays on the part of foreign donors, and were concentrated at the very end of the calendar year.

Moreover, in spite of the implementation of a peace agreement with the former rebel forces in the northern and eastern regions of the country, political and social tensions in neighboring countries and consequent inflows of refugees in Niger have aggravated security conditions, especially in border areas and large cities.

7. **Notwithstanding these difficulties, the authorities have continued the implementation of their economic, social, and political agenda approved by the National Assembly in April 2000.** In that context, they have achieved their main objective of maintaining stability and peace in the country. They have also progressed toward restoring the conditions for a turnaround in the economic and macroeconomic performance of the country. Key elements of this progress have been the regular payment of wages and salaries of the civil service (including two months of salary arrears), a prudent fiscal stance linked to the implementation of a strict cash management system, the resolve of the authorities to renew relations with the international community, and some advances in the implementation of structural reforms.

8. **In light of the above-mentioned elements, overall performance can be considered broadly satisfactory in 2000,** as described by the authorities in their MEFP. Despite the drought and the ensuing increase in food prices, economic growth was slightly positive in 2000, and inflation was limited to 4.7 percent, year-on-year, at end-December (Table 2). The basic fiscal deficit (on a commitment basis and excluding grants) reached the equivalent of 3 percent of GDP, compared with the program target of 3.2 percent of GDP and a deficit

of 5.6 percent of GDP in 1999 (Table 3).² The external current account deficit (excluding official transfers) was limited to 9.3 percent of GDP, as opposed to the planned 10.3 percent, and the real effective exchange rate depreciated by 2.5 percent (Figure 1). The net external assets of the Central Bank of West African States in Niger (BCEAO Niger) increased by nearly US\$30 million to a positive level (Tables 4 and 5).

9. **In terms of program implementation, all quantitative benchmarks for end-December 2000 were met, except for a slight overshooting of the wage bill and a failure to reduce domestic payments arrears as programmed** (Table 1 of the MEFP).³ The larger wage bill (by only 1 percent) reflected the decision of the government to postpone the retirement of teachers under the new civil service retirement rules, introduced in March 2000, until the end of the school year. The moderate increase in domestic payments arrears, instead of a programmed CFAF 14 billion reduction (about 1 percent of GDP), was the consequence of the authorities' decision to subordinate the payment of domestic arrears to the availability of external budgetary assistance and to maintain some precautionary cash balances at the end of the year. As external assistance in the last quarter of 2000 was disbursed in smaller amounts and much later than programmed, an orderly reduction of domestic payments arrears could not be effected as envisaged; however, the late external financing contributed to the large reduction of net bank credit to the government observed at year's end.

10. **Performance under the program deteriorated in the first quarter of 2001 as a result of continuing weaknesses in the administrative capacity to implement the program and in the data management system to monitor its progress.** A weak monitoring of debt service obligations resulted in the accumulation of CFAF 1.6 billion in external payments arrears on post-cutoff-date debt to Paris Club creditors, thus resulting in the nonobservance of the continuous performance criterion on external payments arrears until the settlement of these payments arrears on July 12, 2001. Similarly, the end-March 2001 performance criterion on nonconcessional external borrowing was not observed due to new lending from the West African Development Bank (BOAD) on terms that did not meet the program requirement of concessional lending with a grant element of at least 50 percent. This new project lending resulted from a lack of coordination between the ministry of planning in

² The basic budget balance is defined as the difference between revenue and expenditure, excluding foreign-financed investments.

³ Based upon staff current understanding, the end-December 2000 benchmarks on the noncontracting of nonconcessional external debt appear to have been met. There is an undetermined issue of whether loans to Niger approved by the West African Development Bank (BOAD) Board on December 19, 2000 became effective on the date of the BOAD Board approval decision or whether they became effective on March 23, 2001 when the agreements were signed. The arrangements approved on December 19, 2000 are incorporated into the agreements signed on March 23, 2001 and are consequently taken into account in determining the nonobservance of the end-March 2001 external debt performance criterion.

charge of the investment budget and the ministry of finance. Finally, the end-March 2001 performance criterion on the reduction of domestic payments arrears was not observed as a result of weaknesses in the authorities' monitoring of this program and cumbersome administrative procedures that slowed the settlement of small claims below CFAF 5 million which had been targeted in the first quarter of 2001.

11. **In addition, the authorities decided in early 2001 to speed up the execution of the budget, compared with program objectives.** By allowing 25 percent of the budgetary allocations to be committed in the first quarter of 2001, instead of the programmed 17 percent, the authorities aimed at providing the administration with more resources at an earlier stage to compensate for the adverse consequences of the budgetary constraints imposed in 2000, to improve the delivery of public services, and to start the implementation of their poverty reduction program. Thus, despite the observance of the benchmarks on revenue and the wage bill, the end-March 2001 benchmark on the basic fiscal deficit was not observed as a result of a sizeable overshooting of current expenditure. The budget, however, benefited from substantial inflows of foreign aid in early 2001 equivalent to about 1.5 percent of GDP. Moreover, the government did not correct for the end-2000 slippages in the domestic payments arrears reduction program and aimed at keeping a high level of cash resources.⁴ As a result, in spite of the larger deficit, the end-March 2001 performance criterion on net bank credit to government was observed by a wide margin.

12. **The implementation of structural reforms over the period was broadly satisfactory,** as described in the MEFP.⁵ In particular, two mobile telephony licenses were sold at end-2000, and the water company (SNE) was leased in the first quarter of 2001. Similarly, the authorities set up the necessary institutional framework for completing the full PRSP by the target date of December 2001. However, progress of the reform to improve budget execution and public accounting was slower than envisaged (Table 2 of the MEFP). As a result of the decision of the authorities to clean up treasury suspense accounts in the context of the closing of the 1998 and 1999 budget accounts, the operations to establish opening balances of the 2001 public accounts on the treasury books were delayed and the related end-March 2001 structural benchmark could not be observed.

⁴ The end-March 2001 performance criterion on the reduction of domestic payments arrears was not cumulative from October 1, 2000 and related only to the settlement of payments arrears in the first quarter of 2001.

⁵ Structural conditionality under the PRGF program is reviewed in Box 1.

III. POLICIES FOR THE REMAINDER OF 2001

A. Main Issues Discussed

13. **Discussions for the first review of the PRGF arrangement focused on measures to address the observed slippages in the program implementation and bring the program back on track**, while taking into account the impact of the drought and the need to improve security conditions. The implementation of the enhanced HIPC Initiative was also an important element of the discussions.

Box 1. Niger: Structural Conditionality under the PRGF Arrangement

Coverage of structural conditionality in the current program

The structural areas covered by conditionality in the 2001 program include (i) the implementation of a petroleum product pricing system that is transparent, flexible, and automatic; and (ii) the strengthening of the budgetary processes and reporting (Table 2 attached to the memorandum of economic and financial policies). An important element of the petroleum product pricing system is a revision of the petroleum product taxation that contributes substantially to the attainment of the revenue targets for 2001 and beyond. The strengthening of the budgetary processes and reporting aims at ensuring transparency of budgetary operations, as well as improving governance.

Relevant structural conditions measures not included in current program

Reforms related to the strengthening of the financial sector and the privatization of public enterprises are covered and conducted under the leadership of the World Bank. They are not included as structural conditions under the current program. The Fund Executive Board has expressed interest in the strengthening of the financial sector. To that end, the government has prepared a financial sector reform program with the assistance of the World Bank.

Status of structural conditionality from earlier programs

Niger's past track record of structural reform implementation has not been very satisfactory as a result of weaknesses in implementation capacity and several interruptions due to two coups d'état since 1995. Main areas of reform of the last program supported by the ESAF arrangement (1996-98) included civil service reform to control the wage bill, the privatization of public enterprises, a restructuring of the banking sector, and governance actions related to transparency of budgetary operations and clearing of domestic payments arrears.

Structural areas covered by World Bank lending and conditionality

The Bank approved and disbursed a single-tranche adjustment credit in 2000 that aimed at supporting the government's financial stabilization efforts and the resumption of the structural reform program in the following areas: (i) public sector reform, especially with respect to public expenditure management and domestic arrears settlement; and (ii) liberalization and privatization in key markets (telecommunications, water distribution, power distribution, and petroleum product distribution), including the establishment of an adequate regulatory framework. The Bank is appraising a follow-up structural adjustment operation that will support the completion of reforms in these same areas, as well as address the implementation of the financial sector reform program. This program targets the restructuring and consolidation of the commercial banking sector, as well as insurance, pension, and microfinance systems. In addition to the adjustment operation, a technical assistance credit to support the program is envisaged for 2002.

Program implementation

14. **The staff reviewed with the authorities the difficulties encountered in implementing the program.** The staff was concerned, in particular, by the nonobservance of the continuous performance criterion on external payments arrears and the end-March 2001 performance criteria on nonconcessional long-term external debt and domestic payments arrears. Similarly, while understanding the intent of the authorities in speeding up the budgetary execution in 2001, the staff expressed concern about the budgetary slippages in the first quarter of 2001 and their potential consequences for the year as a whole.

15. **Understandings on corrective measures were reached with the authorities to ensure a better implementation of their program and keep budgetary execution within the limits of the revised budget law for 2001.** In this context, the authorities have benefited from their “learning-by-doing” approach to program implementation. As a result, they will ensure a better and wider communication of the program objectives and requirements within the government and its agencies. Efforts to provide for a timely information and analysis of developments will be stepped up through a reinforcement of the administration services in charge of these aspects of the program. A review of the existing administrative structure overseeing program implementation at the ministry of finance will be undertaken with a view to making it more effective through the creation of a specific unit monitoring macroeconomic developments and program requirements. These administrative efforts will be complemented by the ongoing reforms to improve data collection and management, particularly in the areas of public accounting, expenditure processes, and external debt management. The authorities also intend to improve cooperation and coordination with the donor community as part of their effort to enhance program implementation and reinforce policy ownership.

16. **It is clear that the strengthening of the administrative capacity will require some time to be effective.** However, the authorities are committed to correct these deficiencies and will benefit to this effect from technical assistance, including from two Fund resident experts of the fiscal affairs department in the areas of tax administration and budgetary expenditure. The need for further technical assistance to improve data management and administrative capacity will need to be assessed on a regular basis.

Domestic payments arrears

17. **Discussions on domestic payments arrears centered on the authorities’ commitments and the difficulties of articulating an effective domestic payments arrears reduction strategy.** The authorities reiterated the importance of clearing up arrears. They argued that the implementation of an effective program for the reduction of domestic payments arrears was based on the timely availability of sufficient external assistance. However, the earmarking of a large proportion of budgetary assistance reduced the availability of free resources and hampered treasury management. Furthermore, uncertainties in the delivery of budgetary assistance tended to exacerbate the liquidity situation of the treasury. As a result, it was necessary to build up larger amounts of cash balances in order to ensure a smoother budget execution, including for the clearance of domestic payments arrears.

18. **The revised program for 2001 takes these concerns into account while also providing for a catching up of the shortfall in domestic payments arrears reduction at end-2000.** As described in the MEFP, the authorities have elaborated a specific program to this effect while reinforcing the monitoring of the expenditure process in order to avoid the recurrence of new payments arrears. In this context, the authorities have acknowledged the existence of substantial amounts of verified arrears that could be settled relatively shortly, subject to the availability of external financing. At the same time, they recognized the need to strengthen the monitoring of cross debts between the state and public enterprises.

HIPC Initiative implementation

19. **The authorities were appreciative of the debt relief to be obtained under the HIPC Initiative.** The resources freed by this debt relief will be essential to move faster and more decisively toward an effective reduction of poverty in Niger. Furthermore, the authorities viewed the earmarking of these resources for the poverty reduction strategy as less constraining than traditional donor assistance in specific social sectors. The resulting greater flexibility would contribute to a better implementation and ownership of the strategy. Finally, the approval of the decision point in December 2000 and the ensuing interim assistance were timed well to finance a program launched at the initiative of the Head of State in early 2000, aiming at building 1,000 primary classrooms, 1,000 health centers, and 1,000 water wells, and broadly in line with the priorities defined subsequently in the I-PRSP.

20. **While welcoming the authorities' commitment and eagerness to push for an early start of their poverty reduction strategy, the staff stressed a few areas to which they should devote more attention:**

- **Budgeting.** While the HIPC Initiative resources and their uses in 2001 were budgeted in the revised budget law for 2001, the staff was concerned about (i) the regrouping of all HIPC Initiative-financed expenditures under the sole authority of the Ministry of Finance; and (ii) the absence of a clear distinction between current and capital outlays. The staff advised that this budgeting format be closely monitored, with a view to ensuring the required transparency in the tracking of expenditure and facilitating the assessment of its effectiveness in meeting the objectives of the strategy. This monitoring is also essential for the preparation of detailed semiannual reports and the correction in the 2002 budget of any deficiencies that may be experienced with the current system. Moreover, the staff stressed the need to estimate quickly the expected recurrent costs in future budget laws.
- **Coordination with sectoral policies.** The staff expressed some concern regarding the coordination of the expenditures financed by the HIPC Initiative with the implementation of priorities defined in existing sectoral policies. This concern of a possible "budget within the budget" was further justified by the earmarking of these spending allocations to the Ministry of Finance. In response to this expression of concern, the authorities explained that the planning and execution of expenditure covered by the HIPC Initiative

resources would be the responsibility of the sectoral ministries, and that the coordination with existing national policies had been ensured.

- **Pace of implementation.** The authorities originally envisaged in the revised budget law for 2001 a level of expenditure for the poverty reduction program significantly in excess of the HIPC Initiative resources. They justified this level by their desire to jump-start the poverty reduction strategy and achieve visible and rapid results to gain popular support for the strategy. While agreeing with the authorities' objectives, the staff argued for a pace of implementation that (i) aimed at a more gradual implementation of the strategy, consistent with HIPC Initiative resources to be obtained at the completion point; (ii) reflected the limited implementation capacity of the administration (particularly in 2001, when the full-year HIPC Initiative resources would be spent over a six-month period in line with the revised budget); and (iii) allowed for a better coordination and reflection of the objectives of the full PRSP to be finalized by the end of 2001. The staff expressed also concern about the financial implications and the sustainability of the authorities' initial plans, given all other budget constraints. Final understandings were reached to limit the implementation of the poverty reduction program to the level of HIPC Initiative interim assistance in the revised budget law for 2001.

Sustainability of fiscal policy

21. **The staff expressed concern about the sustainability of the revisions that the authorities had originally wanted to introduce into the program through the revised budget law for 2001.** These revisions included substantial increases in spending, equivalent to almost 1 percent of GDP (over a six-month period and excluding expenditure financed by the HIPC Initiative resources), that aimed at (i) addressing food shortages and internal security concerns; (ii) further correcting administrative weaknesses; and (iii) accelerating the implementation of the poverty reduction program. While recognizing the point of view of the authorities, the staff was concerned about the size and concentration of these additional expenditures on current outlays, as well as their financing through cuts in capital spending and use of privatization revenue. The quality of expenditure was also a matter for concern, as the planned net increase in outlays included large allocations for security and nonpriority sectors, while allocations for education and health were cut, albeit by a small percentage.

22. **Discussions focused on taking into account the sustainability of fiscal policy and bringing the authorities' program for 2001 in line with the financing capacities of the government while meeting the new concerns of the authorities.** Final understandings on the revised budget law for 2001 resulted in a reduction of the envisaged increase in spending to 0.3 percent of GDP (excluding expenditure financed by the HIPC Initiative resources) and included (i) a limit on the allocations for the poverty reduction program to the amount of interim assistance under the HIPC Initiative; (ii) the earmarking of privatization revenue for reduction of domestic and external arrears, as well as for some costs of the privatization program; (iii) additional allocations for food relief, to be used under the umbrella of the existing food emergency program jointly run by donors and the government; (iv) higher security expenditure,

albeit lower than initially envisaged; and (v) a restoration of social sector allocations to their initial level.

Reform of the petroleum sector

23. **The authorities are committed to the introduction of a new pricing and taxation system for petroleum products that would be flexible, transparent, and automatic and would contribute to the substantial increase in budgetary revenue programmed in 2001.** However, they had some difficulties in dealing with the technical aspects of the reform and remained apprehensive about the potential adverse economic and social consequences of large increases of petroleum products. As a result, the finalization of the reform (a performance criterion for end-June 2001) was delayed, and the implementation of the new system postponed to August 1, 2001. The staff noted that the three objectives of the reform were to introduce upward and downward flexibility to petroleum product prices, contribute to the budgetary revenue targets of the budget, and avoid price increases at the time of implementation of the reform. The new system will allow consumers to benefit from declines in international petroleum prices, while avoiding the recurrence of implicit subsidies on petroleum products and their consequences on the budget and the petroleum sector. In this context, the reform has given priority to the implementation of the envisaged pricing system by adjusting the taxation level to keep prices constant. However, some of the elements of the initially envisaged taxation system could not be factored into this reform because of weaknesses in tax and customs administration. These elements include the extension of the value-added tax (VAT) beyond the import stage and the replacement of administrative values (*valeurs mercuriales*) by the transaction value for the purpose of import valuation. The system to be implemented on August 1, 2001 is broadly consistent with the revenue objectives of the government. Furthermore, understandings were reached with the authorities about a full review of the implementation of the new pricing and taxation system by the end of the year.

24. **The staff also had extensive discussions on the economic, financial, and monetary consequences of past implicit subsidies on petroleum products supported by the government-owned importing company (SONIDEP).** Following the large increase of international prices of petroleum products in 2000, the working capital requirements of the sector rose substantially. SONIDEP, in addition, had to support a large subsidy before its elimination through retail price increases in May and September 2000, and required greater recourse to bank credit. As a result, the balance sheet and the income statement of the company deteriorated sharply at end-2000. The main concern of the staff was the capacity of SONIDEP to meet its financial commitments, particularly vis-à-vis the banking sector and suppliers. Given SONIDEP's monopoly on imports and its upcoming privatization, the staff urged the authorities to address the issue of past implicit subsidies supported by SONIDEP and monitor its financial situation closely. As a result of the discussions, understandings were reached with the authorities on the monitoring of SONIDEP and the reduction of its bank indebtedness through a partial reimbursement of past subsidies by the state.

B. Revised Program for 2001

25. **In light of the above-mentioned recent developments and corrective measures taken by the government, the revision of the program for 2001 aims at ensuring the broad attainment of the original objectives.** The macroeconomic framework was revised to take into account the impact of the drought conditions in 2000 and the HIPC Initiative benefits in 2001. Based on conservative assumptions, economic growth in 2001 would reach 4 percent and inflation would decline to 3.6 percent, year on year, at end-December 2001. With respect to the external sector, the current account deficit (excluding official transfers) is expected to reach 11.5 percent of GDP in 2001, as opposed to the initial target of 10.9 percent of GDP. This deterioration reflects larger imports related to the implementation of the HIPC Initiative, less favorable trends in petroleum product prices, and emergency food assistance. Taking into account the additional external resources of the HIPC Initiative, the expected debt relief and a projected stability of Niger's net foreign assets at the BCEAO, the external financing gap of CFAF 94 billion (excluding the IMF) is expected to be filled, based on financing assurances already received from Niger's development partners, in particular the World Bank, the European Union, the African Development Bank, and key bilateral donors.⁶

Fiscal policy

26. **The revised budget for 2001 takes essentially into account the HIPC Initiative resources and uses, the use of the privatization revenue collected in 2000,⁷ a catching up in the program to reduce the domestic payments arrears, and additional allocations to address the food crisis and security issues facing the country** (see MEFP, Section III.A). The implementation of the new taxation system of petroleum products remains consistent with the revenue framework assumed in the original program.

27. **The basic budget deficit would thus increase by the equivalent of 0.3 percent of GDP relative to the initial program.** Given the increase in foreign-financed investment spending, and in particular those expenditures linked to the poverty reduction program financed by the HIPC Initiative (0.6 percent of GDP), the overall deficit, on a commitment basis and excluding grants, would increase by nearly 1 percentage point of GDP to reach 8.9 percent of GDP in 2001. After taking account of the identified external financing resources (including from the HIPC Initiative) and the planned acceleration of the original domestic payments arrears program, the domestic

⁶ The financing gap is in line with the original program projections, and the capacity to repay the Fund that is described in EBS/00/244 is not altered. Total disbursements of about CFAF 70 billion of external assistance are expected from the World Bank and the European Union in 2001, of which CFAF 23 billion was already disbursed in the first half of the year. Assurances from the African Development Bank and key bilateral donors would cover the remaining financing gap.

⁷ The use of these privatization resources is described in paragraph 24 of the MEFP.

financing requirement would increase by 1 percent of GDP, of which 0.7 percent of GDP would come from the utilization of the privatization proceeds. In spite of this additional domestic financing, the government's net position with the banking system at end-2001 will be better than the one initially forecast in the program, reflecting an improved cash flow situation.

Monetary policy

28. As in other members of the West African Economic and Monetary Union (WAEMU), monetary and credit policies are implemented at the regional level by the Central Bank of West African States (BCEAO). These policies will remain consistent with the maintenance of an exchange rate pegged to the euro and the consolidation of the union's external position.

29. **In this regional context, money growth in Niger would be limited to 8.1 percent in 2001, compared with 8.9 percent in 2000.** There are, however, uncertainties regarding the evolution of net credit to the economy that are linked to the effective reduction of the petroleum sector indebtedness vis-à-vis the banking sector and the impact on bank liquidity of the domestic payments arrears program. The monetary authorities will monitor the liquidity situation of banks and the expansion of bank credit very closely, as well as their potential implications for the balance of payments.

Poverty reduction strategy paper

30. **The authorities intend to complete the preparation of their full PRSP by end-2001 in order to reach the completion point under the enhanced HIPC Initiative by December 2002.** They reported satisfactory progress toward this goal, based on the setting up of the institutional framework at end-March 2001 and the planned organization of regional and national workshops to validate the poverty reduction strategy through the wide participation of all social partners.

Structural reforms

31. **The authorities will continue to implement structural reforms in 2001 in collaboration with the World Bank** (see Box 1, as well as paras. 28-34 and table 2 of the MEFP). In particular, the new pricing system of petroleum products should be in place as of August 2001, and the reforms of the budgetary process and the treasury will continue apace, while a new momentum of the privatization program should enable concrete results to be achieved, particularly for the telecommunications company. A reform of the financial sector will also be initiated before year's end.

External sector and debt

32. **A new debt-relief agreement with the Paris Club was approved on January 25, 2001.** This agreement includes a flow rescheduling, on Cologne terms, of debt service due in 2001-03

and a rescheduling of external payments arrears on Naples terms. Niger is finalizing individual agreements with each Paris Club creditor.⁸ Over the remaining months of 2001, Niger will continue its efforts to conclude agreements with non Paris Club bilateral creditors consistent with debt-relief objectives under the HIPC Initiative. It will also intensify its efforts to conclude final agreements on the settlement of external payments arrears with multilateral creditors.

33. **The Nigerien authorities remain committed to a very prudent policy regarding external indebtedness.** In this context, they will try to correct the nonobservance of the performance criterion on external borrowing by obtaining the resources necessary to raise the grant element of the West African Development Bank (BOAD) loans reactivated or signed in March 2001 from 35 percent to the 50 percent required by the program. The government will not make use of these credits until the necessary resources are secured.

34. **Creditor participation under the enhanced HIPC Initiative has been secured from the Paris Club creditors and all multilateral creditors, except for the Conseil de l'Entente and the Economic Community of West African States (ECOWAS).** Based on proportional burden sharing, multilateral creditors would provide US\$309 million in 1999 NPV terms of the total assistance under the enhanced HIPC Initiative and Paris Club creditors would contribute US\$105 million. The remaining assistance of US\$104 million would be provided by non Paris Club bilateral creditors. This participation of non Paris Club bilateral creditors—Algeria, China, Iraq, Kuwait, Libya, Saudi Arabia, Taiwan Province of China, and United Arab Emirates—is actively being sought for by the Nigerien authorities, with the help of Fund staff.⁹ Interim assistance is being provided in 2001 by the Fund, the International Development Agency, the African Development Bank and Paris Club creditors. The World Bank is assisting the authorities in securing all multilateral creditor participation and their full contributions under the enhanced HIPC Initiative.¹⁰

35. Under the safeguards assessment policy, Niger is subject to a full stage-one safeguards assessment. A stage-one safeguards assessment of the Central Bank of West African States (BCEAO), of which Niger is a member, is in progress.

⁸ The Paris Club agreement to reschedule, under Cologne terms, maturities falling due between December 2000 and December 2003 will result in the cancellation of the equivalent of US\$78 million of Niger's debt and a reduction in debt-servicing obligations from US\$82 million of maturities in principal and interest falling due over the period 2001-03 to US\$10 million.

⁹ Debt relief on post-cutoff-date debt is required from non Paris Club bilateral creditors in order to achieve the necessary assistance under the enhanced HIPC Initiative.

¹⁰ Existing proposals of enhanced HIPC Initiative assistance by the Arab Bank for Economic Development in Africa (BADEA), the Islamic Development Bank (ISDB), the West African Economic and Monetary Union (WAEMU), and the OPEC Fund remain below the levels of their expected contributions.

IV. STAFF APPRAISAL

36. The Board approval of Niger's PRGF arrangement and decision point under the enhanced HIPC Initiative in December 2000 as reinforced Niger's efforts to renew relations with the international donor community and to restore economic and social stability. Niger was thus able to obtain Paris Club debt relief and to prepare the introduction of its own poverty reduction program financed by the HIPC Initiative.

37. **Performance under the program was broadly satisfactory in the fourth quarter of 2000**, despite the occurrence of a drought and late disbursements of external budgetary assistance. In this context, the staff is of the view that the missed benchmarks on the wage bill and domestic payments arrears at end-December 2000 do not reflect a lack of commitment on the part of the authorities.

38. **In the first quarter of 2001, the government maintained the thrust of its medium-term program** in the context of an emerging food crisis caused by poor harvests in 2000 and a deterioration of domestic security, especially in the border areas. **However, a weakening in program implementation and a reassessment of priorities of the program led to slippages and the nonobservance of three performance criteria and two benchmarks at end-March 2001.**

39. **These slippages and their consequences have raised the authorities' awareness of their implementation weaknesses and limited administrative capacity.** The authorities have nevertheless reiterated their commitment to the program and undertaken to improve its implementation to prevent the recurrence of avoidable slippages. The staff is of the view that the ownership of the program is still satisfactory at all levels of government but that a better utilization of existing capacity is essential to build a satisfactory track record of policy implementation.

40. **The authorities have also adopted corrective measures to compensate for the lack of performance in the first half of 2001 and ensure the achievement of the main objectives of the program at end-2001**, while taking into account the consequences of the 2000 drought and the evolution of the security situation of the country.

41. **The staff is of the view that the corrective measures taken to bring program implementation back on track justify the request of the authorities for waivers of the nonobserved quantitative performance criteria.** The revised program for 2001 is in line with the main goals of the original program.

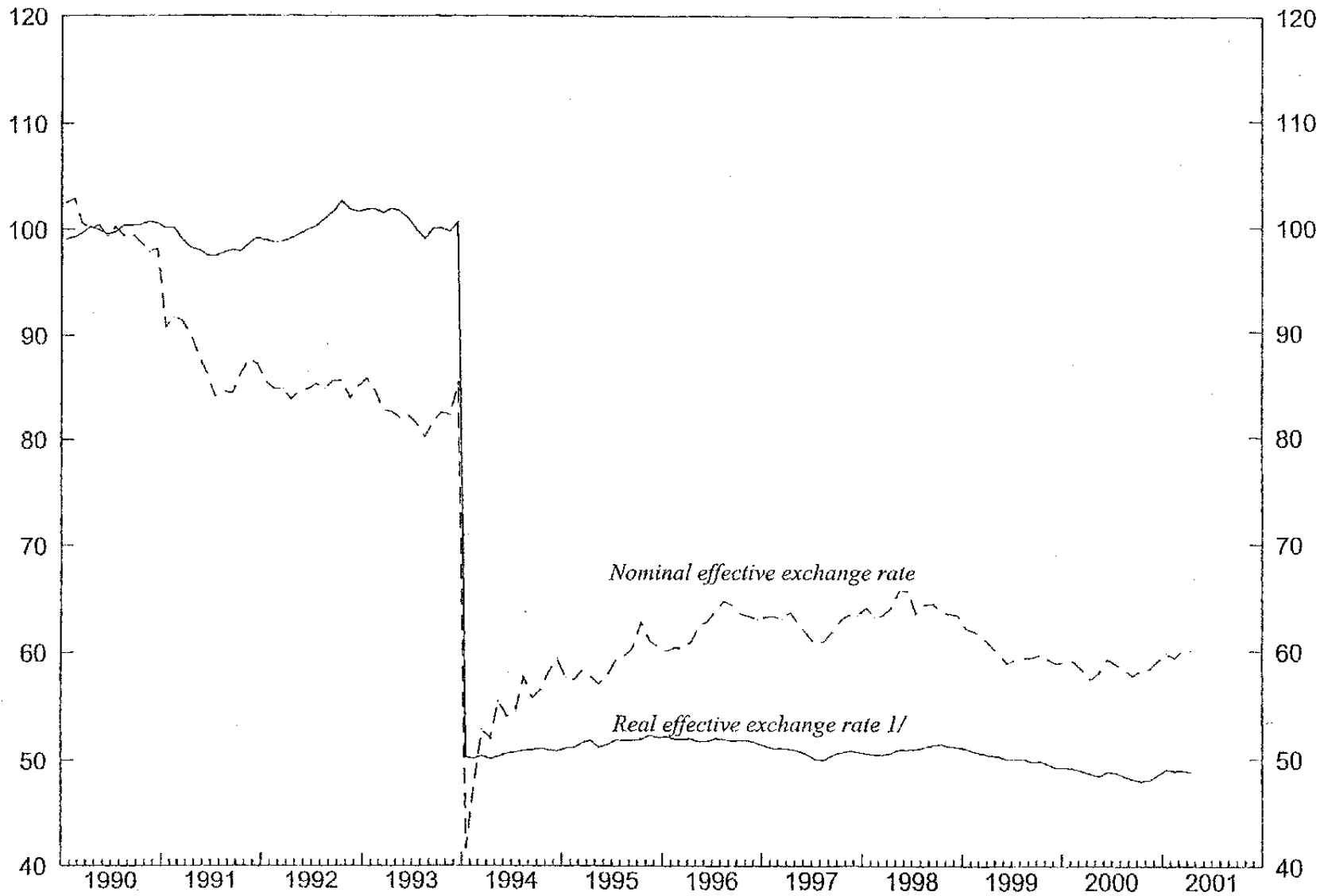
42. **In this context, it is essential that the authorities take all necessary measures to implement the revised program and avoid financial slippages.** In addition, they should implement as envisaged the program for the settlement of domestic payments arrears and the new pricing system of petroleum products, given the magnitude of the macroeconomic impact of these measures. Moreover, the reform to improve budget execution and public accounting should be brought back on track. Combining prudent macroeconomic policies with a renewed momentum of structural reforms in collaboration with the World Bank should reinforce the basis for an improved business environment and economic outlook.

43. The authorities have shown a strong commitment to the preparation of their full PRSP and taken the necessary steps to elicit the broad participation of the population.

However, despite their efforts, it is clear that a knowledge of poverty in Niger and its determinants will remain incomplete by the end of the year; nonetheless, the progress made should allow for an appropriate poverty reduction strategy to be defined by year's end. This strategy will subsequently benefit from further improvements in the poverty database and analysis, and will be refined accordingly. Moreover, the ability to plan and execute the poverty reduction strategy, as well as track its effectiveness, will hinge on the strengthening of the implementation and coordination capacity of the administration, especially at the local level. In this context, the authorities are urged to ensure the coordination of HIPC Initiative-financed expenditure with national sectoral policies and the poverty reduction strategy to be adopted, and to select the budgeting format most appropriate for the implementation and monitoring of this strategy.

44. Finally, the authorities should remain committed to implementing a very prudent policy regarding external indebtedness, in line with the conclusion of the debt sustainability analysis conducted in the context of the HIPC Initiative decision point. In addition, in order to achieve the 53.5 percent overall reduction in its debt-service burden envisaged under the enhanced HIPC Initiative decision point, Niger will also need to step up its efforts to obtain the necessary concurrence and effective contribution of the currently nonparticipating bilateral and multilateral creditors, including regional financial institutions.

Figure 1. Niger: Exchange Rate Developments, January 1990-May 2001
(Period average; 1990=100)



Source: IMF, Information Notice System.

1/ Based on relative consumer price indices.

Table 1. Niger: Fund Position During the Period of the PRGF Arrangement, September 2000 - December 2003

	Outstanding Sep. 30, 2000	2000 Oct.-Dec.	2001			2002				2003				
			Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.
(In millions of SDRs)														
Total transactions (net)		8.34	0.00	8.34	0.00	7.37	0.00	7.38	-0.97	7.38	-1.93	7.39	-1.93	6.43
Disbursements		8.46	0.00	8.46	0.00	8.46	0.00	8.46	0.00	8.46	0.00	8.46	0.00	8.46
Repurchases/repayments														
Repurchases		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ESAF/PRGF repayments		0.00	0.00	0.00	0.00	0.97	0.00	0.97	0.97	0.97	1.93	0.97	1.93	0.00
Charges and interest		0.12	0.00	0.12	0.00	0.12	0.00	0.12	0.00	0.11	0.00	0.11	0.00	0.10
Total Fund credit outstanding 1/	48.30	56.76	56.76	65.22	65.22	72.71	71.75	79.24	78.28	85.77	83.84	91.33	89.40	95.93
Outstanding purchases Under ESAF/PRGF	48.30	56.76	56.76	65.22	65.22	72.71	71.75	79.24	78.28	85.77	83.84	91.33	89.40	95.93
(In percentage of quota, unless otherwise indicated)														
Total Fund credit outstanding 1/	73.40	86.26	86.26	99.12	99.12	110.51	109.04	120.43	118.96	130.35	127.41	138.80	135.87	145.79
Outstanding purchases Under ESAF/PRGF	73.40	86.26	86.26	99.12	99.12	110.51	109.04	120.43	118.96	130.35	127.41	138.80	135.87	145.79
Memorandum item:														
Quota (in millions of SDRs)	65.80													

Source: IMF, Treasurer's Department.

1/ End of period.

Table 2. Niger: Selected Economic and Financial Indicators, 1998-2003

	1998	1999 Prel.	2000		2001		2002 Rev. prog. incl. HIPC	2003 Rev. prog. incl. HIPC
			Prog.	Prel.	Prog.	Rev. prog. incl. HIPC		
(Annual percentage change, unless otherwise specified)								
National income and prices								
GDP at constant prices	10.4	-0.6	3.0	0.1	3.7	4.1	4.3	4.5
GDP deflator	3.0	2.0	3.5	4.5	3.4	5.0	3.0	3.0
Consumer price index								
Annual average	4.5	-2.3	2.9	2.9	3.4	4.2	3.0	3.0
End of period	3.4	-1.9	4.1	4.7	2.1	3.6	3.0	3.0
External sector								
Exports, f.o.b.	24.2	-10.3	1.2	1.9	5.9	1.8	8.9	5.9
Imports, f.o.b.	33.6	-16.5	14.4	8.6	6.9	16.0	4.5	10.9
Export volume	14.2	-10.4	0.7	0.7	4.2	3.0	4.1	3.9
Import volume	30.7	-21.1	-2.7	-4.3	6.3	11.3	-0.6	12.1
Terms of trade (deterioration -)	5.8	-5.4	-14.6	-10.9	1.1	-5.2	-0.5	2.9
Nominal effective exchange rate (depreciation -)	0.5	-1.6	-2.6	-3.1	...	...	...	...
Real effective exchange rate (depreciation -)	2.4	-6.3	-2.4	-2.6	...	...	...	...
Government finances								
Total revenue	19.4	-3.0	2.9	0.5	17.7	16.0	13.2	14.6
Total expenditure and net lending 1/	21.0	8.9	-9.2	-6.8	16.8	22.7	8.0	18.3
Current budgetary expenditure	19.3	11.7	-10.8	-7.1	11.8	13.9	3.8	10.2
Capital expenditure	25.8	0.7	-4.1	-4.4	27.5	42.1	14.9	31.0
Money and credit								
Domestic credit 2/	-0.1	6.3	5.9	-8.1	6.0	5.7	3.1	5.6
Credit to the government (net) 2/	-11.1	7.8	-4.6	-30.1	0.0	13.5	-0.1	-0.1
Credit to the economy	28.5	-3.0	20.9	43.8	10.3	-11.8	5.7	10.9
Net domestic assets 2/	1.7	9.1	7.9	-5.5	6.0	6.2	3.1	5.6
Money and quasi money	0.7	-5.5	4.2	8.9	6.8	8.1	11.1	20.3
Interest rate (money market, in percent, end of period)	5.0	5.0	5.0	5.0	...	...	...	...
(In percent of GDP, unless otherwise indicated)								
Government finances								
Budgetary revenue	8.9	8.5	8.2	8.5	9.0	9.0	9.5	10.1
Current expenditure	11.0	12.1	10.1	10.4	10.6	10.8	10.3	10.6
Capital expenditure	5.6	5.6	5.0	5.1	6.0	6.6	6.9	8.4
Total expenditure	17.0	18.2	15.5	15.9	16.9	17.9	17.6	19.4
Primary budget balance 3/	-6.6	-8.2	-5.7	-5.8	-5.8	-6.9	-6.3	-7.6
Basic balance (excluding grants) 4/	-3.2	-5.6	-3.2	-3.0	-3.3	-3.6	-2.7	-2.4
Overall balance (commitment basis, excluding grants)	-8.1	-9.7	-7.3	-7.4	-7.9	-8.9	-8.2	-9.3
Overall balance (commitment basis, including grants)	-2.8	-5.9	-3.4	-3.4	-4.7	-5.5	-3.7	-4.7
Gross domestic investment	11.3	10.2	10.4	10.6	11.8	12.6	13.2	15.7
Gross domestic savings	2.7	3.7	1.8	2.9	2.8	2.8	4.1	7.7
Resource gap	8.6	6.5	8.7	7.7	9.0	9.8	9.1	8.0
External current account balance								
Excluding grants	-10.0	-7.7	-10.3	-9.3	-10.9	-11.5	-10.7	-11.4
Including grants	-3.8	-3.0	-5.1	-4.9	-6.6	-7.1	-6.2	-6.6
External public debt (end of period) 5/, 6/	76.2	78.9	87.9	90.9	87.4	93.5	94.5	91.6
Debt-service ratio (before debt relief) in percent of :								
Exports of goods and nonfactor services	23.8	23.3	30.8	28.1	36.4	34.1	30.7	30.4
Government revenue	47.7	43.7	57.0	52.1	61.1	55.4	48.3	44.4
(In billions of CFA francs)								
GDP at current market prices	1,225	1,243	1,325	1,300	1,420	1,421	1,527	1,643
Government payments arrears (reduction -)	7.6	58.4	-129.6	-112.0	-25.0	-34.0	-29.2	-35.1
Domestic	-1.3	36.9	-14.0	3.6	-25.0	-34.0	-29.2	-35.1
External	8.9	21.5	-115.6	-115.6	0.0	0.0	0.0	0.0
Overall balance of payments 6/	-36.4	-41.6	-61.7	-15.9	-114.8	-124.0	-107.5	-122.5

Sources: Nigerien authorities; and staff estimates and projections.

1/ Commitment basis as per payment orders issued.

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

3/ Budget revenue minus expenditure, excluding interest payments.

4/ Budget revenue minus expenditure, excluding foreign financed investment projects.

5/ Including obligations to IMF.

6/ Before debt relief.

Table 3. Niger: Financial Operations of the Central Government, 1999-2003

	1999	2000		2001		2002	2003
		Prog	Est.	Prog	Rev. prog. incl. HIPC	Rev. prog. incl. HIPC	Rev. prog. incl. HIPC
(In billions of CFA francs)							
Budgetary revenue	109.6	108.2	110.1	127.4	127.7	144.2	165.3
Tax revenue	100.6	103.4	102.8	122.1	122.4	138.5	159.0
Nontax revenue	3.9	2.3	3.8	2.4	2.4	2.6	2.8
Annexed budget/special accounts	5.1	2.6	3.5	2.9	2.9	3.1	3.5
Total expenditure	222.0	205.5	206.9	240.1	253.9	269.5	318.8
Current expenditure	145.7	134.1	135.3	149.8	154.2	158.0	174.0
Wages and salaries	50.6	51.4	51.8	49.6	50.1	50.3	55.4
Goods and services	50.3	31.3	39.9	43.5	46.9	45.7	52.0
Subsidies and transfers	11.4	20.8	20.9	15.6	16.4	16.8	18.2
Interest, scheduled	19.7	22.2	21.6	30.8	27.9	30.0	29.3
External debt	18.5	20.2	19.6	28.8	25.9	28.0	27.3
Domestic debt	1.3	2.0	2.0	2.0	2.0	2.0	2.0
Road Fund	2.3	1.0	0.0	4.7	4.7	5.2	5.7
Social measures	1.1	2.0	2.0	4.0	7.5	6.6	9.4
Other expenditure	10.2	5.3	-0.9	1.7	0.7	3.3	4.0
Capital expenditure	69.3	66.4	66.3	84.7	94.2	105.7	138.5
Domestically financed	17.1	11.9	8.1	19.0	19.8	21.9	24.5
Externally financed	52.2	54.5	58.2	65.7	74.4	83.8	113.9
Of which: HIPC resources					7.2	7.4	26.5
Annexed budget/special accounts	7.0	5.0	5.3	5.5	5.5	5.8	6.3
Overall balance, excl. grants	-112.4	-97.3	-96.8	-112.7	-126.2	-125.3	-153.5
Basic fiscal balance 1/	-60.2	-42.7	-38.6	-47.0	-51.8	-41.5	-39.5
Change in payments arrears	49.1	-129.6	-112.0	-25.0	-34.0	-29.2	-35.1
Domestic arrears (net)	23.6	-14.0	3.6	-25.0	-34.0	-29.2	-35.1
External arrears (net)	25.6	-115.6	-115.6	0.0	0.0	0.0	0.0
Overall balance (cash)	-63.2	-226.9	-208.8	-137.7	-160.2	-154.5	-188.6
Financing	63.2	49.9	208.8	23.2	66.6	67.6	105.6
External financing	56.0	54.4	229.0	23.3	52.7	67.7	105.7
Grants	47.8	52.2	52.0	46.0	47.4	53.5	61.2
Budget financing	12.1	14.0	22.2	0.0	0.0	0.0	0.0
Project financing	35.7	38.2	29.8	46.0	47.4	53.5	61.2
Loans	24.6	42.4	54.6	19.7	19.7	22.9	26.2
Budget financing	8.1	26.0	26.3	0.0	0.0	0.0	0.0
Project financing	16.5	16.4	28.3	19.7	19.7	22.9	26.2
Amortization	-23.8	-40.2	-35.4	-42.4	-43.1	-37.4	-37.5
Debt relief obtained	7.5	0.0	157.7	0.0	28.6	28.7	55.8
Current debt 2/	7.5	0.0	4.6	0.0	19.8	18.7	17.0
Arrears	0.0	0.0	153.1	0.0	0.0	0.0	0.0
HIPC Initiative assistance 3/	0.0	0.0	0.0	0.0	8.8	10.0	38.8
Domestic financing	7.2	-4.4	-20.2	0.0	13.9	-0.1	-0.1
Banking sector	7.8	-4.4	-28.6	0.0	13.9	-0.1	-0.1
Nonbanking sector	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (net)	0.0	0.0	8.5	0.0	0.0	0.0	0.0
Financing gap (+)	0.0	177.0	0.0	114.5	93.6	86.9	83.0
Of which: possible debt relief 4/	0.0	164.5	0.0	26.7	2.6	0.7	0.7
Of which: relief on arrears	0.0	162.7	0.0	0.0	0.0	0.0	0.0
(In percent of GDP)							
Total revenue	8.5	8.2	8.5	9.0	9.0	9.5	10.1
Total expenditure	18.2	15.5	15.9	16.9	17.9	17.6	19.4
Of which: current expenditure	12.1	10.1	10.4	10.6	10.8	10.3	10.6
capital expenditure	5.6	5.0	5.1	6.0	6.6	6.9	8.4
Overall fiscal balance	-9.7	-7.3	-7.4	-7.9	-8.9	-8.2	-9.3
Commitment basis, excluding grants	-9.7	-7.3	-7.4	-7.9	-8.9	-8.2	-9.3
Cash basis, excluding grants	-5.0	-17.1	-16.1	-9.7	-11.3	-10.1	-11.5
Basic fiscal balance 1/	-5.6	-3.2	-3.0	-3.3	-3.6	-2.7	-2.4
Current budget balance 5/	-3.6	-2.0	-2.3	-1.6	-2.3	-1.2	-0.9
(In billions of CFA francs)							
Memorandum items:							
Stock of external payments arrears	108.1	0.0	0.0	0.0	0.0	0.0	0.0
Stock of domestic payments arrears	128.6	114.6	132.2	89.6	98.2	78.0	42.9
GDP at market prices	1,243	1,325	1,300	1,420	1,421	1,524	1,640

Sources: Nigerien authorities; and staff estimates and projections.

1/ Budgetary revenue, excluding grants, minus total expenditure, excluding foreign-financed investment projects.

2/ For 2001-03 the revised program includes debt relief provided on Naples terms by Paris Club creditors.

3/ For 2001-2 includes assistance from IMF, IBRD, AfDB and Paris Club creditors; for 2003 includes benefits from full HIPC Initiative.

4/ Includes possible debt relief on Naples terms from bilateral non-Paris Club creditors.

5/ Budgetary revenue minus current expenditure.

Table 4. Niger: Monetary Survey, 1998-2001

	1998 Dec.	1999 Dec.	2000 Dec.		2001 Dec.	
			Prog.	Real.	Prog.	Rev. prog. incl. HIPC
(In billions of CFA francs)						
Net foreign assets	-0.2	-14.9	-18.4	-1.3	-17.6	0.7
BCEAO	-4.4	-18.0	-18.4	2.5	-18.6	0.7
Commercial banks	4.2	3.1	0.0	-3.7	1.0	0.0
Net domestic assets	100.5	109.7	117.1	104.4	123.0	110.7
Domestic credit	112.9	119.2	124.8	111.6	130.7	117.4
Net bank claims on government	63.7	71.5	67.1	43.0	67.1	56.9
BCEAO	57.9	65.4	63.2	41.8	63.5	54.2
<i>Of which: statutory advances</i>	31.7	30.4	29.4	25.8	19.4	15.8
IMF resources	42.6	39.0	45.6	45.8	60.6	60.8
Commercial banks	3.1	3.3	2.8	-0.3	2.5	1.2
Other	2.7	2.9	1.2	1.6	1.2	1.5
Credit to the economy	49.2	47.7	57.7	68.6	63.6	60.6
Other items, net	-12.4	-9.6	-7.7	-7.2	-7.7	-6.7
Money and quasi money	100.3	94.8	98.8	103.2	105.5	111.5
Currency outside banks	44.9	34.1	36.6	32.2	37.5	42.0
Private deposits with ONPE (postal savings)	2.5	2.9	1.2	1.6	1.2	1.5
Deposits with banks	52.9	57.7	60.9	69.5	66.8	68.0
Private sector	49.0	54.4	57.5	65.1	63.3	64.5
Public institutions	3.9	3.4	3.5	4.3	3.5	3.5
Financial institutions	0.0	0.0	0.0	0.0	0.0	0.0
(Annual change, in percent of beginning-of-period broad money)						
Net foreign assets	-1.0	-14.6	-3.7	14.4	0.8	2.0
BCEAO	-0.4	-13.5	-0.4	21.5	-0.2	-1.7
Commercial banks	-0.6	-1.1	-3.2	-7.2	1.0	3.7
Net domestic assets	1.7	9.1	7.9	-5.5	6.0	6.1
Domestic credit	-0.1	6.3	5.9	-8.1	6.0	5.7
Net bank claims on the government	-11.1	7.8	-4.6	-30.1	0.0	13.5
BCEAO	-1.3	7.4	-2.3	-24.9	0.3	12.0
<i>Of which: statutory advances</i>	-0.4	-1.3	-1.1	-4.9	-10.1	-9.7
Commercial banks	-9.9	0.2	-0.5	-3.8	-0.3	1.5
Other	0.0	0.2	-1.8	-1.4	0.0	0.0
Credit to the economy	10.9	-1.5	10.5	22.1	6.0	-7.8
Other items, net	1.8	2.8	2.0	2.6	0.0	0.5
Money and quasi money	0.7	-5.5	4.2	8.9	6.8	8.1
Memorandum items:	(In units indicated)					
Velocity of circulation of money (GDP/broad money)	12.2	13.1	13.4	12.6	13.5	12.7
Credit to the economy (change from beginning of year, in percent)	28.5	-3.0	20.9	43.8	10.3	-11.8

Sources: Nigerien authorities; and staff estimates and projections.

Table 5. Niger: Balance of Payments, 1998-2003

	1998	1999	2000		2001		2002	2003
			Prel.	Prog.	Prel.	Prog.	Rev. prog. incl. HIPC	Rev. prog. incl. HIPC
(In billions of CFA francs, unless otherwise specified)								
Trade balance	-36.8	-18.5	-43.8	-31.9	-48.5	-62.6	-57.5	-73.8
Exports, f.o.b.	196.9	176.5	179.5	179.9	190.1	183.0	199.3	211.1
<i>Of which: uranium</i>	78.6	65.1	64.2	64.2	62.2	62.2	60.7	59.2
Imports, f.o.b.	-233.7	-195.0	-223.2	-211.8	-238.7	-245.7	-256.8	-284.9
Services (net)	-81.9	-74.2	-84.9	-81.3	-101.6	-96.2	-103.5	-112.5
<i>Of which: freight and insurance</i>	-56.1	-51.6	-59.1	-56.1	-63.2	-65.1	-68.0	-75.4
interest on public debt	-17.8	-18.5	-20.1	-19.6	-28.8	-25.9	-28.0	-27.3
interest on private debt	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5	-0.6
Unrequited transfers (net)	72.6	55.8	61.7	49.1	56.1	58.4	66.1	77.1
<i>Of which: official transfers</i>	76.0	58.8	69.2	56.6	61.1	63.4	69.1	78.1
<i>Of which: budgetary assistance grants</i>	26.6	11.7	14.0	21.5	0.0	0.0	0.0	0.0
project grants	38.7	35.7	38.2	21.6	46.0	47.4	53.5	61.2
Current account balance	-46.1	-37.0	-66.9	-64.1	-94.1	-100.4	-95.0	-109.2
Excluding official transfers	-122.1	-95.8	-136.1	-120.7	-155.2	-163.8	-164.1	-187.3
Capital account	24.3	2.9	5.2	41.5	-20.7	-23.6	-12.5	-13.3
Official long term (net)	24.5	0.8	2.1	19.2	-22.7	-23.4	-14.5	-11.3
Disbursements	50.2	24.6	42.4	54.6	19.7	19.7	22.9	26.2
Budgetary	28.9	8.1	26.0	26.3	0.0	0.0	0.0	0.0
Project related	21.3	16.5	16.4	28.3	19.7	19.7	22.9	26.2
Amortization	-25.7	-23.8	-40.2	-35.4	-42.4	-43.1	-37.4	-37.5
Investment	0.0	1.0	0.0	8.5	3.0	3.5	3.0	0.0
Private capital (net)	-0.2	1.1	3.1	13.8	-1.0	-3.7	-1.0	-2.0
Errors and omissions	-14.6	-7.5	0.0	6.8	0.0	0.0	0.0	0.0
Overall balance	-36.4	-41.6	-61.7	-15.9	-114.8	-124.0	-107.5	-122.5
Financing	36.4	41.6	-115.3	15.9	0.2	30.3	20.7	39.5
Net foreign assets	0.4	13.6	0.4	-20.5	0.2	1.8	-8.0	-16.3
Fund financing	7.2	-3.7	6.6	6.7	14.9	15.2	13.6	9.8
Purchases	15.5	0.0	7.8	7.9	15.8	16.1	16.4	16.3
Repurchases	-8.2	-3.7	-1.3	-1.3	-0.9	-0.9	-2.8	-6.5
Other assets (net)	-6.8	17.3	-6.2	-27.2	-14.7	-13.4	-21.6	-26.1
Debt relief obtained 1/	26.7	7.5	0.0	157.7	0.0	19.8	18.7	17.0
Arrears (- reduction)	-12.4	-0.2	-162.7	-153.1	0.0	0.0	0.0	0.0
Accumulation of arrears	21.3	21.7	47.0	37.5	0.0	0.0	0.0	0.0
Net counterpart to revaluation	0.4	-1.0	0.0	-5.7	0.0	0.0	0.0	0.0
HIPC assistance 2/	0.0	0.0	0.0	0.0	0.0	8.8	10.0	38.8
Financing gap 3/	0.0	0.0	177.0	0.0	114.5	93.6	86.9	83.0
<i>Of which: possible debt relief 4/</i>	0.0	0.0	164.5	...	26.7	2.6	0.7	0.7
<i>Of which: relief on arrears</i>	0.0	0.0	162.7	...	0.0	0.0	0.0	0.0
Memorandum items:								
External current account balance				(In percent of GDP)				
Including grants	-3.8	-3.0	-5.1	-4.9	-6.6	-7.1	-6.2	-6.6
Excluding grants	-10.0	-7.7	-10.3	-9.3	-10.9	-11.5	-10.7	-11.4

Sources: Nigerien authorities, and Fund staff estimates and projections.

1/ For 2001-03 the revised program includes debt relief provided on Naples terms by Paris Club creditors.

2/ For 2001-2 includes assistance from IMF, IBRD, AfDB and Paris Club creditors; for 2003 includes benefits from full HIPC Initiative.

3/ The remaining financing gap for 2001 is expected to be filled on the basis of financing assurances already received.

4/ Includes possible debt relief on Naples terms from bilateral non-Paris Club creditors.

Niger: Relations with the Fund

(As of June 30, 2001)

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

II. General Resources Account:	SDR Million	%Quota
Quota	65.80	100.0
Fund holdings of currency	57.24	87.0
Reserve position in Fund	8.56	13.0

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	9.41	100.0
Holdings	1.14	12.1

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
ESAF arrangements	56.76	86.3

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	12/14/2000	12/21/2003	59.20	8.46
ESAF	06/12/1996	08/27/1999	57.96	48.30
Stand-by	03/04/1994	03/03/1995	18.60	11.11

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

	Overdue		Forthcoming			
	<u>05/31/2001</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Principal	0.0	1.0	2.9	6.8	9.7	9.7
Charges/Interest	<u>0.0</u>	<u>0.4</u>	<u>0.6</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>
Total	0.0	1.4	3.5	7.3	10.2	10.2

Niger: Relations with the Fund

(As of June 30, 2001)

VII. Exchange Rate Arrangement:

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 in the making of payments and transfers for current international transactions. The Union'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, 2001, the rate of the CFA franc in SDR terms was SDR 1 = CFAF 962.29.

VIII. Article IV Consultations:

Niger is on the standard 12-month consultation cycle and the last Article IV consultation discussions were held in Niamey during the period August-September 2000. The staff report (EBS/00/244, 11/29/00) was discussed by the Executive Board and the consultation concluded on December 14, 2000.

IX. Technical Assistance:

Dept.	Type of Assistance	Time of Delivery	Responsibility
FAD	Staff	November-December 1995	Mission to advise on revenue and administrative measures for the 1996-98 ESAF-supported program
STA	Expert	July 1996	Mission to review the compilation of national accounts (NA), and advise on measures to improve NA date quality and timeliness
FAD	Staff	December 1997	Mission to advise on a program of measures to improve tax compliance
FAD	Staff	October 1998	Mission to review progress on implementation of the tax reform program; evaluate the impact of the TEC and suggest measures to widen the tax base

Niger: Relations with the Fund

(As of June 30, 2001)

IX. Technical Assistance: (concluded)

FAD	Staff	November- December 1998	Review public expenditure process
FAD	Staff	August- September 1999	Review of implementation of recommendations of 1998 FAD public expenditure review
FAD	Staff	September 1999	Follow-up of FAD mission of October 1998
FAD	Staff	June 2000	Data fiscal review and improvement of budgetary procedure
FAD	Staff	February 2001	Tax and customs administration
FAD	Staff	April 2001	Public accounting, public expenditure process, budget classification
FAD	Resident expert	April 2001 to date	Budget preparation, public accounting, Automation of budget execution.
FAD	Resident expert	June 2001 to date	Assistance to tax and customs administrations

X. Resident Representative:

The post of Resident Representative was created in 2000 and a Resident Representative posted since September 2000.

Niger: Relations with the World Bank Group

1. Statement of IDA Credits as of June 30, 2001

Credit Number	Calendar Year	Purpose	Amount (Net of cancellations)	
			Total commitments 1/	Of which: undischursed
			(In millions of US\$)	
Forty-seven credits closed			654.80	
26180	1994	Education III, SECA	41.40	2.30
27070	1995	Pilot Private Irrigation	6.80	0.90
27960	1996	Natural resources management	26.70	5.40
29150	1997	Health II	40.00	16.00
29570	1997	Urban Infrastructure Rehabilitation	20.00	9.10
30260	1998	Transport Infrastructure Rehabilitation	28.00	10.90
31300	1999	Privatization/Regulatory Reform	18.60	11.80
33630	2000	Agro-Pastoral Export Promotion Project	10.35	9.40
35050	2001	Water Sector Project	48.00	46.70
Total			894.70	
<i>Of which:</i> has been repaid			51.79	
Total outstanding			842.91	

2. Statement of IFC investment as of June 30, 2001

There is no existing portfolio for Niger.

Source: World Bank.

¹Less cancellations of IDA credit amounts. SDR-denominated credits are expressed in terms of their U.S. dollar equivalents, as established at the time of credit negotiations and as subsequently presented to the Board.

Statement by the IMF Staff Representative
August 3, 2001

1. Since the issuance of the staff report for the first review under the Poverty Reduction and Growth Facility (PRGF) arrangement (EBS/01/123, 7/20/01) and the report on noncomplying disbursement (EBS/01/124, 7/20/01), the authorities have reported the completion of the following two measures to bring the program back on track. First, a new petroleum product pricing and taxation system that is transparent, automatic, and flexible (a performance criterion for end-June 2001) was approved by the Council of Ministers on July 26, 2001 and implemented on August 1, 2001. Second, the 1999 budgetary accounts were closed on July 30, 2001, in accordance with the standard understood between staff and the authorities, which completes the corrective actions that were to be taken in connection with the noncomplying disbursement of December 2000.

2. Moreover, following a recent decision of the West African Economic and Monetary Union (WAEMU), the West African Development Bank (BOAD) will raise to 50 percent the grant element of the supplementary loans signed with Niger in March 2001. This decision will bring two thirds of BOAD financing in line with program requirement.¹ The authorities will not draw on loans whose grant element is still below 50 percent.

3. The above-mentioned measures complement other corrective actions previously taken in the following areas:

- The external payments arrears accumulated since January 2001 vis-à-vis two Paris Club members were cleared on July 12, 2001, and the authorities have strengthened their monitoring of debt service obligations.
- The revised program for 2001 corrects for the end-2000 slippage in the settlement of domestic payments arrears that was caused by delays in external budgetary assistance. In particular, the authorities have adopted a clear and appropriate repayment schedule to settle the programmed amounts in 2001. They are also strengthening the monitoring of domestic payments arrears and the expenditure process to prevent the occurrence of new arrears.

¹ Responses to requests for additional grant financing from the African Guarantee and Economic Cooperation Fund and the African Solidarity Fund are still pending.

- The revised budget law for 2001 maintains the budgetary objectives of the original program and corrects the excess spending that occurred in early 2001 and resulted in the nonobservance of the end-March 2001 benchmark on the basic fiscal deficit.
 - The installation in April 2001 of an FAD resident expert on budgetary matters and expenditure processes has given a new impetus to budgetary reforms. The revised program now targets the establishment of treasury account opening balances for 2001 and the preparation of a budgetary and public accounting nomenclature by end-September 2001.
4. The authorities are also continuing their efforts to strengthen the administrative capacity of Niger and improve the timeliness and accuracy of economic and financial information. In this context, they will in particular make greater use of technical assistance to address the limited implementation capacity and weaknesses in their monitoring of the program.
5. The staff is of the view that the corrective measures adopted are adequate to bring the program back on track. These measures also demonstrate stronger ownership on the part of the authorities and satisfactory progress toward a better implementation of their program.

NEWS  BRIEF

FOR IMMEDIATE RELEASE

News Brief No. 01/74
FOR IMMEDIATE RELEASE
August 3, 2001

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

**IMF Completes Review Under Niger's PRGF and
Approves US\$11 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Niger's arrangement under the Poverty Reduction and Growth Facility (PRGF)¹. As a result, Niger will be able to draw up to SDR 8.46 million (about US\$11 million) under the arrangement immediately.

Niger's three-year PRGF arrangement was approved on December 14, 2000 (see [Press Release 00/69](#)), for SDR 59.2 million (about US\$75 million). So far, Niger has drawn SDR 8.46 million (about US\$11 million) under the arrangement.

¹ On November 22, 1999, the IMF's facility for low-income countries, the Enhanced Structural Adjustment Facility (ESAF), was renamed the Poverty Reduction and Growth Facility (PRGF), and its purposes were redefined. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. The Nigerien authorities intend to complete the preparation of their full PRSP by end-2001. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½ year grace period on principal payments.

After the Executive Board's discussion on Niger, Shigemitsu Sugisaki, Deputy Managing Director, and Acting Chairman, made the following statement:

"Niger's performance under the PRGF-supported program has been broadly satisfactory despite the difficulties of the country's circumstances. Following a weakening of program implementation in early 2001, the authorities have taken corrective measures. The Fund welcomes, in particular, their strong commitment to enhance administrative capacity.

"In view of these encouraging steps, the Executive Board completed the first review under the arrangement. Directors granted waivers for the non-observance of a number of performance criteria under the program, as well as for a minor incident of misreporting relating to a prior action involving the closing of the 1998 and 1999 budgetary accounts.

"Progress under the revised program for 2001 is encouraging thus far. The authorities are firmly committed to implementing their strategy to reduce domestic payments arrears, and on August 1, they took the important step of introducing a new petroleum product pricing and taxation system that is transparent, automatic, and flexible. Building up Niger's administrative and institutional capacity—including revenue and expenditure control systems—is essential, and technical assistance will play an important role in this regard. In collaboration with the World Bank, the authorities have embarked on a reform of the financial sector, while continuing privatization of the main remaining public enterprises.

"The steps taken to elicit broad participation of civil society in the preparation of the poverty reduction strategy paper (PRSP) are welcome. It will now be important to build on the new momentum toward reform, in particular by strengthening the implementation and coordination capacity needed for the effective use of HIPC assistance, consistent with the priorities of the PRSP," Mr. Sugisaki said.