

Niger: 2000 Article IV Consultation and Request for an Arrangement Under the Poverty Reduction and Growth Facility--Staff Report; and Public Information Notice and Press Release on the Executive Board Discussion

As required under Article IV of its Articles of Agreement, the International Monetary Fund conducts periodic consultations with its member countries. It also reviews the use of its resources. In the context of a combined discussion of the 2000 Article IV consultation with Niger and request for an arrangement under the Poverty Reduction and Growth Facility (PRGF), the following documents have been released and are included in this package:

- the staff report for the combined 2000 Article IV consultation and request for a PRGF Arrangement, prepared by a staff team of the IMF, following discussions that ended in September 2000 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 November 29, 2000.** 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.
- the Public Information Notice (PIN) and Press Release, summarizing the **views of the Executive Board as expressed during its December 14, 2000, discussion** of the staff report on issues related to the Article IV consultation and the arrangement with the IMF, respectively.

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

Letter of Intent sent to the IMF by authorities of the member country
Memorandum of Economic and Financial Policies by authorities of the member country
Statistical Annex
Preliminary HIPC Decision Point document
Final HIPC Decision Point document
Interim--Poverty Reduction Strategy Paper
Joint Staff Assessment of the Interim-Proverty Reduction Strategy Paper

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INTERNATIONAL MONETARY FUND

NIGER

**Staff Report for the 2000 Article IV Consultation and Request for a Three-Year
Arrangement under the Poverty Reduction and Growth Facility**

Prepared by the African Department

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

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November 29, 2000

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EXECUTIVE SUMMARY

Recent developments

- **The 1994 devaluation of the CFA franc led to a significant improvement in the economic performance of the West African Economic and Monetary Union (WAEMU), but Niger has lagged behind its partners, with an average growth rate of about 3 percent since 1993.** The country is a large, landlocked country, situated predominantly in the Sahara Desert, and one of the poorest countries in the world. Its weak past economic performance reflects several factors: the vulnerability of the principal economic activity, agriculture, to external shocks; the country's limited export base, and the secular decline of its main export item, uranium; a small formal sector, mainly public, with strong labor and trade unions; a recent history of political and social instability resulting in a stop-and-go track record of policy implementation; and delays in structural reforms.
- **The political events of April 1999 have interrupted the broadly satisfactory track record under the program supported under the Enhanced Structural Adjustment Facility (ESAF).** Development partners froze nonproject budgetary assistance; structural reforms were further delayed; and Niger's economic and financial situation deteriorated significantly. In 1999, real GDP decreased by 0.6 percent; budgetary slippages occurred; external reserves dropped, and domestic and external payments arrears, amounting to almost 5 percent of GDP, were accumulated.
- **Transparent and democratic elections took place at end-1999. The newly elected authorities quickly established the economic, social, and political agenda that underpins the proposed Poverty Reduction and Growth Facility (PRGF) program.** While resuming financial relations with its development partners, the government has maintained social and political stability, taken measures to improve transparency and accountability in public finance, implemented a tight cash management system to prevent budgetary slippages, and prepared an interim poverty reduction strategy paper (PRSP) to support its commitment to fight poverty. Moreover, the government has imparted momentum to the program of structural reforms, in particular the privatization of major public companies. A turnaround of economic activity is projected for 2000.

The program

- **Discussions during the preparation of the PRGF program focused on the strategy to reduce poverty, the growth prospects of Niger, and its external debt burden.** Making an effective dent in poverty will require robust economic growth of at least 5 percent per annum, and greater efficiency and effectiveness of public programs. Given the decline of the uranium sector and the current structure of the economy, the growth strategy will have to focus on unleashing the untapped potential of the rural and agricultural sector, and creating an enabling environment for private sector development. Finally, the enhanced HIPC Initiative will greatly alleviate the external debt burden, the severity of

which is evidenced by the net present value (NPV) of debt-to-exports ratio reaching 322 percent (after full use of traditional debt relief mechanism) at end-December 1999. The additional HIPC Initiative debt relief will also support the poverty reduction strategy by benefiting the social sectors and basic infrastructure.

- **Key elements of the program** are a strong fiscal adjustment to correct budgetary imbalances; the settlement of external and domestic payments arrears; the implementation of deep structural reforms, including in the areas of privatization and public management; the implementation of a poverty reduction strategy; and a greater contribution to the regional integration initiatives of the WAEMU and Economic Council of West African States (ECOWAS).
- **The first year of the program will give priority to fiscal consolidation and key structural reforms.** By implementing new revenue-enhancing measures, controlling the growth of the wage bill, and restructuring budget allocations toward goods and services, as well as investment, fiscal policy will target a reduction of the basic deficit (excluding grants and foreign-financed capital expenditure) from 5½ percent of GDP in 1999 to about 3 percent of GDP in 2000 and 2001. The program also aims to improve the quality and structure of expenditure. Monetary policy, which is conducted at the regional level, will remain prudent, and inflation will be kept under control at about 3 percent.
- **The structural reform agenda in 2000-01 will focus on (i) completing the privatization of the water, electricity, and telecommunications public utilities, as well as the public company in charge of petroleum imports and storage; and (ii) strengthening public expenditure management while ensuring transparency and accountability.** Additional reforms will be undertaken with respect to reinforcing the tax and customs administration, and strengthening the financial system (including microfinance and mutual institutions). The ongoing reform of the civil service will also continue.
- **The authorities aim at preparing a full PRSP by end-2001, in the context of the strengthened participatory process, and at reinforcing the institutional capacity to assess and monitor progress in implementing a poverty reduction strategy.** Pending the finalization and validation of the strategy, the government will continue implementing, with the collaboration of its development partners, sectoral reform programs, mainly in health, education, and rural sector development, paying special attention to gender issues. The implementation of the PRSP would also benefit substantially from the enhanced HIPC Initiative assistance.

* * *

- **The staff recommends that Niger's request for a three-year PRGF arrangement be approved and that the 2000 Article IV consultation be concluded.**

I. INTRODUCTION

1. **The 2000 Article IV consultation discussions with Niger took place in Niamey in August and September 2000, together with discussions on (i) a new three-year program that could be supported by arrangements under the Poverty Reduction and Growth Facility (PRGF); and (ii) Niger's decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.**¹ Understandings were reached on a program that is presented in the accompanying memorandum of economic and financial policies (MEFP) and its letter of transmittal (EBS/00/235; 11/21/00), for which the authorities have requested a PRGF arrangement in the amount of SDR 59.2 million (90 percent of quota). The MEFP is cast in the context of the interim poverty reduction strategy paper (PRSP) prepared by the authorities (to be issued), which reviews poverty issues and characteristics in Niger and sets out the preliminary elements of a new strategy to alleviate poverty (joint staff assessment to be issued).

2. **Niger is eligible for assistance under the enhanced HIPC Initiative.** A preliminary document to review Niger's decision point and benefits under the enhanced HIPC Initiative (EBS/00/229; 11/15/00) was considered by the Executive Boards of the Fund and the World Bank on November 22, 2000. In that meeting, Directors concluded that Niger is eligible for assistance under the enhanced HIPC Initiative and agreed that continued satisfactory performance, the preparation of an interim PRSP and the adoption of a program that could be supported by the Fund's PRGF could pave the way for Niger to reach the decision point by end-2000. The final enhanced HIPC Initiative document to establish Niger's decision point at end-2000 is to be considered concurrently with the PRGF arrangement.

3. **Niger is on the standard 12-month consultation cycle, and the last Article IV consultation was completed on August 28, 1998.** On that occasion, Directors observed that, although economic growth had picked up significantly since 1994, living standards remained very low. They emphasized the need to strengthen further public finances and to accelerate the privatization program, public enterprise restructuring, and civil service reform, so as to establish the necessary conditions for sustainable economic growth and lasting poverty reduction. Noting Niger's very weak social indicators, Directors stressed the need to allocate more budgetary resources to the health and education sectors, while maintaining overall restraint on current expenditure.

¹ Participants included, on the Fund side, Mr. Maret (head), Mr. Peroz, Mr. Zoromé, Ms. Guichard (all AFR), Mr. Wiczorek (PDR), Mr. Atang (Research Assistant, AFR), Ms. Annab (Research Assistant, PDR), Ms. Haddi (Administrative Assistant, AFR), and, at headquarters, Ms. Allain (PDR). Mr. N'guiamba, the newly appointed Fund Resident Representative in Niger, assisted the missions. The missions collaborated closely with the staff of the World Bank. Mr. Konan, Advisor to the Executive Director for Niger, participated in the discussions of the August mission.

4. **Niger's indebtedness to the Fund is relatively moderate, at SDR 48.3 million (or 73.4 percent of quota) at end-September 2000.** If the full amount under the new 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). The level of access for the new arrangement (90 percent of quota) is based on the determination of the newly elected authorities to implement a strong adjustment program, and on the identified sizable financing needs of Niger, which reflect in part the consequences of the evolution of oil prices (Appendix I). Niger's relations with the Fund are summarized in Appendix II.

5. **The World Bank has supported Niger's development efforts through structural and sector lending operations, particularly in the education and health sectors,** but it suspended its nonproject budgetary support in the wake of the political events of April 1999. It resumed its assistance in September 2000 with a public finance recovery loan amounting to US\$35 million and will focus, for the period ahead, on reforms in the agricultural, financial, transportation, and education sectors. Niger's relations with the World Bank are summarized in Appendix III.

6. **Niger's economic and financial database is comprehensive but remains weak, notably in the areas of the national accounts and the balance of payments.** Monetary statistics present also some problems, owing to the difficulty of estimating the cross-border flows of national banknotes within the CFA franc zone of the Western African Economic and Monetary Union (WAEMU).² These weaknesses in the database hamper a timely and meaningful assessment of economic and financial developments and policies. The authorities are continuing their efforts to improve the quality and availability of economic data while providing core data to the Fund on a regular basis. Statistical issues are further discussed in Appendix IV. Selected economic and financial indicators are presented in Table 2, and a provisional work program for Fund staff in Appendix V.

II. BACKGROUND AND RECENT DEVELOPMENTS

7. **Niger is a large, landlocked country of 10½ million inhabitants and 1.3 million square kilometers, situated predominantly in the Sahara Desert, surrounded by seven countries, and subject to increasing desertification.** It is one of the poorest countries in the world, with real GDP per capita estimated to have declined by more than 40 percent over the past 20 years, owing to economic stagnation and a population growing at about 3.3 percent per annum. Niger ranks 173rd out of 174 countries listed in the 2000 human development index (HDI) of the United Nations Development Program (UNDP), and its social

² This difficulty leads to large, unexplained monthly fluctuations in Niger's statistics for currency in circulation and in net foreign assets, and requires caution in assessing monetary developments and the contribution of Niger to the international reserves of the WAEMU Central Bank (BCEAO).

development indicators are among the weakest of sub-Saharan Africa (see Appendix VI for selected poverty and social development indicators). The burden of poverty and low social development falls disproportionately on women, and widespread unemployment and low labor productivity are major constraints on development.

8. **The 1994 devaluation of the CFA franc led to a significant improvement in the economic performance of the WAEMU, but Niger has lagged behind its partners, with an average growth rate of 3½ percent between 1995 and 1999** (Table 2 and Statistical Annex, SM/00/265; 11/29/00).³ In 1999, Niger's per capita income was lower than at any time since 1982,⁴ and poverty, already widespread, has continued to increase. Although the competitiveness gains from the devaluation have not been eroded since 1994, including with respect to Nigeria (Figure 1), several factors have prevented Niger from benefiting more from the devaluation and enjoying a stronger growth:

- **A predominantly agricultural and vulnerable economy.** Niger's main economic activity is agriculture, which is very vulnerable to weather-related shocks and affected by limited potential and poor rural infrastructure.
- **A limited export base.** Uranium, the main source of exports, with 40 percent of total exports in 1999, is on a secular declining trend (see Box 1 of the preliminary enhanced HIPC Initiative document (EBS/00/229; 11/15/00)), and Niger's remaining export base is limited to agricultural products and cattle, destined for neighboring WAEMU countries and Nigeria.
- **An insufficiently enabling economic environment.** The formal sector of the economy accounts for only 25 percent of GDP, with a strong presence of public enterprises, a relatively weak and limited banking sector, and a mainly uneducated labor force. The legal and judiciary system is not conducive to investment, and large accumulations of domestic payments arrears (including wage arrears to the civil service) have also contributed to a deterioration of the economic environment.
- **Political and social instability.** Two coups d'état since 1994 and a Tuareg rebellion in the northern territories that lasted until 1995 have contributed to a stop-and-go track record, prevented the establishment of a supportive environment for the private sector—despite the stability promoted by the CFA franc zone—and impaired the continuity of much-needed relations with development partners.

³ On average, the growth rate of the WAEMU countries accelerated from 1.2 percent between 1990 and 1994 to 4.9 percent between 1995 and 1999. Furthermore, Niger's average growth rate of 3½ percent over the period 1995-99 reflects an exceptional growth of 10½ percent in 1998 as a result of a bumper crop.

⁴ Except for 1998.

- **Weak national appropriation of the reform program.** Key structural reforms, such as the privatization program and the opening of key sectors to competition, including utilities and transportation, have been affected by delays, owing in particular to the difficulty involved in engaging the social partners, in the context of very powerful labor and trade unions.

9. **Against this background, performance was broadly satisfactory under the reform program implemented by the authorities during the peaceful period 1996–98 and supported by resources from the IMF Enhanced Structural Adjustment Facility (ESAF). However, the political events of April 1999 resulted in a temporary interruption of the track record, a freezing of nearly all nonproject external financing, and delays in structural reforms (MEFP, Section II.A).⁵** The financial situation of Niger deteriorated significantly in 1999, with (i) an increase in the basic fiscal deficit (on a commitment basis and excluding grants) from 3 percent of GDP in 1998 to 5½ percent of GDP in 1999;⁶ (ii) large accumulations of external and domestic payments arrears (including seven months of civil service salaries), raising the estimated total stock of payments arrears at end-1999 to more than 19 percent of GDP; and (iii) issues of governance and transparency regarding expenditure effected at the end of 1999 (Table 3). In addition to a deterioration of public finances, real economic growth was negative in 1999,⁷ and the external position remained weak because of the freeze on external nonproject assistance. Despite an improvement of the external current account deficit (excluding official transfers) from 10 percent of GDP in 1998 to 7½ percent of GDP in 1999,⁸ the overall balance of payments deficit widened (Table 4). It was financed mainly through an accumulation of external payments arrears (nearly 2 percent of GDP) and a large drawdown of net foreign assets. Money supply declined by 5½ percent in 1999, despite a 12 percent increase in net credit to the government (Table 5).

10. **After an eight-month transition period, transparent and democratic elections took place at end-1999. The new government established its economic, social, and political agenda, had it approved by the National Assembly in April 2000, and made it**

⁵ During that period, however, contacts were maintained with the Fund, including one staff mission in October 99. In January 2000, the new civilian government took strict measures to restore budgetary discipline and avoid further accumulation of domestic payments arrears. In addition, they established an economic agenda approved in April 2000 while resuming discussions on a new program.

⁶ The basic deficit is the overall deficit, excluding foreign-financed capital expenditure.

⁷ However, the exceptional crop at end-1998 resulted in negative inflation in 1999.

⁸ Official transfers were equivalent to 6 percent and 4½ percent of GDP in 1998 and 1999, respectively.

the underpinning of the proposed PRGF-supported program (MEFP, Section II.B).

Niger's new authorities have also resumed relationships with the donors and social partners,⁹ and revived the adjustment process. In particular, the privatization program regained momentum in the first half of 2000 with the adoption of the privatization strategies for SONITEL (telephone), NIGELEC (electricity), and SNE (water), as well as for SONIDEP (petroleum products import and storage).

11. **Economic activity started to recover in the first half of 2000, following the stabilization of the political situation and some resumption of foreign financing.** Despite the sharp deterioration in the terms of trade and uncertainties regarding agricultural output at year's end, GDP is now expected to grow by about 3 percent in 2000. Inflation should be contained at about 3 percent, notwithstanding a large increase in domestic petroleum prices. The external current account deficit (excluding official transfers) is expected to exceed 10 percent of GDP, reflecting the impact of higher oil prices and the difficulties of the uranium sector, which accounts for 40 percent of total exports. Investment is projected to remain at its 1999 level of 10½ percent of GDP, mainly financed by foreign savings. Niger's monetary policy, which is conducted at the regional level by the WAEMU central bank (BCEAO), was tightened three times in 2000 to defuse the inflationary pressures fueled by an overall credit expansion in the monetary union.¹⁰

12. **Beside maintaining social and political stability since end-1999, and despite very limited external aid, the new government has established a satisfactory track record of economic and financial policies, including the restoration of budgetary transparency and good governance, as well as a regained momentum of structural reforms.** In light of the slow resumption of external assistance, the new government has tightened the fiscal policy stance by introducing a strict cash management system to limit its spending to available resources and prevent an accumulation of domestic payments arrears. The authorities have also established expenditure priorities and have been successful in ensuring the regular payment of salaries and some external debt service. However, the tightening has not alleviated liquidity constraints in the context of limited external aid; as a result, budget execution and normal operations of the public services have been affected, and external payments arrears vis-à-vis all creditors except the Fund and the World Bank have continued to accumulate, reaching an estimated 12 percent of GDP before their settlement by end-November 2000.

⁹ Including the Tuaregs, who celebrated with the government the end of the rebellion in September 2000.

¹⁰ In this context, Niger's reserve requirement rates were raised from 1.5 percent to 3 percent in March 2000, and to 5 percent in August. On June 19, 2000, the intervention rates of the central bank were raised by 75 basis points, in line with the evolution of euro rates.

III. POLICY DISCUSSIONS

A. Poverty Reduction, Economic Prospects, and Debt Burden

13. The policy discussions with the Nigerien authorities focused on the following key development issues facing Niger: poverty reduction, economic growth potential, and the debt burden.

Poverty reduction

14. **The authorities are concerned about the poverty situation of the country and committed to reversing the trends** (see Box 1). Some of the reasons behind the ineffectiveness of the past poverty reduction strategy include in particular the low returns of public investment projects and the misallocation of foreign financial assistance. As illustrated in the interim PRSP, the authorities are fully aware that sustainable growth at higher levels is a necessary but not sufficient condition for poverty reduction, and that a comprehensive strategy is needed to make an effective dent in poverty. Given Niger's high population growth and fertility rates, the staff agreed with the authorities that an economic growth rate of 5 percent should at a minimum be achieved, along with measures to reduce the volatility of agricultural activities and ensure an equitable redistribution of the growth benefits.

Box 1. Poverty in Niger

The poverty situation and its worsening trend are reflected in the very precarious living conditions and high vulnerability of Niger's population, particularly in the rural areas. In the early 1990s, about two-thirds of the population lived on less than one dollar per day. Since then, the average GDP growth rate has failed to keep up with the demographic growth. The lack of comprehensive data since the last household survey in 1993 makes it difficult to have a clear assessment of today's poverty situation, particularly after the devaluation of the CFA franc by 50 percent in 1994. Nevertheless, specific studies and social indicators point to a further deterioration of the average living conditions of the population. For example, food production per inhabitant was 30 percent lower in 1996 than in 1980, and no improvement of the indicator on infant mortality, one of the highest levels in the world at 118 per thousand live births, has been recorded since the 1970s.

Economic prospects

15. **The mission discussed the medium-term prospects for Niger on the basis of the five-year program for economic and social policy of the government.** Over the past 30 years, the average real GDP growth of Niger has been close to 2½ percent a year, with wide swings, compared with a demographic growth rate of 3 percent. Niger's economy is very fragile and vulnerable to external terms of trade shocks and, to a larger extent, weather conditions. The rural sector accounts for about 40 percent of national output, and the irrigation remains insufficient to prevent a huge contraction in crops when the rainy season is below average. The modern sector, which accounts for most of the tax base, is quite small.

16. **The staff was uneasy about the very optimistic forecast by the government of an average 5½ percent growth rate for 2000-04 driven by a 9 percent yearly expansion of the rural sector.** This scenario relied on a very active policy (i) to revise the public investment process to reduce the share of recurrent charges and increase real investment expenditure; (ii) to develop the rural sector; (iii) to implement structural reform to promote private sector development; and (iv) to intensify the effort to fight poverty. The staff argued that, although this policy would undoubtedly lead to a very significant increase in potential growth rate in the medium term, the transition toward this new trend would take time, given Niger's current handicaps and existing infrastructure. In particular, the staff recalled that during the past decade the rural sector growth rate was only 3 percent a year. The authorities concurred with the staff that a more prudent forecast was realistic and that the sustainability of economic growth was as important as the level of growth.

Debt burden and dependence on foreign financing

17. **The staff highlighted the limited financial capacity of the government to contribute to the implementation of an ambitious new strategy for poverty reduction and growth in the absence of substantial foreign assistance.** The authorities emphasized that the government would retain a major role in the implementation of the new strategy for poverty reduction and growth, given the basic needs of the country, particularly in terms of infrastructure, and despite the disengagement of the state from purely commercial activities. Yet, Niger has one of the lowest revenue-to-GDP ratios, estimated at slightly above 8 percent in 2000, and the weaknesses of the financial intermediation system hampers the mobilization of private savings. At the same time, any improvement in public savings tends to be constrained by the narrow tax base and the heavy debt-service burden. The taxable activities represent only one-fourth of Niger's output, and the ratio of tax revenue to this taxable output is already over 30 percent.

18. **Increasing the revenue-to-GDP ratio would therefore require a broadening of the tax base and improvement in tax and customs administration.** As tax policy and legislation are increasingly being conceived at the regional level, the government has fewer degrees of freedom in setting its tax policy, and an improvement of the revenue-to-GDP ratio can only be gradual as it depends mainly on administrative measures. Therefore, the staff urged the authorities to review all possibilities to expand the tax base, including the elimination of exemptions, while strengthening the tax and customs administration.

19. **Given the short-term difficulties involved in mobilizing tax revenue, the staff stressed that improving the quality and the structure of expenditure would be required in the context of the new strategy.** This is particularly true for Niger, where the burden of foreign debt service due before debt relief and wages is equivalent to total budgetary revenue in 2000-01. The authorities concurred and stressed the measures they had taken to control the wage bill, improve the allocation of budgetary outlays, and reduce waste.

20. **The authorities recognized the heavy burden of external debt and highlighted the problem of settling payments arrears. They also emphasized that the**

implementation of Niger's development and poverty reduction strategy would need the full support of the international community. Finally, the authorities also indicated the importance of the enhanced HIPC Initiative in alleviating part of this debt burden and freeing resources to the benefit of poverty reduction programs. According to the debt sustainability analysis (DSA), the net present value (NPV) of the external debt at end-December 1999 was US\$1,089 million, and the NPV of the debt-to-exports ratio (after full use of traditional debt-relief mechanisms) was 322 percent (see EBS/00/229; 11/15/00, Section III). For the period 2000-03, Niger has to pay about CFAF 262 billion in debt servicing, the equivalent of 4½ percent of GDP and 48 percent of its budgetary revenue. The reduction in debt service as a result of the enhanced HIPC Initiative has been estimated at an average of US\$21 million per year before the completion point expected at end-2002, and it would amount to an average of US\$54 million per year over the period 2003-10 (or an average of 1.7 percent of GDP per year).

B. Medium-Term Objectives and Strategy

21. **The discussions on a PRGF-supported program for 2000-03 centered on a strategy to address the key issues mentioned above and establish the basis for relatively high sustainable and equitable growth in the future, and, hence, for an effective reduction in relative and absolute poverty (MEFP, Section III).** Given the fundamental problems facing Niger, the three-year program is a transition program aiming at (i) improving the fiscal and external situation by resolving the issue of payments arrears, in particular; (ii) creating the conditions for significant improvements in financial and economic performance by removing the structural obstacles to economic development; and (iii) implementing a new strategy to reduce poverty. The program of the authorities will be implemented in a context of further democratization and administrative decentralization and is embedded in the ongoing process of regional integration in the context of WAEMU. Finally, its objectives will be revisited to take into account the additional resources to be made available under the enhanced HIPC Initiative and the poverty-reduction policy orientations finalized at the completion of the full PRSP.

22. The basic macroeconomic perspectives for 2000-03 include (i) the realization of an average annual rate of growth of GDP of 4 percent (see Box 2); (ii) a containment of inflation at 3 percent a year; and (iii) a stabilization of the current account deficit (excluding official transfers) at about 10 percent of GDP over the program period (Figures 2 and 3).

23. **Attainment of these objectives and targets will require an expansion in gross investment of 3½ percentage points of GDP over the program period to about 14 percent of GDP by 2003.** More than two-thirds of this increase will come from the public sector, in particular through expenditure in infrastructure and social sectors. The gradual increase of private investment would mainly result from (i) the privatization and restructuring of key public enterprises; (ii) the strengthening and deepening of the financial sector; and (iii) the removing of obstacles to competition, especially in the transportation sector. Gross national savings is projected to increase to about 9½ percent of GDP by 2003, in part through an improvement in the government's financial position.

Box 2. Niger: Growth Perspectives

The projected average growth rate of 4 percent over the program period 2000-03 is comparable with actual performance of Niger in the period 1995-99 and only slightly higher than population growth in Niger. A key element of the program is to achieve gradually higher growth rates and limit the wide swings in the growth rate observed in the past by addressing the factors limiting Niger's economic performance, as presented in paragraph 8. The program projection is predicated on the absence of adverse weather conditions and external shocks (including those related to political stability and economic performance of Niger's main partners in the subregion), and assumes the continuous implementation of sound financial and economic policies, as well as the program of structural reforms, as presented in the MEFP. Given fair weather conditions, the performance of the rural sector, which accounts for 40 percent of real GDP, should provide for food self-sufficiency and stronger exports; it should be strengthened by the program policies to develop the sector, in particular the development of irrigation systems and improvement of basic rural infrastructure such as roads. Planned investment in rural sector infrastructure will also result in a lesser vulnerability to weather conditions and limit the performance swings of the sector. The modern and non-rural traditional sectors, which account for 25 percent and 35 percent of GDP, respectively, are also projected to benefit from (i) the renewed political and social stability; (ii) the restoration of an enabling economic environment, including the settlement of domestic payments arrears and restoration of normal budget execution; (iii) the privatization of the main public utilities and their envisaged restructuring and development; and (iv) the government's increased public investment program and the rebuilding of basic infrastructure. Although the mining sector, which is part of the modern sector, will benefit from new gold mining operations, it will remain slightly affected by the decline of the uranium sector, which accounts for only 6 percent of real GDP but 40 percent of exports.

24. **Consistent with this approach, the government's strategy will focus on** (i) improving the basic fiscal balance (on a commitment basis and excluding grants) and gradually achieving positive levels of budgetary savings to generate domestic resources for public investment; (ii) strengthening revenue performance and improving the structure of expenditure; (iii) adopting a comprehensive program to eliminate domestic and external payments arrears; (iv) improving governance and the accountability of the civil service; (v) deepening structural reforms to improve economic efficiency through the elimination of impediments to private investment; (vi) improving the irrigation system and promoting the development of a more export-oriented rural sector; and (vii) developing a strategy for poverty reduction through an effective participatory process. Finally, this adjustment strategy will also aim at improving the quality of public services and increasing the efficiency of public spending through the strengthening of the public expenditure process.

25. **Fiscal policy will center on a significant improvement of the current budget balance (on a commitment basis and excluding grants), which should turn slightly positive by 2003 from a deficit equivalent to 2.0 percent of GDP in 2000.** Budgetary revenue is to increase during the period of the program by close to 2 percentage points of GDP to over 10 percent of GDP, while current expenditure would be slightly reduced from 10.1 percent of GDP in 2000 to 9.9 percent of GDP in 2003. This reduction will be accompanied by a restructuring of current expenditure toward goods and services, infrastructure maintenance, and social expenditure. A major factor in achieving this restructuring of current expenditures will be the elimination of the overall subsidy of the petroleum products, a reduction in utilities consumption, and the tight control on the wage

bill. In terms of government revenue, the latter would decline from about 50 percent in 2000 to a little more than one-third by 2003, in line with regional convergence criteria. In the period ahead, the revenue effort will focus on modernizing and simplifying the tax system, as well as on widening the tax base to increase the contribution of the informal sector to government resources.

26. **In the context of regional cooperation**, the government will implement, according to the timetable set within WAEMU, the set of regional reforms on government finance, particularly the draft organic law on the harmonization of government finance laws, the new regional regulations on public accounting, and the new regional government chart of accounts.¹¹ As part of the WAEMU convergence pact, the government will submit its medium-term convergence program to the WAEMU commission and endeavor to respect the convergence criteria (see Box 3).

27. **A key element in the government strategy to restore private sector confidence and relations with the donor community consists in the settlement of domestic and external payments arrears (see MEFP, paras. 40 and 45).** With regard to domestic payments arrears, a comprehensive report on the status and verification of all claims of resident creditors on the government is being prepared for end-2000, and a clear strategy for the payment of these arrears will be established shortly thereafter. The government is also negotiating with the trade unions the resolution of salary arrears, estimated at about 3½ percent GDP, and has proposed the gradual payment of 6 of the 12 months in arrears over the program period. With regard to external payments arrears, the government has reached understandings or received indications for the settlement of these arrears through debt relief for Paris Club and other bilateral creditors and through debt rescheduling for the multilaterals concerned.

C. The Economic Program for 2000-01

28. **Within the medium-term strategy outlined above, the first annual program covers the period October 2000 – September 2001 (MEFP, Section IV, and Box 4 on prior actions taken by the government) and is based on an improvement of macroeconomic perspectives.** Economic recovery is expected to gain momentum in 2001 in response to an expansion of foreign financing flows and a return of uranium production to normal levels, following a strike in early 2000; as a result, GDP growth is projected at 3 percent in 2000 and 3.7 percent in 2001. The inflation rate, temporarily pushed up by the adjustment in retail petroleum prices, would be brought down below 3 percent on an end-of-period basis in 2001. The external current deficit (excluding official transfers) is projected

¹¹ For a recent discussion of regional policy issues (particularly coordination of fiscal policies, monetary policy, banking and financial sector issues, and common trade policy), see SM/00/99 (5/23/00), "West African Economic and Monetary Union—Recent Developments and Regional Policy Issues in 1999."

to widen by close to 3 percentage points and stabilize near 10½ percent of GDP in 2000-01, mainly owing to the oil situation and to the slow growth of exports caused by the decline in the uranium sector.

Box 3. Niger and The WAEMU's Convergence, Stability, Growth, and Solidarity Pact

The regional **Convergence, Stability, Growth, and Solidarity Pact**, adopted by the Conference of Heads of States of WAEMU in December 1999 as an additional act to the WAEMU Treaty, is a formal agreement among the member countries of the WAEMU aimed at (i) strengthening convergence of the economies of the member countries; (ii) reinforcing macroeconomic stability; (iii) accelerating economic growth; and (iv) enhancing solidarity among the member countries.

A. Convergence Criteria

The pact is based on the observance by member states of a set of convergence indicators pertaining to the public finances, the real sector, the balance of payments and common currency. Indicators viewed as essential are known as convergence criteria. There are four primary convergence criteria and four secondary criteria, supplemented by a host of other indicators (*tableau de bord*) recommended by the Council of Ministers. The norms established with respect to these criteria have to be met by the target date of 2002.

The primary criteria are the following:

- ratio of the basic fiscal balance to nominal GDP (key criterion), which must be in balance or in surplus;
- ratio of outstanding domestic and foreign debt to nominal GDP, which must not exceed 70 percent;
- average annual inflation rate, which should not surpass 3 percent a year; and
- nonaccumulation of domestic and external payment arrears (in the current financial period).

The secondary criteria are the following:

- ratio of the wage bill to tax revenue, which cannot exceed 35 percent;
- ratio of domestically financed public investment to tax revenue, which must be at least 20 percent;
- ratio of the external current account deficit excluding grants to nominal GDP, which cannot exceed 5 percent; and
- tax-to-GDP ratio, which must be 17 percent or more.

B. Transitional Provisions

During the transitional period, from the date of entry into force of the pact to December 31, 2002, member countries will prepare three-year convergence programs, with the annual objectives of gradually moving toward (ensuring compliance with) these criteria.

C. Niger and WAEMU Convergence Objectives

Niger's current financial and economic situation makes it difficult for the country to meet all the convergence criteria by December 31, 2002, but the authorities are committed to implementing the necessary policies to abide by these criteria as soon as possible. In the context of the program period, substantial progress is targeted toward achieving the required convergence. At end-2002 (the expected completion point under the enhanced HIPC Initiative), Niger would meet the primary criteria on the average inflation rate and the nonaccumulation of payments arrears. The ratio of outstanding nominal debt to GDP would not be achieved; however, given the high concessionality of Niger's external debt, the criterion would be met using the net present value of external debt, which is projected at 48 percent of GDP in 2002 after full use of traditional debt-relief mechanisms; the ratio would be lowered to 23 percent of GDP after assistance under the enhanced HIPC Initiative. Domestic debt would amount to 10½ percent of GDP in 2002, including remaining stock of domestic payments arrears of 4 percent of GDP. With a basic budget deficit (excluding grants) narrowing from 5½ percent of GDP in 1999 to 1½ percent of GDP in 2002, the primary criterion on the basic balance would not be met, but a balanced outcome would be gradually achieved thereafter. As for the secondary criteria, only the wage bill criterion would be met by 2003, with substantial improvement achieved in ensuring compliance with the other criteria.

Box 4. Niger: Prior Actions of the 2000-01 Program

In confirmation of its commitment to the 2000-01 economic program, the government has taken the following prior actions: (i) adoption of a supplementary budget law for 2000 by the National Assembly; (ii) elimination of the implicit subsidy on petroleum products through increases in the prices of petroleum products, revisions of the pricing formula, and liberalization of the transport of petroleum products (MEFP, para. 38); (iii) transmission of the draft budget review law for 1997 to the National Assembly and the corresponding treasury accounts to the Supreme Court's Chamber of Accounts for auditing purposes; (iv) verification of the conformity with the budget procedures of expenditure effected at end-1999; and (v) closing of the accounts for fiscal years 1998 and 1999. At the same time, the government has resumed its contacts with the international donor community to secure for 2000-01 the budgetary assistance needed to cover a residual financing gap estimated at CFAF 292 billion, or 10½ percent of GDP, including expected debt relief of 7 percent of GDP on payments arrears and debt service.

Fiscal policy

29. **The objective of the 2000-01 fiscal policy is to consolidate the financial position of the government, allow for the normal functioning and regular execution of the budget, initiate a program for the clearance of domestic payments arrears, and, in the context of renewed financial relations with the donor community, settle all external payments arrears with bilateral and multilateral creditors (MEFP, Section IV.B).** The introduction of a strict cash-flow management system, the measures adopted since the beginning of 2000 (particularly the 2000 supplementary budget law, the increase in oil prices and revision of the pricing formula—MEFP, paras. 38 and 42—and the program of early retirements from the civil service—MEFP, para. 19), and understandings on the settlement of external arrears with development partners (MEFP, para. 40) will make it possible to achieve these objectives in 2000. These results will be consolidated in 2001 as the government continues to pursue a fiscal policy aimed at increasing the mobilization of domestic resources, limiting the growth of expenditure while improving its quality, and implementing a program to settle domestic payments arrears.

30. **In line with these objectives, the 2001 budget submitted by the government to the National Assembly confirms the authorities' determination to strengthen the fiscal situation.** The basic budget balance (on a commitment basis and excluding grants) is targeted to stabilize at its 2000 level (about 3.3 percent of GDP), while the current budget deficit would be reduced from the equivalent of 2 percent of GDP in 2000 to 1.6 percent of GDP in 2001. The government intends to keep a strict cash management system to prevent budgetary slippages in 2000-01 and even strengthen the financial position of the government at end-2000 so as to start 2001 without a cash crisis. Government revenue would be raised to 9.0 percent of GDP in 2001 from an estimated 8.2 percent of GDP in 2000, mainly as a result of the full effect of the change in petroleum product taxation and the rise of some excise taxes. A series of administrative measures would also contribute to this improvement (MEFP, para. 42). Current expenditure (excluding interest payments) is set at 8.4 percent of GDP in the 2001 budget law, about the same level as for 2000. Achieving this target is made possible by the elimination of subsidies on petroleum products, an effort to reduce other

budgetary transfers and subsidies, and a control of the wage bill and utilities expenditures (water, telephone, and electricity), while restoring allocations for goods and services to a level commensurate with a normal functioning of public services, particularly in the social sectors. The wage bill should decline by almost 3½ percent, owing to the wage freeze and the full impact of the efforts to reduce staffing levels in 2000 and to stabilize them in 2001. Capital expenditure is projected to increase by 1 percentage point to 6 percent of GDP in 2001, taking into account an increase of the domestically-financed part of the investment program. The debt relief that will result from the implementation of the HIPC Initiative in Niger will bring additional resources to the country to support the poverty reduction strategy and will benefit mainly the social sectors and basic infrastructure. The current program will be amended to take account of this debt relief, once it is in place, and the revised program will be incorporated into upcoming budget laws, starting with a supplementary budget law for 2001.

Monetary policy

31. **The monetary policy, conducted by the BCEAO at the regional level, will continue to aim at preserving the peg of the CFA franc to the euro, and consolidating the union's external position (MEFP, Section IV.C).** Niger's contribution to these objectives will be reflected in an improvement of the net foreign assets position and reductions in government borrowing from the banking system. Credit to the economy would increase by about 20 percent in 2000, reflecting a strong increase in the first half of 2000. In 2001, credit expansion is programmed at about 10½ percent. Overall, broad money is projected to expand by 4.2 percent in 2000 and 6.8 percent in 2001, in line with the nominal GDP growth rate.

Structural reforms

32. Besides the strengthening of tax and customs administration mentioned above, the **structural reform program** will focus on improving budget management, pursuing civil service reform, continuing the privatization program in coordination with the World Bank, introducing a plan to reform the oil sector, liberalizing prices of goods and services still subject to controls, and finalizing a strategy for rehabilitating and expanding the financial sector (MEFP, Section IV.D).

33. The government has made a commitment to deepen the **budget management reforms**, and efforts will focus on modernizing the chain of expenditure, in terms of both management procedures and the information system used, with a view to increasing transparency, accountability, and good governance. **Budget preparation**, both centrally (consistency of medium-term expenditure) and for the spending ministries (improvement of financial programming) will also be strengthened. In this regard, work to harmonize the budget and accounting nomenclatures will be undertaken in 2001.

34. In the area of **civil service reform**, the government will ensure that the integrated personnel management and payroll database put in place last July is kept current and remains

the sole database for payments of all salaries. Processing of the 300 irregular cases identified at the time of the consolidation of the personnel and payroll records will also be completed before December 31, 2000. In addition, the authorities intend to ensure the full implementation of the new retirement rules for civil servants introduced last March. Finally, as part of efforts to increase efficiency of public administration and alleviate problems resulting from a restrictive employment policy, a personnel redeployment program will also be implemented to improve availability of staff in the country's under-served areas.

35. The government is determined to pursue the **privatization program**. The next stages in the privatization of the four largest government enterprises have been established in agreement with the World Bank. They involve, for the telecommunications sector, the enactment of decrees implementing the framework law for the sector and the selection of the strategic buyer for SONITEL by end-2000. The sale of two cellular telephone licenses was effected in October 2000. In the water sector, the new operator could be selected by March 2001. It is anticipated that the sale of the shares in SONIDEP and the choice of a strategic investor for NIGELEC will be completed by end-September 2001.

36. The authorities will also implement a **transparent, automatic, and flexible pricing policy for petroleum products as of end-June 2001** and adopt a flexible tariff policy for the public utilities (MEFP, paras. 42 and 54). In addition, steps will be taken to improve the judiciary system and to increase labor market flexibility.

37. **Notwithstanding some progress achieved in the restructuring of the banking sector, the soundness and health of the financial sector remain a concern, and the government is preparing a program for strengthening the financial sector.** Niger's financial system is one of the less developed in the region and is quite fragile. The staff discussed with the authorities the causes behind the weakness of the financial sector. The lack of financial resources and the weaknesses of the judiciary system have undermined the effectiveness of restructuring plans implemented after the solvency crisis in the late 1980s. Niger's largest bank was not able to observe most prudential ratios as of end-1999, and at least three small credit institutions are in dire need of restructuring. In the insurance sector, the two largest companies (accounting for 75 percent of the market) are almost bankrupt. The postal savings bank is facing a liquidity crisis that hampers its activities. Finally, in the microfinance sector, which represents the only potential access of the poor rural population to financial services, some institutions are facing severe nonperforming loan problems. This high rate of nonperforming loans is attributed to development strategies unduly influenced by the availability of foreign credit lines, as opposed to sound business considerations.

38. **In light of the numerous problems plaguing the financial sector, the authorities have agreed to articulate quickly, with the support of the World Bank, a strategy focusing on improving the legal and judiciary framework, as well as the management of financial institutions and their compliance with the prudential regulations.** In 2001, the restructuring of the two small state-owned banks (Crédit du Niger and Caisse de Prêts aux Collectivités Territoriales) will be completed. Moreover, an audit of the postal savings system will be carried out with assistance from the World Bank.

39. **In line with its poverty reduction strategy, the government will also implement specific actions** aiming at developing irrigated crops, increasing the efficiency of the transportation sector, expanding basic education coverage and improving its quality, expanding access to health services in rural areas, and strengthening prevention of HIV/AIDS. These goals are reflected in the interim PRSP, and this strategy will be implemented with the support of the donor community and the enhanced HIPC Initiative.

Program monitoring

40. Performance criteria and benchmarks are indicated in the technical memorandum of understandings, as well as Section VI and Table 1 of the MEFP. The quantitative targets will be evaluated on a quarterly basis, beginning with end-December 2000. Those for end-March 2001 constitute performance criteria. Progress under the program will be assessed in the context of a mid-program review, to be completed no later than May 2001.

IV. THE BALANCE OF PAYMENTS OUTLOOK AND CAPACITY TO REPAY THE FUND

41. Niger's trade regime is relatively open, as it remains rated as 2 on the ten-point Fund scale of trade restrictiveness. As a result of the introduction of the new WAEMU common external tariff (CET) in January 2000, the maximum customs duty rate was set at 20 percent and the number of rates at four (0, 5, 10 and 20 percent). The authorities indicated that they would continue to limit the application of safeguard and protection mechanisms. They also reiterated that Niger intended to keep its exchange system free of restrictions on payments and transfers for current international transactions

42. The current account deficit (excluding grants) would increase from 7.6 percent of GDP in 1999 to 10.3 percent of GDP in 2000, mainly driven by the increase in import value in the wake of dollar and petroleum price hikes. It would remain stable in 2001 as export volume, slowed by the stagnation in the uranium sector, would grow less than import volume (4.2 percent against 6.3 percent), and the terms of trade would improve only slightly.

43. For 2000, net external financing needs, after expected Fund disbursement of CFAF 7.8 billion, are estimated at CFAF 217 billion, including CFAF 165 billion of debt relief. Of the balance of CFAF 53 billion expected to be covered by multilateral agencies and bilateral creditors, CFAF 40 billion have already been made available and the remainder will be disbursed on approval of the PRGF arrangement. In 2001, exceptional financing needs, after expected disbursement of CFAF 15.8 billion from the Fund, are estimated at CFAF 115 billion, of which CFAF 27 billion is expected from traditional debt relief and CFAF 88 billion from multilateral and bilateral lenders. Early indications of the donor community to fully cover the financing needs of Niger will be confirmed on the occasion of a round table to be organized in early 2001. In view of Niger's limited debt servicing capacity, a prudent external debt management policy is required, including the contracting of debt with a grant element of at least 50 percent.

44. According to the DSA presented in the preliminary enhanced HIPC Initiative decision point document (EBS/00/229; 11/15/00), the NPV of the external debt-to-exports

ratio at end-December 1999 (after full use of traditional debt-relief mechanisms) was 322 percent, significantly above the 150 percent target and qualifying Niger under the HIPC Initiative. Debt relief equivalent to US\$520.6 million in NPV terms would be required to bring external debt to a sustainable level.

45. Debt service to the Fund will peak at CFAF 9.5 billion in 2004. Niger has a good record of servicing its debt to the Fund and should be able to continue to meet its obligations in a timely manner, in view of the expected improvements in its balance of payments and fiscal positions. Nevertheless, the country is vulnerable to terms of trade- and weather-related shocks and to shortfalls in foreign assistance.

V. PROGRAM MONITORING AND RISKS TO THE PROGRAM

46. In the past, chronic political instability has hampered Niger's capacity to fully implement its adjustment and reform programs. With a new, democratically elected government, the political environment has stabilized, and this augurs well for a more timely implementation of a coherent and far-reaching adjustment program aiming chiefly at reducing poverty. Niger will continue to need the help of the international community to buttress its adjustment efforts.

47. Niger provides adequate data to the Fund, although timeliness and coverage need to be improved. The technical capacity to implement the program is limited by a lack of qualified staff in the civil service. Technical assistance will be required, in particular in the field of budget execution and accounting, tax administration, treasury operations, financial reform, legal and judiciary reform, poverty analysis, and statistics.

VI. STAFF APPRAISAL

48. Niger has experienced a significant program interruption in 1999 and has not received Fund assistance in over two years. The performance of Niger outside of the context of a Fund-supported program has been highly satisfactory since January 2000 and includes a strong commitment to reform programs in the areas of governance, transparency and accountability. The successful implementation of prior actions as described in the authorities' memorandum of economic and financial policies demonstrates a strong commitment to adjustment and structural reforms. While there is no conditionality with which to judge Niger's performance since January of this year, its performance has been impressive given that its achievements were made without much financial support from the international community, including the Fund.

49. The economic and social problems facing the new authorities of Niger are daunting. They include the legacy of decades of economic mismanagement, reflected in an unmanageable external debt burden and an accumulation of external and domestic payments arrears exceeding 20 percent of GDP. In spite of an exchange rate system that has served Niger well, growth prospects are further depressed by the scarcity of human capital, vulnerability to weather conditions, a weak export base, a domestic economic environment

that is not yet fully conducive to private sector development and job creation, and an inefficient public sector in need of reform.

50. Niger's eligibility to the enhanced HIPC Initiative would provide welcome relief, but, even under optimal assumptions, the country still requires large amounts of non-debt-creating external assistance.

51. Since the newly elected government resumed the adjustment effort, after the 1999 interruption, strict budgetary discipline has arrested the accumulation of domestic payments arrears, and progress toward structural reforms has been made.

52. The core of the adjustment program for which the authorities are requesting Fund support aims at a turnaround of economic performance and the implementation of a new strategy to reduce poverty. The key contribution of fiscal policy to these objectives is based on a major revenue effort and a strict control and restructuring of budgetary outlays, using a cash management approach to keep expenditure within the bounds of revenue. The challenge for budgetary management will be to consolidate the improved budget position and to ensure that government operations remain efficient, in the social sectors especially. A good start has been made with the budget for 2001, which is expected to be approved by the National Assembly before December 31, 2000. It is nonetheless essential that expenditures commitments be effectively controlled under the current monitoring system—a system that needs to be developed and strengthened as a key feature of the 2000-01 program.

53. After the severe squeeze on government expenditure on goods, services, and transfers in 1999, the new budgetary framework should permit such expenditures, particularly those in the social sectors, to increase to a level at least consistent with the effective delivery of essential government services. This can only be achieved through the timely implementation of comprehensive reforms involving the main financial agencies on the revenue side, and the strengthening of the overall budgetary process, from planning to execution and control, on the expenditure side.

54. Continuing rationalization of the civil service, in the context of a declining wage bill in terms of GDP, will be one key to increasing the efficiency of government operations. An important element of this rationalization will include the participation of local government and local entities in the financing and delivery of social services, in particular health and education, which currently account for the bulk of the total wage bill and government employment.

55. Greater efficiency in financial intermediation will be required to promote national savings and private sector growth. The financial system development and reform strategy, to be finalized early in 2001, will play a crucial role in this area. While restructuring or liquidating two insolvent small public banks should not be delayed any further, rapid progress will be needed as well on the rehabilitation of postal savings to restore access to financial services by low-income households and small businesses. In addition, expanding networks of decentralized, small-scaled credit institutions, on a sound financial basis, should

be a major objective in the overall strategy of development of rural sector activities and poverty reduction.

56. One critical reform is the privatization program. It has been moving ahead, but slowly, reflecting not only overly bureaucratic processes but also weak implementation capacity and resistance from the employees of companies to be privatized. Adhering to the schedule of reforms highlighted in the program will be an important test of the authorities' resolve.

57. The development and maintenance of Niger's human capital are other prerequisites for growth. The strengthening of social sector policies under way will help to correct deep deficiencies in these areas. Intensifying the focus on these human aspects of development will be important both for the social consequences and for the long-term sustainability of the adjustment effort.

58. External assistance will continue to be of crucial importance to Niger in the form of debt relief, as well as project and budgetary assistance. The expected disbursements from bilateral and multilateral donors, together with debt relief, should cover Niger's financial gap for 2000-01, but Niger's financial needs will remain large beyond that period. In addition, in view of Niger's limited repayment capacity, most external aid disbursements will need to be made in the form of grants, and the international community should be urged to meet those needs, provided that Niger continues to pursue appropriate macroeconomic policies and presses forward with structural reforms.

59. In the preparation of the interim PRSP, the authorities have emphasized the need to invest more resources in primary education, primary health care services, rural infrastructure, and water supply. But it is not yet clear how social spending will be affected as a result of the planned decentralization of some government responsibilities. Further work also needs to be done to strengthen the database on social indicators, integrate sectoral strategies into a coherent antipoverty strategy, and build a consensus for the strategy through a broader participatory process.

60. Restoring budgetary accountability, in particular through accurate and timely fiscal reporting, is a key element in the authorities' efforts to address governance issues. Some initial steps have already been taken, such as the closing of the accounts for fiscal-year 1997 and, as prior actions, those for fiscal-years 1998 and 1999, as well as the verification of questionable expenditure undertaken by the previous government in late 1999.

61. It is important to bear in mind the risks that Niger continues to face in successfully implementing its program. There are, of course, the risks posed by unexpected developments, such as drought in a Sahelian country, and Niger will need to be prepared to strengthen its adjustment efforts if new shocks arise. Niger's adjustment efforts hinge on strong and sustained fiscal performance, including continuous revenue efforts and strict expenditure control. Niger's considerable strengthening of its fiscal adjustment effort in 2000 under its new government is reassuring in that regard, as are other steps taken to further

strengthen fiscal performance. Also important is the need to consolidate and broaden the political consensus and participatory process that the authorities have sought to develop so painstakingly in favor of reforms.

62. Given the encouraging economic developments and the restoration of budgetary discipline, the staff recommends that the Fund grant Niger's request for a new three-year PRGF arrangement on the basis of the commitment shown by the authorities and the strength of the proposed program.

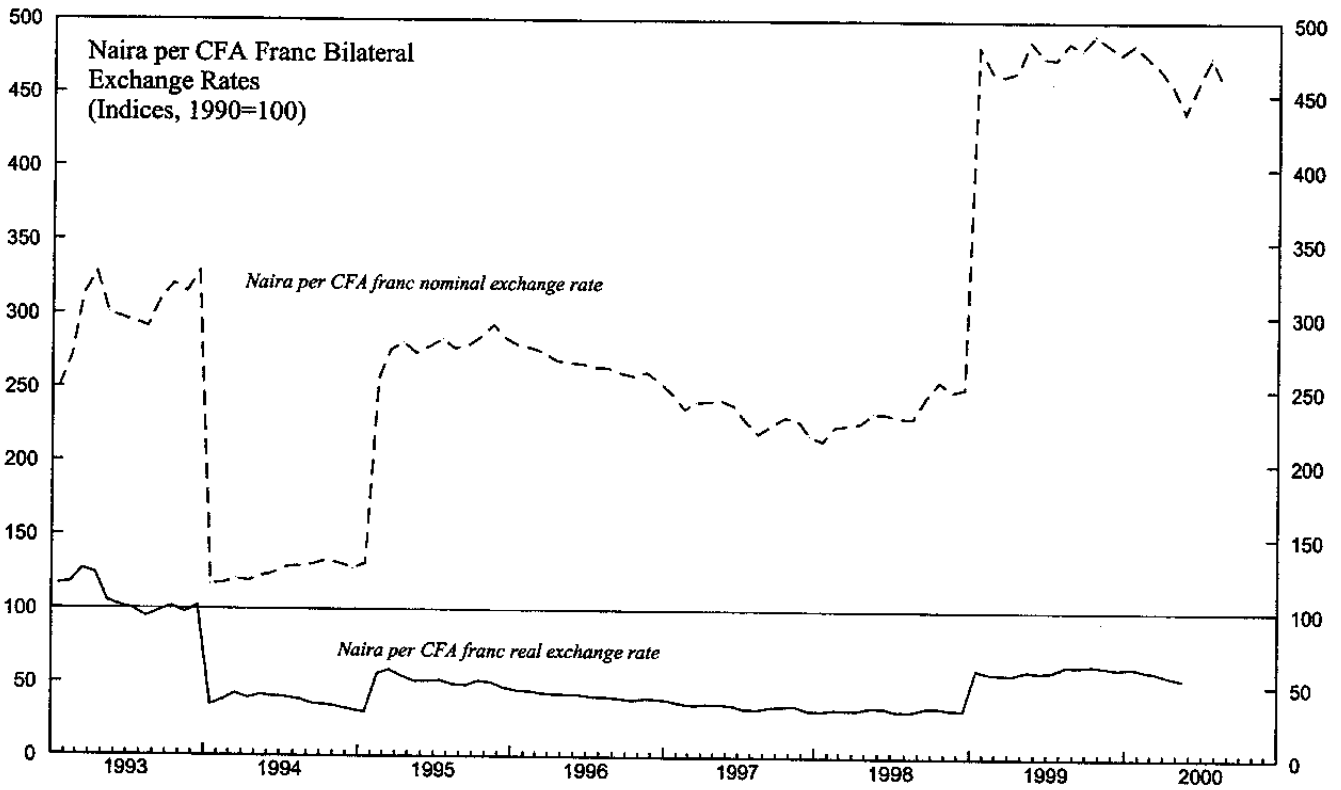
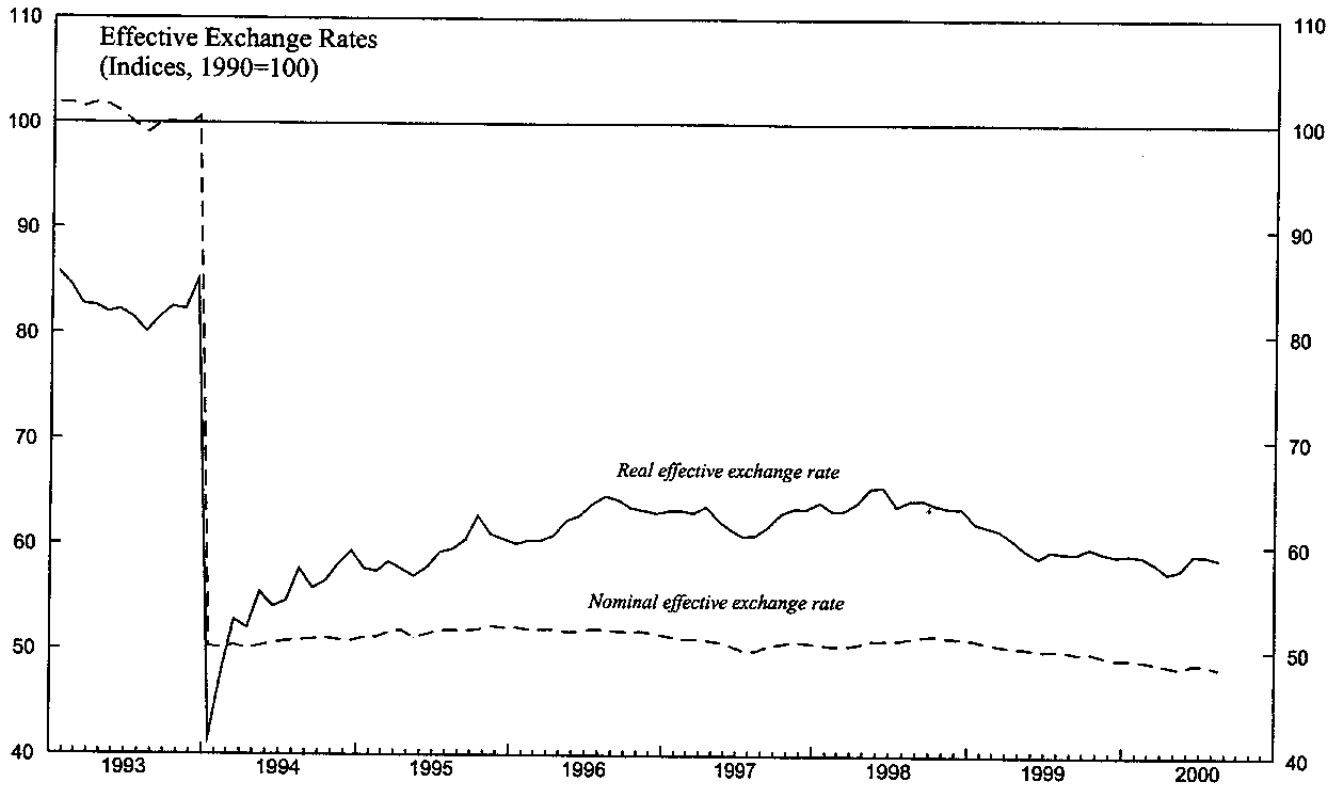
63. It is proposed that the next Article IV consultation with Niger be held on the standard 12-month cycle.

VII. PROPOSED DECISION

The following draft decision is proposed for adoption by the Executive Board:

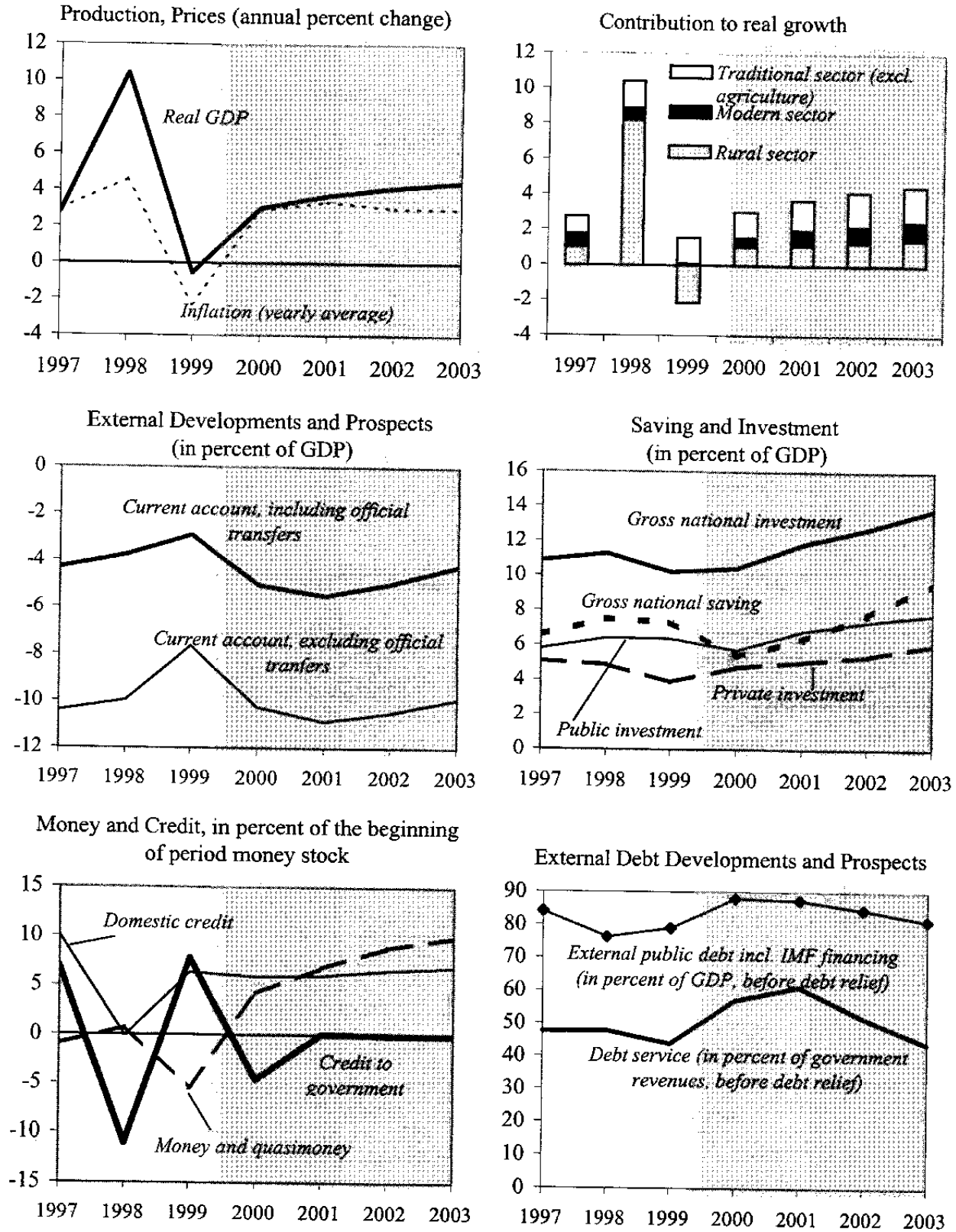
1. The government of Niger has requested a three-year arrangement under the Poverty Reduction and Growth Facility in a total amount equivalent to SDR 59.2 million.
2. The Fund determines that the Interim Poverty Reduction Strategy Paper for Niger set forth in EBD/00/108, 12/1/00 provides a sound basis for the development of a fully participatory PRSP, for reaching the Decision Point under the HIPC initiative, and for Fund concessional assistance.
3. The Fund adopts the following decision in principle, which shall become effective on the date on which the Fund decides that the World Bank has concluded that the Interim Poverty Reduction Strategy Paper submitted by Niger provides a sound basis for the development of a fully participatory PRSP, for reaching the Decision Point under the enhanced HIPC Initiative, and for the World Bank concessional assistance.
4. The Fund approves the arrangement set forth in EBS/00/244, 11/29/00 and decides that Niger may request the first disbursement under the arrangement, on the condition that the information provided by Niger on the implementation of the measures specified as prior actions in Table 2 attached to the letter dated November 21, 2000 is accurate.

Figure 1. NIGER: Exchange Rate Indices, January 1993 - August 2000



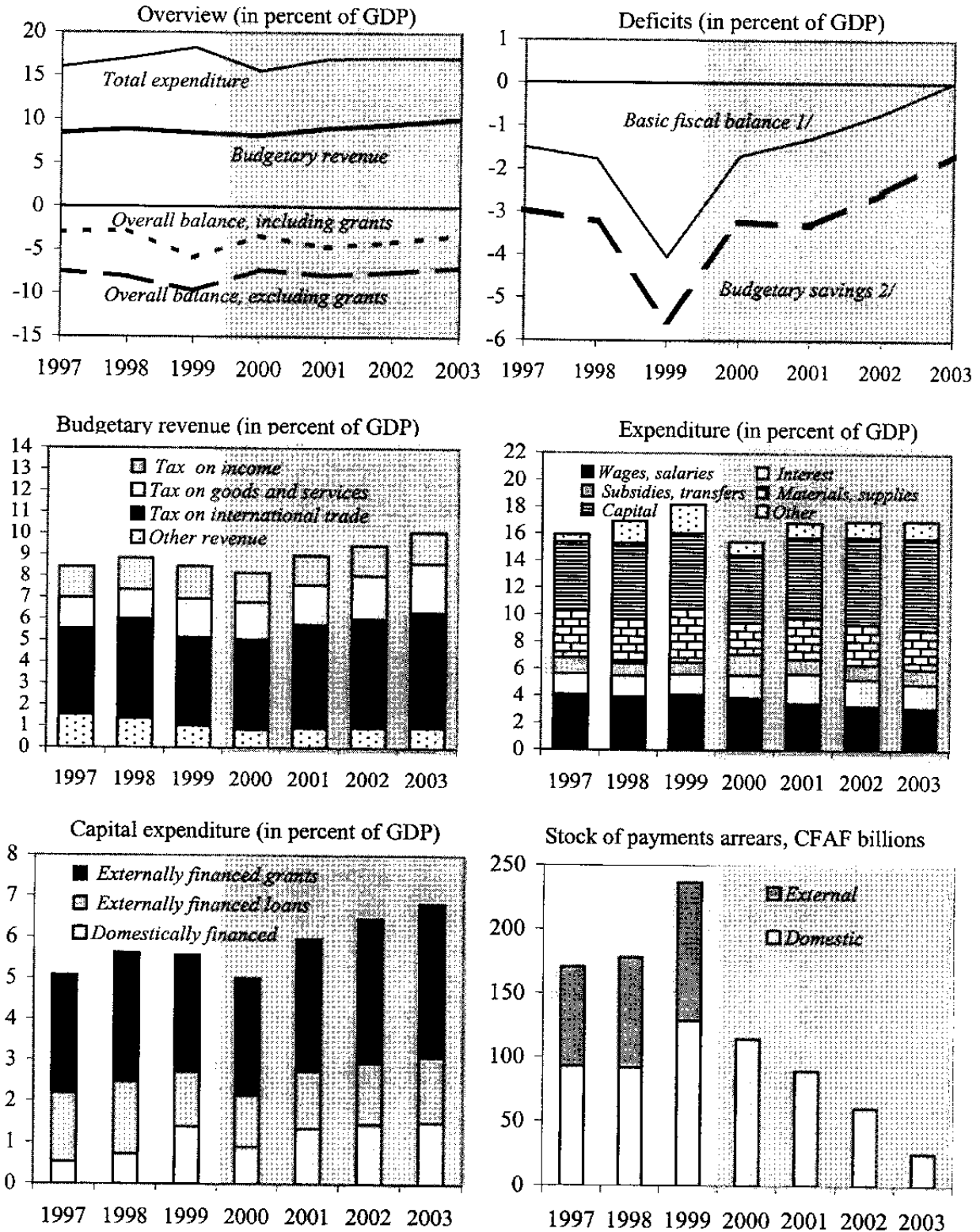
Source: IMF, Information Notice System.

Figure 2. Niger: Selected Economic and Financial Indicators, 1997-2003



Sources: Nigerien authorities; and staff estimates and projections.

Figure 3. Niger: Fiscal Developments and Prospects, 1997-2003



Sources: Nigerien authorities; and staff estimates and projections.

1/ Budgetary revenue excluding grants, minus total expenditure, excluding foreign financed investment projects and interest payments on external debt.

2/ Budgetary revenue minus current expenditure

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

	Outstanding Sep.30, 2000	2000				2001				2002				2003			
		Oct.-Dec.	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		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			
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	1.93			
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, 1997-2003

	1997	1998	1999	2000	2001	2002	2003
			Est.	Program		Projections	
(Annual percentage change, unless otherwise specified)							
National income and prices							
GDP at constant prices	2.8	10.4	-0.6	3.0	3.7	4.1	4.5
GDP deflator	3.1	3.0	2.0	3.5	3.4	3.0	3.0
Consumer price index							
Annual average	2.9	4.5	-2.3	2.9	3.4	3.0	3.0
End of period	4.1	3.4	-1.9	4.1	2.1	3.0	3.0
External sector							
Exports, f.o.b.	2.8	24.2	-9.9	1.2	5.9	5.1	6.2
Imports, f.o.b.	11.7	33.6	-16.5	14.4	6.9	5.2	5.6
Export volume	2.3	14.2	-10.4	0.7	4.2	4.1	4.0
Import volume	2.1	30.7	-21.1	-2.7	6.3	5.8	5.0
Terms of trade (deterioration -)	-7.6	5.8	-5.0	-14.6	1.1	1.6	1.4
Nominal effective exchange rate							
(period average; depreciation -) 1/	-2.2	0.5	-1.6	-2.6	...	...	...
Real effective exchange rate							
(period average; depreciation -) 1/	0.2	2.4	-6.3	-2.4	...	...	...
Government finances							
Total revenue	15.0	19.4	-3.0	2.9	17.7	13.2	14.6
Total expenditure and net lending 2/	28.8	21.0	8.9	-9.2	16.8	8.1	7.9
Current budgetary expenditure	31.2	19.3	11.7	-10.8	11.8	3.7	4.1
Capital expenditure	32.8	25.8	0.7	-4.1	27.5	16.0	13.9
Money and credit							
Domestic credit 3/							
Credit to the government (net) 3/	6.9	-11.1	7.8	-4.6	0.0	-0.1	-0.1
Credit to the economy	9.1	28.5	-3.0	20.9	10.3	11.0	11.3
Net domestic assets 3/	11.1	1.7	9.1	7.9	6.0	6.5	6.8
Money and quasi money	-1.0	0.7	-5.5	4.2	6.8	8.8	9.9
Interest rate (money market, in percent; end of period) 1/	5.0	5.0	5.0	5.0	...	...	...
(In percent of GDP, unless otherwise indicated)							
Government finances							
Budgetary revenue	8.4	8.9	8.5	8.2	9.0	9.5	10.1
Current expenditure (commitment basis)	10.5	11.0	12.1	10.1	10.6	10.2	9.9
Capital expenditure (commitment basis)	5.1	5.6	5.6	5.0	6.0	6.5	6.8
Total expenditure (commitment basis) 4/	16.0	17.0	18.2	15.5	16.9	17.0	17.1
Primary budget balance (commitment basis, excl. grants) 5/	-6.0	-6.6	-8.2	-5.7	-5.8	-5.6	-5.2
Basic budget balance (commitment basis, excl. grants) 6/	-3.0	-3.2	-5.6	-3.2	-3.3	-2.6	-1.7
Overall budget balance (commitment basis, excl. grants)	-7.5	-8.1	-9.7	-7.3	-7.9	-7.6	-7.0
Overall budget balance (commitment basis, incl. grants)	-3.0	-2.8	-5.9	-3.4	-4.7	-4.1	-3.3

Table 2. Niger: Selected Economic and Financial Indicators, 1997-2003 (concluded)

	1997	1998	1999	2000	2001	2002	2003
			Est.	Program		Projections	
(In percent of GDP, unless otherwise indicated)							
Gross domestic investment	10.9	11.3	10.2	10.4	11.8	12.7	13.8
Private	5.1	4.9	3.9	4.7	5.0	5.4	6.0
Public	5.8	6.4	6.4	5.7	6.8	7.4	7.8
Gross national savings	6.5	7.5	7.3	5.4	6.3	7.7	9.6
Gross domestic savings	3.2	2.7	3.8	1.8	2.8	3.8	5.2
Private	2.9	1.5	4.1	0.3	1.1	1.3	1.9
Public	0.3	1.2	-0.3	1.5	1.7	2.4	3.3
Resource gap	7.6	8.6	6.4	8.7	9.0	8.9	8.6
External current account balance							
Excluding official transfers 7/	-10.4	-10.0	-7.6	-10.3	-10.9	-10.5	-9.9
Including official transfers 7/	-4.3	-3.8	-2.9	-5.1	-5.5	-5.0	-4.2
External public debt (end of period) 8/ 9/	92.2	83.1	84.3	87.9	87.4	84.6	81.2
Debt-service ratio in percent of :							
Exports of goods and nonfactor services							
Before debt relief	24.4	23.8	23.2	30.8	36.4	32.8	29.8
Government revenue							
Before debt relief	47.5	47.7	43.7	57.0	61.1	51.7	43.8
(In billions of CFA francs)							
GDP at current market prices	1,077	1,225	1,243	1,325	1,420	1,524	1,640
Government payments arrears (reduction -)	-11.9	7.6	58.4	-129.6	-25.0	-29.2	-35.1
Domestic	-13.8	-1.3	36.9	-14.0	-25.0	-29.2	-35.1
External	1.9	8.9	21.5	-115.6	0.0	0.0	0.0
Overall balance of payments 9/	-34.8	-36.4	-43.0	-61.7	-114.8	-104.2	-96.5

Sources: Nigerien authorities; and staff estimates and projections.

1/ Last available data for 2000.

2/ Commitment basis as per payment orders issued.

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

4/ Includes current and capital expenditure, as well as expenditure of the special accounts and annexed budgets.

5/ Budget revenue minus expenditure (on a commitment basis), excluding interest payments.

6/ Budget revenue minus expenditure (on a commitment basis), excluding foreign-financed investment projects.

7/ Official transfers include budgetary grants as well as technical assistance and food grants.

8/ Including obligations to the IMF; data starting in 1999 are based on reconciliation of the stocks of debt by creditors in the context of the Debt Sustainability Analysis for eligibility to the Enhanced HIPC Initiative.

9/ Before debt relief.

Table 3. Niger: Financial Operations of the Central Government, 1997-2003

	1997	1998	1999	2000	2001	2002	2003
			Prel.	Program		Projections	
(In billions of CFA francs)							
Total budgetary revenue	90.8	108.4	105.2	108.2	127.4	144.2	165.3
<i>Of which: tax expenditure</i>	0.0	6.4	9.3	8.9	11.6	12.6	13.8
Tax revenue	78.1	97.5	99.8	103.4	122.1	138.5	159.0
Nontax revenue	7.4	8.4	3.3	2.3	2.4	2.6	2.8
Annexed budget/special accounts	5.3	2.5	2.2	2.6	2.9	3.1	3.5
Total expenditure	171.8	207.8	226.4	205.5	240.1	259.5	280.0
Current expenditure	112.8	134.6	150.3	134.1	149.8	155.4	161.7
Wages and salaries	44.2	48.6	50.8	51.4	49.6	50.3	51.3
Goods and services	37.7	40.0	49.7	31.3	43.5	45.7	48.5
Subsidies and transfers	12.8	11.3	11.0	20.8	15.6	16.8	18.2
Interest, scheduled	16.5	18.9	19.0	22.2	30.8	30.0	29.3
External debt	15.9	17.8	18.5	20.2	28.8	28.0	27.3
Domestic debt	0.7	1.1	0.6	2.0	2.0	2.0	2.0
Road Fund	1.1	1.2	1.8	1.0	4.7	5.2	5.7
Social measures	0.5	5.0	1.1	2.0	4.0	4.0	4.8
Other expenditure	0.0	9.5	16.9	5.3	1.7	3.3	4.0
Capital expenditure	54.7	68.8	69.3	66.4	84.7	98.3	111.9
Domestically financed	5.7	8.9	17.1	11.9	19.0	21.9	24.5
Externally financed	49.0	60.0	52.2	54.5	65.7	76.4	87.4
Annexed budget/special accounts	4.3	4.4	6.8	5.0	5.5	5.8	6.3
Overall balance (commitment basis, excl. grants)	-81.0	-99.4	-121.2	-97.3	-112.7	-115.3	-114.6
Change in payments arrears	-11.9	7.6	58.4	-129.6	-25.0	-29.2	-35.1
Domestic arrears (net)	-13.8	-1.3	36.9	-14.0	-25.0	-29.2	-35.1
External arrears (net)	1.9	8.9	21.5	-115.6	0.0	0.0	0.0
Overall balance (cash basis, excluding grants)	-92.9	-91.8	-62.8	-226.9	-137.7	-144.5	-149.8
Financing	92.9	91.8	62.8	49.9	23.2	38.9	49.8
External financing	87.0	116.5	55.6	54.4	23.3	39.0	49.9
Grants	49.2	65.3	47.4	52.2	46.0	53.5	61.2
Budget financing	18.1	26.6	11.7	14.0	0.0	0.0	0.0
Project financing	31.1	38.7	35.7	38.2	46.0	53.5	61.2
Loans	42.1	50.3	24.6	42.4	19.7	22.9	26.2
Budget financing	24.2	28.9	8.1	26.0	0.0	0.0	0.0
Project financing	17.9	21.3	16.5	16.4	19.7	22.9	26.2
Amortization	-18.5	-25.7	-23.8	-40.2	-42.4	-37.4	-37.5
Debt relief	14.1	26.7	7.5	0.0	0.0	0.0	0.0
Domestic financing	5.9	-24.7	7.2	-4.4	0.0	-0.1	-0.1
Banking sector	9.4	-11.0	7.8	-4.4	0.0	-0.1	-0.1
Nonbanking sector	-3.5	-15.0	-0.6	0.0	0.0	0.0	0.0
Privatization, receipts (net)	0.0	1.3	0.0	0.0	0.0	0.0	0.0
Financing gap (+)	0.0	0.0	0.0	177.0	114.5	105.6	100.0
<i>Of which: traditional debt relief</i>	0.0	0.0	0.0	164.5	26.7	20.2	17.9
<i>Of which: relief on arrears</i>	0.0	0.0	0.0	162.7	0.0	0.0	0.0
(In percent of GDP)							
Total revenue	8.4	8.9	8.5	8.2	9.0	9.5	10.1
<i>Of which: tax revenue</i>	7.2	8.0	8.0	7.8	8.6	9.1	9.7
Total expenditure	16.0	17.0	18.2	15.5	16.9	17.0	17.1
<i>Of which: current expenditure</i>	10.5	11.0	12.1	10.1	10.6	10.2	9.9
<i>Of which: wages</i>	4.1	4.0	4.1	3.9	3.5	3.3	3.1
Interest due	1.5	1.5	1.5	1.7	2.2	2.0	1.8
Capital expenditure	5.1	5.6	5.6	5.0	6.0	6.5	6.8
Overall balance (commitment basis, excl. grants)	-7.5	-8.1	-9.7	-7.3	-7.9	-7.6	-7.0
Overall balance (cash basis, excluding grants)	-8.6	-7.5	-5.0	-17.1	-9.7	-9.5	-9.1
Basic budget balance 1/	-3.0	-3.2	-5.6	-3.2	-3.3	-2.6	-1.7
Current budget balance 2/	-2.0	-2.1	-3.6	-2.0	-1.6	-0.7	0.2
Memorandum items:	(In billions of CFA francs)						
Stock of external payments arrears	77.7	86.6	108.1	0.0	0.0	0.0	0.0
Stock of domestic payments arrears	93.0	91.7	128.6	114.6	89.6	60.4	25.2
GDP at market prices	1,077	1,225	1,243	1,325	1,420	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/ Budgetary revenue minus current expenditure.

Table 4. Niger: Balance of Payments, 1997-2003

	1997	1998	1999	2000	2001	2002	2003	
			Prel.	Program		Projections		
(In billions of CFA francs, unless otherwise specified)								
Trade balance	-16.4	-36.8	-17.8	-43.8	-48.5	-51.1	-53.0	
Exports, f.o.b.	158.6	196.9	177.3	179.5	190.1	199.9	212.2	
<i>Of which: uranium</i>	76.4	78.6	65.1	64.2	62.2	60.7	59.2	
Imports, f.o.b.	-175.0	-233.7	-195.1	-223.2	-238.7	-251.0	-265.1	
Services (net)	-82.8	-81.9	-74.3	-84.9	-101.6	-106.6	-109.4	
<i>Of which: freight and insurance</i>	-45.8	-56.1	-51.7	-59.1	-63.2	-66.5	-70.2	
Interest on public debt	-15.9	-17.8	-18.5	-20.1	-28.8	-28.0	-27.3	
Interest on private debt	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	
Unrequited transfers (net)	52.7	72.6	55.8	61.7	56.1	66.1	77.1	
<i>Of which: official transfers</i>	65.7	76.0	58.8	69.2	61.1	69.1	78.1	
<i>Of which: budgetary assistance grants</i>	18.1	26.6	11.7	14.0	0.0	0.0	0.0	
Project grants	31.1	38.7	35.7	38.2	46.0	53.5	61.2	
Current account balance	-46.5	-46.1	-36.2	-66.9	-94.1	-91.7	-85.2	
Excluding official transfers	-112.2	-122.1	-95.0	-136.1	-155.2	-160.8	-163.3	
Capital account	22.7	24.3	2.9	5.2	-20.7	-12.5	-11.3	
Official long term (net)	23.6	24.5	0.8	2.1	-22.7	-14.5	-11.3	
Disbursements	42.1	50.2	24.6	42.4	19.7	22.9	26.2	
Budgetary assistance	24.2	28.9	8.1	26.0	0.0	0.0	0.0	
Projects	17.9	21.3	16.5	16.4	19.7	22.9	26.2	
Amortization	-18.5	-25.7	-23.8	-40.2	-42.4	-37.4	-37.5	
Investment	0.0	0.0	1.0	0.0	3.0	3.0	0.0	
Private capital (net)	-0.9	-0.2	1.1	3.1	-1.0	-1.0	0.0	
Errors and omissions	-11.0	-14.6	-9.7	0.0	0.0	0.0	0.0	
Overall balance	-34.8	-36.4	-43.0	-61.7	-114.8	-104.2	-96.5	
Financing	34.8	36.4	43.0	-115.3	0.2	-1.4	-3.5	
Net foreign assets	16.6	0.4	14.0	0.4	0.2	-1.4	-3.5	
Fund financing	6.7	7.2	-3.7	6.6	14.9	13.0	9.4	
Purchases	15.5	15.5	0.0	7.8	15.8	15.7	15.7	
Repurchases	-8.7	-8.2	-3.7	-1.3	-0.9	-2.7	-6.3	
Other assets (net)	9.9	-6.8	17.7	-6.2	-14.7	-14.5	-12.9	
Debt relief	14.1	26.7	7.5	0.0	0.0	0.0	0.0	
Arrears (- reduction)	-18.9	-12.4	-0.2	-162.7	0.0	0.0	0.0	
Accumulation of arrears	20.8	21.3	21.7	47.0	0.0	0.0	0.0	
Net counterpart to revaluation	2.2	0.4	0.0	0.0	0.0	0.0	0.0	
Financing gap	0.0	0.0	0.0	177.0	114.5	105.6	100.0	
<i>Of which: possible debt relief 1/</i>	0.0	0.0	0.0	164.5	26.7	20.2	17.9	
<i>Of which: relief on arrears 2/</i>	0.0	0.0	0.0	162.7	0.0	0.0	0.0	
Memorandum items:								
			(In percent of GDP)					
External current account balance								
Including official transfers	-4.3	-3.8	-2.9	-5.1	-5.5	-5.0	-4.2	
Excluding official transfers	-10.4	-10.0	-7.6	-10.3	-10.9	-10.5	-9.9	

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

1/ For 2001-03, it is assumed that Paris Club creditors provide a flow rescheduling on Naples terms (NPV reduction of 67 percent) covering maturities on eligible debt with comparable terms provided by non-Paris Club official bilateral creditors.

2/ Corresponds in 2000 to the settlement of all external payments arrears. Arrears to multilaterals are assumed to be rescheduled on nonconcessional terms (market interest rate, ten years' maturity, and three years' grace period) and will be subject to relief under the enhanced HIPC Initiative (actual rescheduling agreements with a grant element have been reached with BOAD and BADEA). Debt relief on eligible arrears to Paris Club creditors and other bilateral creditors is assumed to be on traditional terms (Naples terms). Noneligible bilateral and Paris Club debt is assumed to be deferred on nonconcessional terms (ten years' maturity, three years' grace period) and will be subject to enhanced HIPC Initiative relief if applicable.

Table 5. Niger: Monetary Survey, 1997-2003

	1997 Dec.	1998 Dec.	1999 Dec.	2000 December Program	2001	2002 December Projections	2003
(In billions of CFA francs)							
Net foreign assets	0.8	-0.2	-14.9	-18.4	-17.6	-15.2	-11.7
Central Bank of West African States (BCEAO)	-4.0	-4.4	-18.0	-18.4	-18.6	-17.2	-13.7
Commercial banks	4.7	4.2	3.1	0.0	1.0	2.0	2.0
Net domestic assets	98.8	100.5	109.7	117.1	123.0	129.9	137.8
Domestic credit	113.0	112.9	119.2	124.8	130.7	137.6	145.5
Net bank claims on government	74.7	63.7	71.5	67.1	67.1	67.0	66.9
BCEAO	59.2	57.9	65.4	63.2	63.5	64.6	64.5
<i>Of which</i> : statutory advances	32.1	31.7	30.4	29.4	19.4	9.4	4.4
IMF resources	35.5	42.6	39.0	45.6	60.6	73.6	83.0
Commercial banks	12.9	3.1	3.3	2.8	2.5	1.2	1.2
Other	2.7	2.7	2.9	1.2	1.2	1.2	1.2
Credit to the economy	38.3	49.2	47.7	57.7	63.6	70.6	78.6
Other items, net	-14.2	-12.4	-9.6	-7.7	-7.7	-7.7	-7.7
<i>Of which</i> : revaluation account	-7.9	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0
Money and quasi money (broad money)	99.6	100.3	94.8	98.8	105.5	114.8	126.1
Currency outside banks	41.7	44.9	34.1	36.6	37.5	40.6	44.5
Private deposits with postal checking system (ONPE)	2.7	2.5	2.9	1.2	1.2	1.2	1.2
Deposits with banks	55.3	52.9	57.7	60.9	66.8	73.0	80.5
Private sector	51.1	49.0	54.4	57.5	63.3	69.6	77.0
Public institutions	4.1	3.9	3.4	3.5	3.5	3.5	3.5
Financial institutions	0.0	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	-12.1	-1.0	-14.6	-3.7	0.8	2.3	3.0
BCEAO	-16.5	-0.4	-13.5	-0.4	-0.2	1.3	3.0
Commercial banks	4.4	-0.6	-1.1	-3.2	1.0	0.9	0.0
Net domestic assets	11.1	1.7	9.1	7.9	6.0	6.5	6.8
Domestic credit	10.1	-0.1	6.3	5.9	6.0	6.5	6.8
Net bank claims on the government	6.9	-11.1	7.8	-4.6	0.0	-0.1	-0.1
BCEAO	3.8	-1.3	7.4	-2.3	0.3	1.1	-0.1
<i>Of which</i> : statutory advances	0.2	-0.4	-1.3	-1.1	-10.1	-9.5	-4.4
Commercial banks	3.0	-9.9	0.2	-0.5	-0.3	-1.2	0.0
Other	0.1	0.0	0.2	-1.8	0.0	0.0	0.0
Credit to the economy	3.2	10.9	-1.5	10.5	6.0	6.6	7.0
Other items, net	1.0	1.8	2.8	2.0	0.0	0.0	0.0
Money and quasi money	-1.0	0.7	-5.5	4.2	6.8	8.8	9.9
Memorandum items:	(In units indicated)						
Velocity of circulation of money (GDP/broad money)	10.9	12.2	13.1	13.4	13.5	13.3	13.0
Credit to the economy (annual change, in percent)	9.1	28.5	-3.0	20.9	10.3	11.0	11.3

Sources: Nigerien authorities; and staff estimates and projections.

**Niger: Three-Year Arrangement Under
the Poverty Reduction and Growth Facility**

Attached hereto is a letter (the "Letter") with annexed Memorandum of Economic and Financial Policies (the "Memorandum") and Technical Memorandum of Understanding ("TMU"), dated November 21, 2000, from the Prime Minister of Niger requesting from the Fund as Trustee of the Poverty Reduction and Growth Facility Trust (the "Trustee") a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

(a) the objectives and policies of the program that the authorities of Niger intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies, and measures that the authorities of Niger intend to pursue during the first year of the arrangement; and

(c) understandings of Niger with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Niger will pursue for the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust.

1. (a) For a period of three years from December [20], 2000, Niger will have the right to obtain loan disbursements from the Trustee in a total amount equivalent to SDR 59.2 million, subject to the availability of resources in the Poverty Reduction and Growth Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 25.38 million until April 30, 2002 and the equivalent of SDR 42.3 million until April 30, 2003.

(c) During the first year of the arrangement:

(i) the first disbursement, in an amount equivalent to SDR 8.46 million, will be available on December 31, 2000, at the request of Niger;

(ii) the second disbursement, in an amount equivalent to SDR 8.46 million, will be available on or after April 30, 2001 at the request of Niger and subject to paragraph 2 below; and

- (iii) the third disbursement, in an amount equivalent to SDR 8.46 million, will be available on or after October 31, 2001 at the request of Niger and subject to paragraph 2 below.

(d) The right of Niger to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined. The phasing of, and conditions for, disbursements during the second year of this arrangement shall be determined in the context of a review of Niger's program with the Trustee, the timing of which shall be established at the first review contemplated in paragraph 2(e) of this arrangement.

2. Niger will not request the second and third disbursements provided for in paragraph 1(c)(ii) and 1(c)(iii) above

(a) If the Managing Director of the Trustee finds that, with respect to the second disbursement, the data as of March 31, 2001 and, with respect to the third disbursement, the data as of September 30, 2001, indicate that:

- (i) the ceiling on net domestic bank credit to the government, or
- (ii) the target on the reduction in government domestic payments arrears, or
- (iii) the ceiling on contracting or guaranteeing by the central government on new non-concessional external debt with a maturity of one or more years, or
- (iv) the ceiling on contracting or guaranteeing by the central government on new external debt with a maturity of less than one year,

as specified in Paragraph 64 and Table 1 of the Memorandum (and as described in the attached TMU), respectively, was not observed, or

(b) If the Managing Director of the Trustee finds:

- (i) with respect to the third disbursement, that Niger has not carried out its intentions with respect to implementation of an automatic, transparent, and flexible pricing system for petroleum products by June 30, 2001, as specified in Paragraph 64 and Table 2 of the Memorandum (and as described in the attached TMU); or

(c) if, at any time during the period of this arrangement, Niger has accumulated any new external payments arrears except for arrears to official creditors that are subject to debt-rescheduling agreements as specified in paragraph 64 and Table 1 of the Memorandum (and as described in the attached TMU); or

- (d) if Niger
 - (i) has imposed or intensified restrictions on payments and transfers for current international transactions, or
 - (ii) has introduced or modified multiple currency practices, or
 - (iii) has concluded bilateral payments agreements that are inconsistent with Article VIII, or
 - (iv) has imposed or intensified import restrictions for balance of payments reasons; or

(e) until the Trustee has determined, with regard to the second disbursement, that the first review of Niger's program scheduled for completion on June 30, 2001 and referred to in paragraph 64 of the Memorandum has been completed and, with regard to the third disbursement, that the second review of Niger's program, the timing of which will be determined at the first review referred to in paragraph 64 of the memorandum has been completed.

When Niger is prevented from requesting disbursements under this arrangement because of paragraph 2, such disbursements will be resumed only after consultation has taken place between the Trustee and Niger and understandings have been reached regarding the circumstances in which Niger may request further disbursements.

3. In accordance with paragraph 4 of the Letter, Niger will provide the Trustee with such information as the Trustee requests in connection with the progress of Niger in implementing the policies and reaching the objectives of the program supported by this arrangement.

4. During the period of this arrangement, Niger shall remain in close consultation with the Trustee. In accordance with paragraph 5 of the Letter, Niger will consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while Niger has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, Niger will consult with the Trustee from time to time, at the initiative of the government or whenever the Managing Director of the Trustee requests consultation on Niger's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to Niger or of representatives of Niger to the Trustee.

Relations with the Fund

(As of September 30, 2000)

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		0.19		2.0		
IV. Outstanding Purchases and Loans:						
		SDR Million		%Quota		
Enhanced Structural Adjustment Facility (ESAF) arrangements		48.30		73.4		
V. Latest Financial Arrangements:						
	<u>Approval</u>	<u>Expiration</u>	<u>Amount Approved</u>	<u>Amount Drawn</u>		
<u>Type</u>	<u>Date</u>	<u>Date</u>	<u>(SDR Million)</u>	<u>(SDR Million)</u>		
ESAF	06/12/1996	08/27/1999	57.96	48.30		
Stand-by Arrangement	03/04/1994	03/03/1995	18.60	11.11		
ESAF	12/12/1988	12/11/1991	47.18	23.59		
VI. Projected Obligations to Fund: (SDR Million; based on existing use of resources present holdings of SDRs):						
	<u>Overdue</u>	<u>Forthcoming</u>				
	<u>09/30/2000</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Principal		1.0	2.9	6.8	9.7	
Charges/interest		0.2	0.7	0.6	0.6	
Total		0.2	1.7	3.6	7.4	10.3

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 = euro 1. On September 30, 2000, the rate of the CFA franc in SDR terms was SDR 1 = CFAF 977.9.

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 June 24-July 12, 1998. The staff report (EBS/98/146, 8/14/98) was discussed by the Executive Board and the consultation concluded on August 28, 1998. The 1999 Article IV consultation discussions could not be completed as Fund staff could not obtain sufficient information on the financial operations of the central government in 1999 and assess the direction of policies for the period ahead.

IX. Technical Assistance:

FAD	Staff	September 1990	Mission to assess implementation of recommended tax measures
STA	Expert	January-February 1992	Balance of payments statistics
FAD	Staff and experts	November-December 1993	Mission to advise on measures to enlarge the tax base and improve revenue collection
STA	Staff	April-May 1994	Government finance statistics
FAD	Staff	November-December 1995	Mission to advise on revenue and administrative measures for the 1996-98 ESAF-supported program

IX. Technical Assistance: (concluded)

STA	Expert	July 1996	Mission to review the compilation of national accounts (NA), and advise on measures to improve NA data 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
FAD	Staff	November-December 1998	Review of 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

X. Resident Representative:

The post of Resident Representative has been created. Mr. Simon N'Guiamba took up the post of Resident Representative in September 2000.

Niger: Relations with the World Bank Group

1. Statement of IDA Credits as of October 20, 2000

Credit Number	Calendar Year	Purpose	Amount (Net of cancellations)	
			Total commitments ^{1/}	Of which: undisbursed
			(In millions of US\$)	
Forty-five credits closed			608.98	
26180	1994	Education III, SECA	41.40	6.01
27070	1995	Pilot Private Irrigation	6.80	1.72
27960	1996	Natural resources management	26.70	9.28
29150	1997	Health II	40.00	21.36
29570	1997	Urban Infrastructure Rehabilitation	20.00	11.66
30260	1998	Transport Infrastructure Rehabilitation	28.00	13.11
31300	1999	Privatization/Regulatory Reform	18.60	13.00
33630	2000	Agro-Pastoral Export Promotion Project	10.35	10.27
34180	2000	Public Finance Recovery Credit	35.00	0.00
Total			835.83	
<i>Of which:</i> has been repaid			46.41	
Total outstanding			789.42	

2. Statement of IFC investment as of June 30, 2000

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.

Niger: Statistical Issues

Niger's statistical database suffers serious weaknesses, notably with respect to the national accounts and the balance of payments. The authorities are continuing their efforts to improve the quality, timeliness, and availability of economic and financial data, but are still in need of substantial technical assistance.

Real sector

Despite past technical assistance provided by donors including the Fund, Niger's national accounts statistics are of poor quality and there are substantial problems with the source data used. Constant price estimates are also unreliable due to deficiencies in the price indices and deflators used. Annual GDP estimates by expenditure category at current prices are available in *IFS* through 1997, and through 1998 at constant 1987 prices. Estimates for the value added in the informal nonagricultural sector, which accounts for more than half of the GDP, are based on a 1987 survey. As for agriculture, there are inconsistencies between national accounts and output data from the Ministry of Agriculture. The reference base of the constant price accounts is obsolete and no longer reflects the current structure of the economy. Additionally, the impact of the 1994 devaluation of the CFA franc impact on the GDP deflator seems underestimated, resulting in a much smaller nominal GDP than the staffs own estimates.

Government finance

In April 1994, a government finance statistics (GFS) technical assistance mission assisted the Ministry of Finance and Planning in establishing a system for compiling the statement on the financial operations of the central government (TOFE). The mission report recommended improvement in the basic sources of data and the institutionalization of a TOFE compilation procedure through the creation of a working group headed by the General Directorate of the Economy. The report also provided classification keys for the reporting of GFS data to STA. The authorities took steps in mid-1995 to implement the mission's recommendations. However, reporting of GFS data for publication by STA has not yet been resumed.

Monetary accounts

Preliminary monetary data for Niger are prepared by the national agency of the Central Bank of West African States (BCEAO) and released officially by the headquarters of the BCEAO with a lag of two to three months. A new accounting system for commercial banks was introduced by the BCEAO on January 1, 1996. Most of the problems that appear in the monetary statistics for Niger are not specific to that country but concern all seven countries

of the Western African Economic and Monetary Union (WAEMU) (prior to May 2, 1997).¹ One statistical problem arises from the difficulties the BCEAO has encountered in estimating currency in circulation in each WAEMU member country because of the large backlog of unsorted banknotes held by the central bank in its various national agencies. The sorting of these banknotes by the country of issue gives rise to significant delays and uncertainties regarding the measurement of currency in circulation in WAEMU member countries and, as a result, on the contribution of each country to the gross foreign reserve position of the common central bank and money supply. In Niger, money in circulation appears severely underestimated, and the velocity of money much higher than in any other WAEMU country. No significant progress has been made in recent years in solving this problem.

Balance of payments

The BCEAO is in charge of compiling and disseminating the balance of payments statement. Technical assistance has been provided to the BCEAO (July 1996- July 1999) to assist in reporting the balance of payments data in the framework of the *Balance of Payment Manual* (5th ed.). In spite of this technical assistance, reporting of balance of payments still takes place in the framework of the *Balance of Payment Manual* (4th ed.). This delay in adjusting to the fifth edition of the manual reflects in large part a need for strengthening the human and technical resources allocated for compilation of the balance of payments.

Partly also in relation to the weakness of human and technical resources, balance of payments data remain weak, and official data are still produced with a lag of two to three years.

¹ Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo. Guinea-Bissau joined the WAEMU on May 2, 1997.

Niger: Core Statistical Indicators

(As of end-november 2000)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP
Date of latest observation	Current	08/00	08/00	08/00	08/00	10/00	08/00	12/99	12/99	08/00	12/99
Date received	Current	10/00	10/00	10/00	10/00	10/00	10/00	06/00	06/00	10/00	06/00
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Variable	Monthly	Annually	Annually	Monthly	Annually
Frequency of reporting	Monthly	Variable	Variable	Variable	Variable	Variable	Monthly	Variable	Variable	Variable	Variable
Source of update	EIS/TRE 1/	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	Statistics Directorate	BCEAO	BCEAO	Ministry of Finance	Ministry of Finance
Mode of reporting	On-Line	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/
Frequency of publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Monthly	Annually

1/ EIS = Economic Information System (IMF); TRE = Treasurer's Department (IMF).

2/ Preliminary data for staff use only; actual data unrestricted.

**Niger: Tentative Work Program Under the
PRGF Architecture, 2000-03**

Action	Date
2000 Article IV consultations discussions and negotiation of three year PRGF arrangement (2000-03)	July 2000
Continuation of 2000 Article IV consultations discussions and finalization of negotiation of three-year PRGF arrangement and preliminary HIPC Initiative decision document	September 2000
Executive Board consideration of 2000 Article IV consultation report, request for PRGF arrangement, preliminary HIPC Initiative decision point document, and interim PRSP	November-December 2000
Joint Fund-Bank staff visit for preparation of full PRSP	January 2001
First review mission under the PRGF arrangement	April 2001
Executive Board consideration of first review under the PRGF arrangement	June 2001
Second review mission under the PRGF arrangement, negotiation of second year of PRGF arrangement, and 2001 Article IV consultation discussions	October 2001
Executive Board consideration of second review report under the first year of PRGF arrangement, request for second year of PRGF arrangement, full PRSP, and Article IV consultation report for 2001	December 2001
First review mission under the second year of PRGF arrangement	April 2002
Executive Board consideration of first review under the second year of PRGF arrangement.	June 2002
Second review of the second-year PRGF arrangement, negotiation of third year of PRGF arrangement, and 2002 Article IV consultation discussions	October 2002
First review mission under the third year of PRGF arrangement	April 2003
Executive Board consideration of first review under the third year of PRGF arrangement	June 2003
Second review of the third-year PRGF arrangement and 2003 Article IV consultation discussions	October 2003
Executive Board consideration of year-end review under the PRGF arrangement, and Article IV consultation report for 2003	December 2003

Niger: Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1994-99	Sub-Saharan Africa	Low-income
Population					
Total population, midyear (millions)	4.8	6.6	10.5	642.3	2,417.0
Growth rate (percent annual average)	2.9	3.3	3.4	2.4	1.9
Urban population (percent of population)	10.6	14.3	20.1	33.9	31.4
Total fertility rate (births per woman)	7.2	7.5	7.3	5.4	3.8
Poverty					
(percent of population)					
National head count index	...	...	63.0	...	...
Urban head count index	...	...	52.0	...	...
Rural head count index	...	...	66.0	...	...
Income					
GNP per capita (US\$)	250	230	190	500	410
Consumer price index (1995=100)	31	89	111	130	137
Food price index (1995=100)	...	...	...	...	...
Income/Consumption Distribution					
Gini index	...	...	50.5	...	...
Lowest quintile (percent of income or consumption)	...	...	2.6	...	...
Highest quintile (percent of income or consumption)	...	...	53.3	...	...
Social Indicators					
Public expenditure					
Health (percent of GDP)	...	...	1.3	1.3	1.1
Education (percent of GNP)	2.4	3.2	2.3	4.1	3.3
Social security and welfare (percent of GDP)	...	0.3	...	...	...
Net primary school enrollment rate					
(percent of age group)					
Total	...	25	24	...	76
Male	...	33	30	...	81
Female	...	17	19	...	71
Access to safe water					
(percent of population)					
Total	...	37	53	...	47
Urban	...	48	46	61	69
Rural	...	34	55	26	39
Immunization rate					
(percent under 12 months)					
Measles	...	19	42	58	75
DPT	...	6	28	53	77
Child malnutrition (percent under 5 years)	...	49	50	...	...
Life expectancy at birth					
(years)					
Total	39	42	46	50	60
Male	38	41	44	49	59
Female	41	44	48	52	61
Mortality					
Infant (per 1,000 live births)	166	137	118	92	77
Under 5 (per 1,000 live births)	320	322	250	151	107
Adult (15-59)					
Male (per 1,000 population)	611	562	453	432	277
Female (per 1,000 population)	490	453	352	383	248
Maternal (per 100,000 live births)	...	...	...	...	...

Source: World Bank, *World Development Indicators*, 2000, available on CD-ROM.



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 01/2
FOR IMMEDIATE RELEASE
January 12, 2001

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

IMF Concludes Article IV Consultation with Niger

On December 14, 2000, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Niger.¹

Background

Niger is a large, landlocked country of 10½ million inhabitants and 1.3 million square kilometers. The country, which is situated predominantly in the Sahara Desert, is surrounded by seven countries, and is subject to increasing desertification. It is one of the poorest countries in the world, and ranks 173rd out of 174 countries listed in the 2000 human development index of the United Nations Development Program (UNDP).

Niger's economic performance was broadly satisfactory under a reform program implemented by the authorities during the period 1996–98. However, political events in April 1999 resulted in a nine-month interruption of the track record achieved previously, a freezing of nearly all nonproject external financing, and delays in structural reforms. The financial situation of Niger deteriorated significantly in 1999: the basic fiscal deficit (on a commitment basis and excluding grants) widened to 5½ percent of GDP in 1999 from 3 percent of GDP in 1998 and large external and domestic payments arrears (including seven months of civil service salaries) were accumulated. In addition to a deterioration of public finances, real economic growth was negative in 1999 and the external position remained weak because of the freeze on external nonproject assistance.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the December 14, 2000 Executive Board discussion based on the staff report.

Since the beginning of 2000, Niger's new democratically elected authorities have achieved significant progress in restoring macroeconomic stability. The new government has started building a strong track record of economic and financial policies, in particular through the implementation of measures to restore budgetary transparency and good governance, as well as a renewed momentum of structural reforms. The new government has tightened the fiscal policy stance by introducing a strict cash management system to limit spending to available resources and thereby prevent an accumulation of domestic payments arrears. The authorities have also established expenditure priorities and have been successful in ensuring the regular payment of salaries and some external debt service. Inflation should be contained at about 3 percent, notwithstanding a large increase in domestic petroleum prices. The external current account deficit (excluding official transfers) is expected to exceed 10 percent of GDP, reflecting the impact of higher oil prices and the difficulties of the uranium sector, which accounts for 40 percent of total exports. Investment is projected to remain at its 1999 level of 10½ percent of GDP, mainly financed by foreign concessional financing. Niger's monetary policy, which is conducted at the regional level by the West African Economic and Monetary Union central bank, was tightened three times in 2000 to defuse the inflationary pressures fueled by an overall credit expansion in the monetary union.

In the area of structural reform, the privatization program initiated in the context of the 1996-98 program supported by resources of the IMF under the Poverty Reduction and Growth Facility (PRGF)² has been revived in the first half of 2000, with the adoption of privatization strategies for the four largest public enterprises still in the government's portfolio.

Reflecting this new policy stance, economic activity started to recover in the first half of 2000 and foreign financing has resumed.

The authorities' medium-term strategy, which is supported by the Fund's resources under the PRGF, aims at realizing an average annual rate of growth of GDP of more than 4 percent,

² On November 22, 1999, the IMF's concessional 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 the 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 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. At this time for Niger, an interim PRSP sets out a preliminary framework in a statement by the government and the participatory process is underway. It is understood that all policy undertakings in the government's statement beyond the first year are subject to reexamination and modification in line with the strategy that is to be elaborated in the PRSP. Once discussed by the Executive Boards of the IMF and the World Bank, the PRSP will provide the policy framework for future reviews under this PRGF arrangement. PRGF loans carry an interest rate of 0.5% a year, and are repayable over 10 year with a 5½ year grace period on principal payments.

containing inflation at 3 percent a year, and stabilizing the current account deficit (excluding official transfers) at about 10 percent of GDP. Attainment of these objectives and targets will require an expansion in gross investment of 3½ percentage points of GDP over the program period to about 14 percent of GDP by 2003. In support of these objectives, fiscal policy will aim at gradually achieving positive levels of budgetary savings to generate domestic resources for public investment, strengthening revenue performance and improving the structure of expenditure in favor of social related outlays. In addition, priority will be given to eliminating domestic and external payments arrears, improving governance and the accountability of the civil service, deepening structural reforms to improve economic efficiency through the elimination of impediments to private investment, and improving the irrigation system and promoting the development of a more diversified rural sector.

The authorities are also committed to reducing poverty. They have adopted an interim Poverty Reduction Strategy Paper (PRSP), and are in the process of broadening the participatory process with civil society, in preparation for the full-fledged PRSP, which is expected to be finalized by end-December 2001. The government has also initiated a range of field surveys to acquire better data on the poverty profile of Niger. The authorities' efforts to reduce poverty are also supported by resources for the enhanced Highly Indebted Poor Countries (HIPC) Initiative, under which Niger reached its decision point on December 20.

Executive Board Assessment

The Executive Directors welcomed the democratic elections of end-1999 following the military transition period and the political events of April 1999. Directors supported the efforts of the new authorities to resume the economic and structural reform program interrupted in 1999 and to establish a satisfactory track record of performance, including a restoration of budgetary transparency, improved governance, and a strong commitment to structural reforms.

Directors were of the view that Niger's weak past economic performance reflected several factors: vulnerability of agriculture to external shocks; a limited export base; a secular decline of the uranium sector; and a recent history of political and social instability resulting in a stop-and-go track record of policy implementation, including structural reforms.

Directors regretted that the political events of April 1999 had interrupted the broadly satisfactory track record of the program supported under the Enhanced Structural Adjustment Facility (ESAF) during the period 1996-98, with adverse economic and financial consequences.

Directors welcomed the efforts of the new authorities to improve the economic situation, resume financial relations with development partners, and maintain social and political stability. In the area of budgetary performance, Directors commended the authorities for implementing a tight cash management budget in order to keep spending within the limits of available resources and prevent further accumulation of domestic payments arrears. Directors observed that the corrective measures taken in the course of the year, including adjustment in petroleum retail prices and the adoption of a revised budget, had gone a long way toward preventing a further deterioration of the fiscal situation in 2000. Nevertheless, Directors expressed concern that the

low levels of domestic savings and limited external assistance were still constraining budget execution, in particular in the social sectors. Consequently—and in view also of the very low government revenue effort—they stressed the need to consolidate the fiscal situation further, through the broadening of the tax base and a strengthening of the expenditure process, as well as an improvement in the quality and structure of expenditure.

Directors stressed the importance of close monitoring of banks' compliance with prudential regulations, particularly in light of the rapid growth in bank credit to the economy.

Directors agreed that making an effective dent in poverty would require faster economic growth and greater efficiency and effectiveness of public programs. The growth strategy should focus on unleashing the untapped potential of the rural and agricultural sector, and creating an enabling environment for private sector development. In this connection, Directors urged the authorities to pursue their efforts to strengthen good governance and to continue improving the regulatory framework. Strengthening the legal and judiciary framework, as well as the management of financial institutions, were also seen as key to improve the overall environment for private sector activities. In view of these actions, some Directors considered that increased financial assistance from the international community on highly concessional terms might be needed.

Directors welcomed the authorities' program to be supported by the resources of the Poverty Reduction and Growth Facility. They noted that the 2001 budget confirmed the authorities' determination to strengthen the fiscal situation. They welcomed the new momentum imparted to structural reforms, including the program of privatization of the four main state companies in the energy, telecommunications, and water sectors. They also encouraged the authorities to adhere closely to the timetables agreed with the World Bank for reform in these and other sectors.

The economic and financial database remains weak in Niger, especially in the areas of national accounts and balance of payments, making a timely assessment of economic policies difficult. Therefore, Directors urged the authorities to continue efforts to improve quality and timeliness, including for social data.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Niger: Selected Economic and Financial Indicators

	1997	1998	1999	2000	2001
			Est.	Projections	
(annual percentage change, unless otherwise specified)					
Domestic economy					
GDP at constant prices	2.8	10.4	-0.6	3.0	3.7
Annual average CPI inflation	2.9	4.5	-2.3	2.9	3.4
End of period CPI inflation	4.1	3.4	-1.9	4.1	2.1
External sector					
Export, f.o.b	2.8	24.2	-9.9	1.2	5.9
Imports, f.o.b.	11.7	33.6	-16.5	14.4	6.9
External current account balance, excluding grants, percent of GDP	-10.4	-10.0	-7.6	-10.3	-10.9
External current account balance, including grants, percent of GDP	-4.3	-3.8	-2.9	-5.1	-5.5
(In percent of GDP, unless otherwise indicated)					
Financial variables					
Budgetary revenue	8.4	8.9	8.5	8.2	9.0
Current expenditure	10.5	11.0	12.1	10.1	10.6
Primary budget balance 1/	-6.0	-6.6	-8.2	-5.7	-5.8
Basic budget balance (commitment basis, excl. grants) 2/	-3.0	-3.2	-5.6	-3.2	-3.3
Overall budget balance (commitment basis, excl. grants)	-7.5	-8.1	-9.7	-7.3	-7.9
Overall budget balance (commitment basis, incl. grants)	-3.0	-2.8	-5.9	-3.4	-4.7
Money and quasi money (change in percent)	-1.0	0.7	-5.5	4.2	6.8
Interest rate (money market; end of period)	5.0	5.0	5.0	5.0	...
Real effective exchange rate (period average; depreciation -)	0.2	2.4	-6.3	-2.4	...
External public debt (end of period) 3/ 4/	84.0	76.2	78.9	87.9	87.4

Sources: Nigerien authorities and staff estimates and projection.

1/ Budget revenue minus expenditure (on a commitment basis), excluding interest payments.

2/ Budget revenue minus expenditure (on a commitment basis), excluding foreign financed investment projects.

3/ Including obligations to IMF.

4/ Before debt relief.



Press Release No. 00/69
FOR IMMEDIATE RELEASE
December 14, 2000

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves in Principle Three-Year US\$76 Million PRGF Loan for Niger

The Executive Board of the International Monetary Fund (IMF) today approved in principle a third-year arrangement for Niger under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 59.20 million (about US\$76 million) to support the government's program of economic reform and poverty reduction. The first annual loan equivalent to SDR 25.38 million (about US\$33 million) will be available in three installments, with the equivalent of SDR 8.46 million (about US\$11 million) available immediately.

The decision by the IMF Board included a finding that Niger's interim Poverty Reduction Strategy Paper (PRSP) provides a sound basis for the development of a fully participatory PRSP and for concessional assistance by the Fund.

In commenting on the Executive Board's discussion on Niger, Eduardo Aninat, IMF Deputy Managing Director and Acting Chairman, said:

"The efforts of the new authorities to resume the economic and structural reform program interrupted in 1999 and to strengthen Niger's track record of performance, including a restoration of budgetary transparency, improved governance, and a strong commitment to structural reforms, are commended.

"The new three-year program provides a framework to buttress economic performance and socioeconomic trends by improving the fiscal and external situation, remove the structural obstacles to economic development, and facilitate implementation of a new strategy to reduce poverty. The program is cast in a context of increased democratization, administrative decentralization, and regional integration of the Economic Community of West African States (ECOWAS) and the West African Economic Monetary Union (WAEMU).

"The priorities for the first year of the program year focus on fiscal consolidation and the adoption of key structural reforms. To achieve the targeted reduction in the overall budget deficit, the authorities are encouraged to implement in a timely manner the envisaged revenue-enhancing measures, the control of the wage bill, and the restructuring of budget allocations toward goods and services, as well as investment. The authorities' commitment to settle domestic arrears, and the need to improve further the quality and structure of expenditure, are critical to the program's success.

“The structural reform agenda for 2000-01 aims at strengthening governance and continuing the privatization program. In this context, public expenditure management is to be improved to ensure transparency and accountability. Other areas where major reforms are to be undertaken include the tax and customs administration, the financial system (including microfinance and mutual institutions), and the civil service. The privatization of the water, electricity, and telecommunications utilities, as well as the public company in charge of petroleum imports and storage, are scheduled to be completed in the coming year.

“In the context of its new strategy for reducing poverty, the government of Niger will broaden the participatory process for the preparation of a full poverty reduction strategy paper (PRSP) by end-2001. It will also reinforce the institutional capacity to assess and monitor progress in implementing a poverty reduction-strategy. In order to ensure the full budgeting and proper monitoring of the new poverty-reduction-related programs to be financed by the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, the authorities are committed to publishing semiannual reports on the use of this assistance and on the budget execution of these programs.

“A final decision on Niger’s debt relief under the enhanced HIPC Initiative is pending action on December 20, 2000, by the World Bank’s Executive Board. A press release will be issued jointly with the World Bank following those deliberations. The full participation of all Niger’s creditors, including all non-Paris Club creditors, in debt relief will be important for the success of the Initiative,” Mr. Aninat said.

ANNEX

Program Summary

The program of economic and financial structural adjustment policies supported by the IMF since 1996 under the Enhanced Structural Adjustment Facility, and by the international community of donors, had resulted in substantial progress in correcting Niger's major macroeconomic and budgetary imbalances and introducing structural reforms focusing on private sector development, privatization, and civil service reform. Achievements during 1996–98 remained fragile, however, and suffered a number of setbacks caused by the political and social instability that followed the political events of April 1999. The economic consequences of this instability were aggravated by the almost total withdrawal of external financial assistance from Niger during the transition period.

Transparent and democratic elections took place at end-1999. The newly elected authorities quickly established the economic, social, and political agenda that underpins the new PRGF program. While resuming financial relations with its development partners, the government has maintained social and political stability, restored transparency and accountability in public finance, implemented a tight cash management system to prevent budgetary slippages, and prepared an interim PRSP to support its commitment to fight poverty.

In this context, the PRGF program aims at implementing a series of key policies. Priority will be given to poverty reduction and revival of the economy in a context of financial stability, and high, sustainable growth. Consequently, the government, intends to continue to implement policies and reforms that will make it possible to achieve a growth rate of at least 4.5 percent by 2003, while gradually increasing the investment rate to about 14 percent of GDP. As a result, per capita GDP growth rate should be close to 1.5 percent in 2003. Consistent with the exchange rate arrangement linking the CFA franc to the Euro, inflation is expected to be kept less than 3 percent over the period of the program. .

In support to these macroeconomic objectives, **fiscal policy** will aim at strengthening revenue performance and upgrading the quality of public spending. Budgetary revenues are programmed to increase from 8.2 percent of GDP in 2000 to more than 10 percent in 2003, while current expenditure would be slightly reduced from 10.1 percent of GDP in 2000 to 9.9 percent in 2003. The current budget is thus expected to rebound from a deficit equivalent to approximately 4 percent of GDP in 1999 to equilibrium by 2003, and budgetary savings to increase significantly. A key element of the program is to improve the quality and structure of expenditure to support the authorities' interim poverty reduction strategy, while strengthening the expenditure process to enhance transparency and accountability. The overall budget deficit (on a commitment basis and excluding grants) would increase from 7.5 percent of GDP in 2000 to 8 percent in 2001, reflecting mainly higher investment expenditure, before declining to 7 percent in 2003.

Besides the strengthening of tax and customs administrations, **the structural reform program** will focus on improving budget management, continuing the privatization program in

coordination with the World Bank, reforming the oil sector, liberalizing prices of goods and services still subject to controls, and finalizing a strategy for rehabilitating and expanding the financial sector. The government has also made a commitment to deepen budget management reforms. Efforts in that area will focus on modernizing the chain of expenditures, in terms of both management procedures and the information system used. Efforts will also be made to modernize budget preparation.

Poverty reduction

Niger remains one of the poorest countries in the world, with real GDP per capita estimated to have fallen by more than 40 percent over the past twenty years, owing to economic stagnation and a population growing at about 3.3 percent annually.

As part of its policy for reducing poverty and improving the living conditions of the population, the government will undertake a series of measures in the fields of education, health, rural development, and transportation in line with the preliminary strategy developed in the interim PRSP.

Niger joined the IMF on April 24, 1963; its quota¹ is SDR 65.8 million (about US\$ 85 million). Niger's outstanding use of IMF funds totals SDR 48.30 million (about US\$ 62 million).

¹ A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.

Niger: Selected Economic and Financial Indicators, 1998-03

	1998	1999	2000	2001	2002	2003
National income and prices						
GDP at constant prices	10.4	-0.6	3.0	3.7	4.1	4.5
GDP deflator	3.0	2.0	3.5	3.4	3.0	3.0
Consumer price index						
Annual average	4.5	-2.3	2.9	3.4	3.0	3.0
End of period	3.4	-1.9	4.1	2.1	3.0	3.0
External sector						
Exports, f.o.b.	24.2	-9.9	1.2	5.9	5.1	6.2
Imports, f.o.b.	33.6	-16.5	14.4	6.9	5.2	5.6
Export volume	14.2	-10.4	0.7	4.2	4.1	4.0
Import volume	30.7	-21.1	-2.7	6.3	5.8	5.0
Terms of trade (deterioration -)	5.8	-5.0	-14.6	1.1	1.6	1.4
Nominal effective exchange rate (period average; depreciation -)	0.5	-1.6	-2.6	...	...	...
Real effective exchange rate (period average; depreciation -)	2.4	-6.3	-2.4	...	...	...
Government finances						
Total revenue	19.4	-3.0	2.9	17.7	13.2	14.6
Total expenditure and net lending ¹⁾	21.0	8.9	-9.2	16.5	8.1	7.9
Current budgetary expenditure	19.3	11.7	-10.8	11.2	3.7	4.1
Capital expenditure	25.8	0.7	-4.1	27.5	16.0	13.9
Money and credit						
Domestic credit ²⁾	-0.1	6.3	5.9	6.0	6.5	6.8
Credit to the government (net) ²⁾	-11.1	7.8	-4.6	0.0	-0.1	-0.1
Credit to the economy	28.5	-3.0	20.9	10.3	11.0	11.3
Net domestic assets ²⁾	1.7	9.1	7.9	6.0	6.5	6.8
Money and quasi money	0.7	-5.5	4.2	6.8	8.8	9.9
Interest rate (money market; end of period)	5.0	5.0	5.0	...	...	...
Government finances						
Budgetary revenue	8.9	8.5	8.2	9.0	9.5	10.1
Current expenditure	11.0	12.1	10.1	10.5	10.1	9.8
Capital expenditure	5.6	5.6	5.0	6.0	6.5	6.8
Total expenditure	17.0	18.2	15.5	16.9	17.0	17.0
Primary budget balance ³⁾	-6.6	-8.2	-5.7	-5.8	-5.6	-5.2
Basic balance (excluding grants) ⁴⁾	-3.2	-5.6	-3.2	-3.3	-2.5	-1.6
Overall balance (commitment basis, excluding grants)	-8.1	-9.7	-7.3	-7.9	-7.5	-6.9
Overall balance (commitment basis, including grants)	-2.8	-5.9	-3.4	-3.6	-3.0	-2.3

Gross domestic investment	11.3	10.2	10.4	11.8	12.7	13.8
Private	4.9	3.9	4.7	5.0	5.4	6.0
Public	6.4	6.4	5.7	6.8	7.4	7.8
Gross national savings	7.5	7.3	5.4	6.3	7.7	9.6
Gross domestic savings	2.7	3.8	1.8	2.8	3.8	5.2
Private	1.5	4.1	0.3	1.1	1.3	1.9
Public	1.2	-0.3	1.5	1.7	2.4	3.3
Resource gap	8.6	6.4	8.7	9.0	8.9	8.6
External current account balance						
Excluding grants	-10.0	-7.6	-10.3	-10.9	-10.5	-9.9
Including grants	-3.8	-2.9	-5.1	-5.5	-5.0	-4.2
External public debt (end of period) ^{5) 6)}	76.2	78.9	87.9	87.4	84.6	81.2
Debt-service ratio in percent of :						
Exports of goods and nonfactor services						
Before debt relief	23.8	23.2	30.8	36.4	32.8	29.8
Government revenue						
Before debt relief	47.7	43.7	57.0	61.1	51.7	43.8
GDP at current market prices	1,225	1,243	1,325	1,420	1,524	1,640
Government payments arrears (reduction -)	7.6	58.4	33.1	-189.7	-29.2	-35.1
Domestic	-1.3	36.9	-14.0	-25.0	-29.2	-35.1
External	8.9	21.5	47.1	-164.7	0.0	0.0
Overall balance of payments ⁶⁾	-36.4	-43.0	-87.7	-94.8	-84.1	-70.7

Source: 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 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.