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Niger: Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Modification of Performance Criterion and Extension of Arrangement—Staff Report; Staff Statement Press Release on the Executive Board Discussion; and Statement by the Executive Director for Niger

In the context of the fifth review under the three-year arrangement under the Poverty Reduction and Growth Facility, and requests for modification of performance criterion and extension of arrangement, the following documents have been released and are included in this package:

- the staff report for the fifth review under the three-year arrangement under the Poverty Reduction and Growth Facility, and requests for modification of performance criterion and extension of arrangement, prepared by a staff team of the IMF, following discussions that ended on **July 18, 2003,** with the officials of Niger on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on October 22, 2003.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **November 24, 2003** updating information on recent developments.

- a Press Release summarizing the **views of the Executive Board as expressed during its November 24, 2003 discussion** of the staff report that completed the request and review.

- a statement by the Executive Director for Niger.

The document(s) listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Niger*
Memorandum of Economic and Financial Policies by the authorities of Niger*
Technical Memorandum of Understanding*

*May also be included in Staff Report

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

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

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NIGER

Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Modification of Performance Criterion and Extension of Arrangement

Prepared by the African Department

(In consultation with other departments)

Approved by Menachem Katz and Martin Fetherston

October 22, 2003

PRGF arrangement. A three-year PRGF arrangement, covering the period December 22, 2000-December 21, 2003, in an amount equivalent to SDR 59.2 million (90 percent of quota), was approved on December 14, 2000, together with the decision point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). SDR 45.7 million has been disbursed, and an additional SDR 5.08 million will be disbursed upon completion of the fifth review under the PRGF arrangement (Table 1). It is proposed to extend the program period until end-June 2004, to allow the authorities to benefit from the last disbursement under the current program.

Recent developments. Program implementation was broadly satisfactory in the first half of 2003, despite delays in disbursements of external assistance and the indirect impact of the crisis in Côte d'Ivoire. The sociopolitical environment remains tense, but the recovery of economic activities has been sustained and inflation has decelerated sharply. With the prospects of a good harvest at year's end, projected real GDP growth remains at 4.0 percent.

Letter of intent. The memorandum of economic and financial policies (MEFP) presents the revised program for 2003, which takes into account a shortfall and delays in external financing, as well as reduced transfers from the West African Economic and Monetary Union (WAEMU). The main objectives of the original program have been maintained, but the fiscal stance has been tightened through a freeze of nonpriority expenditure of about 0.3 percent of GDP, while keeping the momentum of the Poverty Reduction Strategy implementation. The government will also issue treasury bills and delay the planned reduction of statutory advances of the central bank to finance its operations, pending the disbursement of external assistance at year's end. The MEFP is accompanied by the progress report on the implementation of the Poverty Reduction Strategy from January 2002 to June 2003.

Enhanced HIPC Initiative completion point. The authorities have implemented nine of the thirteen triggers for reaching the completion point under the HIPC Initiative, and taken measures to ensure completion of the four remaining conditions.

Discussions. These took place in Niamey during the period July 4-18, 2003. The staff met with President Mamadou Tandja, Prime Minister Hama Amadou, Finance Minister Ali Badjo Gamatié, and National Director of the Central Bank of West African States (BCEAO) Abdoulaye Soumana. World Bank, African Development Bank, and European Union staffs participated in the discussions. The staff team comprised Mr. Maret (head), Mr. Fontaine, Ms. Le Manchec (all AFR), Mr. Puig (SEC), and Mr. N'guiamba, the Fund Resident Representative in Niger. The delay in Board consideration of the fifth review under Niger's PRGF arrangement is related to the implementation of prior actions and the time needed to complete technical work on Niger's completion point under the HIPC Initiative.

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I. Introduction

1. **Niger has come a long way since the democratically held presidential elections in December 1999 ended the period of political instability that resulted from the April 1999 coup d'état.** Much progress has been achieved in reinforcing political stability and national peace, as evidenced by the Peace Flame ceremony in September 2000, which marked the formal end of the Tuareg rebellion in the north. Economic performance and program implementation under the Poverty Reduction and Growth Facility (PRGF) arrangement approved in December 2000 have also been broadly satisfactory. Moreover, government policies have benefited from the adoption of the poverty reduction strategy paper (PRSP) in January 2002. Assistance under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative) has financed poverty-related projects initiated by President Tandja since Niger reached the HIPC Initiative decision point in December 2000.

2. **This progress reflects the authorities' strong ownership of the PRGF-supported program, despite recurrent sociopolitical tensions, limited institutional capacity, and problems in mobilizing adequate and timely external aid.** The authorities' program for 2003 aims at strengthening the track record of policy implementation, achieving further progress in the implementation of the PRSP, and reaching the completion point under the enhanced HIPC Initiative. The attached letter of intent (LOI) and memorandum of economic and financial policies (MEFP), which were prepared in the context of the fifth review of the PRGF arrangement, present the progress achieved in meeting these objectives and complement the authorities' progress report on the PRSP implementation (IMF Country Report No. 03/384; see the related joint staff assessment (IMF Country Report No. 03/387)).

II. Recent Economic Developments

A. Background and Sociopolitical Environment

3. **Niger's sociopolitical environment remains fragile, with a continuation in early 2003 of the social tensions that surfaced in 2002 (IMF Country Report No. 03/110).** The authorities have, however, continued to engage in a proactive policy dialogue with the labor unions and the private sector. In this context, they paid one month of salary arrears in May 2003 (out of five months of remaining salary arrears). Political activities are also gearing up for the local, presidential, and parliamentary elections that are scheduled to take place in 2004. The National Assembly has debated the adoption of a new electoral code for the contesting of these elections. Finally, to prevent a resurgence of the internal conflicts that have adversely affected Niger's stability, a National Strategy for the Prevention and Management of Conflicts was also approved by the government, civil society, political parties, and the unions in April 2003.

B. Economic and Financial Developments in the First Half of 2003

4. **In the wake of a satisfactory macroeconomic performance in 2002 (Table 2, Figure 2, and Box 1), activity has continued to be buoyant in all sectors of the economy, particularly in the construction and trade sectors, and together with the onset of a**

favorable rainy season, has supported the economic environment underlying the program for 2003. Further progress in the resolution of the crisis in Côte d'Ivoire has also alleviated concerns about a possible deterioration in economic performance. Inflation, on a 12-month, period-average basis, declined sharply from 2.7 percent in December 2002 to -0.9 percent in August 2003, reflecting prudent macroeconomic policies and an abundant supply of food products following the good harvest at end-2002.

Box 1. Niger: Economic and Financial Developments in 2002

Most recent data on Niger's performance at end-2002 confirm the thrust of the evaluation presented at the time of the fourth PRGF arrangement review (IMF Country Report No. 03/110; Table 2). Six of the eight indicative targets were observed at end-December 2002, compared with a preliminary assessment that five targets would be reached. In light of new budgetary revenue data (linked to taxes on foreign-financed projects), the indicative target on revenue was observed. Thus, only the indicative targets on the wage bill and net credit to government were not met, for reasons explained in IMF Country Report No. 03/110, paragraphs 12 and 15.

The revised budgetary outcome at end-2002 remains in line with estimates in IMF Country Report No. 03/110, except for a revision of foreign-financed projects (Table 4). Data on public projects executed outside the budget have been provided for the period 1999-2002. Thus, although the 2002 basic budget deficit remains slightly below its target at 1.8 percent of GDP, the overall deficit (on a commitment basis, excluding grants) has been revised from 6.5 percent of GDP to 7.7 percent of GDP. The financing of the deficit was complicated by a shortfall in net external budgetary financing of 0.4 percent of GDP and a reduction of domestic payments arrears that exceeded its target of 1.6 percent of GDP by 0.6 percentage point. The resulting 1 percentage point increase in the domestic financing requirement of the budget was reflected in increases of 0.4 percent of GDP and 0.6 percent in nonbank financing and net bank credit to the government, respectively. As the overshooting of bank financing was mainly linked to a greater reduction of domestic payments arrears in cash, it did not detract from the satisfactory performance achieved in 2002 in fiscal adjustment and the restoration of sound public finances.

New estimates of the balance of payments and cross-border flows of national banknotes within the West African Economic and Monetary Union (WAEMU) franc zone have led to a widening of the external current account deficit in 2002 (excluding grants for budgetary assistance) from a previously estimated 6.7 percent of GDP to 8.4 percent of GDP and a sharp downward revision of the net foreign assets of the Central Bank of West African States (BCEAO) at end-2002 (Tables 3 and 6). The worsening of the current account deficit results from an 11 percent revaluation of the overall level of imports, mainly consumption goods. Revised monetary data indicate a contraction of broad money of 0.4 percent, as opposed to the expansion estimated at 9 percent in IMF Country Report No. 03/110. The decline in net foreign assets amounted to 6.3 percent of beginning-of-period broad money, while the increase in bank indebtedness of the government remained equivalent to 3.7 percent of beginning-of-period broad money. The continuing recovery of economic activities was accompanied by a 15 percent growth of credit to the economy.

5. **The broadly satisfactory track record of Niger in policy implementation has continued in 2003.** All quantitative performance criteria and indicative targets at end-March 2003 were observed, while preliminary data indicate that six of the eight quantitative indicative targets at end-June 2003 were met (Appendix V, Attachment I, Table 1). The target on budgetary revenue was not met, mainly as a result of smaller revenue transfers from the West African Economic and Monetary Union (WAEMU) in the wake of the crisis in Côte d'Ivoire, and the ceiling on domestic bank financing was not observed because of a shortfall in external financing disbursements and a greater-than-envisaged substitution of bank

financing for nonbank financing. The authorities have also continued to comply with all continuous performance criteria since end-March 2003, but progress in and timeliness of structural reforms has been more mixed.

6. **The basic budget deficit (on a payment order basis, excluding grants) was limited at end-March 2003 to CFAF 1.7 billion (0.1 percent of GDP), compared with a ceiling of CFAF 7.4 billion (0.5 percent of GDP; Table 5),**[1] because budgetary revenue slightly exceeded the program target and government spending was strictly controlled. The wage bill, in particular, was kept in line with the indicative target of CFAF 14.1 billion, and some nonpriority spending was postponed. Finally, the recourse to domestic bank financing remained within the program ceiling despite a greater-than-programmed reduction of domestic payments arrears (CFAF 3.9 billion, instead of the programmed CFAF 3.0 billion).[2]

7. **The financial constraints on budget execution became increasingly binding in the second quarter of 2003, and the government kept the basic budget deficit (on a payment order basis, excluding grants) at CFAF 14.3 billion (0.9 percent of GDP), below the limit of CFAF 15.7 billion (1.0 percent of GDP).** Continuing compression of spending compensated for a revenue shortfall of CFAF 4.3 billion and contributed to this outcome, which reflects the resolve of the authorities to keep the program on track. Both tax and nontax revenue fell below their programmed levels, mainly as a result of external factors, such as the closing of the border with Nigeria during the latter's presidential elections and smaller-than-programmed revenue transfers from the WAEMU; delays in the implementation of a license fee on reexport activities was another cause of the revenue shortfall. The compression of expenditure restricted basic spending in the first half of the year to CFAF 90.1 billion, compared with CFAF 95.9 billion in the program.

8. **The composition of the financing of the budget deficit was, however, different from the one envisaged under the program at end-June 2003, and the recourse to domestic bank financing exceeded the program ceiling by CFAF 15.1 billion (1 percent of GDP)**. This outcome was caused primarily by a shortfall in net external financing, a greater-than-programmed reduction in domestic payments arrears, and an unprogrammed reduction in nonbank financing (MEFP, para. 13). After adjusting for the shortfall in net external financing, the indicative target on net bank financing was overshot by CFAF 7.6 billion, but the net domestic indebtedness of the government increased only marginally because of the concurrent reduction in nonbank domestic debt (including domestic payments arrears). Consequently, and in light of the corrective measures to be undertaken in the second

[1] The basic budget balance is defined as the overall balance, excluding foreign-financed investment expenditure.

[2] The stock of pending bills, which at end-2002 was larger than previously estimated, was settled in early 2003.

half of 2003, the staff has considered the breach of the indicative targets on revenue and domestic bank financing as relatively minor and not a threat to the objectives of the annual program.

9. **Monetary developments in the first half of 2003 were characterized by a 5.9 percent contraction of broad money (Table 6).** This was caused primarily by a sharp reduction of net foreign assets, equivalent to 25.7 percent of beginning-of-period broad money, which, in term, reflected a shortfall in external assistance and strong import activity. Domestic credit was higher than projected, in particular the government's recourse to bank financing.[3] Monetary policy at the regional level has remained prudent; the Central Bank of West African States (BCEAO) lowered its key interest rates by 1 percentage point on July 7, 2003, thereby maintaining their premium over key euro-zone rates (MEFP, para. 14).

C. Structural Reforms in the First Half of 2003

10. **Institutional capacity limitations and delays in technical assistance have resulted in a slower-than-envisaged implementation of the structural reform agenda (Box 2).** Measures related to the three structural benchmarks of the program that were outstanding at end-June 2003 were, however, completed by September 8, 2003 as prior actions for Executive Board consideration of the fifth review under the PRGF arrangement. These benchmarks included the strengthening of external debt management, the closing of the 2001 budgetary accounts, and the completion of a study on the remuneration of the petroleum sector operators. The installation of a new debt-management and recording software in the Ministry of Finance, as well as the related personnel training, was completed on September 8, 2003. The benchmark on the 2001 budgetary accounts was observed on August 26, 2003 with the issuance of a declaration of conformity regarding the 2001 Budget Review Law by the Chamber of Accounts and Budgetary Discipline. Finally, the study on the remuneration of petroleum sector operators was submitted to the government on August 15, 2003.

[3] Net bank credit to the government at end-June 2003 includes the repurchase by the Central Bank of West African States (BCEAO) of CFAF 1.5 billion of government securities from a Burkina Faso bank. These securities result from the transfer to the government on July 1, 1994 of CFAF 25.9 billion in liabilities of two liquidated Nigerien banks. As of July 1, 2003, the remaining stock of these securities amounted to CFAF 6.3 billion, of which CFAF 3.3 billion was held in the WAEMU outside Niger.

Box 2. Niger: Structural Conditionality Under the PRGF Arrangement

Coverage of structural conditionality in the current program

The structural areas covered by conditionality in the 2003 program include the following: (i) the continuous implementation of the petroleum product pricing system; (ii) introduction and use of a new debt-management and recording software; (iii) completion of an actuarial study of the National Retirement Pension Fund; (iv) completion of a financial audit of the wage bill; (v) computerization of the regional treasury offices for the implementation of the new government charter of public accounts; and (vi) preparation of a medium-term expenditure framework for two key social sectors. The continuous implementation of the petroleum product pricing system will contribute substantially to the attainment of the revenue targets for 2003 and beyond. The strengthening of the External Debt-Service Unit will allow for improved debt management. The computerization of the regional treasury offices for the implementation of the new government charter of public accounts will allow the government to record and monitor budgetary operations more efficiently, while the medium-term expenditure framework will make it possible to improve budget preparation.

Relevant structural measures not included in the current program

Reforms related to the strengthening of the financial sector and the privatization of public enterprises are the main responsibility of the World Bank and are not included as structural conditions under the current program. The Fund's Executive Board has expressed support for efforts to strengthen the financial sector.

Status of structural conditionality included in earlier programs

Niger's past track record of structural reform implementation was not very satisfactory as a result of weaknesses in its implementation capacity and several interruptions related to the two coups d'état that have taken place since 1995. The main areas of reform in the last program, supported by the Enhanced Structural Adjustment Facility (ESAF) arrangement (1996-98), included civil service reforms to control the wage bill, the privatization of public enterprises, the restructuring of the banking sector, and governance actions related to the transparency of budgetary operations and the need to clear domestic payments arrears. During the first two years of the current Poverty Reduction and Growth Facility (PRGF) arrangement, structural conditionality focused on strengthening the budgetary execution and reporting processes, as well as improving governance, and the track record of reform implementation has improved.

Structural areas covered by HIPC Initiative completion point conditionality

Key conditions for reaching a floating completion point under the enhanced HIPC Initiative include the following measures regarding governance that are of relevance to the PRGF-supported program: (i) ensuring full budgeting of poverty reduction programs financed by the HIPC Initiative assistance, and publishing semiannual reports on the execution of these programs; and (ii) submitting budget review laws (loi de règlement) to the National Assembly and the corresponding treasury accounts to the Supreme Court's Chamber of Accounts and Budgetary Discipline for fiscal years 1998-2000. The authorities' track record in fulfilling these key conditions has been satisfactory.

Structural areas covered by World Bank lending and conditionality

A two-tranche Public Expenditure Adjustment Credit (PEAC I) was approved by the World Bank Board in November 2001 to support the fiscal management and structural reform programs in the period 2001-02 and was fully disbursed in amounts of US$30 million in December 2001 and US$40 million in August 2002. The PEAC I focused on the following policy areas: (i) public sector reforms, particularly public expenditure and budget management reforms, procurement reform and domestic arrears reduction; (ii) social sector reforms, particularly key reforms in education and health; (iii) financial sector reforms; and (iv) privatization and regulatory reforms. A follow-up operation, the PEAC II, is currently under preparation and scheduled for presentation to the World Bank Board on October 23, 2003. The financial sector reform program, which targets the restructuring and consolidation of the commercial banking sector, as well as of the insurance, pension, and microfinance sectors, will be supported by a forthcoming World Bank financial sector technical assistance project.

11. **As envisaged under the program, budgetary reforms in early 2003 focused on ensuring the effective implementation of the new budget nomenclature and charter of public accounts**. To this end, extensive training programs and monitoring took place. Progress in the implementation of the new public procurement code was not as satisfactory, as delays in technical assistance prevented the finalization of the necessary decrees.

12. **Progress in strengthening the financial sector continued with the restructuring of the Banque Commerciale du Niger (BCN) and the Islamic Bank of Niger for Commerce and Investment (BINCI)**. The government also entered into discussions with potential investors in the context of the privatization of the Crédit du Niger (CDN), but no understandings had been reached by end-June 2003. The financial audit of microfinance institutions started in the second quarter of 2003, and further progress was achieved with the completion of most studies on the restructuring of the National Post and Savings Institution (ONPE), including the revamping of postal activities and the creation of a financial services branch, which will become operational in 2004. Finally, the terms of reference for an actuarial audit of the National Social Security Fund (CNSS) were completed in June 2003, but an agreement with the International Labor Office (ILO) to conduct this audit has not yet been finalized.

13. **Parastatal reforms were affected by further delays in the establishment of the Multisector Regulatory Agency (MRA) and in the privatization of the electricity and petroleum product companies (NIGELEC and SONIDEP, respectively).** The recruitment of sectoral directors for the MRA was, however, initiated in July 2003, and the authorities launched a request for an expression of interest in SONIDEP in mid-July 2003, with a view to achieving irreversible progress in its privatization by year's end. A difficult international environment and problems in completing the second prequalification step launched in November 2002 have also delayed the privatization of NIGELEC and forced the government to embark on a revision of the privatization strategy for this parastatal, with assistance from the World Bank.

III. Policy Discussions

14. **While acknowledging that the basic budget deficit had been kept within the ceilings of the program, the staff expressed some concern about budget execution in the first half of 2003.** The staff noted, in particular, the government's recourse to expenditure payments without prior commitments (payments sans ordonnancements préalables, or PSOPs) and the different composition of budget financing. In explaining recent budgetary developments, the authorities stressed the difficulties they had encountered in early 2003. These difficulties included a legal action in the Constitutional Court regarding the 2003 Budget Law and, in the second quarter of 2003, weaknesses in revenue collection, delays in external assistance disbursements, and a greater requirement for domestic bank financing. The authorities linked most of these difficulties to external factors, to which they have reacted by compressing nonpriority expenditure while preserving the priority sectors of the PRSP. They highlighted their commitment to the program and the success of their efforts to keep the budget on track. In the circumstances, and given the need to keep the momentum of

the Poverty Reduction Strategy, the staff concluded that fiscal policy in the first half of 2003 had been broadly appropriate; however, they urged the authorities to seek better coordination of foreign aid and strengthen institutional capacity, in order to ensure improved monitoring and program implementation on the financing side.

15. **The constitutional challenge to the 2003 Budget Law was resolved through the approval by the National Assembly of an amendment to the Organic Law governing public finances.** The amended law takes into account the new budget nomenclature and the new charter of public accounts, and ratifies the integration of the investment and recurrent budgets. The court had declared unconstitutional the ordinance that the government issued at end-2002 to introduce these modifications, with a view to expediting the implementation of these budgetary reforms in the 2003 budget law. Pending the resolution of these legal issues, the government could not release the 2003 budget appropriations, and a large amount of expenditure was executed through PSOPs.[4] The authorities stressed that they had reverted to normal budgetary procedures as soon as the constitutionality of the 2003 budget law had been confirmed. They also restored transparency of budget execution by regularizing the PSOPs through proper ex post recording of the related budgetary commitments. The staff welcomed the restoration of usual procedures for executing the budget but regretted the additional pressures created by the regularization of the PSOPs on the limited institutional capacity.

16. **The shortfall in revenue at end-June 2003 reflected mainly the indirect impact of the Iyoirien crisis and the closing of the Nigerian border during the Nigerian presidential elections**. The revenue transfers from the WAEMU budget (projected at CFAF 7.4 billion, or 0.5 percent of GDP, in 2003) were assumed to be effected evenly over the year. Because of delays in Côte d'Ivoire's contributions to the WAEMU budget, the WAEMU Commission had only transferred CFAF 1.3 billion to Niger at end-June 2003, and the authorities expect a shortfall in these transfers of CFAF 3.4 billion for the year as a whole. The authorities also pointed to the temporary closings of the Nigerian border and a lower-than-programmed execution rate of the budget to explain the weakness of other revenue,[5] as well as the delay in implementation of the new license fee on tobacco reexports. With their decision to strengthen further tax and customs administration and to implement the license fee on tobacco reexports, the authorities were confident that the annual target on revenue (excluding WAEMU transfers) remained achievable.

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[4] The government did not execute a monthly budget based on one-twelfth of the last voted budget appropriations, mainly because the 2003 budget was cast in the new budget nomenclature and using 2002 year allocations set in the old nomenclature would have created difficulties in regularizing spending.

[5] Indirect taxes on government purchases are withheld on payments at the source and recorded as revenue.

17. **While the shortfall of revenue could be compensated for in the remainder of the year by postponing nonpriority expenditure, the shortfall in external financing and a greater-than-programmed reduction in domestic debt resulted in an overshooting of net bank credit of CFAF 15.1 billion at end-June 2003.** The authorities noted that external financing operations of the budget (excluding project financing and HIPC Initiative assistance) amounted to a net outflow of CFAF 18.0 billion in the first half of 2003, compared with CFAF 8.7 billion in the program. This shortfall in external assistance reflects mainly procedural delays in the disbursement of a European Union (EU) grant in return for the settlement of external payments arrears (CFAF 8.5 billion) with the European Investment Bank (EIB) in June 2003.[6] The resulting greater domestic financing requirement was exacerbated by a greater reduction in domestic payments arrears (CFAF 3.9 billion) and a reduction in nonbank domestic debt (CFAF 3.0 billion). The overshooting of the domestic payments arrears target resulted from the earlier-than-programmed clearing of one month of salary arrears (out of the five remaining months), or about CFAF 3.2 billion, as explained above. While acknowledging that total domestic debt of the government was only marginally affected by the shift from nonbank to bank financing, the staff highlighted the need to better monitor the reduction of domestic payments arrears and the stock of domestic debt, in particular deposits held by treasury correspondents at the treasury; the authorities shared this view. The staff also reiterated its recommendation to fill the position of director of debt, which has been vacant for the past two years.

18. **The 2003 program revisions were discussed together with the preparation of the 2004 budget law.** The macroeconomic framework underlying this budget is based on the following: real GDP growth of 4.1 percent; a containment of inflation, on a 12-month, end-of-period basis, at 1.2 percent; and an external current account deficit (excluding grants for budgetary assistance) limited to 8 percent of GDP. The prudent economic and financial policies to be implemented in 2004 will support the attainment of these objectives. Fiscal policy, in particular, will aim at consolidating the progress achieved in restoring public finances, supporting the economic recovery, and implementing the Poverty Reduction Strategy, drawing from the lessons of the first progress report of the PRSP implementation. Preliminary budget figures targeted a reduction of the basic deficit to 1.4 percent of GDP,

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[6] All arrears to the EIB refer to end-1999 amounts due but not paid and do not constitute a breach of the program's continuous performance criterion on the nonaccumulation of external payments arrears. Their clearance had been under discussion with the EU and the EIB since the Board approval of the PRGF arrangement in December 2000. Based on understandings reached with the EU and EIB, and pending further discussions that took place in early 2003 on the treatment of penalty interest, the government froze in an account of the Central Bank of West African States (BCEAO) CFAF 8.5 billion from an EU grant disbursed in late 2002 for the settlement of these arrears. Timing issues and a reduction of the related disbursement from CFAF 6.4 billion to CFAF 4.1 billion of additional EU financing played a role in the authorities' decision to postpone the clearance of these arrears to 2003.

with an increase of revenue to 11.1 percent of GDP and a containment of expenditure, excluding foreign-financed capital outlays, at 12.5 percent of GDP. Capital expenditure was set to increase to 6.8 percent of GDP, mainly as a result of the provision of full assistance under the HIPC Initiative. Taking into account a further reduction of domestic payments arrears, the overall budget deficit was capped at 9.1 percent of GDP. With no domestic financing envisaged and the equivalent of 8.5 percent of GDP in expected net foreign financing,[7] a financing gap of 0.6 percent of GDP remained for the 2004 budget, which the authorities expected to fill through additional bilateral assistance and a new arrangement with the Fund. The remainder of the current PRGF supported program, if extended as requested through mid-2004, would be financed. The staff expressed broad agreement with the envisaged fiscal stance for 2004 and encouraged the authorities to seek financing assurances to fill the remaining gap. While highlighting their intent to maintain the control over expenditure in line with available financing, the authorities agreed to review and, if necessary, revise the 2004 budget to close the financing gap in the context of the sixth review of the PRGF arrangement and possible future discussions on a new PRGF arrangement.

IV. REVISED PROGRAM FOR 2003

19. **In light of the recent economic developments and the good macroeconomic perspectives for the rest of the year, the revisions of the 2003 program were limited to addressing expected shortfalls totaling CFAF 9.4 billion, or 0.6 percent of GDP, in budgetary support from the WAEMU and aid disbursements of the donor community.** The revised program remains consistent with the PRSP and the initial objectives of the program (see IMF Country Report No. 03/110, paras 23-36). As explained in the MEFP, the buoyancy of economic activities in early 2003 is likely to be accompanied in the second half of the year by a moderate boost in rural sector output as a result of good weather. The macroeconomic framework for 2003 thus maintains a growth objective of 4.0 percent and projects a greater reduction of the inflation rate, on a 12-month, end-of-period basis, to 0.4 percent at end-December 2003. The external current account deficit, excluding grants for budgetary assistance, would widen slightly in nominal terms to reach 8.8 percent of GDP (Table 3). These objectives are to be pursued through the continued implementation of sound economic and financial policies aimed at preserving the momentum of adjustment and achieving the convergence criteria of the WAEMU (Box 3).

[7] The World Bank, the AfDB, and the European Union have already defined their level of budgetary assistance to Niger for 2004.

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

Following the signing of the WAEMU Treaty in 1994, the introduction of the Convergence, Stability, Growth and Solidarity Pact in December 1999 has provided a regional framework that aims at promoting WAEMU macroeconomic stability through multilateral surveillance and achievement of convergence criteria, and good governance, as well as enhanced solidarity among the member countries. During the transitional period from the date of entry into force of the pact to December 31, 2002, member countries committed themselves to developing three-year convergence programs, with a view to ensuring compliance with the latter date.

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 the common currency. Indicators viewed as essential are known as convergence criteria. There are four primary and four secondary convergence criteria, supplemented by a host of other indicators (*tableau de bord*) recommended by the Council of Ministers of the WAEMU.

Niger's strained financial and economic situation made it difficult for the country to meet the convergence criteria by end-December 2002. Achievement of these goals is likely to remain an ambitious undertaking for the near future. At end-2002, Niger had met only the primary criterion for the average inflation rate, which was 0.3 percentage point below the target. The country has, however, made substantial progress toward meeting the convergence criteria over the period 1999-2002 and is expected to observe three criteria in 2003, as indicated below. The authorities aim at a further gradual convergence over the next few years, but the criteria on the basic balance, the external current account deficit, and the tax revenue are not likely to be met by 2005.

	WAEMU	Niger		
	Targets	1999	2002	2003
Primary criteria				
Basic fiscal balance (as percent of GDP)	≥ 0	-4.8	-1.8	-2.0
Domestic and external debt (as percent of GDP)	≤ 70	99.5	85.3	76.1
Annual average inflation rate (in percent)	≤ 3	-2.3	2.7	-0.7
Nonaccumulation of domestic and external payments arrears	√	X	X	√
Secondary criteria				
Wage bill (as percent of revenue)	≤ 35	50.3	38.2	36.2
Domestically financed investment (as percent of tax revenue)	≥ 20	17.0	18.7	22.3
External current account deficit, excl. grants (as percent of GDP)	≤ 5	-7.5	-8.4	-8.8
Tax revenue (as percent of GDP)	≥ 17	8.1	9.6	10.0

A. Fiscal Policy

20. **The revised budgetary program for 2003 aims at a slight tightening of the fiscal stance, with the annual basic budget deficit to be limited to 2.0 percent of GDP, compared with an initial ceiling of 2.1 percent of GDP (Tables 4-5, Figure 3, and Box 4).** The shortfall in WAEMU revenue transfers (0.2 percent of GDP) will be offset by a freeze in nonpriority expenditure equivalent to 0.3 percent of GDP, mainly in domestically financed investment projects. The foreign-financed investment program was also revised downward by about 5 percent to reflect the lower execution rate in the first half of 2003 and donor community concerns about absorption capacity. On the financing side, the shortfall in budgetary assistance of 0.4 percent of GDP will be attenuated by savings on debt-service

obligations resulting from the appreciation of the CFA franc (Figure 1). The remaining gap will be financed through greater recourse to domestic financing (0.1 percent of GDP). Taking into account the reduction of domestic payments arrears, the overall stock of domestic debt is targeted to be reduced by 0.9 percent of GDP, compared with 1.0 percent in the original program.

Box 4. Niger: Revised Budgetary Program for 2003
(In billions of CFA francs)

	Prog. EBS/03/39	Rev. Prog.	Difference
Revenue	171.1	167.7	-3.4
Total expenditure	317.4	304.7	-12.7
Basic expenditure	205.5	199.5	-6.0
Current expenditure	170.1	166.9	-3.1
Budget	161.6	158.4	-3.1
Primary expenditure	143.0	141.0	-2.0
Interest due	18.6	17.5	-1.1
Annexed budgets and special accounts	8.5	8.5	0.0
Capital expenditure on own resources	35.4	32.6	-2.8
Capital expenditure on external financing	111.9	105.1	-6.7
Overall budget balance (payment order basis)	-146.3	-137.0	9.3
Variation of domestic payments arrears	-18.0	-18.0	0.0
Variation of external payments arrears	0.0	0.0	0.0
Overall budget balance (cash basis)	-164.3	-155.0	9.3
Financing	164.3	155.0	-9.3
External	96.8	92.1	-4.7
Internal	2.2	3.6	1.4
Bank	2.8	6.2	3.4
Nonbank	-0.6	-2.6	-2.0
Financing gap	65.3	59.3	-6.0
Identified financing	65.3	59.3	-6.0
Remaining gap	0.0	0.0	0.0

21. **Although the recourse to domestic financing will be limited to 0.1 percent of GDP for the year as a whole, it will be much higher in the period preceding the disbursements of external aid at the end of 2003.** Of budgetary assistance (excluding IMF financing) estimated at 3.7 percent of GDP for the year as a whole, 85 percent is expected to be disbursed in the fourth quarter, compared with only 33 percent in the original program. To alleviate the severe budget constraint in the period preceding these disbursements of aid, the government has reached an agreement with the BCEAO to postpone the programmed reduction of central bank advances, which was equivalent to almost 0.4 percent of GDP in 2003, until January 2004. It will also issue treasury bills on the regional financial market in

October 2003 for an amount equivalent to 0.4 percent of GDP. The resulting higher indebtedness to the banking sector at end-2003 would be partially compensated for by a substantial accumulation of deposits at year's end that will allow for a smoother budget execution in 2004.

B. Monetary Policy and Financial Sector Issues

22. **The monetary and credit policies that are conducted at the regional level will continue to be prudent, focusing on containing inflationary pressures while ensuring an appropriate level of foreign exchange reserves.** For Niger, the revised program projects a broad money growth of 13.7 percent in 2003, following a contraction of 0.4 percent in 2002.[8] As a percentage of beginning-of-period money supply, net foreign assets would grow by 1.5 percent, with a substantial rebuilding of reserves in the second half of 2003. On the same basis, net domestic assets would increase by 12.2 percent, reflecting 4.5 percent growth rates for both net credit to the government and credit to the economy.

23. **The monetary authorities also intend to continue their close monitoring of the banking sector and step up their surveillance activities**. The strengthening of the financial sector will continue with the completion of the restructuring of the BCN and BINCI, efforts to privatize the CDN, the finalization of the audits of the microfinance institutions, and the final preparations for the restructuring of ONPE.

C. Structural Reforms

24. **In addition to strengthening the financial sector, the authorities are aiming at increasing the momentum of structural reforms in the remainder of 2003**. Except for the postponement of the privatization of NIGELEC to 2004, the structural reform program has not been modified (Box 2). It remains focused, in the area of public finances, on strengthening budget and treasury management, with particular emphasis on external debt management. Additional reforms under the purview of the World Bank will aim at implementing the public procurement code and achieving irreversible progress in the privatization of SONIDEP.

D. Poverty Reduction Strategy Implementation

25. **The implementation of the Poverty Reduction Strategy in 2002 and the first half of 2003 has been satisfactory, as highlighted in the first progress report of the authorities (IMF Country Report No. 03/384)**. On the one hand, the report focuses on the

[8] Compared with the original program presented in EBS/03/39, money growth will be much higher, but its level at end-2003 will be lower (CFAF 155.1, billion, as against CFAF 162.3 billion) as a result of the large downward revision of broad money and net foreign assets data at end-2002.

good macroeconomic performance in 2001-02, the overall success of the poverty projects sponsored by the presidency and financed through HIPC Initiative assistance, and the finalization of important sectoral strategies, such as for rural development. It also emphasizes the continuing participatory approach used in 2002 to facilitate the dissemination of the document and its ownership by the population, and highlights the positive outcome of a donors' forum in Niamey in early June 2003. On the other hand, it recognizes the delays in strengthening human and institutional capacity, the resulting difficulties in monitoring and evaluating the strategy implementation, and the postponement of a public expenditure review and a household consumption survey to be used in updating the poverty analysis and improving the medium-term expenditure framework. It also acknowledges some mixed outcomes in poverty reduction, particularly in the health sector, and presents corrective actions that the authorities intend to take in the near future.

V. External Sector Issues and HIPC Initiative Completion Point

26. **The authorities remain committed to implementing a prudent external debt-management policy.** They have strengthened external debt management through the installation of new software and intend to transfer all debt-management responsibilities within the Nigerien Treasury. The authorities have also monitored debt obligations more closely and avoided the recurrence of temporary external payments arrears. Finally, they have made a request to the African Solidarity Fund (FSA) for a subsidy to bring into line with program requirements the grant element of an undisbursed US$10.0 million loan agreement of the OPEC Fund that they signed on May 22, 2002 for the construction of technical and vocational schools.[9]

27. **The authorities are committed to achieving the completion point under the enhanced HIPC Initiative by the end of 2003.** In the context of the debt sustainability analysis for the completion point, the authorities have completed, in collaboration with the Fund and the World Bank, the reconciliation of the stocks of external debt at end-1999 and end-2002. Although no new debt-relief agreement was signed in the first half of 2003, the amount of debt relief already obtained from creditors amounts to approximately 80 percent of the total debt relief required at end-December 2002 under the HIPC Initiative decision point in net present value terms (NPV) (Table 7). The government has also made satisfactory progress toward meeting the thirteen trigger conditions for the floating completion point, but four conditions in the health and education sectors have not yet been observed, mainly as a

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[9] Based on the government's commitment not to draw on this loan until its terms are brought in line with the program requirements, the Fund Executive Board granted the government a waiver in respect of the nonobservance of the performance criterion on minimum external-debt concessionality in the context of the third PRGF review (IMF Country Report No. 02/192; Appendix V, Attachment I, para. 40).

result of weak institutional capacity and implementation problems. The authorities have taken corrective measures, in collaboration with the World Bank.

28. **The NPV of debt, after traditional debt relief, increased by 21 percent between 1999 and 2002, from US$972.7 million to US$1,176.3 million, but remained equivalent to 51 percent of GDP (Table 8).**[10] The enhanced HIPC Initiative debt relief reduces the NPV of debt at end-2002 to US$595.1 million, equivalent to 206 percent of exports. This outcome exceeds the decision point projection of an NPV of debt equivalent to 185 percent of exports at end-2002. Nearly half of the NPV projection overshooting is explained by exchange and discount rate variations, with the remainder resulting from higher-than-envisaged borrowing. Taking into account additional bilateral relief beyond the enhanced HIPC Initiative requirements granted by some Paris Club creditors (in particular France, the United Kingdom, and the United States), the NPV of debt at end-2002 is reduced further to 199 percent of exports. These figures highlight not only the need to maintain prudent economic debt policies but also the dependency of Niger on appropriate support from the donor community, both in terms of grant financing and the level of debt concessionality.

29. **The authorities are requesting an extension of the current program to end-June 2004.** This extension of the program will allow Niger to draw the full amount under the arrangement. After taking into account the final disbursement of SDR 8.44 million under the PRGF arrangement, the projected financing gap of the balance of payments in 2004 is estimated at CFAF 57.2 billion, for which financing intentions of CFAF 47.1 million have been identified. The remaining gap would be filled by additional bilateral donor financing and disbursements under a new PRGF arrangement to be negotiated in 2004. In light of the satisfactory track record of policy implementation under the PRGF arrangement and the balance of payments needs for 2004, the staff supports the authorities' request for an extension of the arrangement to end-June 2004.

VI. Program Monitoring

30. **Program execution during the remainder of 2003 will be based on the performance criteria, indicative targets, and structural benchmarks that are detailed in Tables 1 and 2 of the MEFP and defined in the attached technical memorandum of understanding.** Two modifications have been made to the original program. First, because of the delay in considering the fifth review under the PRGF arrangement, it is proposed to set performance criteria for end-December 2003 that will serve as the basis for evaluating program implementation in the context of the sixth review under the arrangement. Second, because treasury bills are issued by the government on the financial market, the performance criterion on the variation of net bank credit to the government has been replaced for

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[10] In nominal terms, the stock of debt increased from US$1,601.7 million to US$1,739.5 million over the period, but the ratio of debt to GDP declined from 84 percent to 76 percent.

December 2003 by a performance criterion on net domestic financing, in line with program practices among WAEMU countries. The structural performance criterion on the continuous implementation of the petroleum product pricing system continues to apply, but the structural benchmark at end-December 2003 on the computerization of regional treasury offices will be applied to only two offices, following the conclusions of a stocktaking mission of the authorities in all regional offices. The seventh disbursement under the PRGF arrangement, in an amount equivalent to SDR 8.44 million, will be made available on or after May 1, 2004, subject to end-December 2003 performance criteria and the completion of the sixth review under the PRGF arrangement (scheduled to be completed by May 31, 2004).

VII. Staff Appraisal

31. **Despite sociopolitical tensions and external shocks, the authorities have been successful in maintaining the momentum of their structural adjustment program while embarking on the implementation of their Poverty Reduction Strategy.** They should be commended for a broadly satisfactory track record of program implementation since December 2000. Despite the adverse external shocks of the crisis in Côte d'Ivoire and several closings of the border with Nigeria, as well as a tense social climate, recent macroeconomic performance has been favorable and looks set to improve for the third straight year. The staff welcomes this positive economic outlook.

32. **The authorities have demonstrated their commitment to the program, which was fully on track at end-March 2003, with all performance criteria and indicative targets met**. Program implementation at end-June 2003 remained broadly satisfactory, except for the nonobservance of the indicative targets on net bank credit to the government and budgetary revenue. The staff is of the view that the nonobservance of these targets is relatively minor and that appropriate measures have been taken to correct these outcomes.

33. **The revised program for 2003 maintains the broad objectives of the original program, namely, the consolidation of the fiscal adjustment process begun in 2000 and the imparting of greater momentum to the Poverty Reduction Strategy**. The staff welcomes the tightening of the fiscal stance to address shortfalls in WAEMU revenue transfers and external aid disbursements. However, the staff urges the authorities to monitor closely program implementation, with a view to avoiding budgetary slippages in the period preceding the substantial disbursements of external aid at end-2003. Particular attention should be paid to a coordinated execution of the revised budget and the evolution of nonbank financing, including the variation of domestic payments arrears, in the second half of 2003, as well as a rebuilding of treasury deposits at end-December.

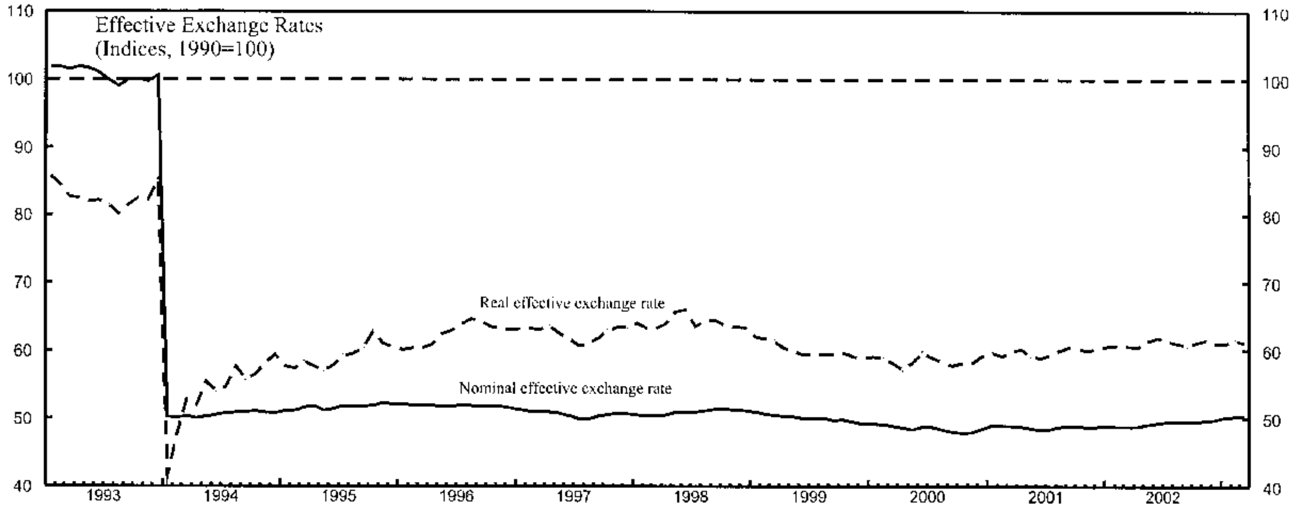
34. **Progress in the area of structural reforms has been mixed and impaired by a limited institutional capacity.** The authorities are encouraged to give a new momentum to, and achieve the objectives of, the structural reform program for 2003. The further strengthening of debt management should be a priority in the context of reaching the HIPC Initiative completion point. The effective implementation of the public procurement code, the establishment of an operational multisector regulatory agency, and the privatization of

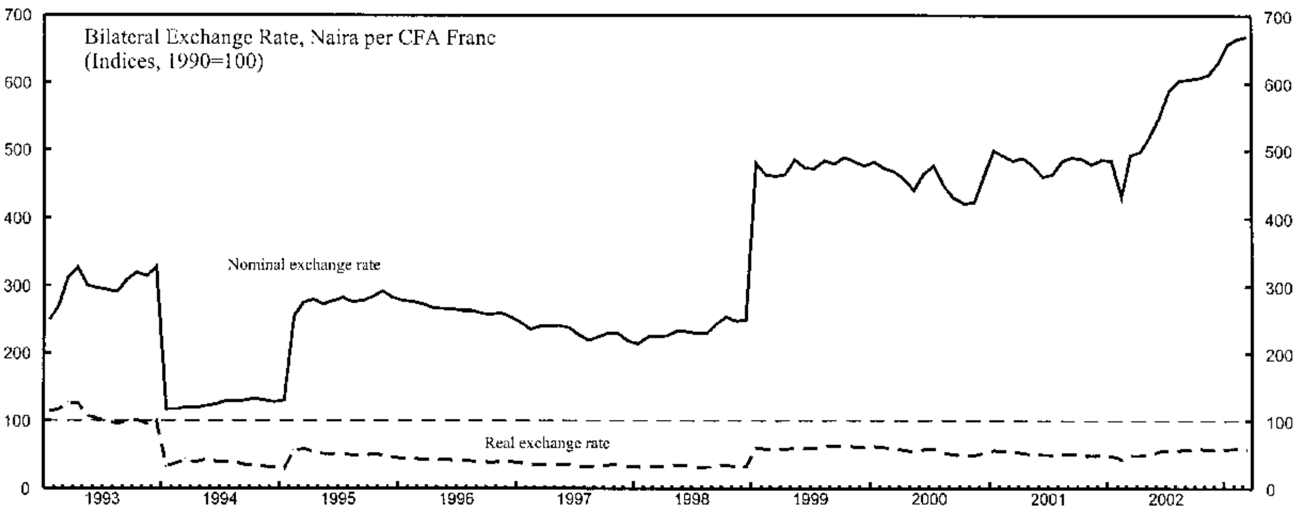
SONIDEP are other important objectives to attain by end-2003. The authorities should finalize rapidly a new strategy for the privatization of NIGELEC, in collaboration with the World Bank, and liquidate the Crédit du Niger if their efforts to privatize it are not successful soon. Finally, the authorities are also encouraged to develop a technical assistance program with a view to strengthening the institutional capacity.

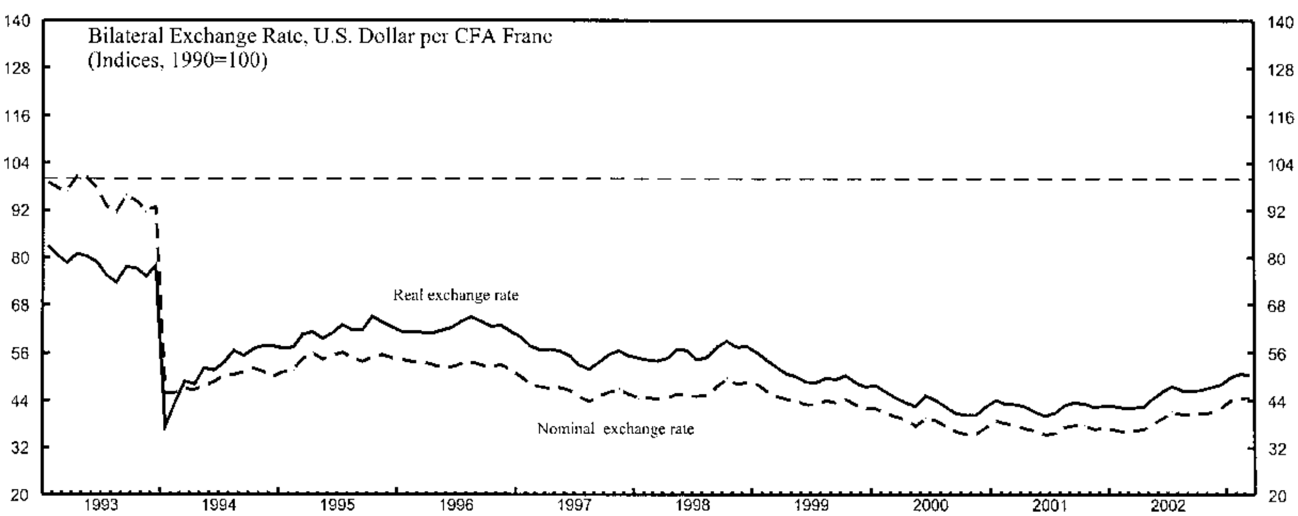
35. **The staff commends the authorities for the finalization of their first progress report on the implementation of the PRSP**. In this context, the authorities are urged to continue their satisfactory implementation of the Poverty Reduction Strategy, while correcting the weaknesses identified in the report. They should, in particular, improve the poverty analysis through a household survey, strengthen the monitoring and evaluation system, and revise the medium-term expenditure framework and macroeconomic projections beyond 2005.

36. **The staff recommends the completion of the fifth review under the PRGF arrangement and the extension of the arrangement to end-June 2004**.

Figure 1. Niger: Exchange Rate Indices, January 1993 - June 2003

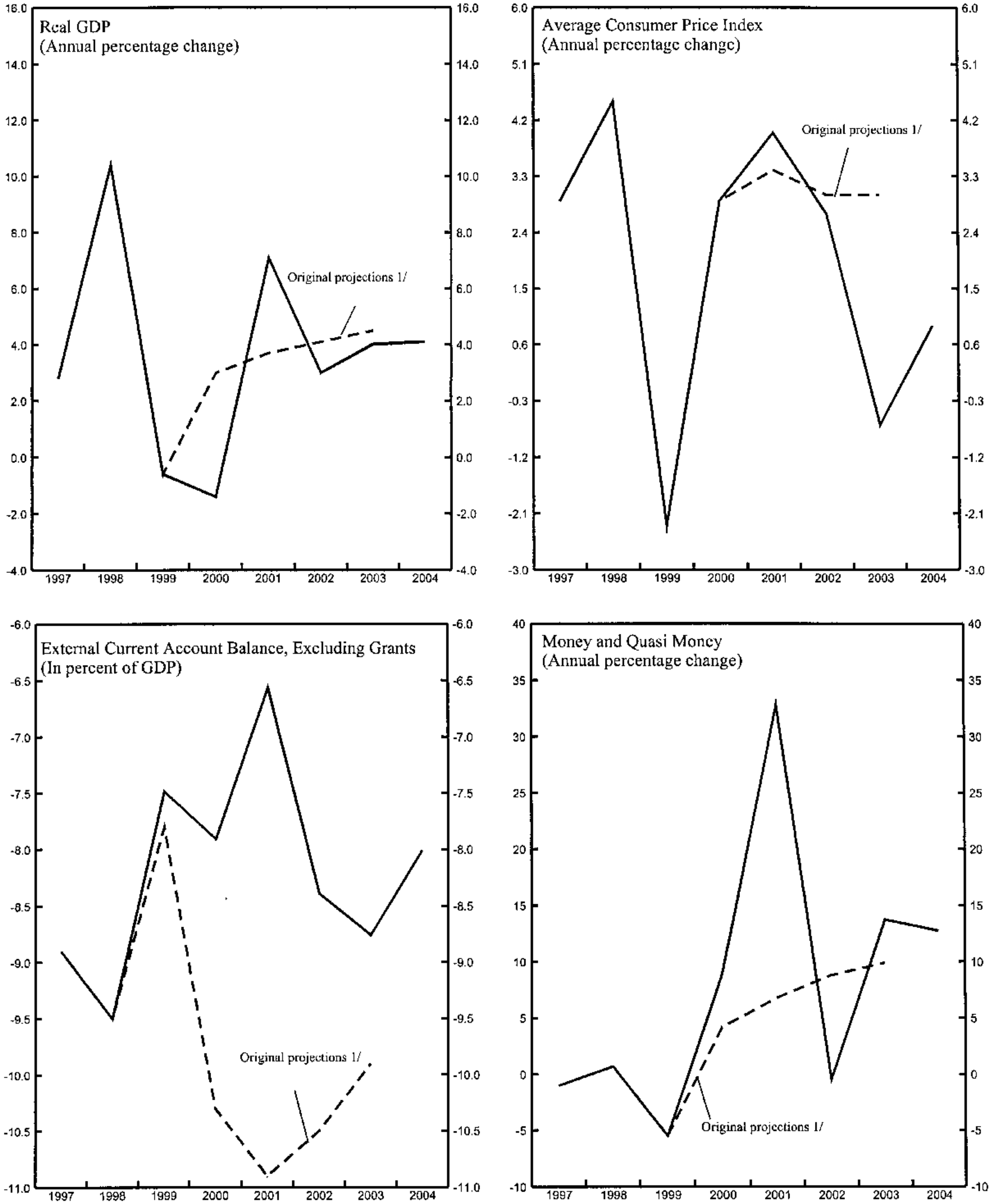






Source: IMF, Information Notice System.

Figure 2. Niger: Selected Economic Indicators, 1997-2004 1/

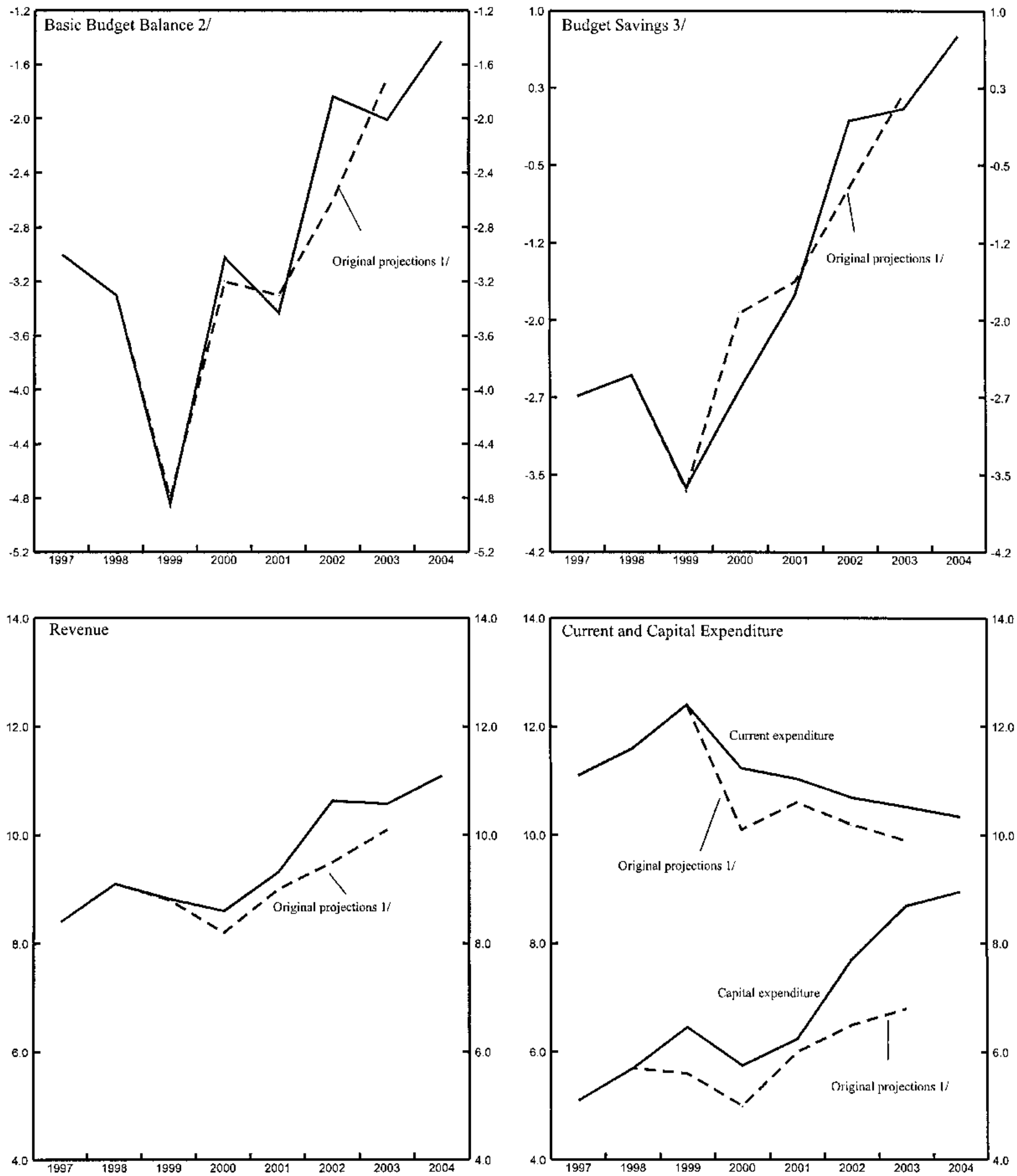


Sources: Nigerien authorities; and staff estimates and projections.

1/ Dashed line corresponds to original projections under the PRGF arrangement approved in December 2000 (IMF Country Report No. 01/15). Solid line corresponds to actual data until 2002 and current projections for 2003-04.

Figure 3. Niger: Selected Fiscal Indicators, 1997-2004 1/

(In percent of GDP)



Sources: Nigerien authorities; and staff estimates and projections.

1/ Dashed line corresponds to original projections under the PRGF arrangement approved in December 2000 (IMF Country Report No. 01/15). Solid line corresponds to actual data until 2002 and current projections for 2003-04.
2/ Overall budget balance, excluding foreign-financed capital expenditure.
3/ Total revenue minus current expenditure.

Table 1. Niger: Fund Position, 2000-08 1/

	Outstanding Sep. 30, 2000	2000 Oct.-Dec.	2001	2002 Jan.-Mar.	2002 Apr.-Jun.	2002 Jul.-Sep.	2002 Oct.-Dec.	2003 Jan.-Mar.	2003 Apr.-Jun.	2003 Jul.-Sep.	2003 Oct.-Dec.	2004	2005	2006	2007	2008
								(In millions of SDRs)								
Total transactions (net)		8.23	6.86	8.41	-1.19	7.45	-1.20	-1.97	10.64	-1.97	2.90	-1.81	-10.21	-10.75	-11.46	-11.27
Disbursements		8.46	8.46	8.46	0.00	8.46	0.00	0.00	11.84	0.00	5.08	8.44	0.00	0.00	0.00	0.00
Repurchases/repayments																
Repurchases		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PRGF repayments		0.00	0.97	0.00	0.97	0.97	0.97	1.93	0.97	1.93	1.93	9.66	9.66	10.39	10.99	10.85
Charges and interest		0.23	0.63	0.05	0.23	0.05	0.24	0.04	0.23	0.03	0.25	0.59	0.55	0.36	0.47	0.42
Total Fund credit outstanding	48.30	56.76	71.75	72.71	71.75	79.24	78.28	76.34	87.22	85.29	88.43	87.21	77.55	67.17	56.18	45.33
Outstanding purchases under PRGF	48.30	56.76	71.75	72.71	71.75	79.24	78.28	76.34	87.22	85.29	88.43	87.21	77.55	67.17	56.18	45.33
								(In percentage of quota, unless otherwise indicated)								
Total Fund credit outstanding	73.40	86.26	109.04	110.51	109.04	120.43	118.96	116.02	132.55	129.61	134.40	132.54	117.86	102.08	85.37	68.88
Outstanding purchases under PRGF	73.40	86.26	109.04	110.51	109.04	120.43	118.96	116.02	132.55	129.61	134.40	132.54	117.86	102.08	85.37	68.88
Memorandum item:																
Quota (in millions of SDRs)	65.80															

Source: IMF, Finance Department.

1/ End of period.

Table 2. Niger: Selected Economic and Financial Indicators, 1999-04

	1999	2000	2001	2002		2003		2004
				Est. EBS/03/39	Rev. Est.	Prog. EBS/03/39	Rev. Prog	Proj.
				(Annual percentage change, unless otherwise indicated)				
National income and prices								
GDP at constant prices	-0.6	-1.4	7.1	3.0	3.0	4.0	4.0	4.1
GDP deflator	2.0	4.5	4.0	3.0	3.0	2.5	0.8	1.1
Consumer price index								
Annual average	-2.3	2.9	4.0	2.7	2.7	0.5	-0.7	0.9
End of period	-1.9	4.7	3.2	0.6	0.6	2.2	0.4	1.2
External sector								
Exports, f.o.b.	-10.4	13.9	-0.7	2.8	2.6	3.5	7.5	12.1
Imports, f.o.b	-12.8	15.9	3.4	11.1	18.8	12.3	8.6	9.3
Export volume	-14.6	21.7	-7.0	2.6	0.6	1.7	6.5	4.7
Import volume	-8.5	7.1	9.1	9.8	14.7	14.8	7.7	9.5
Terms of trade (deterioration -)	9.3	-12.7	10.0	-1.0	0.4	-0.7	-0.1	1.5
Nominal effective exchange rate (depreciation -)	-1.6	-3.1	0.4	1.4	1.4	...	...	...
Real effective exchange rate (depreciation -)	-6.3	-2.6	2.2	2.1	2.1	...	...	...
Gross official reserves (in months of imports)	1.0	2.1	2.8	3.1	2.5	3.2	2.5	2.6
Government finances								
Total revenue	-2.0	0.5	20.6	21.0	21.1	6.9	4.3	10.4
Total expenditure and net lending 1/	9.9	-8.0	14.6	8.7	13.2	22.7	9.6	5.7
Of which: current expenditure	8.1	-6.7	9.5	2.4	2.8	5.6	3.2	3.4
capital expenditure	15.0	-8.3	20.9	20.2	31.0	50.7	18.3	8.4
Money and credit								
Domestic credit 2/	6.3	-8.1	2.3	10.9	10.9	6.0	9.0	4.7
Credit to the government (net) 2/	7.8	-30.1	4.9	3.8	3.7	1.9	4.5	0.5
Credit to the economy 2/	-1.5	22.1	-2.5	7.1	7.1	4.1	4.5	4.2
Net domestic assets 2/	9.1	-5.5	-0.5	5.7	5.9	6.0	12.2	3.0
Money and quasi money	-5.5	8.9	32.8	9.0	-0.4	8.7	13.7	12.8
Interest rate (money market, in percent; end of period)	5.0	5.0	5.0	5.0	5.0	5.0	...	...
				(In percent of GDP, unless otherwise indicated)				
Government finances								
Total revenue 3/	8.8	8.6	9.3	10.6	10.6	10.6	10.6	11.1
Total expenditure and net lending	18.7	16.7	17.2	10.7	18.4	19.7	19.2	19.3
Of which: current expenditure	12.4	11.2	11.0	6.5	10.7	10.5	10.5	10.3
capital expenditure	6.5	5.7	6.2	17.1	7.7	9.1	8.7	9.0
Primary budget balance 4/	-8.3	-6.5	-6.1	-5.0	-6.3	-7.9	-7.5	-7.5
Basic balance (excluding grants) 3 / 5/	-4.8	-3.0	-3.4	-1.7	-1.8	-2.1	-2.0	-1.4
Overall balance (commitment basis, excluding grants) 6/	-9.9	-8.1	-7.9	-6.5	-7.7	-9.1	-8.6	-8.2
Overall balance (commitment basis, including grants) 6/	-5.4	-3.5	-3.2	-2.3	-2.8	-5.7	-5.2	-4.4
Gross investment	11.2	11.4	12.1	12.8	14.2	16.2	15.8	16.3
Gross domestic savings	3.9	3.5	4.4	4.2	4.0	6.2	5.1	5.7
External current account balance								
Excluding grants for budgetary assistance	-7.5	-7.9	-6.6	-6.7	-8.4	-8.5	-8.8	-8.0
Including grants for budgetary assistance 7/	-6.5	-6.2	-4.8	-5.5	-7.2	-8.5	-8.8	-8.0
External public debt (end of period) 8/	83.6	90.2	86.9	74.4	76.4	75.0	68.4	70.2
				(In percent)				
Debt-service ratio (before debt relief) in percent of :								
Exports of goods and services 9/	23.3	24.7	27.5	28.4	28.0	24.4	22.1	12.4
Government revenue 9/	42.0	51.1	50.0	43.9	43.7	37.2	36.1	21.1
				(In billions of CFA francs)				
GDP at current market prices	1,242.6	1,280.4	1,426.0	1,512.8	1,512.8	1,613.2	1,586.4	1,669.8
Government payments arrears (reduction -)	49.1	-112.0	-17.0	-35.5	-33.4	-18.0	-18.0	-15.0
Domestic	23.6	3.6	-17.0	-35.5	-33.4	-18.0	-18.0	-15.0
External	25.6	-115.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance of payments 10/	-42.9	-26.7	-28.6	-29.8	-43.0	-87.7	-85.5	-56.4

Sources: Nigerien authorities; and staff estimates and projections.

1/ Commitment basis as per payment orders issued.

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

3/ In 2002, includes 0.6 percent of GDP of revenue from the settlement of reciprocal debts between the government and public enterprises.

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

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

6/ Program data and projections include grants for projects and HIPC Initiative assistance. Actual data also include grants for budgetary assistance that are disbursed by Niger's development partners, such as the European Union and bilateral donors.

7/ For projections, budgetary assistance is not included as it is part of the financing gap.

8/ Including obligations to IMF. The estimate for 2002 reflects the latest debt-stock reconciliation exercise undertaken for the upcoming completion point under the HIPC Initiative.

9/ For 2001-02, debt-service data data include payments of arrears resulting from debt-relief agreements.

10/ Before debt relief. For projections, including the financing gap.

Table 3. Niger: Balance of Payments, 2000-04
(In billions of CFA francs, unless otherwise indicated)

	2000	2001	2002		2003		2004
	Est.	Est.	Est. EBS/03/39	Rev. Est.	Prog. EBS/03/39	Rev. Prog.	Proj.
Current account balance							
Incl. grants for budgetary assistance	-79.1	-67.9	-83.4	-108.4	-137.3	-138.9	-133.7
Excl. grants for budgetary assistance	-101.3	-93.6	-101.9	-126.9	-137.3	-138.9	-133.7
Balance on goods	-33.9	-43.3	-59.6	-84.0	-84.9	-93.5	-96.1
Exports, f.o.b	201.2	199.7	200.8	204.9	207.8	220.3	246.9
Uranium	64.0	63.0	62.5	62.5	63.1	62.1	61.8
Cattle	37.0	40.3	41.8	42.8	44.1	44.6	50.1
Cowpeas	13.4	6.9	8.4	8.1	8.8	10.1	11.3
Onions	11.8	10.8	11.0	13.7	11.5	17.6	19.7
Gold	0.0	0.0	0.0	0.0	0.0	0.0	13.1
Other exports	74.9	78.7	77.2	77.8	80.3	85.9	91.1
Of which: reexports	26.1	36.7	36.7	39.7	38.5	42.1	44.6
Imports, f.o.b	235.1	243.1	260.4	288.8	292.6	313.8	343.0
Food products	64.1	76.9	74.7	76.5	75.8	75.1	77.3
Petroleum products	47.3	25.8	30.4	33.3	32.6	31.9	28.8
Intermediate goods	15.2	16.1	16.9	22.0	23.4	27.1	31.8
Capital goods	44.2	45.2	63.0	64.7	82.3	79.7	100.4
Other products 1/	64.2	79.1	75.5	92.2	78.5	100.0	104.6
Services and income (net)	-78.9	-77.3	-78.7	-79.7	-85.4	-82.9	-79.1
Services (net)	-67.2	-66.3	-69.4	-70.0	-77.2	-75.9	-82.3
Income (net)	-11.8	-11.0	-9.3	-9.7	-8.2	-7.0	3.2
Of which: interest on external public debt	-19.6	-24.1	-21.2	-21.2	-17.2	-16.1	-9.6
Unrequited current transfers (net)	33.7	52.7	55.0	55.3	33.0	37.4	41.5
Private (net)	2.7	10.5	11.1	11.4	6.9	11.2	12.6
Public (net)	31.0	42.2	43.9	43.9	26.1	26.2	28.8
Of which: grants for budgetary assistance 2/	22.2	25.7	18.6	18.6	0.0	0.0	0.0
HIPC assistance initiative	0.1	8.1	10.3	10.3	11.0	10.7	13.8
Capital and financial account	57.3	43.6	53.6	65.4	49.6	53.5	77.3
Capital account	46.9	34.2	36.2	47.3	45.1	45.1	51.6
Private capital transfers	1.3	1.5	1.5	1.5	1.5	1.5	1.5
Project grants	37.1	32.7	34.7	45.8	43.5	43.5	50.1
Debt cancellation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition/disposal of nonproduced, nonfinancial assets	8.5	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	10.4	9.4	17.4	18.1	4.5	8.4	25.7
Direct investment	6.4	19.4	2.0	3.0	2.9	7.7	14.0
Portfolio investment	6.5	2.7	1.0	1.0	2.4	1.0	1.1
Other investment	14.1	-3.5	14.4	19.9	-0.8	-0.3	10.7
Public sector (net)	19.3	12.4	26.3	31.8	11.4	7.3	20.2
Disbursements	54.7	53.7	72.5	78.0	51.0	45.0	40.0
Loans for budgetary assistance 3/	26.3	30.4	44.2	44.2	0.0	0.0	0.0
Project loans	28.4	23.3	28.3	33.8	51.0	45.0	40.0
Amortization 4/	35.4	41.3	46.2	46.2	39.7	37.7	19.8
Other (net)	-5.2	-16.0	-11.9	-11.9	-12.2	-7.6	-9.5
Commercial banks' net foreign assets	6.8	-17.1	-0.8	-0.8	0.0	-2.1	-5.1
HIPC assistance 5/	0.0	0.0	0.0	0.0	4.5	4.4	1.2
Errors and omissions	-16.6	-9.2	0.0	-5.9	0.0	0.0	0.0
Overall balance	-21.7	-24.3	-29.8	-43.0	-87.7	-85.5	-56.4

Table 3. Niger: Balance of Payments, 2000-04 (concluded)
(In billions of CFA francs, unless otherwise indicated)

	2000	2001	2002		2003		2004
	Est.	Est.	Est. EBS/03/39	Rev. Est.	Prog. EBS/03/39	Rev. Prog.	Proj.
Financing	21.7	24.3	29.8	43.0	87.7	85.5	56.4
Net foreign assets (Central Bank of West African States)	-20.4	-17.3	-3.7	9.5	-4.0	0.0	-10.0
Of which: net use of Fund resources	6.7	6.9	12.4	12.4	8.2	8.2	-1.0
Purchases	7.9	7.9	15.2	15.2	13.7	13.6	6.7
Repurchases	-1.3	-0.9	-2.6	-2.6	-5.5	-5.5	-7.7
Rescheduling obtained 6/	157.7	41.6	33.5	33.5	26.4	26.1	9.1
Change in arrears	-115.6	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	65.3	59.3	57.3
Financing assurances	0.0	0.0	0.0	0.0	65.3	59.3	47.1
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	10.2
Memorandum items:							
Balance on goods and services	-101.1	-109.6	-129.1	-154.0	-162.1	-169.3	-178.4
Total HIPC Initiative assistance	0.1	8.1	10.3	10.3	19.1	18.3	28.9
of which: assistance delivered on stock-of-debt operation 7/	...	...	...	...	3.5	3.2	13.9
External current account balance							
Including grants for budgetary assistance (in percent of GDP)	-6.2	-4.8	-5.5	-7.2	-8.5	-8.8	-8.0
Excluding grants for budgetary assistance (in percent of GDP)	-7.9	-6.6	-6.7	-8.4	-8.5	-8.8	-8.0
GDP	1,280.4	1,426.0	1,512.8	1,512.8	1,613.2	1,586.4	1,669.8
Petroleum price (U.S. dollars per barrel)	28.2	24.3	24.9	25.0	28.0	26.5	23.5
Exchange rate (CFA francs per U.S. dollar, annual average)	710.1	732.4	694.8	694.8	611.0	577.0	...

Sources: Nigerien authorities; and staff estimates and projections.

1/ Includes purchases of goods in ports and airports by carriers, in line with the *Balance of Payments Manual, 5th edition.*

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

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

4/ In 2001, includes settlement of end-1999 external payments arrears vis-à-vis the African Development Bank (AfDB) and the OPEC Fund, as agreed in the rescheduling agreements. In 2002, includes payment of end-1999 external payments arrears, whose settlements were agreed with the OPEC Fund, Libya, the Saudi Fund for Development, and a commercial bank. In 2003, includes payment of external arrears vis-à-vis the European Investment Bank.

5/ Includes in the 2002 program assistance from IDA and the AfDB that are now classified as grants; for 2003-05, includes assistance provided through a rescheduling of current maturities by Paris Club creditors (up to the completion point), and China, and a portion of the relief granted by the Islamic Development Bank (IsDB), and the OPEC Fund.

6/ Includes debt under discussion for CFAF 16.6 billion in 2001, CFAF 14.7 billion in 2002, CFAF 8.9 billion in 2003, and CFAF 8.8 billion in 2004.

7/ Includes assistance from the West African Economic and Monetary Union (WAEMU), the Arab Bank for Development in Africa (BADEA), the Kuwait Fund for Arab Economic Development (KFAED), the Paris Club (as of 2004) and the remaining of the assistance from the IsDB and the OPEC Fund.

Table 4. Niger: Financial Operations of the Central Government, 2000-04

	2000	2001	2002 Est. EBS/03/39	2002 Act.	2003 1/ Prog. EBS/03/39	2003 1/ Rev. Prog.	2004 Proj.
			(In billions of CFA francs)				
Total revenue	110.1	132.8	160.0	160.9	171.1	167.7	185.2
Tax revenue	102.8	125.5	143.8	144.6	161.8	158.4	177.5
Nontax revenue	3.8	4.1	3.8	3.8	2.3	2.3	3.2
Settlement of reciprocal debts 2/	0.0	0.0	8.3	8.4	3.0	3.0	...
Annexed budgets/special accounts	3.5	3.2	4.1	4.1	4.0	4.0	4.5
Total expenditure and net lending	214.3	245.6	258.6	278.1	317.4	304.7	322.1
Total current expenditure	143.8	157.4	161.1	161.8	170.1	166.9	172.7
Budgetary expenditure	138.5	147.1	153.1	153.7	161.6	158.4	163.7
Wages and salaries	51.8	50.4	55.4	55.3	57.3	57.3	60.1
Goods and services	41.1	43.2	45.2	45.5	44.7	43.7	48.1
Of which: HIPC Initiative resources	0.0	0.0	0.0	0.0	0.0	0.0	3.0
Subsidies and transfers	24.0	28.1	30.1	30.3	41.0	40.0	44.0
Of which: HIPC Initiative resources	0.0	0.3	1.9	1.9	1.7	1.7	3.0
Interest, scheduled	21.6	25.4	22.5	22.6	18.6	17.5	11.5
External debt	19.6	24.1	21.2	21.2	17.2	16.1	9.6
Domestic debt	2.0	1.3	1.3	1.5	1.4	1.4	1.9
Annexed budget/special accounts	5.3	10.3	8.1	8.1	8.5	8.5	8.9
Capital expenditure and net lending	70.5	88.1	97.5	116.3	147.3	137.7	149.5
Capital expenditure	73.6	89.0	97.7	116.5	147.3	137.7	149.5
Domestically financed	8.1	25.1	25.4	27.1	35.4	32.6	36.5
Externally financed	65.5	63.9	72.4	89.4	111.9	105.1	113.0
Of which: HIPC Initiative resources	0.0	7.9	9.4	9.8	17.3	16.6	22.9
Net lending	-3.1	-0.8	-0.2	-0.2	0.0	0.0	0.0
Overall balance (commitment basis, excl. grants)	-104.2	-112.8	-98.5	-117.2	-146.3	-137.0	-137.0
Change in payments arrears	-112.0	-17.0	-35.5	-33.4	-18.0	-18.0	-15.0
Domestic arrears (net)	3.6	-17.0	-35.5	-33.4	-18.0	-18.0	-15.0
External arrears (net)	-115.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash, excl. grants)	-216.2	-129.8	-134.0	-150.6	-164.3	-155.0	-152.0
Financing	216.2	129.8	134.0	150.6	164.3	155.0	152.0
External financing	236.3	120.5	123.3	139.9	96.8	92.1	94.5
Grants	59.3	66.5	63.5	74.6	54.5	54.3	63.9
Budget financing	22.2	25.7	18.6	18.6	0.0	0.0	0.0
Project financing	37.1	32.7	34.7	45.8	43.5	43.5	50.1
HIPC Initiative assistance	0.1	8.1	10.3	10.3	11.0	10.7	13.8
Loans	54.7	53.7	72.5	78.0	51.0	45.0	40.0
Budget financing	26.3	30.4	44.2	44.2	0.0	0.0	0.0
Project financing	28.4	23.3	28.3	33.8	51.0	45.0	40.0
Amortization 3/	-35.4	-41.3	-46.2	-46.2	-39.7	-37.7	-19.8
Debt relief obtained	157.7	25.0	18.8	18.8	21.6	21.6	1.6
Current debt	4.6	25.0	18.8	18.8	17.1	17.2	0.4
Arrears	153.1	0.0	0.0	0.0	0.0	0.0	0.0
HIPC Initiative assistance 4/	0.0	0.0	0.0	0.0	4.5	4.4	1.2
Debt under discussion	...	16.6	14.7	14.7	9.3	8.9	8.8
Domestic financing	-20.2	9.3	10.7	10.7	2.2	3.6	0.2
Banking sector	-28.6	5.0	5.1	5.1	2.8	6.2	0.7
Of which: IMF (net)	6.7	6.9	12.9	12.9	9.1	8.3	-1.0
Nonbanking sector	0.0	-0.7	8.6	8.6	-0.6	-2.6	-0.5
Privatization receipts (net)	8.5	5.0	-3.0	-3.0	0.0	0.0	0.0
Financing gap (+) 5/	0.0	0.0	0.0	0.0	65.3	59.3	57.3
Financing assurances	0.0	0.0	0.0	0.0	65.3	59.3	47.1
Loans for budgetary assistance	0.0	0.0	0.0	0.0	30.5	33.3	...
Grants for budgetary assistance	0.0	0.0	0.0	0.0	34.8	25.9	...
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	10.2

Table 4. Niger: Financial Operations of the Central Government, 2000-04 (concluded)

	2000	2001	2002		2003 1/		2004
			Est.	Act.	Prog.	Rev. Prog.	Proj.
			EBS/03/39		EBS/03/39		
			(In percent of GDP)				
Total revenue	8.6	9.3	10.6	10.6	10.6	10.6	11.1
Total expenditure and net lending	16.7	17.2	17.1	18.4	19.7	19.2	19.3
Overall balance, commit. basis, excl. grants	-8.1	-7.9	-6.5	-7.7	-9.1	-8.6	-8.2
Overall balance, cash basis, excl. grants	-16.9	-9.1	-8.9	-10.0	-10.2	-9.8	-9.1
Basic fiscal balance 6/	-3.0	-3.4	-1.7	-1.8	-2.1	-2.0	-1.4
Current budget balance	-2.6	-1.7	-0.1	-0.1	0.1	0.0	0.7
			(In billions of CFA francs, unless otherwise indicated)				
Memorandum items:							
Basic fiscal balance 6/	-38.7	-48.9	-26.2	-27.8	-34.4	-31.9	-24.0
Total HIPC Initiative assistance 7/	0.0	8.1	10.3	10.3	19.1	18.3	28.9
Wage bill (in percent of tax revenue)	50.4	40.1	38.5	38.3	35.4	36.2	33.9
Stock of domestic payments arrears	132.2	115.2	79.7	81.8	61.7	63.8	48.8
GDP at market prices	1,280	1,426	1,513	1,513	1,613	1,586	1,670

Sources: Nigerien authorities; and staff estimates and projections.

1/ Based on interim assistance under the HIPC Initiative in 2003. A revised budget with the impact of additional assistance under the completi point is expected in the last quarter of 2003.

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

3/ In 2001, includes payment of end-1999 external payments arrears vis-à-vis the African Development Bank (AfDB) and the OPEC Fund, as agreed in the rescheduling agreements. In 2002, includes payment of end-1999 external payments arrears vis-à-vis the OPEC Fund, Libya, the Saudi Fund for Development, and a commercial bank. In 2003, includes payment of external arrears vis-à-vis the European Investment Bank.

4/ Includes in the 2002 program assistance from IDA and the AfDB that are now classified as grants; for 2003-05, includes assistance provide through a rescheduling of current maturities by Paris Club creditors (up to the completion point), China, and a portion of the relief from the Islamic Development Bank (IsDB) and the OPEC Fund.

5/ In the 2003 column for the revised program, the World Bank and the AfDB intend to disburse CFAF 33.3 billion of loans for budgetary assistance, and the European Union is expected to disburse CFAF 16.9 billion of grants for budgetary assisance; the remaining gap (CFAF 9.1 billion) is expected to be financed by grants from bilateral donors.

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

7/ In 2003, includes CFAF 3.2 billion of HIPC Initiative assistance granted on a stock-of-debt operation.

Table 5. Niger: Quarterly Cumulative Financial Operations of the Central Government, 2003
(In billions of CFA francs)

	March 2003		June 2003		Sep. 2003	Dec. 2003	
	Prog. EBS/03/39	Est.	Prog. EBS/03/39	Est.	Prog. EBS/03/39	Prog. EBS/03/39	Rev. Prog.
Total revenue	36.9	38.1	80.1	75.8	124.6	171.1	167.7
Tax revenue	35.9	37.3	77.5	74.0	118.9	161.8	158.4
Nontax revenue	0.2	0.2	0.7	0.4	1.7	2.3	2.3
Special accounts revenue	0.8	0.6	1.9	1.4	2.9	4.0	4.0
Settlement of reciprocal debts	0.0	0.0	0.0	0.0	1.0	3.0	3.0
Total expenditure and net lending	64.3	57.9	139.7	125.9	229.4	317.4	304.7
Total current expenditure	38.0	34.8	80.7	78.4	125.5	170.1	166.9
Budgetary expenditure	36.6	33.0	76.9	74.4	119.3	161.6	158.4
Wages and salaries	14.1	14.0	28.4	28.4	42.8	57.3	57.3
Materials and supplies	9.3	6.5	20.6	17.3	32.6	44.7	43.7
Subsidies and transfers	8.8	6.5	18.5	15.8	30.2	41.0	40.0
Interest, scheduled	4.4	3.9	9.5	9.3	13.8	18.6	17.5
External debt	3.9	3.6	8.7	8.1	12.6	17.2	16.1
Domestic debt	0.4	0.2	0.7	1.2	1.2	1.4	1.4
Adjustments	0.0	2.1	0.0	3.7	0.0	0.0	0.0
Special accounts expenditure	1.5	1.9	3.8	4.0	6.2	8.5	8.5
Capital expenditure and net lending	26.3	23.1	58.9	47.5	103.9	147.3	137.7
Capital expenditure	26.3	23.1	58.9	47.5	103.9	147.3	137.7
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)	-27.4	-19.8	-59.5	-50.1	-104.8	-146.3	-137.0
Change in payments arrears	-3.0	-3.9	-3.0	-6.9	-12.0	-18.0	-18.0
Domestic arrears	-3.0	-3.9	-3.0	-6.9	-12.0	-18.0	-18.0
External arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-30.4	-23.7	-62.5	-57.0	-116.8	-164.3	-155.0
Financing	30.4	23.7	62.5	57.0	116.8	164.3	155.0
External financing	9.1	11.6	32.8	23.1	64.1	96.8	92.1
Grants	9.9	8.7	21.8	19.0	37.2	54.5	54.3
Loans	9.6	7.8	20.0	15.5	36.9	51.0	45.0
Amortization	-17.0	-10.6	-24.4	-25.6	-33.1	-39.7	-37.7
Debt relief	3.9	3.3	10.8	10.2	15.7	21.6	21.6
Debt under discussion	2.7	2.4	4.6	4.0	7.4	9.3	8.9
Treasury bills held in WAEMU 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	10.2	8.8	18.6	30.7	8.7	2.2	3.6
Banking sector	11.0	10.6	19.4	34.5	11.8	2.8	6.2
Nonbanking sector	-0.8	-1.8	0.2	-3.8	-0.6	-0.6	-2.6
Financing gap (+)	11.1	3.3	11.1	3.3	44.0	65.3	59.3
Financing assurances	11.1	3.3	11.1	3.3	44.0	65.3	59.3
World Bank	0.0	0.0	0.0	0.0	18.7	18.7	22.9
African Development Bank	3.4	3.3	3.4	3.3	3.4	11.8	10.5
European Union	7.7	0.0	7.7	0.0	17.9	25.8	16.9
Others	0.0	0.0	0.0	0.0	4.0	9.0	9.1
Residual gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Basic budget balance							
Incl. revenue of reciprocal debts settlement	-7.4	-1.7	-15.7	-14.3	-27.2	-34.4	-31.9
Excl. revenue of reciprocal debts settlement	-7.4	-1.7	-15.7	-14.3	-28.2	-37.4	-34.9
Total budgetary aid, including IMF	11.1	3.3	21.2	12.8	58.4	79.7	72.9

Source: Nigerien authorities; and staff estimates and projections.

1/ West African Economic and Monetary Union.

Table 6. Niger: Monetary Survey, 2000-04

	2000	2001	2002		2003					2004
	Dec.	Dec.	Dec.	Dec.	March	Jun.	Sep.	Dec.		Dec.
			Est. EBS/03/39	Act.	Est.	Est.	Proj.	Prog. EBS/03/39	Rev. Prog.	Proj.
					(In billions of CFA francs)					
Net foreign assets	-1.3	33.1	37.6	24.4	17.6	-10.7	-20.8	41.6	26.5	41.5
Central Bank of West African States										
(BCEAO)	2.5	19.7	23.4	10.2	-4.6	-24.4	-31.3	27.4	10.2	20.2
Commercial banks	-3.7	13.4	14.2	14.2	22.2	13.7	10.5	14.2	16.2	21.3
Net domestic assets	104.4	103.9	111.7	112.0	122.1	139.0	150.6	120.7	128.7	133.4
Domestic credit	111.6	114.0	129.0	128.9	137.5	161.8	173.3	137.9	141.2	148.5
Net bank claims on government	43.0	48.0	53.1	53.1	62.2	87.5	95.3	55.9	59.2	59.9
BCEAO 1/	41.8	47.6	54.5	54.5	62.2	86.0	94.0	57.3	55.9	53.6
Of which : statutory advances	25.8	32.2	33.1	33.1	33.1	33.1	33.1	26.4	33.1	25.2
IMF resources	45.8	53.0	66.2	66.2	64.7	73.5	71.9	75.1	74.5	73.7
Commercial banks	-0.3	-1.3	-3.1	-3.1	-1.7	-1.2	-1.2	-3.1	1.3	4.3
Other	1.6	1.6	1.7	1.7	1.7	2.7	2.5	1.7	2.0	2.0
Credit to the economy	68.6	66.0	75.8	75.8	75.3	74.3	78.0	82.0	82.0	88.5
Other items, net	-7.2	-10.1	-17.2	-16.9	-15.4	-22.9	-22.7	-17.2	-12.5	-15.1
Of which : revaluation account	-8.0	0.0	0.0	-8.0	0.0	0.0	0.0	0.0	0.0	0.0
Money and quasi money	103.2	137.0	149.3	136.4	139.65	128.3	129.8	162.3	155.1	174.9
Currency outside banks	32.2	49.8	52.3	39.3	35.54	23.3	24.3	57.8	47.5	56.1
Private deposits with ONPE										
(postal savings institution)	1.6	1.6	1.7	1.7	1.7	2.7	2.7	1.7	1.7	2.0
Deposits with banks	69.5	85.5	95.2	95.4	102.4	102.4	102.8	102.8	105.9	116.8
Private sector	65.1	82.2	92.4	92.6	100.0	99.8	100.0	99.9	103.1	113.5
Public institutions	4.3	3.4	2.8	2.8	2.4	2.6	2.8	2.8	2.8	3.3
Financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
			(Annual change, in percent of beginning-of-period braod money, unless otherwise indicated)							
Net foreign assets	14.4	33.3	3.3	-6.3	-5.0	-25.7	-33.1	2.7	1.5	9.7
BCEAO	21.5	16.7	2.7	-6.9	-10.9	-25.4	-30.4	2.7	0.0	6.4
Commercial banks	-7.2	16.6	0.6	0.6	5.9	-0.3	-2.7	0.0	1.5	3.3
Net domestic assets	-5.5	-0.5	5.7	5.9	7.4	19.8	28.3	6.0	12.2	3.0
Domestic credit	-8.1	2.3	10.9	10.9	6.3	24.2	32.6	6.0	9.0	4.7
Net bank claims on the government	-30.1	4.9	3.8	3.7	6.7	25.3	31.0	1.9	4.5	0.5
BCEAO	-24.9	5.7	5.1	5.0	5.7	23.1	29.0	1.9	1.1	-1.5
Of which : statutory advances	-4.9	6.2	0.7	0.7	0.0	0.0	0.0	-4.5	0.0	-5.1
Commercial banks	-3.8	-0.9	-1.3	-1.3	-1.1	5.3	4.1	0.0	3.2	1.9
Other	-1.4	0.1	0.1	0.1	1.0	1.4	1.4	0.0	0.2	0.0
Credit to the economy	22.1	-2.5	7.1	7.1	0.0	0.7	0.6	4.1	4.5	4.2
Other items, net	2.6	-2.8	-5.2	-4.9	1.1	-4.4	-4.3	0.0	3.2	-1.7
Money and quasi money	8.9	32.8	9.0	-0.4	2.4	-5.9	-4.8	8.7	13.7	12.8
Memorandum items:										
Velocity of circulation of money										
(GDP/broad money)	12.6	10.4	10.1	11.1	11.0	12.1	12.1	9.9	10.2	9.5
Credit to the economy										
(Change from beginning of year, in percent)	43.8	-3.8	14.8	14.8	-0.7	-2.0	2.9	8.1	8.1	8.0

Sources: BCEAO; and staff estimates and projections.

1/ In 2002, bank financing includes the impact of the OPEC Fund financing for the settlement of external payment arrears and delivery of HIPC Initiative assistance.

Table 7. Niger: Tracking Delivery of HIPC Initiative Assistance
(As of August 31, 2003)

	Agreement to Provide HIPC Relief	Agreement to Provide Interim Assistance	Has Begun to Deliver Interim Assistance	Has Begun to Deliver Completion Point Assistance	Amount of Interim Assistance	Modalities/ Comments
Multilateral creditors						
International Monetary Fund (IMF)	yes	yes	yes			Approval by Board on December 13, 2000.
International Development Association (IDA)	yes	yes	yes			Approval by Board on December 20, 2000.
African Development Bank (AfDB)/African Development Fund (AfDF)	yes	yes	yes			Approval by Board in March 2001.
Arab Bank for Economic Development in Africa (BADEA)	yes but limited	yes	yes			Approval by the Board in March 2001.
International Fund for Agricultural Development (IFAD)	yes	yes	no			Approval by Board in April 2001.
European Union (EU)/European Investment Bank (EIB)	yes	yes	yes			
Islamic Development Bank (IsDB)	yes	yes	yes			Approval by the Board on July 22, 2002.
West African Development Bank (BOAD) and West African Economic and Monetary Union (WAEMU)	yes but limited	yes	yes			Agreement signed on October 9, 1999.
Economic Community of West African States (ECOWAS)	no	no	no			Has not responded to authorities request.
OPEC Fund	yes	yes	yes			Agreement of February 26, 2002.
Conseil de l'entente	no	no	no			Has not responded to authorities request.
Paris Club creditors						Paris Club agreement of January 25, 2001.
France	yes	yes	yes			Excludes postal and hospital debts, which were rescheduled under different terms. Agreement signed in April 2003.
Japan	yes	yes	yes			
Spain	yes	yes	yes			
United Kingdom	yes	yes	yes			
United States	yes	yes	yes			
Non-Paris Club bilateral creditors						
Algeria	no	no	no			Agreement finalized; to be approved by Algerian Parliament.
China	yes but limited	yes	yes			Agreement was signed on June 5, 2001 for the partial write-off of debt stock (US$18 million).
Iraq	no	no	no			
Kuwait	yes	yes	yes			Agreement of June 3, 2003.
Libya	no	no	no			Libya has agreed in general to participate in the Initiative.
Saudi Arabia	no	no	no			Agreement on a rescheduling of arrears payments in 1999 that will allow debt relief negotiations to resume.
Taiwan Province of China	no	no	no			
United Arab Emirates	no	no	no			

	Agreement to Provide HIPC Relief	Agreement to Provide Interim Assistance	Has Begun to Deliver Interim Assistance	Participated in IDA Buyback	Original Creditor Holding Claim
Commercial creditors					
One Belgian creditor (represented 0.4% of total debt in NPV terms at the decision point)	no	no	no	1991 (@ 18 cents)	Short-term loan in arrears since 1999. Paid back fully in 2002. No debt relief granted.

Sources: Nigerien authorities; and staff estimates.

Table 8. Niger: Nominal and Net Present Value (NPV) of External Debt
at End-1999 and End-2002 1/

(In millions of U.S. dollars)

	End-1999		End-2002	
	Nominal Debt	NPV of Debt After Traditional Debt Relief 2/	Nominal Debt	NPV of Debt After Traditional Debt Relief 2/
Total debt	1,601.7	972.7	1,771.9	1,176.3
Multilateral	1,068.7	577.7	1,329.5	797.0
African Development Bank (AfDB)	135.7	68.8	157.0	88.4
Arab Bank for Economic Development in Africa (BADEA)	29.5	29.0	31.2	31.3
West African Development Bank (BOAD)	0.0	0.0	4.2	3.3
Economic Community of West African States (ECOWAS)	1.2	1.2	1.5	1.5
European Union (EU)	39.4	27.5	41.1	30.9
Conseil de l'Entente	4.2	4.2	4.4	4.4
IDA	692.5	317.8	872.0	462.5
International Fund for Agricultural Development (IFAD)	32.0	16.7	37.2	21.4
IMF	68.1	51.5	106.4	87.1
Islamic Development Bank (IsDB)	40.6	36.0	43.8	40.1
OPEC Fund	12.8	12.4	17.6	12.9
West African Ecoomic and Monetary Union (UEMOA)	12.5	12.5	13.1	13.1
Bilateral and commercial	533.0	395.0	442.4	379.3
Paris Club	276.7	195.9	211.5	190.4
France	198.5	139.8	145.3	138.6
Japan	28.1	26.1	23.0	19.6
Spain	20.3	11.0	18.3	12.9
United Kingdom	18.2	11.9	13.9	11.9
United States	11.8	7.1	10.9	7.4
Other official bilateral	251.7	194.6	230.9	188.9
Algeria	19.0	15.2	22.9	12.8
China	10.5	7.6	2.7	6.2
Iraq	0.2	0.1	1.9	0.8
Kuwait	70.4	53.7	42.0	55.3
Libya	27.8	18.7	29.3	19.3
Saudi Arabia	41.5	26.1	42.0	27.0
Taiwan Province of China	77.5	69.4	85.0	63.1
United Arab Emirates	4.7	3.9	5.1	4.4
Commercial (Belgium)	4.6	4.5	0	0

Sources: Nigerien authorities; and staff estimates.

1/ Refers to public and publicly guaranteed external debt only.
2/ Assumes a stock-of-debt operation on Naples terms, and at least comparable treatment by non-Paris Club creditors.

Niger: Relations with the Fund
(As of August 31, 2003)

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

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	65.80	100.00
Fund holdings of currency	57.24	86.99
Reserve position in Fund	8.56	13.01

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	9.41	100.0
Holdings	0.26	2.73

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
Enhanced Structural Adjustment Facility (ESAF) Arrangements	85.29	129.61

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Poverty Reduction and Growth Facility (PRGF)	12/22/2000	12/21/2003	59.20	45.68
ESAF	06/12/1996	08/27/1999	57.96	48.30
Stand-By Arrangement	03/04/1994	03/03/1995	18.60	11.11

VI. Projected Obligations to Fund (SDR Million; based on existing use of resources and present holdings of SDRs; and without HIPC Assistance):

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	1.93	9.66	9.66	10.39	10.99
Charges/interest	0.25	0.53	0.48	0.43	0.38
Total	2.18	10.19	10.14	10.82	11.37

Projected Obligations to Fund (SDR Million; and with Board-approved HIPC Assistance)

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	1.93	9.66	9.66	10.39	10.99
Charges/interest	0.25	0.53	0.48	0.43	0.38
Total	2.18	10.19	10.14	10.82	11.37

VII. Implementation of HIPC Initiative:

Commitment of HIPC assistance	Enhanced framework
Decision point date[1]	12/14/00
Assistance committed (NPV terms)[2]	End-1999
Total assistance (US$ million)	521.00
Of which: Fund assistance (US$ million)	27.80
(SDR equivalent in millions)	21.56
Completion point date	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	3.32
Interim assistance	3.32
Completion point	0.00
Amount applied against member's obligations (cumulative)	0.80

VIII. Safeguards Assessments:

The Central Bank of the West African States (BCEAO) is the common central bank of the west African states, which includes Niger. An on-site safeguards assessment of the BCEAO proposed specific remedies to alleviate vulnerabilities that were identified by staff. Although Fund staff and BCEAO authorities disagreed on the initial modalities of the recommendations, the following specific understandings were subsequently reached regarding the key remedies:

- **Financial reporting framework.** The Fund staff recommended that the BCEAO formally adopt International Accounting Standards (IAS) and publish a complete set of financial statements, including detailed explanatory notes. It was agreed between the BCEAO and Fund staff that the **BCEAO will strive to improve its financial and accounting reporting by aligning its practices**

[1] Decision was approved in principle by the Fund.

[2] Net present value (NPV) terms at the decision point under the enhanced framework.

with those recommended by the IAS, as adopted internationally by other central banks.

- **Internal controls system.** The staff noted that the absence of oversight of the bank's governance, financial reporting, and internal control practices by an entity external to the management of the BCEAO represented a significant risk. It was agreed between the BCEAO and Fund staff that, after seeking the opinion of the external auditor (commissaire contrôleur), the BCEAO staff will propose to the BCEAO Board of Directors that it adopt a resolution whereby **the external auditor will be required to apprise the Board of Directors, during its annual review and approval of the financial statements, of the state and quality of internal controls within the bank.**

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

IX. Exchange Arrangements:

Niger is a member of the West African Economic and Monetary Union (WAEMU). The exchange system, common to all members of the WAEMU, is free of restrictions on the making of payments and transfers for current international transactions. The union's common currency, the CFA franc, is pegged to the French franc. On January 12, 1994, the CFA franc was devalued by 50 percent in foreign currency terms, and the exchange rate was adjusted from CFAF 50 = F 1 to CFAF 100 = F 1. Effective December 31, 1998, the parity was switched to the euro at a rate of CFAF 655.96 = EUR 1. On August 31, 2003, the rate of the CFA franc in SDR terms was SDR 1 = CFAF 826.79.

X. Article IV Consultation:

Niger is on the standard 24-month consultation cycle, and the last Article IV consultation discussions were held in Niamey in November 2001. The staff report (IMF Country Report No. 02/35) was discussed by the Executive Board and the consultation concluded on February 8, 2002.

XI. Technical Assistance:

Dept.	Type of Assistance	Time of Delivery	Responsibility
FAD	Staff	June 2000	Fiscal review of data and improvement of budgetary procedure
FAD	Staff	February 2001	Tax and customs administration
FAD	Staff	April 2001	Public accounting, public expenditure process, and budget classification
FAD	Resident expert	April 2001 to date	Budget preparation, public accounting, and automation of budget execution
FAD	Resident expert	June 2001 to date	Assistance for tax and customs administration
FAD	Staff	May 2002	Public accounting and fiscal operations table
FAD	Staff	January 2003	Multisector statistical mission

XII. Resident Representative:

The position is vacant.

Niger: Relations with the World Bank Group

(As of October 10, 2003)

Partnership in Niger's development strategy

1. Niger's poverty reduction strategy paper (PRSP), which was adopted in January 2002, presents a thorough poverty diagnosis and identifies key development challenges. The government reconfirmed the main thrust of the PRSP through a progress report that was validated via a national workshop in July 2003 and will be discussed at the Bank and Fund Boards in late 2003. The PRSP outlines a sound strategy for poverty reduction centered around four strategic pillars: (i) a macroeconomic framework ensuring economic and financial stability while promoting sustained and sustainable economic growth; (ii) the development of productive sectors, especially in rural areas; (iii) the development of basic social services; and (iv) the promotion of good governance and the strengthening of human and institutional capacities. The government has begun using the PRSP to improve coordination of development efforts in the country, including donor-supported activities. To that end, a donors' forum was held in Niamey on June 7-8, 2003. At this forum, donors reaffirmed their endorsement of the PRSP as a strategic anchor for their assistance, and agreed on a progressive shift from project to program financing, and the need for further coordination and harmonization of policies and procedures. In this regard, the signing of a protocol relating to coordination among all donors supporting the education sector is a positive outcome and a great step forward.

2. The IMF is in the lead in helping Niger maintain macroeconomic stability through a three year Poverty Reduction Growth Facility (PRGF) arrangement approved in December 2000. The PRGF arrangement addresses fiscal imbalances and issues relevant to macroeconomic stability and economic growth. The PRGF arrangement's structural conditionality has addressed areas related to budgetary and debt management, petroleum pricing, utilization of Initiative for Heavily Indebted Poor Countries (HIPC Initiative) resources, pension reforms, and transparency in public finances (preparation of budget review laws).

3. The Bank leads the policy dialogue on structural reforms relevant to economic growth and poverty reduction, including privatization and regulatory reforms, education, health and rural development. The Bank and Fund share joint responsibility in supporting financial sector and public expenditure reforms. The Bank and the Fund have also jointly assisted the government in the preparation of the PRSP and the first progress report assessing its implementation. They have also been providing assistance to Niger for reaching the completion point under the enhanced HIPC Initiative.

IMF-World Bank collaboration in specific areas

Common objectives and joint support for Niger's PRSP and HIPC Initiative processes have increased collaboration between Fund and Bank in recent years. The Bank and Fund teams are closely coordinating their policy advice to the authorities and work closely together in the determination of structural conditionality. In general, the Bank leads the policy dialogue on key structural aspects of Niger's reform program while the Fund is in the lead on policy dialogue on macroeconomic, particularly fiscal elements of the reform (see Table 1).

Table 1. Bank-Fund Collaboration on Niger (Ongoing or Planned)

Area	**Specialized Advice from Fund**	**Specialized Advice from Bank**	**Key Instruments/Conditionality**
Economic framework/ management	Fiscal policy, debt management, arrears reduction, monetary policy, economic statistics	Arrears reduction, debt management, study on the sources of growth, PRSP macroeconomic framework	Fund: PRGF performance criteria and benchmarks. Bank: PEAC II support for reforms. Jointly: PRSP progress report, HIPC completion point.
Budgetary and public expenditure reforms	Preparation of budget laws, computerization of budget management, account closure, tax administration, treasury reform	Framework and steps in budget preparation, budget execution in priority sectors, treasury allocation plan, medium-term expenditure framework (MTEF), account closure and auditing, public expenditure reviews (PERs), procurement code	Fund: PRGF benchmarks, technical assistance (TA) on tax and treasury reforms. Bank: PEAC II support for reforms: budget preparation, program budgets and MTEF (general and in education and health sectors), PER/Country Financial Accountability Assessment (CFAA), Country Procurement Assessment Report (CPAR). PHRD Grant support for budgetary reforms.
Civil service reform and privatization	Civil service wage bill, National Retirement Pension Fund	Decentralization, public sector reforms	Fund: Benchmarks on wage bill and Retirement Pension Fund in PRGF. Bank: Stocktaking study on fiscal aspects of decentralization, Community Action Program (CAP).
Social sector reforms/poverty monitoring	Utilization of HIPC resources	Household survey and poverty analysis; reforms in education, health; support for community-driven development (CAP); support to strategy for addressing population growth	Bank: New lending in health and education. PEAC II support for health and education sector reforms. CAP. Analytical and Advisory Activities (AAA) on poverty and social development issues. Jointly: PRSP progress report, HIPC completion point
Privatization and private sector development	Petroleum pricing	Development and implementation of privatization and regulatory reform, financial sector reform	Fund: PRGF performance criteria on petroleum pricing. Bank: PEAC II support for privatization and regulatory reforms. Privatization and regulatory reform project, private irrigation project, and financial sector project.
Rural development		Rural development strategy, agricultural export promotion, irrigation	Bank: Project support (water sector, private irrigation, agricultural export promotion); AAA, support for formulation of rural development strategy; PEAC II support for rural development. Jointly: PRSP progress report.

Areas in which the Bank leads

4. **Privatization and regulatory reform**. Privatization and regulatory reforms in Niger, supported by a Bank credit, have experienced delays in recent months, after having gained important momentum in 2000 and 2001. Currently, the Bank is assisting the authorities in the privatization of SONIDEP (petroleum) and NIGELEC (electricity) and in establishing a Multi-Sector Regulatory Agency (ARM). The Bank's policy dialogue with the government on structural reforms is also being conducted in the context of adjustment operations (Public Expenditure Adjustment Credit I, PEAC I, and the Second Public Expenditure Adjustment Credit, PEAC II, scheduled for Board presentation in late October 2003). The Fund is also a key partner in this policy dialogue and has included elements of the public enterprise reform agenda, such as the continuous implementation of a petroleum pricing system, as structural benchmarks for the PRGF arrangement.

5. **Rural development**. The Bank is providing support for developing and implementing a comprehensive rural development strategy, which aims at mitigating vulnerability and stimulating income generation, especially in rural areas. A draft rural development strategy has been recently completed. Bank assistance in this sector is provided through two ongoing (Private Irrigation and Agro-Pastoral Export Promotion) and one new (Community Action Program) investment projects. Decreasing the dependence of the vast majority of Niger's population on rain-fed subsistence agriculture is a key objective of this strategy. Bank support in this area emphasizes the promotion of small-scale irrigated agriculture, livestock, farm and nonfarm income-generating activities and cereal bank construction. In addition, PEAC II contains a measure (prior action) to ensure allocation of an adequate level of budgetary resources to the rural development sector in Niger's fiscal-year (FY) 04 budget.

6. **Social sector reforms.** Improvement of access for the poor to social services is one of the strategic pillars in the PRSP. The Bank supports this objective through ongoing and new lending operations, which combine project assistance with program support, as well as analytical work, notably on population, gender, and poverty. There has also been close collaboration between the Bank and the government in the design and implementation of reforms in the education and health sectors, such as the introduction of decentralized recruitment of teachers ("volunteer teachers") and health workers on a contractual basis. This contractual recruitment program has helped address issues of human resource shortages and supply-side constraints while keeping payroll costs sustainable. PEAC II supports the continuation of the contractual recruitment program. The Bank has also assisted the government in the preparation of a ten-year development plan in the education sector that is based on the PRSP and includes a medium-term expenditure framework for the basic education sector. It has also provided assistance and played a key role in Niger's eligibility for participation in the Education for All—Fast-Track Initiative. In the health sector, the Bank has worked with the government on the preparation of the Strategic Orientations for Health Sector Development for 2001-11. The PEAC II has a specific measure related to the allocation of adequate budgetary resources to the education and health sectors in Niger's FY 04 budget.

7. **Poverty monitoring.** The Bank worked closely with the government in preparing a poverty profile that served as the basis for the PRSP poverty diagnosis. While this diagnosis has been judged as thorough and comprehensive by the joint staff assessment (JSA), it is based on household survey data from 1993. Updating the existing database is therefore an important concern of the government. A nationwide census has been completed recently, and preparations for a new household survey are under way. The Bank, together with other donors, is also advising the authorities on strengthening institutional arrangements for the monitoring and the evaluation of poverty in the context of the PRSP. In addition, the Bank is preparing a poverty assessment, to be completed in FY 04, as a contribution to the government's efforts to update and strengthen the knowledge base on poverty and social development.

Areas where Bank and Fund share the lead

8. **Poverty reduction strategy**. Together with other external development partners, the Bank and Fund have jointly provided assistance to the government in the preparation of the PRSP. Since its completion, both institutions have jointly advised the authorities on the refinement and implementation of the strategy. The first progress report on the implementation of the PRSP has been prepared with the assistance of the Bank and the Fund.

9. **Debt sustainability**. The Bank and Fund are partners in supporting the government's efforts to reach the HIPC completion point, scheduled for late 2003. The need to build technical and institutional capacity for managing Niger's external debt has been stressed by the Fund and the Bank. Measures to strengthen the external debt unit have figured as a structural benchmark under the PRGF.

10. **Budgetary and public expenditure reforms.** Strengthening public finances is a prerequisite for success of Niger's broader reform agenda. The Bank and Fund share the lead in this area. Both institutions have played key roles in helping the government reduce domestic and external arrears. While the Fund is leading the dialogue on revenue-enhancing measures, the Bank is concentrating its efforts on budgetary reforms, in particular in the area of public expenditure. The Fund is also making key contributions to improving budgetary processes: a number of important measures, such as preparation of budget review laws and computerization of budgetary expenditure, have been included as structural benchmarks in the PRGF arrangement. The Bank has supported budgetary reforms through PEAC I. Consolidation and deepening of these reforms are currently supported by PEAC II. Several measures, such as the issuance of a circular on budget preparation, the establishment of a cash allocation plan, the closing of budgetary accounts, the preparation of bidding documents for the privatization of SONIDEP, and the issuance of circulars on the implementation of the procurement code are up-front actions undertaken by the government in the context of the ongoing PEAC II. In addition, the Bank intends to help strengthen Niger's fiduciary framework through analytical work on public finance issues, in particular a Public Expenditure Management and Country Financial Accountability Assessment (PER/CFAA) and a Country Procurement Assessment Report (CPAR), both to be completed in FY 04.

11. **Financial sector reform**. Key elements of the reform agenda in Niger's financial sector are as follows: (i) restructuring of the banks that remain under government control (the

CDN and the CPCT); (ii) restructuring of the Islamic Trade and Investment Bank (BINCI), (iii) restructuring of the National Postal and Savings Office (ONPE), which involves the reorganization of the postal branch and the creation of a financial services affiliate of the Post Office and a National Savings Fund (CNE); (iv) an actuarial audit of the social security fund (CNSS); (v) reform of the insurance sector; and (vi) promotion and supervision of the microfinance sector and reforming of the social security system. The Bank has been playing a lead role in these reforms through its forthcoming financial sector technical assistance credit. This project, and in particular the studies on CDN and CPCT, have been prepared in close consultation with the Fund.

12. **Civil service reform and decentralization.** The reform and modernization of the civil service is an important element of Niger's PRSP, yet there has been little progress in this area so far. The authorities are currently making an effort to put in place an integrated civil service database. By allowing a more transparent and effective management of the civil service, this database should improve control over the wage bill. Controlling the wage bill is important for maintaining fiscal balance, as recognized by the PRGF arrangement, which has set quantitative benchmarks for the wage bill. Planning for the implementation of the legal framework for political decentralization of 1996 has recently gained momentum, and local elections are scheduled for late 2003. However, important concerns regarding this reform remain, such as the lack of capacity at the local level and the fiscal implications of decentralization. To help the government address some of these concerns, the Community Action Program will help build capacities in rural communities in planning, implementing, and monitoring microdevelopment projects.

Areas in which the Fund leads

13. **Macroeconomic management**. The main objectives of Niger's macroeconomic program, as stated in the PRSP, is to ensure economic and financial stability while promoting sustainable and robust growth. The Fund is supporting this program through its PRGF framework by providing financial and technical assistance, as well as through dialogue on macroeconomic policy reforms. The program has made satisfactory progress since approval of the PRGF arrangement in 2000 by achieving most of its benchmarks and overall positive fiscal performance. In the context of the macroeconomic framework underlying the PRSP, the Bank has provided technical assistance in building capacity in the Ministry of Finance and Economy to monitor economic performance and macroeconomic modeling.

14. **Fiscal policy**. Fiscal consolidation is a key objective of the PRGF and is supported by a number of performance criteria and benchmarks. Increasing budgetary revenue in order to progressively lower the government's reliance on external assistance is particularly important, given Niger's low level of revenues, compared with the region. In terms of expenditures, the Fund is mainly concerned with overall budget envelopes, while the Bank focuses on inter- and intrasectoral allocations, in particular in the key sectors of education, health, and rural development.

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

World Bank Group strategy

16. The Bank's new Country Assistance Strategy (CAS) for the period 2003 to 2005 was approved by the Bank Board in January 2003. Its main objective is to support the implementation and further refinement of the PRSP. The strategic focus of the CAS is based on the four pillars of Niger's poverty reduction strategy. The CAS outlines a lending and nonlending program that, in line with the Bank's comparative advantage, will selectively provide assistance in areas relevant to these PRSP priorities.

17. As of September 30, 2003, the World Bank lending portfolio in Niger consisted of eigth IDA operations, with a total commitment of US$245 million, out of which US$187 million was undisbursed. The CAS includes a base-case IDA lending program of US$238 million for FY 03 to FY 05. The Bank's nonlending program for the CAS period is designed with a view to further assisting Niger in refining its Poverty Reduction Strategy and building capacity for a gradual transition toward programmatic lending.

Table 2. Niger: Status of World Bank Portfolio (all IDA)
(In millions of U.S. dollars, as of September 30, 2003)

Total disbursements (active and closed operations) to date		938.8	
Repayments		76.9	
Operation	**Original Principal**	**Disbursed**	**Closing Date**
Health II	40.00	36.09	Dec 2003
Privatization/Regulatory Reform	18.60	9.22	Dec 2003
Agro-Pastoral Export Promotion	10.35	4.94	Oct 2005
Water Sector	48.00	6.44	Dec 2006
Private Irrigation	38.72	1.96	Dec 2007
Community Action Program	35.00	--	June 2007
Multisectoral STI/HIV/Aids Support	25.00	--	June 2008
Basic Education	30.00	--	Dec 2007
Total	245.67	58.65	

18. The CAS outlines the Bank's Analytical and Advisory Activities (AAA) for the coming years. The AAA program will help the government refine the PRSP by designing policy responses to issues raised in the joint staff assessments of the PRSP and PRSP progress report, such as poverty analysis, gender, population growth, and sources of growth. The AAA program also aims at reinforcing public sector capacity in pursuit of the PRSP's objectives and in preparing Niger for the transition to consolidated programmatic lending. In support of these objectives, sector work on population and rural development is being completed. Others are ongoing, including a Public Expenditure Review/CFAA, a Poverty Analysis (FY 04), and a CPAR (FY 04) or planned, Development Policy Review (FY 05).

19. The Bank is committed to enhancing external partnerships in the framework of the government's current efforts to mobilize and coordinate donor support for PRSP implementation. Besides the strong partnership with the Fund, the Bank is collaborating with a number of donors in different areas, including the European Union, the African

Development Bank (AfDB), the United Nations Development Program (UNDP), and key bilateral donors involved in development issues in Niger.

Prepared by World Bank staff. Questions may be addressed to Ms. Antoinette Sayeh, Country Director for Niger, at 473-4719; or Emmanuel Pinto Moreira, Country Economist for Niger, at 458-1834.

Niger: Tentative Work Program Under the PRGF Arrangement, 2000-04

Action	Date
2000 Article IV consultation and three-year Poverty Reduction and Growth Facility (PRGF) arrangement (2000-03) discussions	July 2000
Continuation of 2000 Article IV consultation discussions and finalization of three-year PRGF arrangement and preliminary Initiative for the Heavily Indebted Poor Countries (HIPC Initiative) decision point document	September 2000
Executive Board consideration of 2000 Article IV consultation report, request for PRGF arrangement, preliminary and final HIPC Initiative decision point documents, and interim poverty reduction strategy paper (PRSP)	November-December 2000
First review mission under the PRGF arrangement	May 2001
Finalization of the first review under the PRGF arrangement	June 2001
Executive Board consideration of first review under the PRGF arrangement	August 2001
Second review mission under the PRGF arrangement, discussion of second year of PRGF arrangement, and 2001 Article IV consultation discussions	November 2001
Executive Board consideration of second review under the PRGF arrangement, second year of PRGF arrangement, full PRSP, joint staff assessment, and Article IV consultation for 2001	February 2002
Staff visit	March 2002
Third review mission under the PRGF arrangement	May 2002
Executive Board consideration of third review under the PRGF arrangement.	August 2002
Fourth review mission under the PRGF arrangement and discussions of third year of PRGF arrangement	November 2002 February 2003
Executive Board consideration of fourth review under the PRGF arrangement and third year of PRGF arrangement	April 2003
Staff visit	May 2003
Fifth review mission under PRGF arrangement and enhanced HIPC Initiative completion point discussions	June-July 2003
Staff visit	November 2003
Executive Board consideration of fifth review under the PRGF arrangement, first progress report on the implementation of the PRSP, JSA, and enhanced HIPC Initiative completion point document	November 2003
Sixth review mission under the PRGF arrangement and 2004 Article IV consultation discussions	March 2004
Executive Board consideration of sixth review under the PRGF arrangement and Article IV consultation for 2004	May 2004

Niger: Core Statistical Indicators
(As of September 15, 2003)

	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	External Debt/ Debt Service
Date of latest Observation	Current	June 2003	June 2003	June 2003	June 2003	Aug. 2003	Aug. 2003	Dec. 2002	Dec. 2002	June 2003	Dec. 2002	Dec. 2002
Date received	Current	Sep. 2003	Sep. 2003	Sep. 2003	Sep. 2003	Sep. 2003	Sep. 2003	June 2003	June 2003	Sep. 2003	June 2003	June 2003
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Variable	Monthly	Annually	Annually	Monthly	Annually	Quarterly
Frequency of reporting	Monthly	Variable	Variable	Variable	Variable	Variable	Monthly	Variable	Variable	Variable	Variable	Variable
Source of update	EIS/FIN 1/	BCEAO 2/	BCEAO2/	BCEAO2/	BCEAO2/	BCEAO2/	Statistics directorate	BCEAO2/	BCEAO2/	Ministry of Finance	Ministry of Finance	Ministry of Finance
Mode of reporting	On-line	e-mail	e-mail	e-mail	e-mail	e-mail	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	3/	3/	3/	3/	3/	3/	3/	3/	3/	3/	3/
Frequency of Publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Monthly	Annually	Annually

1/ EIS = Economic Information System (IMF); FIN = Finance Department (IMF).
2/ BCEAO = Central Bank of West African States.
3/ Preliminary data for staff use only; actual data unrestricted.

(Translated from French)

Niamey, October 21, 2003

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

1. On behalf of the government of Niger, I am pleased to send you the memorandum of economic and financial policies (MEFP) prepared in the context of the fifth review of the government of Niger's three-year program, which is supported by the IMF under the Poverty Reduction and Growth Facility (PRGF). The memorandum describes progress made in the implementation of the 2003 program at end-March 2003, the preliminary results achieved at end-June 2003, and the updated targets for the remainder of this year, as well as the policies to be carried out to achieve these targets.

2. Program implementation at end-March 2003 was satisfactory as a result of the measures introduced in the context of the fourth review of the PRGF arrangement and the government's firm resolve to follow through with the reforms (see my letter of intent of March 28, 2003). All performance criteria and indicative targets were met as of that date. Performance at end-June 2003 remained largely satisfactory, although the indicative targets relating to budgetary revenue and the net bank credit to government could not be met, owing mainly to the impact of the crisis in Côte d'Ivoire and to delays in external assistance disbursements. The revisions of the 2003 program take these external factors into account, while maintaining the main objectives of the initial program. The government of Niger has also continued to comply with the continuous performance criteria of the program since the completion of the fourth review. Finally, as prior actions to the Fund's Executive Board consideration of the fifth review of the program, the government completed the measures related to the three structural benchmarks that had not been previously observed at end-June 2003. These measures concerned the strengthening of the foreign debt unit with the installation of a new debt-management software (completed on September 8, 2003), the submission of a study on the remunerations of the petroleum product sector operators (done on August 15, 2003), and the closing of the 2001 budgetary accounts through the issuance, by the Chamber of Accounts and Budgetary Discipline, of a general declaration of compliance of the 2001 Budget Review Law (Loi de règlement) obtained on August 26, 2003.

3. In view of recent economic and financial developments, the good overall macroeconomic performance of 2002 is expected to continue in 2003. Economic activity has been sustained during the first half of 2003, and a good rainy season through September provides ample justification for maintaining the initial projection of 4 percent for the real growth rate of GDP in 2003. Similarly, inflation, on a 12-month, end-of-period basis, will remain largely below the envisaged 2.2 percent limit, owing to its deceleration from 0.6 percent in December 2002 to -2.4 percent in June 2003. Finally, the external current

account deficit (excluding official transfers) should be limited to 8.8 percent of GDP, as against an initial estimate of 8.5 percent of GDP.

4. The economic and financial program for 2003 has, nevertheless, been revised to take into account a loss of CFAF 9.4 billion, or 0.6 percent of GDP, in budgeted resources, a loss associated with delays in external budgetary assistance disbursements (CFAF 6 billion) and a shortfall in transfers from the West African Economic and Monetary Union (WAEMU), as a consequence of the Côte d'Ivoire crisis (CFAF 3.4 billion). To address this situation, the budgetary program envisions a tightening of the budgetary policy and a continuation of strict spending restraint, while maintaining the impetus for implementation of the poverty reduction strategy. Moreover, the government will have recourse to the regional financial market and issue treasury bills, which will relieve the government's difficult cash position, pending major disbursements of external budgetary assistance in the fourth quarter of 2003. Monetary policy will remain prudent and banking supervision vigilant. Finally, the government intends to accelerate implementation of its structural reform program in 2003, particularly in terms of strengthening the financial system and the privatizing of the Nigerien petroleum product company (SONIDEP).

5. The government is counting on the IMF's continued support to meet its objectives under the program and seeks completion of the fifth review under the PRGF. The government also requests an extension of the current PRGF arrangement from December 21, 2003 to June 30, 2004 to enable Niger to receive the final disbursement envisioned under the PRGF arrangement. To this effect, the government intends to continue pursuing prudent macroeconomic policies in 2004 and has prepared a 2004 Budget Law that aims at consolidating progress in fiscal adjustment and is consistent with the objectives of the Poverty Reduction Strategy. It is understood that the Fund, together with the government of Niger, will conduct the sixth review of the program, to be based on performance under the program at end-December 2003 and completed by May 31, 2004. As in the past, the government consents to the Fund's publication of this letter of intent, the MEFP, the technical memorandum of understanding, and the staff report. The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, and it will take any further measures that may become appropriate for this purpose. Niger will consult with the Fund on the adoption of these measures in advance of revisions to the policies contained in the MEFP and in conformity with the rules of the Fund's policies on such consultation.

Sincerely yours,

/s/

Ali Badjo Gamatié
Minister of Finance and Economy
Niamey, Niger

Attachments: Memorandum of economic and financial policies
Technical memorandum of understanding

(Translated from French)

NIGER

Memorandum of Economic and Financial Policies

October 21, 2003

I. Introduction

1. **The discussions under the fifth review of Niger's economic and financial program took place in Niamey during July 4-18, 2003.** International Monetary Fund (IMF) support for this three-year program under the Poverty Reduction and Growth Facility (PRGF) was approved on December 14, 2000 in an amount equivalent to SDR 59.2 million, of which SDR 45.7 million has been disbursed to date. The program has also taken into account foreign debt-service relief since Niger reached the decision point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative) in December 2000. The resources made available under the HIPC Initiative have been earmarked for implementation of the government's Poverty Reduction Strategy (PRS), which was submitted to the IMF Executive Board in the poverty reduction strategy paper (PRSP) in February 2002.

2. **This memorandum of economic and financial policies (MEFP) was prepared in the context of the fifth review under the PRGF arrangement and completes the MEFP of March 28, 2003. It presents a review of the implementation of Niger's annual program for 2003, which was considered by the IMF Executive Board on April 21, 2003.** The memorandum sets out the satisfactory results obtained in the implementation of the program as at March 31 and June 30, 2003, as well as the revised economic and financial policies and reforms the government will pursue through December 2003. Tables 1 and 2 cover the program performance criteria and indicative targets for 2003.

3. **The memorandum also complements the first progress report on the implementation of the PRS from January 2002 to June 2003,** which was finalized and validated by the government at end-July 2003. The progress report stresses the satisfactory implementation of the four pillars of the PRS: (i) a stable macroeconomic framework; (ii) the development of the productive sectors; (iii) improved access by the poor to quality social services; and (iv) the promotion of good governance, the strengthening of human and institutional capacity, and decentralization. It points out, in particular, the good macroeconomic performance of Niger in 2002; the success in the execution of President Tandja's Special Poverty Reduction Program projects, which are financed by the HIPC Initiative; and the finalization of major sectoral strategies, such as for rural development and health. The report also presents the positive results of the forum organized by the government with Niger's development partners on June 7-8, 2003 to develop a new partnership and ensure a better coordination of aid to Niger. Finally, the report indicates the priority actions

to be undertaken by the government to make up for delays, mainly in the areas of institutional capacity building, analysis of sources of growth, review of government spending, updating of the poverty profile, and finalization of a tracking and evaluation system for the implementation of the PRSP.

II. Implementation of the Program in 2003

A. Economic and Financial Performance at End-March 2003

4. **Following a good overall macroeconomic performance in 2002, thanks in part to favorable weather conditions, a good harvest, and satisfactory macroeconomic management, economic developments in early 2003 continued to be encouraging.** According to a recent survey of the economy, the industrial sector, especially the energy subsector, registered robust activity in the first months of 2003, due to the extension of electricity and water connections to a number of rural localities under the President's Special Poverty Reduction Program. The construction and public works (BTP) sector and overall trade activities were also buoyant. Prudent policies by the Central Bank of West African States (BCEAO), the grain surplus at end-2002, and the government's sale of cereal products at moderate prices in the underproducing zones helped bring down inflation, on a 12-month, end-of-period basis, from 0.6 percent in December 2002 to zero percent in March 2003.

5. **The pace of economic recovery of 2002 has been maintained through 2003, despite some domestic social tensions, several closures of the border with Nigeria, and the political crisis in Côte d'Ivoire**. The impact of this crisis on economic activity in Niger did not, however, produce the significant negative impact that had been anticipated at end-2002. The migratory flows into Niger and the drop in economic activity were both limited and temporary, thanks to the rapid restoration of peace in Côte d'Ivoire, which led to a restoration of economic and business ties in the subregion, and the opening of new supply and export markets for Niger. However, Côte d'Ivoire's delay in making its 2003 contributions to the Commission of the West African Economic and Monetary Union (WAEMU) budget will not allow the commission to effect the full amount of planned transfers to Niger in 2003, namely, CFAF 7.4 billion or the equivalent of 0.5 percent of GDP, under the common external tariff compensation arrangements.

6. **Against this overall positive economic environment in early 2003, the government has continued its satisfactory performance in implementing the PRGF-supported program (Tables 1 and 2)**. All performance criteria and indicative targets at end-March 2003 were met. With regards to public finances, the basic fiscal deficit was brought down to CFAF 1.7 billion, compared with a ceiling of CFAF 7.4 billion in the program. The improvement in the basic budget deficit is the result of strict control on spending (excluding foreign-financed projects), which was kept at CFAF 39.8 billion, compared with the programmed CFAF 44.3 billion. This strict control on spending demonstrates the government's resolve to keep the program on track and to avoid budgetary slippages in a context of delays in the envisaged disbursements of external aid. Bank financing at end-

March 2003 was also kept within the program ceilings, despite a larger reduction in domestic payments arrears.

7. **Budget execution in the first quarter was disrupted by the dispute as to whether the 2003 Budget Law and the amendment by decree of the Organic Law of end-2002 regulating public finances were in conformity with the Constitution.** This amendment of the Organic Law aimed at taking into account the new budget nomenclature and charter of public accounts, while ratifying the merging of the capital budget with the recurrent budget. The fact that no budgetary appropriations could be released during the debate caused the government to resort to the special procedure of payments without prior commitments (called PSOPs) to effect spending. This procedure made the government operate essentially on the basis of cash transactions during the first quarter, thereby generating suspense accounts, that are temporary treasury accounts, which, in turn, required subsequent budgetary regularization.

8. **Although the PSOPs were the only practical solution to keep the government running until a decision was handed down by the Constitutional Court, the government was aware that such payments did not fulfill its objectives of fiscal transparency and orthodox management of public finances.** Following the Constitutional Court's decisions, the government had the National Assembly adopt the Organic Law on Public Finance on April 1, 2003 before appropriations were made under the 2003 Budget Law. It also restored normal budget execution procedures and properly posted the PSOPs that were effected in early 2003.

9. **During the first quarter of 2003, broad money rose by 2.4 percent, with an increase in net domestic assets of 7.4 percent and a drop in the net foreign assets of the banking system of 5.0 percent as a percent of beginning-of-period broad money**. The increase in domestic credit reflects essentially the evolution of the net government position within the banking system. Net credit to the government increased to CFAF 9.1 billion under the program ceiling, following the drawing of deposits set up at the BCEAO and the repurchase of CFAF 1.5 billion of government securities from a bank in Burkina Faso. The net foreign assets of the central bank fell by almost CFAF 14.8 billion, or about 10.9 percent of beginning-of-period broad money, while the net external position of the commercial banks rose by CFAF 8 billion as a result of the receipt of funds on behalf of foreign economic operators recently established in Niger. The decline in the foreign assets of the central bank was mainly due to the negative net external financing of the budget during the first half of the year and payments for imports at the request of commercial banks.

B. Economic and Financial Performance at End-June 2003

10. **Economic activity was sustained during the first half of the year, and inflation, on a 12-month, end-of-period basis, fell further to -2.4 percent at end-June 2003.** The good economic performance was realized against a backdrop of continuing sociopolitical tensions. The government continued the dialogue with social partners and partially reduced the social tensions by clearing one month of salary arrears to civil servants in May 2003.The

budgetary constraint was further tightened by the delay in external aid disbursements. Nevertheless, the government reimbursed CFAF 8.5 million in external payments arrears to the European Investment Bank in June 2003, with the payment of the penalties and late interest settled at end-July 2003. The government has undertaken to honor all of its external financial commitments in an effort to ensure achievement of all the objectives of the program.

11. **Based on preliminary information, six of the eight quantitative indicative targets for end-June 2003 were met.** Only the indicative targets on budgetary revenue and the net government position within the banking system were not met. Also three structural benchmarks were not observed at end-June 2003; the measures related to these benchmarks were, however, completed by September 8, 2003, as the prior actions for the consideration of the fifth review under the arrangement by the IMF Executive Board.

- **Strengthening the debt directorate by installing a new external debt-management software.** A technical assistance mission from Pôle-Dette and the Bank of Central African States (BEAC) visited Niamey from August 25 to September 8, 2003 to install the new debt-management and recording software from the Commonwealth Secretariat, supplied by the Agence Intergouvernementale de la Francophonie. The government also envisages the reinforcement of debt services and the transfer of the management of the debt to the national treasury.

- **Transmission of the treasury's operating accounts for 2001 to the Chamber of Accounts and Budgetary Discipline and preparation of a draft 2001 Budget Review Law (Loi de règlement), together with its certificate of conformity.** A draft Budget Review Law was approved by the Council of Ministers on June 18, 2003 and transmitted on July 10, 2003 to the Audit Office, which drew up the certificate of conformity on August 26, 2003.

- **Transmission to the government of a study undertaken by an independent consultancy firm on the remunerations of operators in the petroleum product sector, which are factored into the formula for determining petroleum product prices.** The consultancy firm Sidibé and Associates was selected to undertake the study and it submitted on August 15, 2003 its report to the government for comments, after having discussed the document with concerned stakeholders.

12. **Provisional budget execution figures at June 30, 2003 indicate that the government managed to limit the basic budget deficit to CFAF 14.3 billion, compared with a projected target of CFAF 15.7 billion.** This result reflects the strict control and compression of expenditure to offset lower-than-expected revenue and delays in foreign aid disbursements. A CFAF 4.3 billion shortfall in fiscal revenue resulted from a shortfall in projected transfers from WAEMU, several strikes by tax administration staff, and lags in enacting certain tax measures, such as the fee charged for tobacco reexport licenses. These losses were more than offset by restrictions on expenditure, which held basic expenditure to CFAF 90.1 billion, compared with planned outlays of CFAF 95.9 billion. Execution of the

foreign-financed investment program was also weaker than expected, resulting in an overall (payment-order basis) deficit of CFAF 50.1 billion, compared with a CFAF 59.5 billion program ceiling.

13. **Despite the improvement in the basic deficit and additional savings resulting from the deferment of expenditure associated with the reform of public enterprises (CFAF 1 billion), the nonadjusted indicative ceiling on the government's net position vis-à-vis the banking sector was exceeded by CFAF 15.1 billion.** This was the result of a CFAF 9.6 billion shortfall in (nonproject) net foreign financing, the CFAF 3.9 billion overshooting of the target for reducing domestic payment arrears; and an unscheduled reduction in nonbank domestic debt of CFAF 3 billion, principally due to movements on correspondent bank and third-party accounts. Even after taking into account the projected adjustment factor for shortfalls in net foreign financing (capped at CFAF 7.5 billion at end-June 2003), the indicative target for net bank credit to the government was still exceeded by CFAF 7.6 billion. This overshooting of the bank financing target adjusted for the shortfall in foreign assistance is not the result of any slippage in fiscal operations in relation to revenue and expenditure, but rather the product of a reduction in government debt to the nonbank sector. Nevertheless, the government remains wary of the increase in its overall indebtedness to banks. It has embarked on a study of nonbank domestic borrowing trends, with a view to exercising greater control over them, and it has decided to keep closer tabs on changes in domestic payments arrears, while maintaining tight control over expenditure in order to prevent possible fiscal slippages in the period ahead.

14. **Provisional monetary figures at June 30, 2003 show a decline of approximately 5.9 percent in broad money since the beginning of the year.** There was a drop in net foreign assets of the banking system, equivalent to 26 percent of end-2002 broad money, and a 20 percent increase in net domestic assets associated with the increase in the government's net position. The shortfall in net foreign financing of the budget and a high level of commercial transactions with the rest of the world explain the decline in net foreign assets. With respect to monetary policy, on July 7, 2003, the BCEAO revised its discount and repurchase rates downward, from 6.5 percent to 5.5 percent and from 6 percent to 5 percent, respectively. The reasons for this decision were the following: (i) the downward trend in central bank lead rates internationally; (ii) the economic situation within the WAEMU, whose economic growth rate in 2003 was reduced to 1.9 percent from an initial projection of 3 percent; and (iii) a low inflation rate.

C. Structural Reform in the First Half of 2003

15. **Largely as a result of limited institutional capacity, there was no significant progress in the area of structural reforms during the first half of 2003.** With respect to budgetary reform, efforts were focused on the effective application of the new budget nomenclature and the government charter of accounts. The ownership of these tools will be consolidated by continued training and by making the information technology available to the units concerned. However, the implementation of the new government procurement code through the preparation and adoption of the necessary regulations was delayed, mainly as a

result of limited institutional capacity and difficulties in obtaining technical assistance in that area. At the same time, some progress was made in establishing the Multisectoral Regulatory Agency (ARM), with the initiation of the recruitment of the sectoral managers on July 14, 2003.

16. **The privatization of the state-owned power company, NIGELEC, was hindered by an unfavorable international environment and the questioning of the adopted strategy by the two potential investors**, who indicated, in particular, that they did not wish to fully finance the investment program associated with the privatization (US$100 million for restoring and expanding the network). The second launching of prequalification announcements in November 2002 permitted the two operators to register their demands, previously expressed in April 2002. The interministerial committee responsible for monitoring the privatization has begun talks with the World Bank on a new privatization scheme involving the two candidates. The draft decree on implementation of the electricity code was finalized by the Ministry of Mining and Energy.

17. **Regarding SONIDEP, the government monopoly for petroleum product imports and distribution,** the proposed privatization strategy transfers 51 percent of the capital, in batches, to the highest bidder in a field of professional, national, and international candidates. An advertisement for expressions of interest was published on July 21, 2003. The bidding package has been finalized and made available to interested operators on October 20, 2003.

18. The following achievements were registered in the **financial sector reform**:

- With respect to the privatization of Crédit du Niger (CDN), the government has initiated talks with potential private shareholders, and a proposal regarding this transaction will be prepared and submitted for the Banking Commission's approval.

- A memorandum of understanding on the financial restructuring of the Banque Internationale du Niger pour le Commerce et l'Industrie (BINCI) was signed in April 2003 by the shareholders and has entered the first phase of implementation. The Dar Al Maal Al Islami (DMI) has already paid US$2.5 million into the BINCI account and used its claims in its partner current account with BINCI to offset previous losses, estimated at CFAF 998 million. The Islamic Development Bank (IsDB), for its part, opened a line of credit of US$5 million to be used for oil imports and envisaged a second line of credit intended for imports of essential goods. Finally, regarding the government's contribution, the frozen deposits of public agencies and companies (*offices et sociétés d'économie mixte*) were earmarked for offsetting prior losses, and a contribution of CFAF 300 million will be made in the form of an allocation of a plot of land to the BINCI. In addition to the second line of credit, the IsDB envisages financing the computerization of the BINCI.

- The restructuring of the National Postal and Savings Office (ONPE), including the establishment of subsidiaries of its postal and financial services, is continuing. The study on restructuring the postal sector conducted by SOFREPOST started on

February 10, 2003 and will last 12 months. By June 17, 2003, 8 of the 12 progress reports included in the study had been prepared. The preparation of the report on the creation of the financial services subsidiary spearheaded by TECSULT started on March 10, 2003, and will last nine months. Of the eight progress reports prepared, two provisional reports were submitted by June 17, 2003.

- The audits of microfinance institutions began on April 15, 2003, and the firms in charge of auditing the eight autonomous funds and the 43 funds in the Micro Business Project Network, supervised by the German Technical Cooperation (GTZ), submitted their progress reports on June 10, 2003.

- The terms of reference of the actuarial study on the National Social Security Fund (CNSS) were prepared, but the signing of the contract with the International Labor Organization (ILO), which will be in charge of the study, is pending.

III. REVISED PROGRAM FOR 2003

A. Macroeconomic Framework

19. **In view of the economic trends and good rainfall recorded to date, the 4 percent economic growth targeted for 2003 in the initial program has been retained and may even be exceeded.** The 2003 rainy season started off very well, with early and sustained rainfall above the normal level since June. The rainfall index is moving from normal to above normal in most of the agricultural areas. At end-June 2003, 48 percent of the regions had already sown their crops, which usually occurs around end-July, and no pest outbreak was reported. The recovery of the rural sector will also benefit from a greater resort to irrigated crops, as envisaged in the PRS. This will permit, along with developments in the construction and public works sector, sustained growth in the rest of the economy, such as in commerce and transport. Inflation should remain well below the 2.2 percent ceiling of the initial program and be kept at 0.4 percent on a year-on-year basis. The GDP deflator has also been revised downward, limiting the growth in nominal GDP to 4.9 percent, compared with the 6.6 percent level envisaged in the initial program. Finally, the current account deficit of the balance of payments (excluding grants) has been revised slightly upwards to 8.8 percent of the revised GDP in 2003.

B. Fiscal Policy

20. **The budget program has had to be revised to take into account the following factors: (i) a CFAF 6.0 billion shortfall, equivalent to 0.4 percent of GDP in projected budget support disbursements in 2003; (ii) significant delays in the disbursement of part of this external assistance, which will not materialize until the fourth quarter; and (iii) a likely shortfall of CFAF 3.4 billion in WAEMU compensatory transfers (*reversements compensatoires*).** The external assistance shortfall partly reflects appreciation of the CFA franc vis-à-vis the SDR and the U.S. dollar, but it is mainly the result of the deferment of CFAF 8.9 billion in European Union (EU) assistance. Only the fixed tranche

corresponding to the first year of the EU's new three-year assistance program for Niger will actually be disbursed in 2003. The variable portion is due to be disbursed in 2004.

21. **The government of Niger has decided to address these shortfalls by tightening fiscal policy.** They will keep the basic deficit down to CFAF 31.9 billion, or 2.0 percent of GDP, compared with CFAF 34.4 billion in the initial program. This outcome will be accomplished by freezing nonpriority expenditure (except for externally financed projects) in the amount of CFAF 4.8 billion and by saving approximately CFAF 1.1 billion in interest on the foreign debt on account of appreciation of the CFA franc. On the revenue side, the target has been lowered to CFAF 167.8 billion, reflecting the loss of WAEMU revenue. This new revenue target remains somewhat ambitious, given the lags that have already occurred and the delays in budget execution. Nevertheless, tax administration has been strengthened, and the government will ensure that all the tax measures contained in the 2003 Budget Law are implemented. In view of the outcome of the first half of 2003, the execution of the externally financed investment program was revised downward; nonetheless, an 11 percent increase in investment spending is expected for the year.

22. **While a tighter fiscal stance will limit the domestic financing requirement, it will have to be complemented by financial operations to ensure that the state budget is financed in the period prior to the actual disbursement of external assistance in the last quarter of 2003.** Taking into account the CFAF 2.5 billion improvement in the fiscal basic balance, and additional savings from debt-servicing operations of approximately CFAF 2.1 billion, the additional domestic financing needed to offset the external assistance shortfall has been limited to CFAF 1.4 billion, resulting in a total amount of domestic financing of CFAF 3.6 billion for 2003, compared with the CFAF 2.2 billion envisaged in the initial program. However, because of the late disbursement of external assistance in the last quarter of 2003, budget execution will require substantial domestic financing in the interim. Given that the government's deposits in the banking system are insufficient to cover this bridge financing requirement, and that the government does not intend to finance its program by accumulating domestic arrears, it has negotiated a postponement to January 2004 of the implementation of the agreement to refund part of the statutory advances due to the BCEAO (a reduction of CFAF 5.9 billion in the financing requirement). Furthermore, the government intends to tap the regional financial market and issue treasury bills, initially for CFAF 5 billion.

C. Monetary and Financial Sector Issues

23. **Assuming that Niger's commercial banks underwrite all the treasury bills issued and that disbursements of external assistance replenish government deposits (thereby restoring their end-2002 level), the government's net position in the banking system would amount to CFAF 59.2 billion, compared with an initial projection of CFAF 55.9 billion.** As a percentage of broad money at the beginning of the year, net domestic assets of the banking system would increase by 12.2 percent in 2003. Factoring in a buildup of net foreign assets at the end of the year as a result of external assistance disbursements, the money supply would increase by 13.7 percent in the year. While this growth of broad money

is higher than the 8.7 percent initially anticipated, the actual level of broad money at end-2003 will be lower than that initially targeted because of revised end-2002 monetary data, which show a 0.4 percent fall in broad money in 2002, whereas the initial program is based on an increase in broad money of 9 percent in 2002. Thus, the projected expansion of broad money in 2003 is still compatible with the monetary policy targets of the BCEAO which are geared to consolidating the WAEMU's external reserves and keeping inflation at a level compatible with that of the anchor currency.

D. External Debt and the HIPC Initiative

24. **The government will continue its prudent foreign borrowing policy.** To that end, it has filed a request for an African Solidarity Fund subsidy (*requête de bonification*) to increase to 50 percent the grant element of the (not yet disbursed) US$10 million OPEC Fund loan for the reform of higher education.

25. **Debt-service management will be further bolstered, between now and end-2003,** by the introduction of new administrative arrangements in the treasury and supplementary training in the use of new software. The effectiveness of this tool will be enhanced by its integration into the public expenditure and accounting system.

26. **With a view to reaching the completion point under the HIPC Initiative as soon as possible, the government has completed its work, with IMF and World Bank staff, on reconciliation of the foreign debt at end-1999 and end-2002.** This work did not result in any change in the estimate of the total stock of external debt outstanding at end-1999. For end-2002, the stock of external debt is estimated at US$1.8 billion in nominal terms, equivalent to 76 percent of GDP. The net present value of this debt is US$1.2 billion, which, with relief under the HIPC Initiative, can be lowered to US$595 million, equal to 206 percent of exports, a level slightly higher than the decision point estimates. Work on the debt sustainability analysis is being completed.

27. **In addition, nine of the thirteen conditions needed to reach the completion point were met, and progress is being made on the remaining four conditions**: the carrying out of a study on the impact of health spending on the poor; the completion of a plan for supplying local health centers with medicines; an analysis of the barriers to school enrollment; and the lowering of the repetition rates in the second grade from 37 percent in 1999/2000 to 15 percent. The government has taken measures aimed at accelerating the observance of the remaining four conditions and justifying its request for waivers to reach the completion point. In particular, the terms of reference of a beneficiary incidence study of health spending have been finalized; the consolidation of recent studies on barriers to education is being undertaken; a review of the policy on medicine distribution has been initiated; and the repetition rate at the end of primary schooling will be progressively lowered, thanks to a better management of the education system and school enrollment before the last year of the primary school cycle.

28. **Within the HIPC Initiative, the amount of debt relief already obtained from creditors was approximately 80 percent of the total debt relief, in net present value terms, at end-December 2002**. During the first half of 2003, no new debt relief agreements were signed. The government continues to approach the Economic Community of West African States (ECOWAS) Fund and the Conseil de l'Entente to secure their participation and contribution to the HIPC Initiative. Also, it continues to pursue contacts with the bilateral creditors who are not members of the Paris Club, in some cases to finalize the HIPC Initiative agreements (Algeria and China) and in other cases to obtain their effective participation (Saudi Arabia, United Arab Emirates, Iraq, Libya, and Taiwan Province of China). Three Paris Club creditors (France, the United Kingdom, and the United States) have decided to grant debt relief beyond their required contribution under the HIPC Initiative, canceling the remaining debt service due after the application of the flow under Cologne terms.

E. Structural Reforms

29. **The government will adopt the measures needed to attain the objectives of the structural reforms program for 2003, with the exception of privatization of the state-owned power company, NIGELEC, for which a new strategy is required.** Thus, for the remainder of 2003, the program will focus on (i) continuation of budget-related administrative reforms; (ii) privatization of SONIDEP; and (iii) strengthening of the financial system, especially by privatizing CDN and restructuring the ONPE. Furthermore, the ARM should become operational by end-2003, with technical support from SNC Lavalin Consultants.

IV. Program Monitoring

30. Program implementation for 2003 will continue to be monitored using the quantitative performance criteria, quantitative indicative targets, and structural performance criteria and benchmarks specified in Tables 1 and 2 and defined in the attached technical memorandum of understanding (TMU). Given the expected recourse to the regional financial market, the performance criteria on the net bank credit to government have been replaced by a performance criterion on net domestic financing. The government of Niger will continue to comply with the statistical reporting requirements set out in the TMU.

Table 1. Niger: Quantitative Performance Criteria and Indicative Targets for the Period December 31, 2002-December 31, 2003
(In billions of CFA francs)

	Stock at End Dec. 2002	End-March 2003 Performance criteria 1/				End-June 2003 Indicative targets				End-Sep. 2003 Indicative targets	End-Dec. 2003 Performance criteria 1/	
		Program EBS/03/39	Adjusted	Est.	Status 2/	Program EBS/03/39	Adjusted	Est.	Status 2/	Program EBS/03/39	Program EBS/03/39	Revised Prog.
A. Quantitative performance criteria and indicative targets (cumulative from December 31, 2002)												
Variation of net bank credit to the government 1/ 3/	53.1	11.0	12.6	10.6	√	19.4	26.9	34.5	X	11.8	2.8	N/A
Domestic financing of the budget 1/ 3/		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3.6
Basic budget deficit (commitment basis, excl.grants) 4/ 5/		7.4	7.4	1.7	√	15.7	15.7	14.3	√	28.2	37.4	34.9
Reduction in government domestic payments arrears 6/		3.0	3.0	3.9	√	3.0	3.0	6.9	√	12.0	18.0	18.0
Memorandum item:												
Exceptional external budgetary assistance 7/		-4.3		-5.9		-8.7		-18.0		18.1	34.8	31.7
B. Continuous quantitative performance criteria												
Accumulation of external payments arrears		0.0	0.0	0.0	√	0.0		0.0	√	0.0	0.0	0.0
External debt contracted or guaranteed by the government with maturities of 0-1 year 8/		0.0	0.0	0.0	√	0.0		0.0	√	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government with maturities over 1 year 9/		0.0	0.0	0.0	√	0.0		0.0	√	0.0	0.0	0.0
C. Inidicative targets (cumulative from December 31, 2002)												
Total revenue 6/ 10/		36.9	36.9	38.1	√	80.1		75.8	X	123.6	168.1	164.7
Wage bill 4/ 11/		14.1	14.1	14.0	√	28.4		28.4	√	42.8	57.3	57.3

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

1/ Performance criteria for program indicators under A and B; indicative targets otherwise. The performance criterion on net bank credit to government is replaced by a performance criterion on domestic financing for December 2003 (N/A = not applicable).

2/ √ and X reflect the observance or the nonobservance, respectively, of a performance criterion or indicative target.

3/ The ceiling on net bank credit to government or domestic financing of the budget will be adjusted if the amount of disbursements of external budgetary assistance, as defined in footnote 6, exceeds or falls short of program forecasts. If disbursements are less than the programmed amounts, the ceiling will be raised pro tanto in line with the observed shortfalls up to a maximum of CFAF 7.5 billion at end-March 2003, CFAF 7.5 billion at end-June 2003, CFAF 15.0 billion at end-September 2003, and CFAF 7.0 billion at end-December 2003. If disbursements of assistance exceed programmed amounts by more than CFAF 3.0 billion, the ceilings will be lowered pro tanto by any additional amount beyond this CFAF 3.0 billion unless the excess assistance is used for a reduction of domestic payments arrears in excess of the programmed reduction.

4/ Maximum. If external budgetary assistance defined in footnote 6 exceeds the amounts programmed by up to CFAF 3.0 billion , the basic budget balance will be decreased pro tanto by that amount.

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

6/ Minimum.

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

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

9/ Excluding debt relief obtained in the form of rescheduling or refinancing.

10/ Excluding (i) revenue from the settlement of reciprocal debts between the government and Nigerien enterprises; and (ii) revenue from the privatization of public enterprises that is included in financing.

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

Table 2. Niger: Structural Performance Criterion and Structural Benchmarks Under the Poverty Reduction and Growth Facility-Supported Program for the Period January 1, 2003–December 31, 2003

	Date	Status on September 15, 2003
Structural performance criterion		
Continuous implementation of the pricing system for petroleum products adopted on August 1, 2001	2003	Observed.
Structural benchmarks		
Transmittal to the IMF staff of a draft final budget law for 2001, together with the declaration of conformity established by the Audit Court, and transmittal of the fiscal-year 2001 accounts to the audit court	December 2002	Completed as prior action on August 26, 2003. Transmittal of draft final budget law and budgetary accounts for 2001 done on January 29, 2003; declaration of conformity established by the Audit Court on August 26, 2003.
Strengthening of the external debt service unit through the introduction of a new debt-management and recording software and training of staff	End-June 2003	Completed as prior action on September 8, 2003.
Transmittal to the government of a study prepared by an independent consulting firm on the remuneration of the petroleum sector operators	End-June 2003	Completed as prior action on August 15, 2003.
Completion of an actuarial audit of the National Retirement Pension Fund	End-September 2003	
Completion of a financial audit of the wage bill	End-September 2003	
Preparation of a medium-term expenditure framework for two key social sectors	End-December 2003	
Computerization of two regional treasury offices for the implementation of the government's new charter of public accounts	End-December 2003	

(Translated from French)

INTERNATIONAL MONETARY FUND

NIGER

Technical Memorandum of Understanding

Niamey, October 21, 2003

1. This technical memorandum of understanding provides the definitions of the quantitative performance criteria and indicative targets for the third year of Niger's program under the Poverty Reduction and Growth Facility (PRGF) arrangement. The quantitative performance criteria and indicative targets for March, June, September, and December 2003 are set out in Table 1 attached to the government's memorandum of economic and financial policies (MEFP) dated October 21, 2003. This technical memorandum also sets out the data-reporting requirements for monitoring the program.

I. Definition of Terms

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

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

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

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

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

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

II. Quantitative Performance Criteria

A. Net Domestic Financing of the Government

Definition of the performance criterion

3. For December 2003, the quantitative performance criterion on net bank credit to the government will be replaced by a performance criterion on net domestic financing of the government, defined as the sum of (i) **net bank credit to the government**, as defined below; (ii) **net nonbank domestic financing of the government,** including the proceeds from the sale of government assets net of the cost of structural reforms to which these proceeds are earmarked, and (iii) for the purpose of the performance criterion, government treasury bills and bonds issued in CFA francs on the regional financial market of the WAEMU.

4. **Net bank credit to the government** is defined as the balance of the government's claims and debts vis-à-vis national banking institutions. Government claims include the cash holdings of the Nigerien Treasury, deposits with the central bank, deposits with commercial banks, and secured obligations. Government debt to the banking system includes funding from the central bank (essentially IMF assistance and refinancing of secured obligations), government securities held by the central bank, funding from commercial banks (including government securities held by commercial banks), and deposits with the postal checking system. Government securities held outside the Nigerien banking system are not included in the net bank credit to the government.

5. The scope of the net bank credit to the government as defined by the BCEAO includes all central government administrations. The targets are based on the variation of stock in net bank credit to the government from December 31, 2002 to the date considered for the performance criterion or indicative target.

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

Adjustment

7. The **ceiling on net domestic financing of the government** will be subject to adjustment if disbursements of external budgetary assistance (excluding IMF financing and the assistance to be provided under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative), but including traditional debt relief), net of debt-service obligations (excluding IMF repayment obligations) and payments of external arrears, exceed or fall short of program forecasts. In the event of disbursements in excess of more than CFAF 3.0 billion, the ceiling will be adjusted downward pro tanto by the amount of the excess disbursements beyond the CFAF 3.0 billion, unless they are used to absorb domestic payments arrears. In contrast, if at the end of each quarter disbursements are less than the programmed amounts, the ceiling will be raised pro tanto by the amount of the shortfalls up to the limit (on a noncumulative basis) of CFAF 7.5 billion at end-March and end-June 2003, CFAF 15.0 billion at end-September 2003, and CFAF 7.0 billion at end-December 2003. The amount of external assistance provided is calculated from end-December 2002 onward.

8. If HIPC Initiative assistance is granted to Niger, the debt-service savings will be transferred to a central bank account and used to finance new poverty reduction programs that have been approved in the budget law and are in line with the poverty reduction strategy paper (PRSP).

Reporting requirement

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

B. Basic Budget Balance

10. The basic budget balance is defined as the difference between total revenue, excluding grants and revenue from the settlement of reciprocal debts between the government and enterprises, and total expenditure, excluding externally financed capital expenditures (including investment expenditures financed by resources freed up as a result of the HIPC Initiative assistance). The performance criterion and indicative targets are based on the cumulative basic budget balance since end-December 2002.

Reporting requirement

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

Adjustment

12. If the amount of external assistance is larger than scheduled in the revised program, the performance criterion and indicative targets will be adjusted pro tanto up to CFAF 3.0 billion.

C. Reduction of Domestic Payments Arrears on Government Obligations

Definition of the performance criterion

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

Reporting requirement

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

D. Nonaccumulation of External Payments Arrears

Definition of the performance criterion

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

16. In addition, the government undertakes to attempt in good faith and without delay to sign agreements that would confirm the preliminary understandings reached on the settlement of its external payments arrears before the consideration by the Executive Board of the IMF, on December 14, 2000, of the government's request for a new three-year arrangement under the PRGF.

Reporting requirement

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

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

Definition of the performance criterion

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

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

Reporting requirement

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

F. Short-Term External Debt of the Central Government

Definition of the performance criterion

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

Reporting requirement

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

III. Indicative Targets

A. Definitions

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

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

B. Reporting Requirement

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

IV. Additional Information for Program-Monitoring Purposes

A. Public Finances

26. The government will report to IMF staff the following:

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

B. Monetary Sector

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

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

C. Balance of Payments

28. The government will provide the following information:

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

D. Real Sector

29. The government will provide the following information:

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

E. Structural Reforms and Other Data

30. The government will provide the following information:

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

F. Summary of Main Data Requirements

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

Statement by the IMF Staff Representative
November 24, 2003

1. This statement provides additional information that has become available since the issuance of the report on the fifth review under Niger's three-year arrangement under the Poverty Reduction and Growth Facility on October 22, 2003. This information does not alter the thrust of the staff appraisal.

2. A mission visited Niamey during the period November 10–17 to review recent economic and financial developments and discuss the 2004 budget law. The staff confirmed the preliminary indications on the performance under the program at end-June 2003, as presented in the staff report for the fifth review under the Poverty Reduction and Growth Facility (PRGF) arrangement. Macroeconomic performance continues to be satisfactory, buttressed by good climatic conditions and the implementation of prudent macroeconomic policies. Inflation (annual average) is now expected to decline sharply from 2.7 percent in 2002 to -1.7 percent in 2003.

3. Based on provisional data on the end-September 2003 outcome, budgetary performance has continued to be negatively affected by large shortfalls in foreign assistance disbursements and revenue transfers from the West African Economic and Monetary Union (WAEMU), as well as a weaker collection of value-added tax (VAT) revenue. Net bank credit to the government continued to rise and the originally programmed reduction of domestic payments arrears was not achieved. Faced with these developments, the authorities have continued to implement their policy of expenditure regulation and fiscal stance tightening, including the effective freezing of CFAF 4.9 billion in non essential spending. The authorities are also redoubling their efforts to collect tax revenues, in particular the VAT, to ensure achievement of the program's revenue target (10.6 percent of GDP) for 2003. The recourse to the regional financial market has, however, been postponed pending settlement of past domestic payments arrears with the Nigerien banking sector. Regarding the structural benchmarks at end-September 2003, the financial audit of the wage bill was completed on time and a preliminary report of its findings was made available to the staff; the actuarial audit of the National Retirement Pension Fund has also been carried out, albeit with some delay.

4. The revised program for 2003 is expected to be fully financed, following the expected disbursements of envisaged World Bank and African Development Bank budgetary assistance in November 2003, and the recent conclusions of discussions with the European Union on the latter's budgetary grant, which is to be disbursed in the last quarter of 2003. Consistent with the revised program, the basic budget deficit (excluding grants) would be limited to 2.0 percent of GDP, while the overall budget deficit (on a commitment basis, excluding grants) is projected at 8.3 percent of GDP, below the revised target of 8.6 percent of GDP.

5. Agreement was reached on a 2004 draft budget law that is fully in line with the projections presented in the staff report. Discussions focused mainly on measures to achieve the revenue target of 11.1 percent of GDP. To that end, the staff team recommended extending the VAT to a number of commodities including cooking oil, milk, sugar, and flour; eliminating VAT exemptions on water and electricity; and levying an excise tax on soft drinks and tea. The authorities indicated that, in view of the upcoming local and presidential elections in March and November 2004, respectively, it would be extremely difficult to implement at once all these revenue-enhancing measures.

6. While stressing their willingness to undertake a gradual implementation of the measures suggested by the staff beyond 2004, they noted that they would only introduce an amended subset of these measures in 2004, in particular, the imposition of the VAT on cooking oil, above and beyond the existing excise tax, and the imposition of an excise tax on tea. In addition, the authorities also decided to suspend the special customs regime allowing tax-free imports of rice for reexport, as the regime had mainly resulted in important customs tax fraud through the effective sale of the commodity on the local market. Furthermore, the following administrative measures were identified to ensure attainment of the 2004 revenue target: (i) the recovery of existing tax arrears (estimated at CFAF 10.5 billion at end-July 2003); (ii) the effective collection of reexport duties on tobacco and cigarettes; and (iii) a greater involvement of the pre-shipment inspection company, COTECNA, in the valuation of imported goods for customs valuation purposes. An evaluation of these measures will be undertaken at the time of the sixth and final review of the program in March 2004.

7. The presentation to the Executive Board of Niger's completion point under the enhanced HIPC Initiative has been delayed because of the need to resolve the issue of topping-up of HIPC Initiative assistance. A resolution of this issue is currently being sought and the completion point document is expected to be ready shortly for Board consideration, provided that Directors are prepared to consider the completion point for Niger soon after the completion of the current review. In this context, Niger's record of policy implementation gives confidence that the program will remain on track.

Press Release No. 03/204
FOR IMMEDIATE RELEASE
November 26, 2003

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Fifth Review Under Niger's PRGF Arrangement

The Executive Board of the International Monetary Fund (IMF) has completed the fifth review of Niger's performance under a three-year, SDR 59.2 million (about US$85 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No. 00/69). This decision enables Niger to receive a further SDR 5.08 million (about US$7.3 million), which will bring total disbursements under the arrangement to SDR 50.76 million (about US$73 million).

In completing the review, the Executive Board granted an extension of the current PRGF arrangement to June 30, 2004.

The Poverty Reduction and Growth Facility is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies, to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Following the Executive Board's discussion of Niger's economic program on November 24, 2003, Agustín Carstens, Deputy Managing Director and Acting Chairman, made the following statement:

"Niger's recent economic performance has been characterized by buoyant economic activity, a prudent fiscal policy, and progress in structural reform. Despite domestic social tensions and adverse external conditions, the authorities have successfully maintained the momentum of their program and implementation of their poverty reduction strategy, supported by the Poverty Reduction and Growth Facility.

"The revised program for 2003 maintains the main objectives of the original program, particularly with respect to fiscal adjustment and poverty reduction. The authorities are encouraged to continue closely monitoring implementation of the program and avoid budgetary slippages. Monetary and credit policies at the regional level will continue to focus on containing inflationary pressures, while facilitating a high level of investment and ensuring an appropriate level of foreign exchange reserves.

"To support their achievements so far in avoiding fiscal slippages in the face of significant shortfalls in external financing and in revenue transfers from the West African Economic and Monetary Union, the authorities have taken sensible measures to freeze nonpriority spending and to borrow domestically, while protecting spending on the social sectors. A continuation of fiscal reforms in expenditure management and tax policy and administration should keep Niger on a path toward the observance of the convergence criteria of the West African Economic and Monetary Union.

"To support structural efforts, the authorities have undertaken to increase the momentum of these reforms from mid-2003 onward, and in this regard, the authorities are encouraged to develop a technical assistance program aimed at helping them address limited institutional capacity. Of particular importance will be the effective implementation of the public procurement code, the establishment of an operational multisector regulatory agency, the privatization of the petroleum importing company, SONIDEP, and further strengthening of the financial sector. The authorities also intend to move forward with other structural reforms, including the privatization of NIGELEC, in close collaboration with the World Bank.

"The authorities remain committed to pursuing a prudent external debt-management policy, and have recently undertaken initiatives to strengthen external debt management and transfer all debt-management responsibilities to the Nigerien Treasury. These initiatives are accompanied by measures to enhance monitoring of debt obligations and avoid the recurrence of temporary external payments arrears.

"With the completion of their first progress report on the implementation of the poverty reduction strategy, the authorities have confirmed their intention to further reduce poverty, and provide improved social services with resources made available under the enhanced Initiative for Heavily Indebted Countries. In view of the critical importance of the strategy to Niger, the authorities need to improve poverty analysis, strengthen the monitoring and evaluation system, and revise the medium-term expenditure framework and macroeconomic projections beyond 2005.

"Niger has been making significant progress toward meeting the completion point under the enhanced Initiative for Heavily Indebted Poor Countries since the decision point was approved in December 2000, and the completion point should be met very soon," Mr. Carstens stated.

Statement by Damian Ondo Mañe, Executive Director for Niger
November 24, 2003

Developments and Performance Under the Program

Niger's performance under the PRGF continues to be encouraging. All performance criteria and indicative targets for end-March 2003 were met. Performance at end-June is also broadly satisfactory, although the indicative targets relating to budgetary revenue and the net bank credit to government could not be met, due mainly to exogenous shocks, namely, delays in external assistance disbursements, and the impact of the crisis in Cote d'Ivoire. The program for 2003 has been revised to take these factors into account, but the main objectives of the initial program have been maintained. The authorities have also completed, as prior actions, the measures related to the three structural benchmarks that had not been previously observed at end-June 2003. These were the strengthening of the foreign debt unit with the installation of a new debt-management software, the submission of a study on the remunerations of petroleum product sector operators, and the closing of the 2001 budgetary accounts according to the procedures that were set.

On the basis of the measures implemented, the more clement weather, and higher capital expenditure on infrastructure, real GDP growth is projected at 4 percent for 2003, with the annual inflation rate declining by 0.7 percent. A good harvest and more robust economic activity following the extension of electricity and water connections to a number of rural areas under the President's Special Poverty Reduction Program, which is financed by HIPC Initiative resources, have been instrumental in this performance. The authorities expect further progress as more and better infrastructure facilities become available in rural areas, as described in their PRSP. The construction, public works and trade sectors also registered more buoyant activity and contributed positively to the growth rate, and helped to attenuate to a certain extent the adverse external shocks.

As regards **public finance**, early in the year, there was a legal problem concerning the new nomenclature and the charter of public accounts, and this prevented the release of budgetary appropriations, so that the government had to operate essentially on the basis of cash transactions. However, the problem has since been resolved, and normal budgetary procedures have been restored. During 2003, the lower-than-projected transfer from the WAEMU and delays in enacting certain tax measures and in external assistance led to a shortfall in revenue, but these were more than offset by restrictions on expenditure which helped to reduce the basic budget deficit, and to avoid budgetary slippages. Bank financing was also kept within the program ceilings, although there was a larger than projected reduction in domestic payments arrears. The government also reimbursed arrears to the European Investment Bank in June 2003, with the payment of penalties and late interest settled at end-July 2003.

However, despite the improvement in the basic deficit, the government exceeded its debtor position vis-à-vis the banking sector. This was not due to any slippages in fiscal operations, but rather to the reduction in government debt to the nonbank sector, and caused the net domestic indebtedness of the government to increase marginally. The authorities are concerned at the increase in debt to the banking sector, and are looking into the issue of nonbank domestic borrowing, with a view to exercising greater control over them.

The Nigerien authorities are maintaining a tight **budgetary stance for the remainder of 2003,** especially in view of the shortfall in external assistance. The basic budget deficit is now projected at 2.0 percent of GDP compared to 2.1 percent, as originally programmed. This will be accomplished by freezing nonpriority expenditure and by savings on interest payment on foreign debt as a result of the appreciation of the CFA franc. The authorities will also continue their efforts to strengthen revenue collection. The delays and shortfalls in expected external resources will cause the government to have recourse to domestic financing, which however, will be limited to 0.1 percent of GDP for the year as a whole. To alleviate the severe budget constraint in the period preceding the disbursements, the authorities have reached agreement with the BCEAO to postpone the implementation of the programmed reduction in central bank advances until January of next year, and the government intends to issue treasury bills on the regional financial market. The higher indebtedness to the banking sector at year-end will be partially compensated for by the accumulation of deposits at that time, and will enable for a smoother budget execution in 2004. The authorities have also prepared the 2004 Budget in consultation with staff, and the policies envisaged will continue the fiscal consolidation process, and is consistent with the PRSP.

In the area of **structural reforms,** as noted above, the authorities have completed the three structural benchmarks that were outstanding. While the budgetary reforms envisaged under the program were implemented, progress was adversely affected, in particular, for the implementation of the procurement code, by delays in technical assistance. Nevertheless, extensive training programs and monitoring took place as regards the implementation of the new budget nomenclature.

The authorities continued the reforms aimed at strengthening the **financial sector**. The restructuring of the *Banque Commerciale du Niger*(BCN), and the Islamic Bank of Niger for Commerce and Industry (BINCI) are being pursued. The financial audits of microfinance institutions started in April, and progress reports have been submitted by the auditors. Progress was also achieved in the restructuring of the National Postal and Savings Office(ONPE). With respect to the privatization of *Credit du Niger*, the government has initiated talks with potential private shareholders.

On **parastatal reforms**, the recruitment of sectoral directors for the Multisector Regulatory Agency (MRA) has been initiated. The privatization of the electricity company, NIGELEC, has been delayed by a difficult international environment, and the questioning of the adopted strategy by potential investors. The strategy is being reviewed with the World Bank and the investors. As regards the petroleum company, SONIDEP, the bidding package has been finalized and made available to interested operators.

Poverty Reduction Strategy Paper

As described in the authorities' report, the implementation of the Poverty Reduction Strategy remains satisfactory. The report describes the progress in the implementation of the policies and programs pertaining to the PRSP, the participatory process, and in the monitoring and evaluation of the strategy. The report also presents a good review of the progress made in resolving some key issues raised by the staff in last year's Joint Assessment Paper. As regards the development of productive sectors, progress has been achieved in the preparation of the Rural Development Strategy (RDS) which focuses on raising incomes of the rural poor and reducing their vulnerability to climatic conditions.

The report notes the encouraging results obtained in the social sectors. In education, the basic enrollment rate was raised from 37.3 percent in 2001 to 41.7 percent in 2002, as the government recruited more teachers and built and equipped more classrooms. The government has also finalized the Ten-Year Education Program, and has adopted a national policy for higher education. In the health sector, the objectives were not fully achieved, as the recruitment of personnel proved to be more difficult than expected. The authorities are focusing their efforts on solving these problems.

The improvement in the road network and transportation is ongoing, and good progress is being achieved in the rehabilitation of major roads and the construction and rural tracks. Moreover, almost all the targets set under the President's Special Poverty Reduction Program were met. These consisted, among others, in the construction or rehabilitation of minidams, wells and other small infrastructure, mostly in the rural areas. The report continues to place much attention on the need to build institutional and human capacities. Some progress is being made, but much more will need to be done. The authorities have noted the assessment of the staff as regards the strengths and weaknesses in the PRSP and its implementation, and will continue to address them.

External Debt and the HIPC Initiative

My Nigerien authorities remain committed to a prudent foreign borrowing policy. They have taken steps to strengthen external debt management, and are monitoring debt obligations closely, thus avoiding the recurrence of temporary external payments arrears. As regards the OPEC loan that was contracted for the construction of technical and vocational schools, the authorities have made a request to the African Solidarity Fund (FSA) for a subsidy to increase to 50 percent the grant element of the yet to be disbursed loan.

The authorities are also pursuing their efforts to reach the completion point under the HIPC Initiative as soon as possible. In this context, they have completed work with the Fund and the World Bank staff on the reconciliation of the foreign debt at end-1999 and end-2002, and it is also proceeding with the debt sustainability analysis. The authorities have also completed nine of the thirteen conditions needed to reach the completion point, and progress is being made on the remaining four. In the meantime, the government continues to pursue contact with bilateral creditors who are not members of the Paris Club, either to finalize the HIPC Initiative agreements, or to obtain their effective participation. My Nigerien authorities are thankful to France, the United Kingdom and the United States for granting debt relief that goes beyond their required contribution under the HIPC Initiative. With this additional bilateral debt relief, the NPV of debt at end-2002 is estimated at 199 percent of exports, highlighting the need for topping-up at the completion point. My Nigerien authorities request the full support of the international community both for an early approval that they have met the conditions for the completion point, and for a topping-up at that time, so that the country can achieve a sustainable external debt position.

Conclusion

Despite a number of exogenous shocks, the Nigerien authorities are achieving good progress in the implementation of their programs of economic reforms and poverty reduction. As a result macroeconomic performance has improved, and the medium term outlook remains positive. This performance is testimony to the strong ownership of the program by the authorities, and of their commitment to the reform process. It is also an indication of the change in economic management from the past. However, the authorities recognize that in certain areas, in particular as regards structural reforms and the poverty reduction strategy, more progress could have been made, if the country had better institutional capacity. They would also note the constraints placed on their adjustment efforts by the delays and shortfalls in expected external assistance. They call on the donors' community to strengthen their support and to make it more predictable, which will greatly help to maintain the momentum of reforms. In this context, I would like to ask my colleagues for their support of today's decisions, including the extension of the arrangement to end-June 2004 so as to enable Niger to receive the final disbursement under the PRGF arrangement.