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Niger: 2006 Article IV Consultation and Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver and Modifications of Performance Criteria—Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Niger

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2006 Article IV consultation with Niger and third review under the three-year arrangement under the Poverty Reduction and Growth Facility and request for a waiver and modifications of performance criteria, the following documents have been released and are included in this package:

- the staff report for the combined 2006 Article IV Consultation and Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver and Modifications of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on October 6, 2006, with the officials of Niger on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 6, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;
- a staff statement of December 20, 2006 updating information on recent economic developments;
- a Public Notice Information (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its December 20, 2006, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively; and
- a statement by the Executive Director for Niger.

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

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

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

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NIGER

Staff Report for the 2006 Article IV Consultation and Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver and Modifications of Performance Criteria

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

Approved by Jean A. P. Clément and Anthony Boote

December 6, 2006

- **Main issues**: Performance under the PRGF-supported program was broadly satisfactory. Through end-September 2006, all but two performance criteria were observed. Corrective measures have since been taken. The staff recommends completion of the review.
- **Recent developments**: Good harvests in 2005 and 2006 have improved food security, helped economic recovery and eased inflation. However, economic growth remains too low to effectively reduce poverty. The authorities plan to complete a revised PRSP by year-end to address growth constraints and progress toward the Millennium Development Goals (MDGs).
- **The 2004 Article IV consultation**: On June 28, 2004, Directors stressed the need to advance toward fiscal consolidation by widening the tax base. They also called for reforms to lower production costs and diversify the production and export base.
- **The mission and participants**: Discussions were held in Niamey from September 22 to October 6, 2006. The staff team comprised Messrs. Sacerdoti (head), Farah, and Fontaine (all AFR). It was assisted by Mr. Laporte, the Fund's Resident Representative in Niger. A World Bank mission to assess the execution of rural and social sector reforms participated in key discussions. The staff team met with Mr. Zeine, the Minister of Finance and Economy; Mr. Soumana, the National Director of the Central Bank of West African States (BCEAO); and other senior government officials. It also met with civil society and donor representatives.
- **Past reviews**: The Executive Directors approved the PRGF arrangement in January 2005 in an amount equivalent to 10 percent of quota. The first review was concluded in November 2005. Directors then approved increased access under the PRGF arrangement to SDR 26.32 million (40 percent of quota) to provide additional resources for the government's food security program. The second review was completed in June 2006. In 2006, Niger received debt relief estimated at SDR 638 million under the Multilateral Debt Relief Initiative (MDRI).
- Niger, a member of the West African Economic and Monetary Union (WAEMU), shares a common fixed exchange rate and external tariffs with other members, and has accepted the obligations under Article VIII, sections 2, 3, and 4. The BCEAO conducts monetary and exchange rate policies at the regional level. Relations with the Fund and World Bank are summarized in Appendices II and III.

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Executive Summary

- **Macroeconomic performance and policy implementation have been broadly satisfactory.** After a drought in 2004, a bumper harvest in late 2005 and good rains in 2006 have helped economic recovery, improved food security, and eased inflation. All performance criteria and benchmarks through end-September 2006 were met, except for two—the reduction of domestic arrears and the flexible pricing system for domestic petroleum products—and the authorities have since addressed the slippages and are requesting waivers. The fiscal deficit in 2006 is expected to be narrower than programmed, reflecting mainly lower spending on investment and food security.

- **Despite a good performance under successive PRGF-supported programs, growth has not been sufficiently strong to significantly reduce poverty**. To achieve a higher and broad-based growth and make faster progress toward the MDGs, key challenges are to strengthen the execution of priority programs, improve the business environment (including access to credit), and enhance domestic revenue. A revised PRSP outlining policies and reforms in 2007-09 is close to completion, and a donor conference is envisaged for early 2007.

- **Prospects for 2007 are relatively good**. The 2007 fiscal program is consistent with the medium-term expenditure frameworks for the priority sectors, that have been recently finalized with donor assistance. The basic fiscal deficit would widen modestly, but recourse to domestic financing is targeted to be limited. The program envisages continued reforms in tax administration, in public expenditure management and in the financial sector. The authorities are working with the World Bank on ways to reduce the cost of doing business.

- **Risks to the program include adverse weather, shortfalls in donor assistance, and lack of progress in raising domestic revenue**, which could hamper macroeconomic stability and progress toward the MDGs.

- **The authorities expressed satisfaction with the effectiveness of surveillance and technical assistance,** which they considered a key factor in ensuring the success in fiscal reforms.

- **Given the strength of the program and the authorities' commitment to its implementation, staff supports the authorities' request for waivers and completion of the review.**

I. BACKGROUND

1. **Niger is facing the challenge of boosting economic growth and accelerating poverty reduction.** Niger is one of the poorest countries in the World. In 2006, it ranked last in the United Nations Human Development Index of 177 countries and it is far from achieving the Millennium Development Goals (MDGs). The landlocked economy depends heavily on rain-fed subsistence agriculture, which accounts for some 40 percent of GDP and is the main source of income for rural dwellers (80 percent of the population). Owing to its narrow export base and geographic position Niger is vulnerable to recurring droughts and desertification, locust infestations, and terms of trade shocks.[1]

Human Development Index Rank and Per Capita GDP

	HDI Rank[1] (2006)	Real per Capita GDP[2] (US $, 2005)
Togo	147	256
Senegal	156	503
Benin	163	392
Côte d'Ivoire	164	578
Guinea-Bissau	173	133
Mali	175	292
Burkina Faso	174	269
Niger	177	177
Sub-Saharan Africa	...	579

Source: UN Human Development Report, 2006; and Sub-Saharan Africa Regional Economic Outlook, IMF.
[1]Rank out of 177 countries.
[2]At 2000 prices and exchange rates.

2. **Since 2000, the authorities have maintained a strong commitment to prudent policies and reforms under programs supported by two successive PRGF arrangements.** The policy and reform agenda was underpinned by a poverty reduction strategy (PRS) adopted in 2002 that identifies four pillars: enhancing macroeconomic stability; increasing public investment, especially in irrigation infrastructure; deepening human capital formation; and buttressing economic governance. A large number of reforms have been introduced since 2000 to improve public expenditure management, strengthen domestic revenue, and enhance the economy's supply reforms (Box 1). As a result, the

Millennium Development Goals: Selected Indicators	1990	1995	2000	2003	2004	2004
	Niger					SSA
Population (in millions)	9	10	12	13	14	726
Population below $1 a day	..	61	..	..	..	…
Real GDP per capita (US$)[1]	195	171	167	177	172	561
Adult literacy rate (% of people ages 15 and above)	11	..	..	..	29	…
Youth literacy rate (% of people ages 15-24)	17	..	..	..	37	…
Ratio of girls to boys in primary and secondary education	57	..	69	71	71	83
Under 5 mortality rate (per 1,000)	320	295	270	..	259	168
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	1	..	6
Access to improved water source (% of population)	40	..	..	46	..	56
Fixed line and mobile phone subscribers (per 1,000 people)	1	1	2	8	13	84
Life expectancy at birth, total (years)	40	42	44	45	45	46

Source: World Development Indicators database and World Economic Outlook.
[1] US$, at 2000 prices and exchange rates.

[1] Uranium and cattle exports represent some 40 percent of overall exports.

Box 1: Progress in Implementing Structural Reforms (2000-2006)

Customs and tax administration

Key measures undertaken by the authorities include:

- adoption of monthly performance indicators for the main customs offices and consistently tracking compliance with these indicators;
- establishment of an issue-oriented audit unit in the large and medium-size taxpayer office;
- strengthening the large tax payers office;
- instituting joint pre-shipment company-customs imports verification teams at several border offices; and
- preparation and adoption of an action plan (based on the recommendations of the 2005 IMF technical assistance mission) to enhance the mobilization of tax revenues.

Public expenditure management (PEM)

Key measures undertaken include:

- the adoption of a new budgetary nomenclature, public accounts charter and a new procurement law;
- introduction of a Financial Management Information System, the setting up of a Treasury-Budget computer interface, and computerization of regional treasury offices;
- a comprehensive assessment of Niger's public financial management systems through a Public Expenditure Management and Financial Accountability Review (PEMFAR), with assistance from the EU and the Bank, and adoption of an action plan;
- the preparation and incorporation into the budget of medium-term expenditure frameworks for health and education; and
- adoption of a unified list of priority expenditure.

Despite these actions, a significant number of actions are needed to further strengthen PEM. To this end, the authorities have updated, with World Bank assistance, their action plan (2007-2009).

Financial sector reform, privatization, and the regulatory environment

Key steps include:

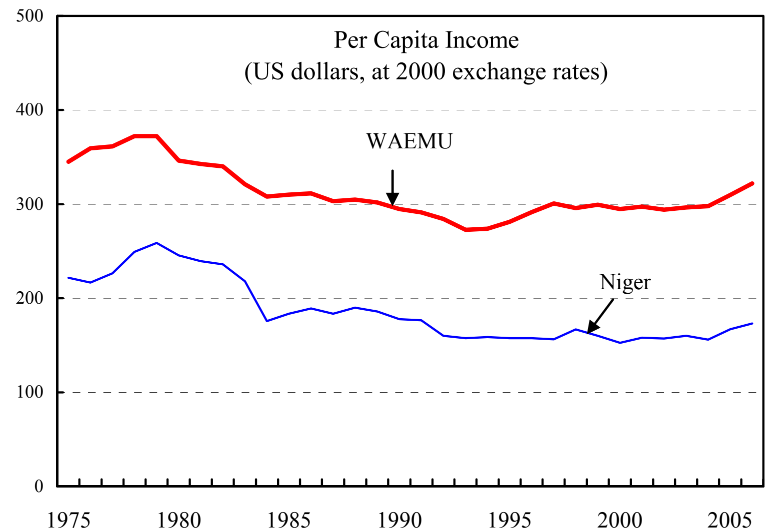
- the restructuring and recapitalization of two partially state-owned banks, and the National Post and Savings Institution (ONPE), with the establishment of separate financial (FinaPoste) and postal (NigerPoste) branches;
- the telecommunication sector has been liberalized and a Multisector Regulatory Agency set up;
- several state-owned enterprises were privatized including cement, textile, diary, and telecom companies; and
- One-stop center for investment was created, new mining code was adopted, and steps were taken to streamline the business regulations.

Despite the progress in financial sector reform, sector remains relatively underdeveloped, access to credit by the private sector is still limited, and nonperforming loans are relatively high. The cost of doing business also remains high.

Trade reforms

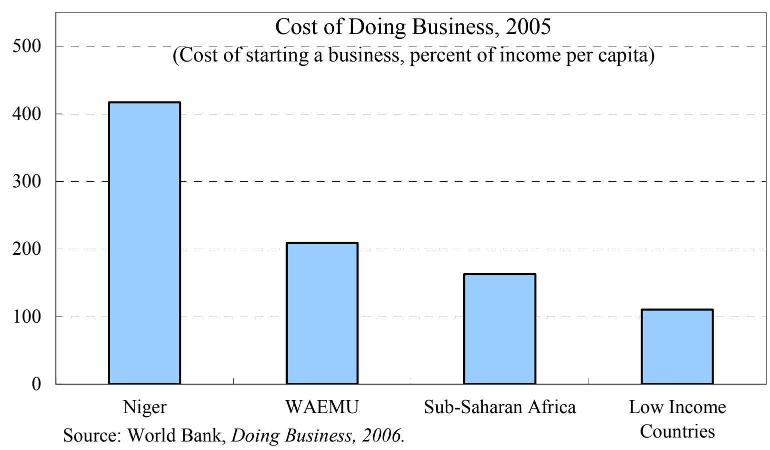
- In 2000 Niger adopted the WAEMU common external tariff, with four rates (0, 5, 10, and 20 percent); and
- In 2005 Niger removed duties on imports (manufacturing, animal products and vegetables) from all ECOWAS members.

formulation and execution of the budget have improved; domestic revenue collection has increased, though from a low level; privatization and other reforms to promote private sector development have helped strengthen the performance of the nonagricultural sector; and social indicators have improved, as described in the authorities' 2005 PRSP progress report.[2] Resources provided under the Heavily Indebted Poor Countries (HIPC) Initiative helped to expand priority expenditure and reduce the debt burden.[3]



Sources: IMF staff calculations; and Nigerien authorities.

3. However, over the past five years real GDP growth has not been sufficient to improve per capita income and social indicators remain weak.[4] Economic growth has been constrained by weak productivity (Box 2). In particular, inadequate irrigation and limited use of modern inputs have undermined agricultural performance. Also, economic diversification has been hampered by the high cost of doing business, as well as by inadequate road and transport networks. Insufficient project execution capacity has also slowed down the effective implementation of the PRS.



Source: World Bank, *Doing Business, 2006.*

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[2] In particular, the primary school gross enrollment ratio rose from some 42 percent in 2001/2002 to 52 percent in 2004/2005. This was facilitated by the recruitment of 2,500 teachers a year since 2002 (compared with only 250 civil service teachers a year before the reform) and construction of 1,000 classrooms a year. However, girls' enrollment in primary school represented only 41 percent of the total in 2005.

[3] Niger reached the completion point under the initiative in 2004; debt relief, including topping-up, reduced the NPV of debt-to-exports ratio from 390 percent at end-2002 to about 150 percent at end-2004. All creditors except for Algeria, Iraq, Libya, Taiwan Province of China, and the United Arab Emirates, have signed agreements to provide debt relief including topping-up.

[4] A recent household survey conducted in mid-2005 indicates that 62 percent of the population is below the poverty line, defined as income needed for a minimum required food basket.

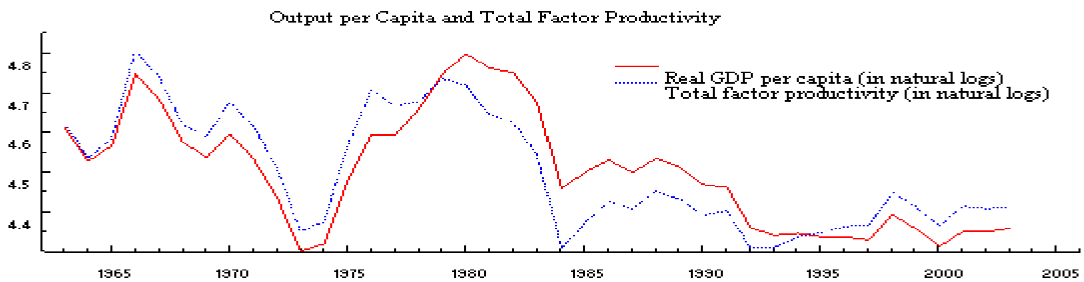
Box 2. Economic Growth and Productivity in Niger

A growth accounting exercise for Niger for the period 1963–2003 shows that total factor productivity (TFP) growth was on average negative. While negative TFP growth has been found in other studies for Sub-Saharan Africa as a whole, the decline in TFP growth in Niger has been more pronounced (see Niger, Tracing the Sources of Economic Growth, Selected Economic Issues, (forthcoming)).

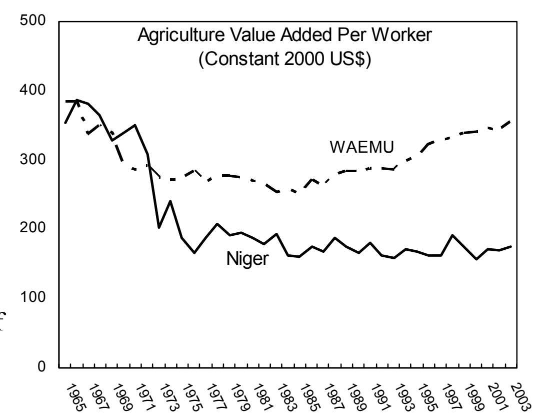
Growth Accounting, 1964 - 2003

	Growth Rate of Output Per Worker	Contribution of Physical Capital Per Worker	Contribution of Total Factor Productivity
1964 - 1978	0.75	-0.01	0.76
1979 - 1982	2.49	3.01	-0.52
1983 - 1993	-3.42	-0.94	-2.48
1994 - 2003	0.23	-0.57	0.8
1964 - 2003	-0.35	-0.1	-0.25

Regression analysis indicates that the main constraints to growth and productivity were weak macroeconomic policies, low capital accumulation, recurrent droughts, and weak institutions.

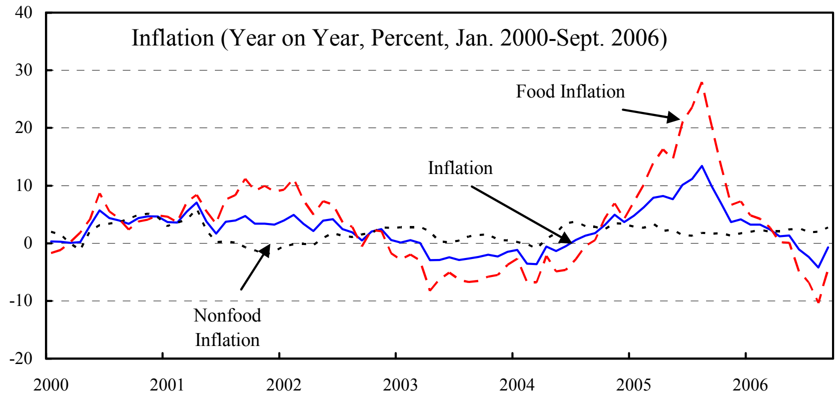


Droughts, soil erosion and limited progress in modernizing farming techniques undermined the performance of the agriculture sector. This in turn has had adverse consequences for the overall performance of the economy, and constrained poverty reduction. Strengthening growth and reducing vulnerability to adverse shocks will require significant improvements in agricultural productivity. Effective implementation of the rural sector medium-term strategy which focuses on irrigation and the introduction of modern production techniques with large donor assistance will be critical to Niger's prospects for growth and poverty reduction.

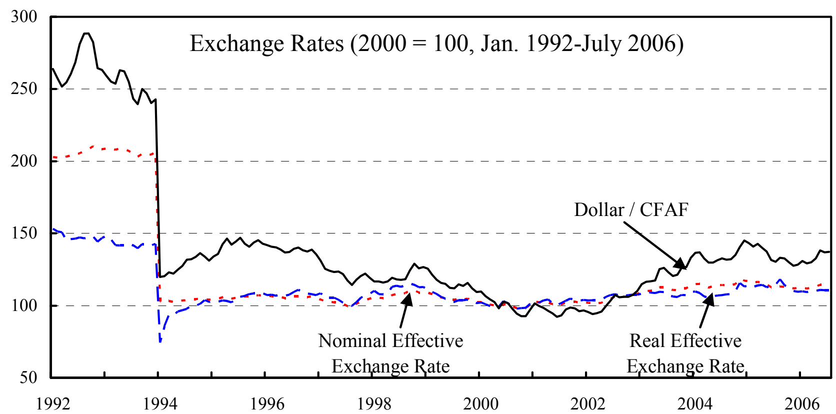


Source: World Development Indicators

II. Recent Economic Developments and Performance Under the Program



Sources: IMF staff estimates; and Nigerien authorities.



Sources: IMF, Information Notice System.

4. **In 2004-05, Niger's economy was buffeted by adverse shocks that had significant socioeconomic costs.** A drought in late 2004 markedly reduced agricultural production and triggered a food crisis in the first half of 2005 that affected a quarter of the population. Consequently, inflation increased significantly through the third quarter of 2005. The external current account deficit remained stable because of a significant increase in humanitarian assistance. In late 2005 a bumper harvest pushed GDP growth for the year as a whole to about 7 percent, and eased inflationary pressures (Figures 1 and Table 2). However, a large segment of the population continued to rely on drought relief because of large losses of livestock and increased household indebtedness during the drought.

5. **In 2006 macroeconomic performance was broadly satisfactory.** Real GDP growth is expected to slow to 3½ percent. Growth in the agriculture sector moderated, with cereal production remaining close to the record level of late 2005, and performance in the mining and services has been strong. Average inflation declined to 1¼ percent in the 12 months to September 2006 and is expected to decrease further to almost zero by end-2006 because of falling food prices. Based on an equilibrium real effective exchange rate (EREER) analysis for the WAEMU region and recent evolution of key determinants of the EREER (i.e., terms of trade, government expenditure, and investment), the exchange rate appears to be close to its long-run equilibrium. In 2006, the external current account deficit (including grants) is estimated to have remained unchanged. Niger's external debt burden was further reduced by debt relief under the MDRI totaling SDR 638 million from the Fund, IDA and the African

Development Fund (AfDF).[5] This reduced the NPV of debt-to-export ratio to 46 percent in 2006 (see Appendix IV).

Financial Operations of Central Government

	Jan.-Jun. 2006		Jan.-Dec. 2006	
	Orig. Prog.	Est.	Orig. Prog.	Rev. Prog.
	(Billions of CFAF)			
Total revenue	92.7	106.2	210.0	210.3
Total expenditure and net lending	200.1	169.8	416.0	354.1
Of which: food security	16.0	3.0	416.9	9.1
Overall balance (commitment)	-107.4	-63.6	-206.9	-143.9
Basic fiscal balance	-35.6	-8.6	-52.2	-33.1
Change in payments arrears	-2.8	2.7	-5.6	-6.1
Overall balance (cash)	-110.2	-60.9	-212.4	-150.0
Financing	110.2	60.9	212.4	150.0
External financing	118.5	116.1	195.0	211.9
Grants	102.2	99.6	150.5	859.0
of which : IMF MDRI assistance	59.9	59.9	59.9	784.3
Domestic financing	-17.3	-55.2	-49.6	-62.0
Financing gap (+)	8.9	0.0	67.0	0.0
Identified financing	8.9	0.0	67.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0

Sources: Nigerien authorities; and IMF staff estimates.

6. **In the first half of 2006, the basic fiscal deficit[6] was significantly lower than programmed because of higher revenue and underspending.** Improvements in tax and customs administration (achieved mainly by tightening control of import valuation and transit operations, and reinforcing the auditing of large- and medium-sized enterprises) boosted revenue collection. The underspending was mainly related to food security, given the good harvest and strong external assistance. As a result, net domestic financing was significantly smaller than targeted.

7. **The full 2006 fiscal program has been revised to incorporate slower expenditure execution** (Table 3). Overall expenditure (excluding foreign-financed projects) is estimated to be 1.5 percent of GDP lower than programmed. The bulk of underspending is related to investments and food security. Revenue is expected to reach the program objective. Overall, the 2006 basic deficit is expected to be significantly lower than envisaged and will be more

[5] While the Fund and IDA have already delivered the assistance, the AfDF is expected to deliver it soon.

[6] The basic balance is defined as domestic revenue minus overall expenditure (excluding foreign-financed investment).

than covered by external budget support (including MDRI debt relief).[7] Thus, net domestic financing (excluding financing from the Fund) is targeted to decline by 0.3 percent of GDP, instead of increasing by that percentage, as was programmed. Accordingly, the domestic financing target for end-December 2006 has been revised.

8. **The bumper harvest in late 2005 and good rains in July through September have significantly improved food security**. The cost of the food security program in 2006 is now estimated at 1.6 percent of GDP, compared with an anticipated 2.8 percent (MEFP, paragraph 7). Government contribution to the food security program is estimated to be lower by 0.7 percent of GDP. The strategic grain reserves are expected to increase to some 76,000 metric tons, from 15,000 metric tons at end-2005.

9. **Monetary policy is conducted by the BCEAO at the regional level and the health of the banking sector remains broadly satisfactory**. In the first half of 2006 private sector credit continued to expand briskly, as it did in 2004-05, reflecting new investments in telecommunication, construction, and mining. The banking system is sound, with a relatively high rate of return on equity and of provisioning for nonperforming loans; the privatization and recapitalization of one bank, *Crédit du Niger*, is underway with World Bank assistance. Almost all banks continue to meet prudential regulations.

Niger: Financial Soundness Indicators

	2003	2004	2005
Number of financial institutions	8.0	9.0	10.0
Bank's risk weighted capital (Percent)	15.7	13.3	17.9
Nonperforming loans (Percent of total loans)	26.5	19.2	19.0
Ratio of provisions to nonperforming loans (Percent)	76.5	75.0	78.5
Return on equity (Percent)	7.5	5.0	9.2

Sources: BCEAO and Banking Commission.

10. **Through September 2006, all performance criteria were observed, except two—the targets on net reduction of domestic arrears for end-June 2006 and the application of flexible pricing mechanism for petroleum products.** The authorities have since accelerated the reduction of domestic arrears. In the third quarter of 2006 the government deferred some taxes on petroleum products because of strong increases in world fuel prices and intense social pressures.[8] Much of the foregone revenue was recouped in October and November when the authorities kept domestic retail petroleum prices from declining in line with world prices. Because of the corrective measures adopted, the staff supports the request for a waiver for the nonobservance of the two performance criteria.

[7] The flow relief from IDA and the AfDF is estimated at CFAF 3.0 billion and CFAF 5.2 billion in 2006 and 2007, respectively. The original program did not incorporate these resources.

[8] Revenue loss is estimated at CFAF 0.2 billion.

III. POLICY DISCUSSIONS

A. Key Achievements and Remaining Challenges

11. **The Article IV consultation discussions focused on the main challenges: putting the economy on a higher growth path and making adequate progress toward the MDGs.** Authorities and staff agreed that strengthening economic growth will require a rapid increase of productivity in agriculture and a broad diversification of the economic base, which in turn require higher public and private investment and a more favorable business environment.

12. **Against this background, staff and authorities agreed on the following priorities:**

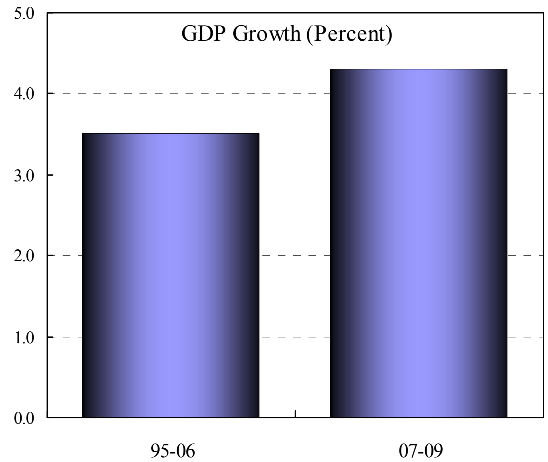
- **Effective execution of growth-critical PRSP-based programs.** Key elements of these programs are: the expansion of irrigation; the encouragement of the use of modern inputs in agriculture (including through increased access to credit); increasing investment on roads and transport (especially in rural areas) to reduce transport costs; and enhancing human capital formation, which is critical for improving social indicators as well as productivity. A revised PRSP, to be completed by the end of 2006, will outline the investment needed to implement these programs and their implications for economic growth and the MDGs.

- **Reforms that encourage private sector development.** These will need to focus on reducing the cost of doing business and enhancing competitiveness. In particular, the privatization and restructuring of state-owned financial institutions should be completed, and the restructuring and eventual privatization of the state-owned electricity company should be advanced. Reforms of the regulatory framework and judiciary system would also improve the business environment, facilitate private investment, and deepen financial intermediation. To this end, the development of a viable and well supervised microfinance system is essential.

- **Buttressing revenue collection and PEM.** Although Niger will for the foreseeable future continue to rely on concessional development assistance to cover its large financing requirement, there is a need to strengthen domestic revenue to help finance the expenditure associated with the MDGs. Additional reforms to address tax evasion and improve informal sector compliance will be critical. Strengthening PEM—especially the development of a medium-term expenditure framework, improving the tracking of priority programs, and enhancing ex ante and ex-post controls —is important for enhancing the effectiveness of poverty reducing programs and for mobilizing higher aid. To this end, timely execution of the medium-term action plan, developed with assistance from the World Bank, is critical.

B. The Medium-Term Outlook

13. **Over the next few years there are favorable prospects for improved economic performance,** notably because of the large foreign-financed investment effort to increase productivity in agriculture, and because of new initiatives in agribusiness and mining. The PRSP that the authorities are preparing will target a relatively high rate of economic growth. Pending a careful analysis of the forthcoming PRSP, the staff projects for 2007-09 a growth rate somewhat above 4 percent. Agriculture should benefit from continued efforts to expand irrigation and modernize techniques and inputs, which should attenuate the risks from adverse climatic conditions. Mining is likely to benefit from ongoing expansion of existing uranium mines in view of favorable international prices and stronger demand.[9] Expansion in the construction and the service sector should also contribute to growth. Inflation is expected to remain low, assuming there are no major droughts, and the BCEAO continues its prudent management of monetary policy.



Selected Economic and Financial Indicators, 2005-09

(Annual percentage change, unless otherwise indicated)

	2005	2006		2007	2008	2009
	Est.	Orig. Prog.	Rev.	Projections		
GDP at constant prices	6.8	3.5	3.4	4.1	4.3	4.5
CPI (end of period)	4.2	1.1	1.5	2.0	2.0	2.0
External current account balance[1,2]	-10.1	-12.1	-10.3	-11.5	-11.6	-12.4
Terms of trade (deterioration -)	-0.1	-0.2	-1.6	0.5	1.2	0.9
Overall fiscal balance (commitment)[1,2]	-7.5	-11.0	-7.8	-9.3	-9.7	-10.1
Basic balance[3]	-2.8	-4.1	-2.7	-3.3	-2.9	-3.0
External public debt (end of period)[1]	51.2	36.3	15.3	17.9	21.1	24.1

Sources: Nigerien authorities; and IMF staff estimates and projections.
[1]Percent of GDP.
[2]Excluding official grants.
[3]Total domestic revenue minus total expenditure excluding foreign-financed investment.

[9] Demand for uranium is expected to strengthen owing to renewed search for alternative energy sources. Niger now accounts for about 10 percent of world uranium output.

14. **The medium-term fiscal objective of the authorities**, with which the staff concurs, is to limit the basic budget deficit to a level that can be covered by grants and highly-concessional loans, with no recourse to domestic financing, so as to maintain debt sustainability. To this end, the authorities are committed to strengthen revenue mobilization through comprehensive reforms in tax and customs administration. The PRSP under preparation is likely to call for higher resources in support for an expanded investment program in the priority sectors. The main challenge will be to ensure that these resources have a high grant component.

15. **Niger is at a moderate risk of debt distress. While external debt indicators over the medium term remain below the policy-based thresholds, the debt burden is projected to increase over time.** In the baseline scenario the ratio of NPV of debt-to-exports ratio is projected to rise steadily from 46 percent in 2006 (taking into account the impact of the MDRI) to about 107 percent by 2025, but the increase tapers off in the outer years and stabilizes by about 2021 (Appendix IV). Other debt ratios would remain below the policy-based indicative thresholds for low-income countries.[10] Bound tests show that Niger's debt situation is vulnerable to exogenous factors. In particular, a temporary reduction in export growth and less concessional borrowing terms would significantly weaken debt sustainability. The result of the DSA underscores the need to finance most of the new investments through grants. Were grants not forthcoming at the required level, debt management policy has to be utmost cautious, with only the most concessional financing contracted for highly productive investments. While Niger remains clearly vulnerable to a number of external shocks, the staff assessment is that the country remains at a moderate risk of debt distress under the debt sustainability framework.

16. **The medium-term outlook is subject to risks**. Niger is exposed to possible unfavorable weather conditions which can affect growth, and exacerbate poverty. Shortfalls in donor assistance and lack of progress in raising domestic revenue could slow the execution of priority programs, curtail growth, and limit progress toward the MDGs. To mitigate these risks, it is essential that investment programs in the priority sectors be executed with utmost effectiveness, and reforms be sustained to strengthen tax administration, improve expenditure management, and enhance the business environment, so as to foster the diversification of the economy.

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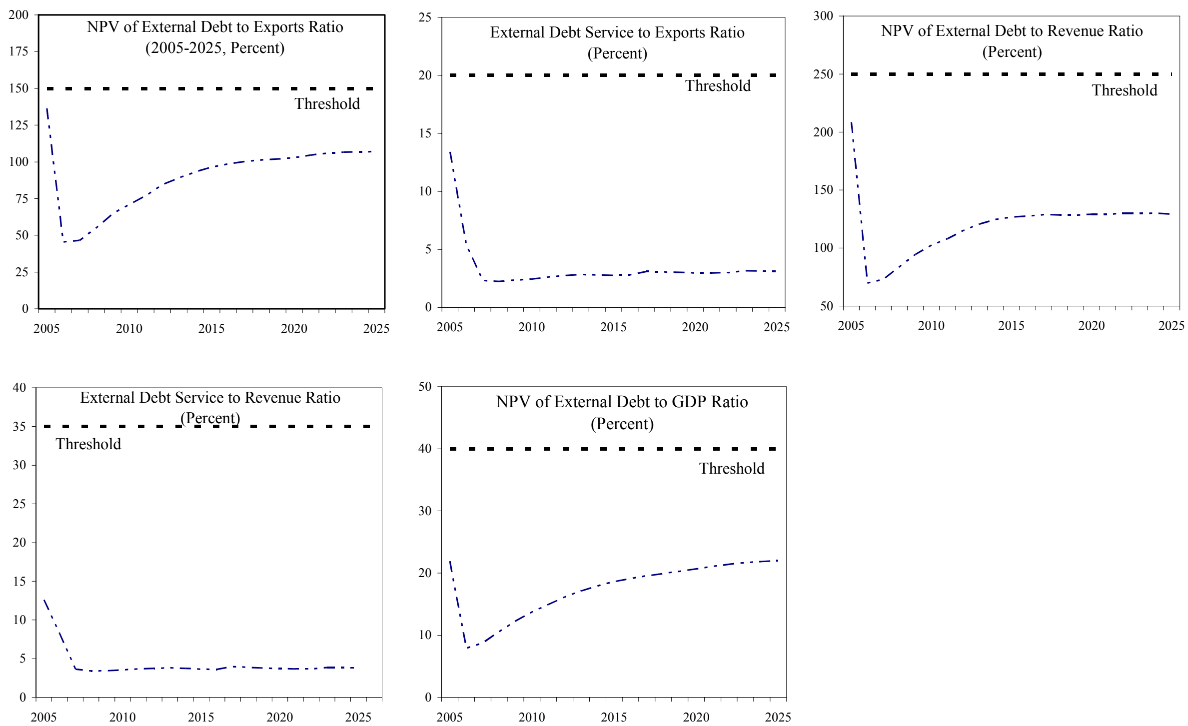
[10] Under the World Bank's Country Policy and Institutional Assessment Rating System, Niger is classified as a "medium performer". The debt sustainability thresholds applied for these countries, in terms of NPV of debt-to-exports, GDP, and revenue are 150 percent, 40 percent and 250 percent, respectively, and in terms of debt service to exports is 20 percent.

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



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

C. Macroeconomic Framework and Policies for 2007

17. **Prospects for 2007 are favorable with stronger growth, low inflation, and increased tax revenue to support priority expenditure**. Real GDP growth is projected at about 4 percent. The projection is based on further expansion of the mining and service sectors, and a good performance in the agriculture sector. Inflation is expected to remain low at about 2 percent on an annual average. The external current account deficit, excluding grants, is expected to widen, reflecting higher imports associated with the externally-financed public investment program, but that would be covered by development assistance.

Fiscal Policy and Public Finance Reforms

18. **The authorities expressed satisfaction with the effectiveness of surveillance and technical assistance (TA), which they considered key factors in ensuring the success of fiscal reforms**. They hope that Fund TA will continue.

19. **The 2007 budget law provides more resources to priority sectors and safeguards debt sustainability**. The basic fiscal deficit is targeted at 3⅓ percent of GDP. Domestic revenue is projected to increase to 12 percent of GDP as reforms in tax and customs administration continue (see below). Domestically financed expenditures are expected to increase to 15.3 percent of GDP reflecting unanticipated transfers to the Civil Service Social

Security Fund (which is being restructured) and additional priority outlays. Priority spending is expected to increase from 5.7 percent of GDP in 2006 to 6.4 percent of GDP: the bulk of these resources is allocated to education, health, and rural sector development. Foreign-financed projects—especially those financed by grants—are expected to increase markedly because of large road projects. The fiscal deficit is expected to be mostly covered by external budget support (mainly from the World Bank, the EU, the AfDB, and France), and net domestic financing (excluding financing from the Fund) is modestly positive, reflecting some draw down of deposits accumulated in 2006.

Financial Operations of Central Government

	2005	2006	2007
	Est.	Rev. Prog.	Prog.
	(Percent of GDP)		
Total revenue (excluding grants)	10.5	11.3	12.0
Total expenditure and net lending	18.2	19.0	21.3
Overall balance (commitment)	-7.6	-7.7	-9.3
Basic fiscal balance	-2.8	-2.6	-3.3
Change in payments arrears	-0.7	-0.3	-0.8
Overall balance (cash)	-8.3	-8.0	-10.1
Financing	-8.2	-8.0	12.1
External financing (net)	8.1	11.4	6.0
Grants	5.7	46.3	3.6
of which : IMF MDRI assistance	…	42.3	…
Domestic financing	0.2	-3.4	0.4
Financing gap (+)	0.0	0.0	3.7
Identified financing	0.0	0.0	3.7
Residual financing gap	…	0.0	0.0

Sources: Nigerien authorities; and IMF staff estimates.

20. **The authorities are committed to further strengthening revenue performance**. Key elements of the reform agenda—computerization of border posts, reinforcing taxpayer audits and exemption controls (MEFP, paragraphs 21 and 22)—are already under way and will be consolidated overtime. In particular, the strengthening of ex-post controls at the major regional custom offices is a structural performance criterion under the program for end-December 2006. In 2007, reforms will focus on enhancing electronic information-sharing between border posts for goods in transit as well as for those declared in the main regional centers in Niger, and the simplification of tax collection procedures to encourage compliance (structural performance criterion for end-December 2007). However, the authorities stressed that reforms will only gradually increase revenue and require significant increases in material and skilled human resources for the tax collection agencies. In this regard, the authorities plan to seek additional technical and financial support from development partners.

21. **The authorities reaffirmed their commitment to strengthening PEM** (MEFP, paragraphs 23 and 24). They will continue to execute the recommendations of PEMFAR, which will focus on (i) strengthening the preparation of the budget and fully integrating it with the medium-term expenditure framework; (ii) enhancing the execution and monitoring of expenditure, with particular attention to priority programs; (iii) streamlining budget procedures and regulations to avoid delays in budget execution; and (iv) reinforcing ex-ante and ex-post audits by allocating more human and material resources to the agencies. A pilot project will give line ministries access to computerized expenditure procedures. In addition, the authorities will publish quarterly reports on the execution of the budget, and update and streamline treasury accounts, a structural performance criterion for end-June 2007.

External Policies and Regional Integration

22. **Authorities will continue to make good faith negotiations with remaining non-Paris Club creditors in order to reach agreements on debt relief on terms comparable with those already obtained**.

23. **While they reiterated their commitment to the WAEMU convergence criteria, the authorities emphasized that some of the criteria will only be achieved over the medium term.** The reforms to strengthen domestic revenue will help Niger make progress toward the regional thresholds. Such reforms will in the long run also help reduce the fiscal deficit. The authorities stated their commitment to prudent debt management.

Niger and WAEMU Convergence Criteria

	WAEMU Targets	Niger 2003	2004	2005
Primary Criteria				
Basic fiscal balance (as percent of GDP) [1]	≥ 0	-2.0	-2.2	-1.5
Domestic and external debt (as percent of GDP)	≤ 70	68.2	55.5	49.5
Annual average infaltion rate (in percent)	≤3	-1.8	0.4	7.8
Nonaccumulation of domestic and external payment arrears	√	√	√	√
Secondary Criteria				
Wage bill (as percent of revenue)	≤ 35	37.5	35.3	34.8
Domestically-financed investment (as percent of tax revenue)	≥ 20	18.7	20.3	28.1
External current account deficit, excluding grants (as percent of GDP)	≤ 5	-8.9	-10.3	-10.1
Tax revenue (as percent of GDP)	≥ 17	9.7	10.8	10.1

Source: Nigerien authorities and staff estimates.
[1] Excluding HIPC-financed projects.

Other Structural Reforms

24. **The authorities are committed to the flexible pricing system for petroleum products** established in August 2001 (MEFP, paragraph 19). They will consult with the Fund prior to any change of the pricing system. Since end-September the government has not fully passed through the decline in international prices, in order to recover the taxes deferred earlier in 2006, and will continue to do so until the tax recovery is complete.

25. **The authorities are moving to deepen financial intermediation** (MEFP paragraphs 25 and 26). The emphasis is on restructuring and privatizing public financial institutions, and promoting viable microfinance institutions. The government is recapitalizing FinaPoste, an independent financial branch of the National Post office. The revamped institution, which has a large cross-country network, is expected to help mobilize savings and

contribute to intermediation. The establishment of a repayment schedule for the frozen postal deposits is a structural performance criterion for end-December 2007. The ongoing privatization of *Crédit du Niger* will help increase competition in the banking sector. To bring financial services to rural areas—an important element of Niger's growth strategy—the authorities are working with the World Bank to establish an autonomous office to supervise microfinance institutions. The authorities are also developing a restructuring plan for the two largest microfinance institutions, which are in financial difficulties.

26. **Regulatory reform and privatization aim to improve the business environment**. The authorities have recently reduced the number of procedures for establishing new businesses, continued improving the one-stop center for new investment, and adopted a new mining code to stimulate investment.[11] They are working with the World Bank to review the land-tenure system and strengthen the judiciary system, especially the commercial courts. To remedy skill shortages that hamper the development of the private sector, the authorities are expanding vocational schools and other training programs. They emphasized that the restructuring and privatization of the electricity company (NIGELEC) as well as increase in investment in physical infrastructure, such as road networks, will enhance competitiveness.

IV. Statistical Issues

27. **Niger's economic database is adequate for surveillance and program monitoring and the country participates in the GDDS** (Appendix V). The quality of the consumer price index (CPI), monetary data, and balance of payments statistics is largely satisfactory. However, coverage of the CPI needs to expand beyond Niamey, and both monetary and balance of payment statistics need to be more timely; the latter needs to be broadened to include informal trade. The quality and timeliness of national accounts and government finance statistics needs improvements. The authorities have recently established an independent statistical office and are committed to implementing the recommendations of the Report on the Observance of Standards and Codes (ROSC).

V. Staff Appraisal

28. **Since the last quarter of 2005, macroeconomic performance and food security have improved**. A bumper harvest late in the year fueled a strong economic recovery in 2005 and reduced inflation in 2005. A normal harvest in 2006 has further enhanced the food security, eased inflation, and supported modest economic growth rate in 2006. The authorities are working closely with UN relief agencies and other donors to strengthen food security and provide support for the vulnerable.

29. **Nevertheless**, **Niger's growth performance is below potential, social indicators are weak, and poverty is widespread**. Limited implementation capacity and resources slowed the execution of the poverty reduction strategy, especially efforts to improve agriculture productivity, diversify the economy, and expand rapidly social services. The

[11] In 2006, Niger's ranking of ease of doing business improved from 169 to 160.

economy thus remains vulnerable to adverse shocks, including droughts, and progress toward the MDGs has been limited.

30. **Staff and authorities agreed that establishing conditions for stronger and broad-based economic growth and improving social conditions are the key challenges.** Boosting economic growth will require increasing agricultural productivity through a determined implementation of programs to expand irrigation and encourage the use of modern inputs. This, combined with increased investment in human capital formation and physical infrastructure would help enhance Niger's growth prospects and improve social indicators.

31. **Staff concurs with the authorities that the forthcoming PRSP and accompanying medium-term expenditure framework would require significantly higher financing needs than the program currently envisages**. It encourages the authorities to work closely with development partners to mobilize the required technical and financing assistance mostly in the form of grants.

32. **Given the findings that Niger is at a modest risk of debt distress but remains vulnerable to a number of shocks,** it is the staff view that the bulk of the financing required for needed investments should be at grant terms.

33. **Performance under the PRGF-supported program has been satisfactory thus far in 2006**. All but two performance criteria through September 2006 were met. The authorities have since taken steps to address the slippages. Staff welcomes the revision of the fiscal program for the full year 2006 to take into account lower spending than originally envisaged both for food security and for investment, and supports the related revision of the performance criterion on domestic financing of the budget for end-December 2006. Staff also supports the authorities' decision to use unspent resources for the 2007 budget, while encouraging them to strengthen project implementation capacity.

34. **Staff welcomes the shifting of the composition of expenditure toward priority programs in the 2007 budget, while maintaining debt sustainability**. The expected increase in donor support and modest improvement in domestic revenue will contribute to higher spending on health, education, and rural sector development.

35. **The measures the authorities are taking to mobilize revenue are appropriate.** Recent steps to strengthen border controls, and the auditing of large and medium-sized enterprises, have already yielded positive results. Envisaged reforms to further strengthen border controls and tax audits, tighten exemptions, and simplify tax procedures should help broaden the tax base and enhance tax compliance.

36. **The steps the authorities are taking to improve public expenditure management are welcome,** in particular the preparation of medium-term expenditure frameworks for key sectors, the computerization of the budget and treasury operations, and the establishment of a unified list of priority programs. However, more needs to be done to streamline budgetary procedures, strengthen treasury accounting, and reinforce ex-ante and ex-post controls. The

planned publication of quarterly reports on the execution of the budget will enhance the transparency of government operations.

37. **Staff urges the authorities to complete the ongoing financial sector reforms,** including the capitalization of the restructured financial branch of the postal network, and the privatization of *Crédit du Niger* (CDN). The soundness of the banking system (excluding CDN) is broadly satisfactory. The successful restructuring of microfinance institutions and reinforcing the office responsible for supervising them will be key to the efforts to increase access to credit by the private sector.

38. **The recent efforts to reduce the regulatory burden on investment are welcome, but further steps are needed to reduce the cost of doing business**. The staff encourages the authorities to advance, with World Bank assistance, the restructuring and privatization of the electricity company, the reform of the land tenure system, and the strengthening of the judiciary. These reforms will help improve economic growth prospects.

39. **Staff encourages the authorities to continue strengthening the statistical system, which still has deficiencies that weaken the monitoring of economic developments**.

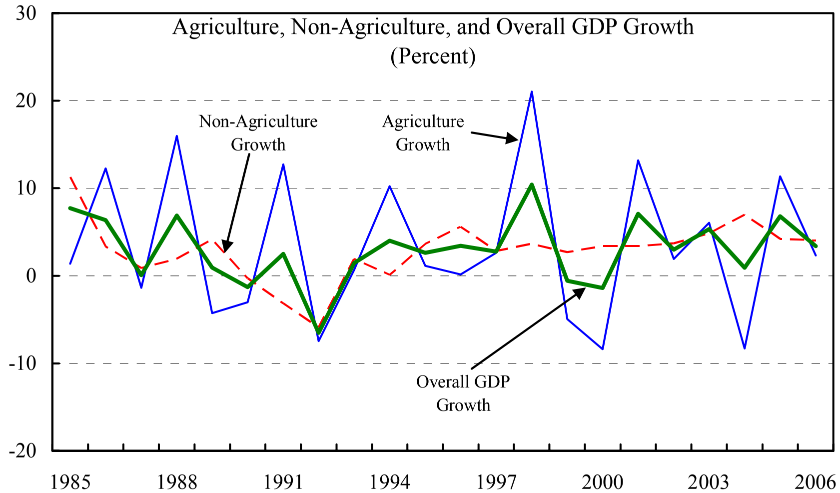
40. **Staff urges the authorities to reach agreement with non-Paris Club bilateral creditors that have not yet provided debt relief under the HIPC Initiative**.

41. **Risks to the program** include the vulnerability of the economy to adverse shocks, possible shortfalls in donor assistance, and inadequate progress in mobilizing revenue. However, the authorities' strong commitment to reforms and continued donor support should mitigate the risks.

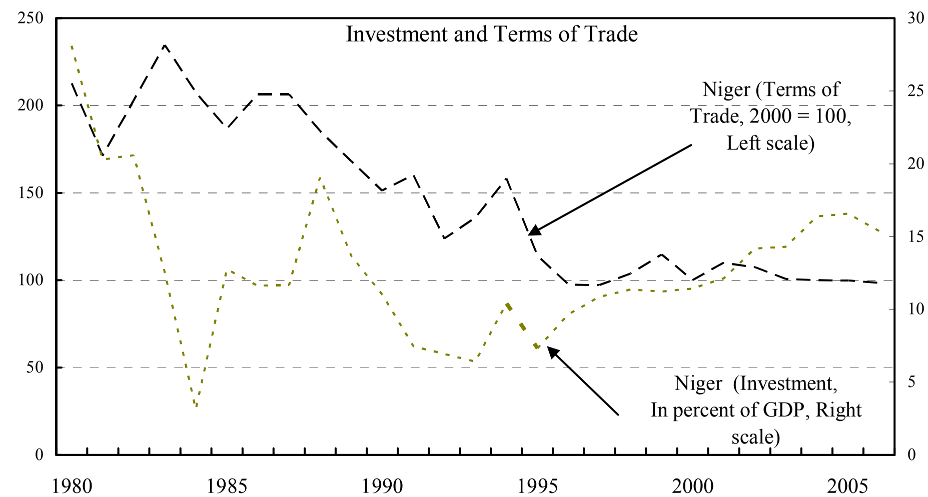
42. **In light of the above considerations, staff recommends Board approval of the authorities' request for waivers for the non observance of two performance criteria and completion of the third review.**

43. Staff welcomes intention to make public the staff report, the letter of intent and the MEFP. It recommends that the next Article IV consultation with Niger be held under the 24-month consultation cycle, subject to the Board decision on consultation cycles (Decision No.12794 –(02/76) dated July 15, 2002, as amended).

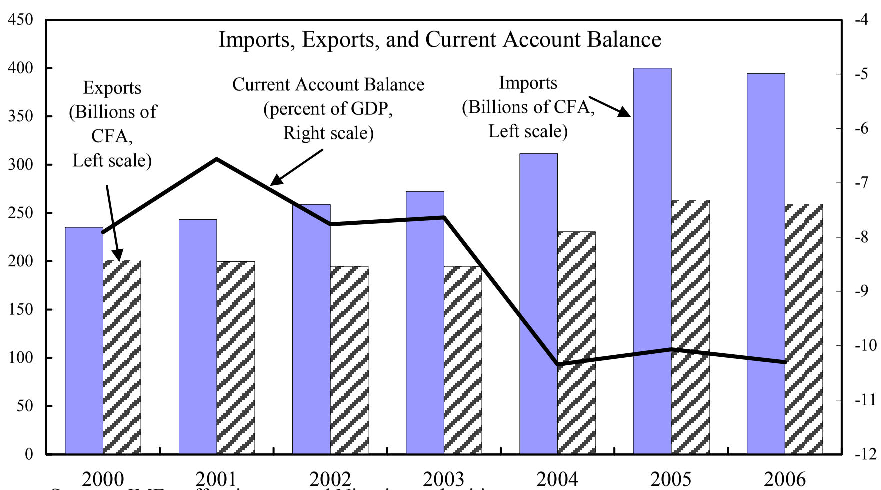
Figure 1. Niger: Selected Macroeconomic Indicators



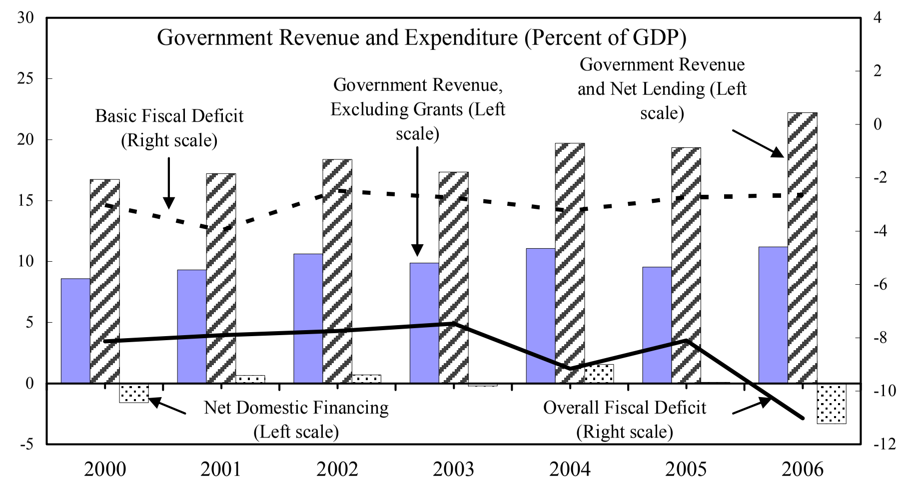
Sources: IMF staff estimates; and Nigerien authorities.



Sources: IMF staff estimates; and Nigerien authorities.



Sources: IMF staff estimates; and Nigerien authorities.



Sources: IMF staff estimates; and Nigerien authorities.

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

Amount (Millions)	Available date	Conditions Necessary for disbursement [1]
SDR 5.875	December 31, 2006	Observance of the performance criteria for June 30, 2006, and completion of the third review under the arrangement
SDR 0.940	January 15, 2007	Observance of the performance criteria for December 31, 2006, and completion of the fourth review under the arrangement
SDR 0.940	July 15, 2007	Observance of the performance criteria for June 30, 2007, and completion of the fifth review under the arrangement
SDR 0.940	January 15, 2008	Observance of the performance criteria for December 31, 2007, and completion of the sixth review under the arrangement

Source: International Monetary Fund.

[1] In addition to the generally applicable conditions under the Poverty Reduction and Growth facility arrangement.

Table 2. Niger: Selected Economic and Financial Indicators, 2004-2009

	2004	2005	2006		2007	2008	2009
	Est.		Orig. Prog.	Rev. Prog.	Projections		
	(Annual percentage change, unless otherwise indicated)						
National income and prices							
GDP at constant prices	-0.6	6.8	3.5	3.4	4.1	4.3	4.5
GDP deflator	-0.6	8.0	0.0	0.1	2.1	1.9	2.0
Consumer price index							
Annual average	0.4	7.8	0.0	0.3	2.0	2.0	2.0
End of period	3.7	4.2	1.1	1.5	2.0	2.0	2.0
External sector							
Exports, f.o.b. (Units, CFA francs)	18.5	14.2	4.8	-1.6	17.4	8.0	6.1
Imports, f.o.b (Units, CFA francs)	14.4	28.4	11.1	-1.4	13.6	6.7	7.4
Export volume	8.4	7.5	2.4	-3.8	12.4	4.1	1.9
Import volume	6.1	20.8	8.2	-5.2	9.3	4.1	4.1
Terms of trade (deterioration -)	-0.6	-0.1	-0.2	-1.6	0.5	1.2	0.9
Nominal effective exchange rate (depreciation -)	2.98	-0.63	…	…	…	…	…
Real effective exchange rate (depreciation -)	0.55	4.15	…	…	…	…	…
Government finances							
Total revenue	10.9	8.8	11.1	11.2	12.3	11.4	10.3
Total expenditure and net lending[1]	15.3	2.0	30.2	9.3	18.7	10.8	10.9
Of which: Current expenditure	8.0	-4.3	32.3	18.1	13.4	5.4	11.9
Capital expenditure	24.7	10.1	36.3	-0.4	26.0	16.8	9.9
Money and credit							
Domestic credit[2]	24.1	2.3	-14.2	-17.3	7.1	…	…
Credit to the government (net)[2]	14.8	-6.3	-19.1	-23.8	3.1	…	…
Credit to the economy[2]	9.3	8.7	4.9	6.5	4.0	…	…
Net domestic assets[2]	24.3	1.7	-13	-18.1	6.3	…	…
Money and quasi money	20.3	6.5	5.1	6.1	6.3	…	…
	(Percent of GDP, unless otherwise indicated)						
Government finances							
Total revenue	11.2	10.5	11.2	11.3	12.0	12.6	13.0
Total expenditure and net lending	20.4	18.1	22.2	19.1	21.3	22.2	23.1
Of which: Current expenditure	11.1	9.2	11.6	10.5	11.2	11.1	11.7
Capital expenditure	9.3	8.8	10.6	8.5	10.1	11.1	11.4
Basic balance (excluding grants)[3]	-3.3	-2.8	-4.1	-2.7	-3.3	-3.0	-3.1
Overall balance (commitment basis, excluding grants)	-9.2	-7.5	-11.0	-7.8	-9.3	-9.7	-10.1
Overall balance (commitment basis, including grants)[4]	-3.5	-1.8	-3.0	-3.7	-5.8	-5.7	-5.9
Gross investment	16.4	16.5	16.8	15.5	18.0	19.3	19.7
Gross national savings	9.3	9.0	7.4	7.9	7.4	8.6	8.8
External current account balance							
Excluding official grants	-10.3	-10.1	-12.1	-10.3	-11.5	-11.6	-12.4
Including official grants	-7.0	-7.4	-9.4	-7.5	-10.6	-10.7	-10.9
External public debt (end of period)[5]	57.9	51.2	36.3	15.3	17.9	21.1	24.1
Debt-service ratio in percent of :							
Exports of goods and services[6]	12.9	9.3	4.3	227.1	2.3	2.2	2.4
Government revenue[6]	21.2	16.0	6.9	346.8	3.6	3.4	3.4
	(in billions of CFA francs)						
GDP at current market prices	1555	1793	1877	1854	1971	2094	2233
Overall balance of payments	-25.9	15.6	41.8	62.2	-77.2	-76.3	-73.5

Sources: Nigerien authorities; and staff estimates and projections.

[1] Commitment basis as per payment orders issued.

[2] In percent of beginning-of-period money stock.

[3] Total revenue, excluding grants, minus total expenditure, excluding foreign-financed investment projects.

[4] Program data and projections include grants for projects and HIPC Initiative assistance. Actual data include budgetary grants.

[5] Including obligations to the IMF, and after MDRI relief starting in 2006.

[6] After HIPC and MDRI debt relief starting in 2006.

Table 3. Niger: Financial Operations of the Central Government, 2004-09

	2004	2005	2006		2007		2008	2009
	Est.	Est.	Orig. Prog.	Rev. Prog.	Orig. Prog.	Rev. Prog.	Projections	
			(Billions of CFA francs)					
Total revenue	**173.8**	**189.0**	**210.0**	**210.3**	**235.7**	**236.2**	**263.1**	**290.3**
Tax revenue	167.6	181.3	200.8	203.1	223.9	224.3	249.3	271.7
of which: International trade	87.8	93.9	98.0	98.0	102.1	102.1	109.9	122.8
Nontax revenue	1.4	4.9	6.8	4.2	7.8	9.3	10.1	13.4
Special accounts revenue	3.9	2.8	2.4	3.0	4.0	2.6	3.7	5.1
Total expenditure and net lending	**317.6**	**323.9**	**416.9**	**354.1**	**391.3**	**420.4**	**465.7**	**516.5**
Total current expenditure	172.7	165.3	218.7	195.2	203.4	221.5	233.4	261.1
Budgetary expenditure	155.8	158.0	211.2	182.4	197.0	207.8	226.7	251.1
Wages and salaries	59.2	63.0	69.3	68.8	70.7	73.3	75.0	78.0
Materials and supplies	50.3	43.6	55.0	48.8	62.5	61.8	69.2	77.8
Subsidies and transfers	38.2	31.9	75.2	59.5	50.2	66.2	74.6	85.5
of which : Food security	…	1.4	16.0	2.5	…	0.0	0.0	0.0
Interest, scheduled	8.1	10.1	11.7	5.3	13.6	6.5	7.9	9.8
of which: External debt	8.0	8.0	7.0	4.1	8.6	3.8	3.9	4.8
Special accounts expenditure	16.9	7.3	7.5	12.8	6.4	13.7	6.7	10.0
Capital expenditure and net lending	144.9	158.6	211.0	158.9	187.9	198.9	232.4	255.4
Capital expenditure	144.0	158.8	211.0	157.9	187.9	198.9	232.4	255.4
Domestically financed	34.0	51.0	56.3	47.1	52.0	61.3	74.7	79.6
Food security	…	0.7	5.0	5.0	5.0	5.0	5.0	5.0
Francophonie Games	…	7.7	0.0	0.0	0.0	0.0	0.0	0.0
HIPC Initiative resources	17.0	22.3	24.5	16.6	36.1	18.7	18.0	18.0
Externally financed	93.0	85.5	130.2	94.2	99.8	118.9	139.7	157.8
Net lending	0.9	-0.2	0.0	1.0	0.0	0.0	0.0	0.0
Contingent expenditure	…	0.0	-12.8	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment)	**-143.8**	**-134.8**	**-206.9**	**-143.9**	**-155.6**	**-184.2**	**-202.7**	**-226.2**
Basic balance (excluding HIPC assistance)	**-33.8**	**-27.0**	**-52.2**	**-33.1**	**-19.7**	**-46.6**	**-45.0**	**-50.4**
Basic balance	**-50.8**	**-49.3**	**-76.7**	**-49.7**	**-55.8**	**-65.3**	**-63.0**	**-68.4**
Change in payments arrears	-19.3	-12.4	-5.6	-6.1	-14.0	-15.2	-15.2	-15.2
of which: Domestic arrears	-19.3	-12.4	-5.6	-6.1	-14.0	-15.2	-15.2	-15.2
Overall balance (cash)	**-163.1**	**-147.2**	**-212.4**	**-150.0**	**-169.6**	**-199.4**	**-217.9**	**-241.4**
Financing	**163.1**	**147.2**	**212.4**	**149.9**	**100.5**	**125.6**	**131.2**	**150.3**
External financing	**138.6**	**145.6**	**262.0**	**211.9**	**97.2**	**117.5**	**134.7**	**152.6**
Grants	89.2	102.2	175.8	859.0	70.6	70.3	82.3	95.3
Budget financing	26.5	38.7	25.3	22.7	0.0	0.0	0.0	0.0
Project financing	46.5	45.3	74.2	51.9	59.9	70.3	82.3	95.3
HIPC Initiative assistance	16.2	18.2	16.4	0.0	10.7	0.0	0.0	0.0
MDRI assistance	…	…	59.9	784.3	...	...	...	...
Loans	64.1	55.0	97.7	75.3	39.9	48.6	57.4	62.5
of which: Budget financing	17.6	14.8	41.7	33.0	0.0	0.0	0.0	0.0
Amortization	-22.4	-14.6	-15.8	-725.1	-15.2	-4.8	-5.0	-5.2
Debt relief (incl. debt under discussion)	7.7	3.0	4.3	2.8	1.9	3.4	0.0	0.0
Domestic financing	**24.5**	**1.5**	**-49.6**	**-62.0**	**3.3**	**8.1**	**-3.5**	**-2.3**
Banking sector	28.7	-14.8	-53.5	-59.5	3.3	8.1	-3.5	-2.3
of which: IMF	0.6	1.7	-56.7	-56.9	1.5	1.4	0.7	0.0
Non banking sector	-4.2	16.3	3.9	-2.5	0.0	0.0	0.0	0.0
Financing gap (+)	**0.0**	**0.0**	**0.0**	**0.0**	**69.0**	**73.8**	**86.7**	**91.1**
			(Percent of GDP)					
Total revenue	11.2	10.5	11.2	11.3	11.8	12.0	12.6	13.0
Total expenditure and net lending	20.4	18.1	22.2	19.1	19.6	21.3	22.2	23.1
Total current expenditure	11.1	9.2	11.6	10.5	10.2	11.2	11.1	11.7
Capital expenditure and net lending	9.3	8.8	10.6	8.6	9.4	10.1	11.1	11.4
Basic balance	-3.3	-2.8	-4.1	-2.7	-2.8	-3.3	-3.0	-3.1
Overall balance (cash)	-10.5	-8.2	-11.3	-8.1	-8.5	-10.1	-10.4	-10.8
External financing	8.9	8.1	14.0	11.4	4.9	6.0	6.4	6.8
Domestic financing	1.6	0.1	-2.6	-3.3	0.2	0.4	-0.2	-0.1
Financing gap (+)	0.0	0.0	0.0	0.0	3.5	3.7	4.1	4.1
			(CFAF billions)					
Memorandum items								
NGDP	1,555	1,793	1,877	1,854	1,994	1,971	2,094	2,233
MDRI Flow Relief	...	...	...	5.4		8.9	11.9	14.3
Social Sector Expenditure (exclud. foreign financed)	70.3	82.9 .	…	106.0		126.0	...	...
Domestic financing excluding IMF	23.9	-0.2	7.1	-5.1	1.8	6.7	-4.2	-2.3

Source: Nigerien authorities and IMF staff estimates.

Table 4. Niger: Monetary Survey, 2004-07

	2004	2005	2006	2007
	Dec.	Dec.	Dec.	Dec.
		Est.	Proj.	Proj
	(millions of CFAF; end of period)			
Net foreign assets	67.9	79.2	139.4	139.4
Central Bank of West African States (BCEAO)	49.0	67.1	132.0	132.0
Commercial banks	18.9	12.0	7.4	7.4
Net domestic assets	165.4	169.4	124.3	140.8
Domestic credit	186.4	191.8	148.8	167.6
Net bank claims on government	85.3	70.5	11.3	19.5
BCEAO	85.6	75.1	15.4	18.2
of which : statutory advances	33.1	32.1	32.1	26.5
IMF resources	73.5	75.2	18.6	20.0
Commercial banks	-3.5	-7.1	-5.5	-0.1
Other	3.2	2.5	1.4	1.4
Credit to the economy	101.1	121.3	137.5	148.1
Other items, net	-21.0	-22.4	-24.5	-26.8
Money and quasi-money	233.3	248.6	263.7	280.2
Currency outside banks	97.7	108.1	115.0	122.2
Private deposits with ONPE (postal savings institution)	3.2	2.5	1.4	1.4
Deposits with banks	132.5	137.9	147.3	156.6
	(Annual variation, in percent of beginning-of-period broad money; unless otherwise indicated)			
Net foreign assets	-4.1	4.8	24.2	0.0
BCEAO	-9.8	7.8	26.1	0.0
Commercial banks	5.8	-3.0	-1.9	0.0
Net domestic assets	24.3	1.7	-18.1	6.3
Domestic credit	24.1	2.3	-17.3	7.1
Net bank claims on the government	14.8	-6.3	-23.8	3.1
BCEAO	15.2	-4.5	-24.0	1.0
Of which : statutory advances	0.0	-0.4	0.0	-2.1
Commercial banks	-0.8	-1.5	0.6	2.1
Other	0.4	-0.3	-0.7	0.0
Credit to the economy	9.3	8.7	6.5	4.0
Credit to the economy[1]	21.7	20.0	13.4	7.7
Other items, net	0.3	-0.6	-0.9	-0.9
Money and quasi money	20.3	6.5	6.1	6.3
Velocity of circulation of money (GDP/broad money)	6.7	7.2	7.0	7.0

Sources: BCEAO; and staff estimates and projections.
[1]Annual percentage change.

Table 5. Niger: Balance of Payments, 2004-09
(Billions of CFA francs, unless otherwise indicated)

	2004	2005	2006		2007	2008	2009
	Est.	Est.	Orig. Prog.	Est.	Projections		
Current account balance	-109.5	-133.2	-176.1	-139.9	-209.0	-224.5	-243.3
Balance on goods	-80.8	-136.6	-109.7	-135.2	-143.6	-149.5	-164.9
Exports, f.o.b	230.7	263.5	279.3	259.3	304.3	328.6	348.8
Uranium	70.1	78.5	78.1	79.6	95.6	103.9	113.6
Cattle	26.8	29.1	26.6	23.0	26.5	30.1	31.3
Gold	10.7	34.2	37.4	33.6	49.6	57.5	60.1
Other exports	123.1	121.7	137.2	123.1	132.7	137.2	143.8
Of which : reexports	21.4	27.3	28.7	28.7	30.2	31.9	35.5
Imports, f.o.b	311.5	400.1	388.9	394.5	448.0	478.1	513.7
of which: Food products	94.6	124.8	116.4	108.0	108.9	111.8	119.6
Petroleum products	40.5	66.3	66.0	82.1	77.5	82.0	79.3
Services and income (net)	-96.2	-110.3	-133.7	-98.3	-120.9	-136.4	-155.5
Services (net)	-89.6	-102.7	-126.1	-92.6	-116.2	-131.3	-151.2
Income (net)	-6.7	-7.6	-7.6	-5.6	-4.7	-5.2	-4.3
Of which: interest on external public debt	-8.0	-8.0	-7.0	-4.1	-3.8	-4.0	-4.8
Unrequited current transfers (net)	67.5	113.8	67.3	93.5	55.5	61.4	77.1
Private (net)	16.2	66.5	17.0	42.4	37.1	42.8	44.3
Public (net)	51.3	47.3	50.4	51.1	18.4	18.7	32.8
Of which: grants for budgetary assistance	26.5	38.7	25.3	22.7	0.0	0.0	0.0
Capital and financial account	107.7	140.6	217.9	202.1	131.8	148.1	169.9
Capital account	52.2	50.3	131.6	839.2	73.9	83.9	96.9
Private capital transfers	5.7	5.0	3.0	3.0	3.6	1.6	1.6
Project grants	46.5	45.3	74.2	51.9	70.3	82.3	95.3
Debt relief (MDRI)	0.0	0.0	54.4	784.3	0.0	0.0	0.0
Financial account	55.5	90.3	86.3	-637.1	57.9	64.3	73.0
Direct investment	7.1	7.8	7.3	6.9	7.0	9.8	10.0
Portfolio investment	2.5	14.5	6.0	-2.5	2.0	2.1	2.3
Other investment	46.0	68.0	73.0	-641.5	48.9	52.4	60.7
Public sector (net)	49.8	40.4	82.1	-649.9	43.8	52.4	57.3
Disbursements	64.1	55.0	96.7	75.3	48.6	57.4	62.5
Loans for budgetary assistance	17.6	14.8	56.5	33.0	0.0	0.0	0.0
Project loans	46.5	40.2	40.2	42.3	48.6	57.4	62.5
Amortization	22.4	14.6	14.6	725.1	4.8	5.0	5.2
Other (net)	-3.9	27.6	-9.1	8.3	5.1	0.0	3.4
Errors and omissions	-24.1	8.1	0.0	0.0	0.0	0.0	0.0
Overall balance	-25.9	15.6	41.8	62.2	-77.2	-76.3	-73.5
Financing	25.8	-15.6	-41.7	-62.1	77.2	76.0	73.3
Net foreign assets (Central Bank of West African States)	19.1	-18.4	-44.7	-64.9	0.0	-10.0	-15.8
Of which : Net use of Fund resources	0.6	1.6	-51.2	-51.9	1.5	0.7	0.0
Rescheduling obtained	6.7	2.8	3.0	2.8	3.4	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	73.8	86.0	89.1
Financing assurances	0.0	0.0	0.0	0.0	73.8	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(Percent of GDP, unless otherwise indicated)						
Memorandum items:							
Current account balance (includ. grants)	-7.0	-7.4	-9.4	-7.5	-10.6	-10.7	-10.9
Current account balance (exclud. grants)	-10.3	-10.1	-12.1	-10.3	-11.5	-11.6	-12.4
GDP (CFAF billions)	1570	1793	1877	1854	1971	2094	2233
Exchange rate (CFA francs per U.S. dollar, annual average)	527.6	527.1	…	…	…	…	…

Sources: Nigerien authorities; and staff estimates and projections.

Table 6 . Niger: Actual and Projected Payments to the Fund, 2004-2014
(In millions of SDRs, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Actual and scheduled disbursements	8.4	11.8	11.8	1.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Debt service obligations on outstanding disbursements[1]	5.1	3.1	0.3	0.5	0.5	0.5	0.6	3.4	4.0	4.0	3.9
Principal repayments[2]	4.5	2.5	0.0	0.0	0.0	0.0	0.1	2.9	3.5	3.5	3.5
Interest and charges[3]	0.6	0.6	0.3	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
As percent of quota	7.7	4.7	0.5	0.7	0.7	0.7	0.9	5.2	6.0	6.0	6.0
Projected debt service on prospective disbursements[4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	1.7	1.8
Principal repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	1.7	1.7
Interest and charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As percent of quota	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	2.0	2.6	2.7
Total debt service (on outstanding and prospective disbursements)	5.1	3.1	0.3	0.5	0.5	0.5	0.6	3.4	5.3	5.6	5.7
Principal repayments	4.5	2.5	0.0	0.0	0.0	0.0	0.1	2.9	4.8	5.2	5.3
Interest and charges	0.6	0.6	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4
As percent of quota	7.7	4.7	0.5	0.8	0.8	0.8	0.9	5.2	8.0	8.6	8.7
Outstanding Fund credit	87.2	89.3	23.5	25.4	26.3	26.3	26.2	23.3	18.5	13.3	8.1
As percent of:											
Exports of goods and services	23.8	21.4	5.8	5.3	5.0	4.7	4.2	3.5	3.1	2.1	1.2
Gross official reserves	56.4	50.2	12.1	12.9	12.3	11.1	10.0	8.8	7.3	5.1	3.0
GDP	4.4	3.9	1.0	1.0	1.0	0.9	0.8	0.7	0.5	0.4	0.2
Quota	132.5	135.7	35.7	38.6	40.0	40.0	39.9	35.4	28.1	20.2	12.2
Memorandum items:											
HIPC assistance[5]	5.2	7.2	17.7								
MDRI debt relief[5, 6]	0.0	0.0	59.8								

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

[1]Based on disbursements made after January 1, 2005.

[2]After HIPC and MDRI debt relief.

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

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

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

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

Table 7. Niger: Millennium Development Goals

	1997	2000	2003	2004
Goal 1: Eradicate extreme poverty and hunger				
Malnutrition prevalence, weight for age (% of children under 5)	..	40	..	..
Prevalence of undernourishment (% of population)	42	..	32	*32*
Goal 2: Achieve universal primary education				
Literacy rate, youth total (% of people ages 15-24)	..	..	..	37
Persistence to grade 5, total (% of cohort)	..	74	74	*74*
Primary completion rate, total (% of relevant age group)	16.6	16.8	19	25
School enrollment, primary (% net)	..	25	36	39
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	..	1	1	1
Ratio of girls to boys in primary and secondary education (%)	..	68.7	70.8	71.1
Ratio of young literate females to males (% ages 15-24)	..	..	..	44.2
Share of women employed in the nonagricultural sector (% of total nonagricultural)	..	..	..	..
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	35	34	64	74
Mortality rate, infant (per 1,000 live births)	..	159	..	152
Mortality rate, under-5 (per 1,000)	..	270	..	259
Goal 5: Improve maternal health				
Births attended by skilled health staff (% of total)	..	15.7	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	1,600	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children orphaned by HIV/AIDS	..	..	24,000	24,000
Contraceptive prevalence (% of women ages 15-49)	..	14	..	..
Incidence of tuberculosis (per 100,000 people)	..	..	..	157.4
Prevalence of HIV, total (% of population ages 15-49)	..	..	1	*1*
Tuberculosis cases detected under DOTS (%)	19	34.3	49.8	45.5
Goal 7: Ensure environmental sustainability				
CO2 emissions (metric tons per capita)	0.1	0.1	*0.1*	..
Improved sanitation facilities (% of population with access)	..	..	*12*	..
Improved water source (% of population with access)	..	..	*46*	..
Nationally protected areas (% of total land area)	..	..	7.7	7.7
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	31.3	17.9	35	39.7
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	14	8	6	5
Fixed line and mobile phone subscribers (per 1,000 people)	1.6	1.9	7.6	12.8
Internet users (per 1,000 people)	0	0.3	1.5	1.8
Personal computers (per 1,000 people)	0.2	0.4	0.6	0.7
Total debt service (% of exports of goods, services and income)	20	8	8	*8*
Other				
Fertility rate, total (births per woman)	8.2	8	7.8	7.7
GNI per capita, Atlas method (current US$)	180	160	180	210
GNI, Atlas method (current US$) (billions)	1.9	1.9	2.4	2.8
Gross capital formation (% of GDP)	10.9	11.4	14.2	15.9
Life expectancy at birth, total (years)	42.7	43.6	44.5	44.7
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	28.7
Population, total (millions)	10.6	11.8	13.1	13.5
Trade (% of GDP)	40.4	43.5	41.2	41.7

Source: World Development Indicators database, April 2006.

APPENDIX I—ATTACHMENT I
NIGER: LETTER OF INTENT

Niamey, December 6, 2006

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

Dear Mr. de Rato

1. The government continues to implement the policies and reforms envisaged under the PRGF-supported arrangement. Through September 2006, all performance criteria related to the third review have been met, with the exception of the target on nonaccumulation of domestic payment arrears and the application of flexible pricing system for petroleum products. We have taken corrective measures to address the above-noted slippages. All structural benchmarks through end-September 2006 have also been met. The bumper harvest in 2005 and a good harvest in 2006 have supported a recovery of the economy from the 2004 drought, reduced inflationary pressures, and improved food security, which has also benefited from substantial donor support.

2. In the first six months of the year budget outlays have remained well below the program targets, partly because of the improvement in food security, while revenue have exceeded the program objective. Accordingly, the fiscal deficit and net domestic financing were much smaller than envisaged under the program.

3. The program for the remainder of 2006 and for 2007, which is outlined in the attached Memorandum of Economic and Financial Policies (MEFP), focuses on policies and reforms aimed at strengthening economic growth and fighting poverty. In the last part of 2006 spending, especially on priority programs, will increase while attaining the program's fiscal objectives. For 2007 the fiscal program presented in the Budget Law is consistent with our poverty reduction strategy, including increased budget allocations for health, education and rural sectors. It also envisages continued reforms in tax and customs administration and public expenditure management. The government also intends to press ahead with reforms to help strengthen growth. In this context, we plan to finalize and adopt a revised Poverty Reduction Strategy Paper (PRSP) for 2007-09 by end-2006. A donor conference to mobilize funding for the revised PRSP, which would imply significantly higher financing needs than currently envisaged under the program's medium-term framework, is scheduled for the first quarter of 2007. A revised medium-term macroeconomic framework taking into account the revised PRSP will be developed during the fourth review of the PRGF.

4. The government requests the completion of the third review of the PRGF-supported program and waivers for the nonobservance of two performance criteria. It consents to the publication by the Fund of this letter of intent, the MEFP, the technical memorandum of

understanding, and the staff report. The government considers that the policies presented in the MEFP are adequate to attain the objectives of the program. It will take any further measures that may become appropriate for this purpose. Niger will consult with the Fund on the adoption of any policy measures in advance of any revisions to the policies contained in the MEFP, in conformity with the rules of the IMF policies on such consultation.

Sincerely yours,

/s/

Ali Lamine Zeine
Minister of Finance and Economy

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

APPENDIX I—ATTACHMENT II
NIGER: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES OF THE GOVERNMENT OF NIGER FOR 2006-2007

I. RECENT DEVELOPMENTS AND PROGRAM IMPLEMENTATION

Background and Macroeconomic developments

1. Economic and social conditions continued to improve since the last quarter of 2005. The 2005 harvest late in year was one of the largest on record, pushing real GDP growth up to 7 percent for the year as a whole, after a decline of 1 percent in 2004. This led to significant declines in food prices in the last quarter of 2005; on the basis of data for the first 8 months of 2006, inflation is projected at about 0.3 percent on average in 2006. Good rains in July-September have resulted in a normal harvest in late 2006. These conditions have helped reduce the number of vulnerable people from 1.8 million in early 2006 to about 1 million in September. Overall economic growth in 2006 is estimated at some 3.5 percent.

2. In 2006, the external current account deficit is estimated at 7.5 percent of GDP, broadly unchanged from 2005, as an increase in the oil import bill of CFAF 16 billion would be offset by lower cereal imports, which were high in 2005 because of a drought. In addition to high fuel prices in 2006, the higher oil import bill also reflects increased import volume aimed at rebuilding domestic stocks after their depletion in 2005 because of production interruptions in regional refineries. Taking into account project grants and loans and budget support, the net foreign assets of the central bank (excluding the impact of debt relief provided by the Fund under the MDRI of about CFAF 60 billion) would remain unchanged from its 2005 level.

3. Bank credit to the economy grew strongly during January-September (21.6 percent) reflecting support for new investments in key sectors such as mining and telecommunication; this followed 20 percent increase in credit in 2005. The expansion of credit also reflects the activities of new banks. Broad money expanded by 12.6 percent during January-July, with a 17 percent increase in currency in circulation. Net foreign assets of the banking system (excluding the impact of MDRI) remained broadly unchanged during the first 7 months of 2007. Broad money growth is expected to slowdown to some 6 percent by end-year.

Fiscal Policy

4. During the first half of 2006, the government maintained prudent macroeconomic policies and advanced reforms critical for strengthening growth and reducing poverty. The basic fiscal deficit was limited to CFAF 17.0 billion (0.9 percent of the estimated GDP for 2006, including HIPC financing investment), much lower than the programmed CFAF 46.5 billion, reflecting better revenue performance and slower implementation of expenditure programs, mainly related to food security and investment. The low spending for food security was made possible by adequate donor support and an improvement in the food security situation. However, disbursements for the education and health sectors using HIPC

resources were also low, and measures have been taken to ensure the acceleration of disbursements in the second half of the year. The economic rebound in late 2005 and improvements in tax and customs administration—tightened control of import valuation and of transit operations, and reinforced auditing of domestic tax obligations of large and medium-sized enterprises—yielded CFAF 13 billion (0.7 percent of GDP) higher revenue than anticipated.

5. Through June 2006, all quantitative performance criteria and benchmarks under the Poverty Reduction and Growth Facility (PRGF) were observed (Table 1), with the exception of that on domestic arrears. The lower basic deficit (an indicative target under the program) contained domestic financing of the budget (a performance criterion) to a level significantly lower than programmed, even when adjusted for the smaller than programmed spending on food security. Of the other indicative targets, the wage bill was in line with the program target, while total budgetary revenue exceeded the program target. The performance criteria related to the nonaccumulation of external arrears and the concessionality of newly contracted debt were also observed.

6. All structural performance criteria and benchmarks through end-September were also observed except for that pertaining to the petroleum pricing mechanism (Table 2). They relate to monthly indicators for main customs offices (continuous performance criterion), the reduction of the non-VAT filers at the large taxpayers unit to less than 5 percent and the audit of large enterprises (at least 60) (both performance criteria), and the design of a timetable to audit enterprises that benefit from custom duty exemptions (a benchmark). On petroleum pricing, in view of strong increases in world fuel prices and intense social pressures, the government allowed tax deferment in July, August and September 2006. Total revenue loss during the above-noted period is estimated at CFAF 0.2 billion.

7. Donor assistance and the disbursements by government helped strengthen food security, through targeted sales at moderate prices and free distributions of food to vulnerable segments of the population and the rebuilding of strategic grain reserves. The National System of Security has received through September 2006 donor support of CFAF 7.9 billion which was used to sell cereals at moderate prices and to rebuild the strategic grain reserves of *Cellule Crise Alimentaire (CCA).* The latter will reach 16,000 tons by end-October 2006. The office responsible for food storage (OPVN) also received CFAF 3.5 billion through end-October 2006 and donor support of CFAF 2.7 billion, which allowed the office to buy local rice that was partly resold at moderate prices and to rebuild the strategic grain reserves. The office is also expected to receive soon an additional CFAF 1.5 billion from the government. With these resources, OPVN grain reserves would reach some 30,000 tons, bringing the total stock (including that of CCA) to some 46,000 tons. Additional resources for rebuilding the strategic grain reserves are expected to be disbursed in the next few months by the Islamic Development Bank (CFAF 2.6 billion) and the European Union (CFAF 3.9 billion), which would increase the grain reserves by an additional 30,000 tons. Further, disbursements for funds for nutritional purposes and agriculture inputs are expected to reach CFAF 7 billion and the government will provide additional support through the early warning system (SAP). In total, budget and donor support for the food security program would reach some CFAF 32 billion in 2006, relative to CFAF 51 billion estimated in March 2006.

Public expenditure management

8. The government has continued executing the recommendations of the Public Expenditure Management and Financial Accountability Review (PEMFAR), which benefits from the technical assistance of a number of donors. Specifically, the government has (i) finalized the medium-term expenditure framework for the rural sector for 2007-09, and the one for the post primary education; and (ii) prepared an action plan to strengthen the financial control function, including the preparation of a manual of procedures, and training on the new functional budgetary classification and public procurement procedures. In addition, a new department of Public Procurement has been established by decree of 18th August, 2006 to strengthen the transparency of government transactions. Despite these actions, further efforts are required to strengthen expenditure management and procurement. Actions are under way to speed up the procedures of expenditure commitment and payments orders. To this end, a pilot unit is being established where budget offices of line ministries can initiate expenditure commitments and obtain necessary approvals by the budget department and also get information on actual payments by treasury. Also, at the regional level, budget offices (which execute *crédits délégués*—about 20 percent of total budgetary credits) are being computerized to accelerate the execution of expenditure and the flow of information to the central budget directorate, and to establish better linkages with the regional treasury offices.

9. The monitoring of budgetary execution is being strengthened. The budgetary nomenclature is satisfactory, although certain weaknesses remain regarding the functional classification, and contains a code to identify poverty-reducing outlays. This has facilitated the monitoring of expenditure execution, including priority programs included in the unified list that was established in September 2005 and included in the 2006 budget law.

10. Regarding the regularization of treasury accounts, the initial balances of the fiscal years 1997-2002 have been integrated into the treasury accounts after consultation with the Auditor Court (*Chambre des Comptes*). However, the integration of initial balances is incomplete for pre-1996 fiscal years; this will take place before end-June 2007 (a performance criterion), after the adoption of the laws approving budget executions for 1987-1996. This will allow establishing the consolidated government accounts at end-December 2002, including the balances for 1997 and preceding years.

II. Economic and Financial Policies for the Remainder of 2006

Fiscal policy

11. The fiscal program for 2006 has been revised to incorporate slower execution of certain expenditure programs and the impact of debt relief (CFAF 3 billion) provided by the International Development Association (IDA) and the African Development Fund. Total expenditure (excluding foreign-financed projects) is estimated to be CFAF 27.8 billion lower than envisaged under the program (1.5 percent of GDP). This reflects lower spending on the food security program, lower interest payments to multilateral creditors in view of MDRI,

and a slower execution of investment because of capacity constraints. The revenue mobilization effort will continue on the basis of the medium-term action plans of the customs and tax directorates. The tax revenue target for the year is CFAF 203 billion, 2 billion higher than programmed, while overall revenue is targeted at CFAF 210 billion (equivalent to 11.3 percent of GDP), in line with the program objective. In customs administration, key measures envisaged for end-December 2006 are: (i) finalizing an electronic interconnection between the border posts of Torody and Gaya and Niamey to ensure a rigorous monitoring of the goods that are processed in the Niamey main custom offices (structural benchmark); and (ii) establishing units of ex-post control of imports valuations and exemptions in the three largest regional customs offices (performance criterion). The tax department will continue its efforts to contain the number of non filers at the medium size tax payer office (MTO); however, the initial target of 10 percent by end December 2006 cannot be observed due to an increase in the number of tax payers now under the office, many of which are inactive; accordingly, the target has been revised to 25 percent (structural benchmark). More efforts will be made to control the final use of tax-exempted goods, including by strengthening the coordination between the customs and the tax departments.

12. On this basis, the basic fiscal deficit (excluding foreign-financed investment) is projected at CFAF 49.7 billion (2.7 percent of GDP), compared with the originally programmed CFAF 76.7 billion (4.1 percent of GDP). Taking into account the targeted reduction in domestic arrears (CFAF 6.1 billion), the cash deficit is estimated at CFAF 53.2 billion. On the financing side, with unanticipated higher repayments of the statutory advance to the BCEAO (CFAF 4.1 billion) on the basis of a new agreement signed in July 2006, and an estimated shortfall in net external budget support of CFAF 11 billion (CFAF 56 billion relative to programmed CFAF 67 billion), net domestic financing (excluding financing from the Fund) is targeted to decline by CFAF 5.1 billion, compared with an increase of CFAF 7 billion envisaged originally.

Structural reforms

13. The committee responsible for the evaluation of domestic debt and arrears, which prepared a preliminary report in August 2005 on the evolution of the end-1999 stock domestic arrears during the period of 1999-2004, updated its analysis through end-June 2006. On this basis, the remaining stock is estimated at CFAF 137 billion, excluding debt vis-à-vis the BCEAO which was rescheduled in July 2006. The bulk of these arrears relate to public and private suppliers (CFAF 71 billion). Arrears related to deposits at the Treasury of autonomous agencies, local authorities, and the National Social Security Service (CNSS) are also estimated at CFAF 44 billion. To improve the management of domestic debt and arrears, the debt management unit at the Ministry of Finance and the Economy (CAADIE) will be strengthened through the provision of additional human and material resources. This will allow the unit, *inter alia,* to update the situation of domestic arrears on a quarterly basis. During 2006, the reduction of domestic arrears is programmed at CFAF 6.1 billion, which is mainly related to wages. For 2007, the reduction of domestic arrears is targeted at CFAF 15.2 billion. For the remainder, a reduction plan will be finalized by end-December 2006 (structural benchmark).

14. The government has advanced financial sector reforms. Regarding *Credit du Niger* (CDN), consultants on privatization have completed reports on the financial situation of the bank and privatization options. Understandings have been reached with the BCEAO on a schedule for repaying the CDN debt toward this institution. The solicitation of investor interest for CDN will be launched in December 2006.

15. The restructuring of the National Postal Office (ONPE) is underway, with the establishment of two separate postal (NigerPoste) and financial branches (FinaPoste). To allow FinaPoste to meet its capital requirement and apply for a license from the central bank, the government will provide CFAF 1.0 billion before end-December 2006. Government's payment will be considered a partial payment of the liability of ONPE on account of frozen deposits (CFAF 4.8 billion). The detailed modalities of reimbursements of frozen postal deposits will be finalized before end-December 2007 (a performance criterion). A part of these deposits (CFAF 1.4 billion) will be repaid by end-December 2007, and the rest by end-December 2009. Regarding NigerPoste, the government is committed to providing adequate subsidies to ensure the financial viability of the institution as it provides services across the country, including in rural areas. For the current fiscal year, subsidies equivalent to CFAF 0.4 billion will be disbursed before end-December 2006.

16. The government is in the process of strengthening the microfinance sector. To that end it has prepared a draft decree for creating a more effective regulatory agency. The government will adopt the decree by end-December 2006 (a structural benchmark). The government is also developing a restructuring plan for the two largest microfinance institutions (Taimako and MCPEC) which are in financial difficulties.

III. Economic and Financial Policies for 2007

A. Macroeconomic Framework

17. In 2007, real GDP growth is projected at about 4 percent, reflecting favorable performance of the agriculture (including livestock), and mining and construction sectors. The mining sector would benefit from ongoing investment in the sector as well as a recovery of gold production after technical problems weakened its performance in 2006. Overall inflation is projected at 2 percent. The external current account deficit (including grants) is projected to widen to 10.6 percent of GDP, as expected increase in the exports of uranium and gold would be more than offset by a strong increase in imports, mainly related to foreign-financed investment projects and other government outlays. Taking into account external budget and project support, the net foreign assets of the central bank could remain stable. The government is reviewing the medium-term outlook in the context of the ongoing preparation of the revised PRSP for 2007-2009 and a revised outlook will be presented during the fourth review of the PRGF-supported program.

B. Fiscal Policy

18. The 2007 fiscal policy will be geared toward providing more resources to priority programs—consistent with the recently prepared medium-term expenditure frameworks for education, health and the rural sectors—while safeguarding debt sustainability. In this regard, the basic fiscal deficit (excluding foreign-financed investment) is projected to increase from CFAF 49.7 billion (2.7 percent of GDP) in 2006 to 65.3 billion (3.3 percent of GDP), which is 0.5 percent of GDP higher than originally programmed. Domestic revenue is expected to be CFAF 1 billion (0.1 percent of GDP) higher than envisaged in the June 2006 MEFP owing to ongoing improvements in customs and tax administration and additional structural measures envisaged for 2007 (see below). On this basis domestic revenue should reach the equivalent of 12 percent of GDP, relative to 11.8 percent originally envisaged.

19. Total expenditure (excluding interest due and foreign financed projects) are programmed to exceed the original program by CFAF 17 billion (0.9 percent of GDP). The additional outlays reflect mainly unanticipated transfers to the National Social Security Fund and additional spending room for priority programs created by lower interest payments (CFAF 7 billion) partly related to the impact of MDRI. The latter is consistent with the government's commitment to strengthen programs aimed at boosting economic growth and reducing poverty (in line with adopted medium term expenditure frameworks) including the provision of free health services to children under age five and pregnant women. Accordingly the proposed fiscal program will increase expenditure (excluding foreign-financed investment) for education, health, and rural sector development. Foreign-financed projects are expected to increase significantly, especially those financed by grants, reflecting ongoing efforts to strengthen execution capacity.

20. The proposed fiscal program is fully financed. With a planned reduction in domestic arrears of CFAF 15.2 billion (0.8 percent of GDP), the overall cash deficit (excluding foreign-financed investment) is projected at CFAF 80.5 billion (4.1 percent of GDP). Taking into account identified external budget support of CFAF 73.8 billion (mainly from the World Bank, European Union, African Development Bank, France, and Belgium), net domestic financing (excluding financing by the Fund) is targeted at CFAF 6.7 billion (0.3 percent of GDP). While this is higher than the CFAF 1.8 billion initially programmed, cumulative domestic financing from January 2006 through December 2007 will be lower than originally envisaged under the program.

Reforms in customs/tax administration and public expenditure management

21. The revenue mobilization effort will be based on the implementation of the reforms under way at the Customs and Tax Departments. Concerning the Custom Department, priority will be given to: (i) more efficient use of data shared electronically by the two border posts of Torody and Gaya and those of Niamey, where the custom operations are conducted; (ii) full migration to the Sydonia ++ computer system for the Torody office and the offices in the interior of the country; (iii) the gradual electronic interconnection between regional custom offices and those at the border so as to better monitor customs declarations at the destination centers; (iv) improving the monitoring of goods in transit and in tax free

warehouses through electronic interconnection between the two Niamey customs offices and the headquarter of customs; (v) streamlining the list of certified customs commissioners to ensure only professionally licensed are allowed to conduct business with customs; (vi) strengthening control at the unloading harbors of goods destined to Niger, with the full utilization of shipment documentation of shippers; and (vii) reinforcing the monitoring of exemptions, while imposing strict limitation on exemptions for certain food and petroleum products.

22. Regarding the Tax Department, key measures are: (i) the full use of the analysis carried out by the research and investigation unit on the suppliers and clients of taxpaying enterprises; (ii) replacing cumbersome monthly declarations with a simplified tax regime with quarterly tax declarations for the small and medium-sized enterprises (performance criterion for end-December 2007); (iii) strengthening joint controls by customs and tax departments on companies benefiting from exemptions, and the follow-up of the use of exempted products; (iv) linking electronically the headquarters office with provincial offices; (v) updating the file of taxpayers under the Large Taxpayers Unit to enterprises consistently with the threshold of CFAF 100 million turnover (structural benchmark for end-March 2007); and (vi) continuation of on site controls by the unit of small and medium-sized enterprises in order to ensure the filing of tax declarations.

23. The strengthening of public expenditure management will continue on a number of key fronts: (i) the strengthening of budget preparation, with full integration with the medium-term expenditure framework; (ii) the strengthening of the expenditure monitoring at the commitment, liquidation, payment order and payment stages, with particular attention to priority expenditure; (iii) streamlining budget procedures and regulations so as to avoid delays in budget execution; (v) the strengthening of ex-ante and ex-post controls (financial comptrollers, finance inspectors, auditor court) through recruitment and training; (vi) the reduction of delays in the establishment of treasury accounts and the preparation of the budget execution laws.

24. Specific measures in public expenditure management are: (i) the publication of reports on budgetary execution (on a payment order basis, and including the priority programs under unified list) initially on a semiannual basis, and on a quarterly basis from end-2007. The publication of the budgetary execution in 2006 before end-March 2007 will constitute a structural benchmark; (ii) completion of the computerization of the decentralized budget offices (*centres de sous-ordonnancement*); (iii) establishment before end-June 2007 of the consolidated balance of treasury accounts at end-2002, including the balances preceding 1997 (a performance criterion); (iv) the reduction of the number of deposit accounts at the Treasury, with the closing of inactive accounts and of those which present debit balances. The closing of the debit accounts will take place before end-June 2007 (structural benchmark).

C. Money, Credit and Financial Sector Reforms

25. In 2007, monetary policy will continue to be conducted at the regional level with the objective of containing inflation and maintaining adequate level of reserves. Credit to the economy is expected to grow at a healthy rate of some 7.7 percent while the growth of credit

to government will remain modest. Net foreign assets are projected to increase modestly. Accordingly, broad money growth is projected at about 6.0 percent.

26. The government will continue to advance financial sector reforms in 2007. The offer for sale of CDN will be launched before end-February 2007, based on the expression of investor interest that is expected by end-December 2006. FinaPoste will also become operational in early 2007. Regarding the two largest microfinance institutions that are in financial difficulties, the government will implement a restructuring plan with assistance from development partners. Further, the microfinance regulatory agency will be provided with adequate human and material resources to effectively exercise its functions.

D. External Debt Sustainability and Management

27. The government will continue to pursue a prudent external debt strategy following the debt relief obtained under the MDRI. The implications of the MDRI on external debt sustainability will be fully incorporated into our revised poverty reduction strategy which will include a plan for utilizing the debt relief in a manner most effective to reach the Millennium Development Goals. To preserve the benefits of the MDRI, the government will continue to contract debt only with a grant element of at least 50 percent in 2007. To ensure the implementation of this policy, the Department of Debt at the Ministry of Economy and Finance has been further strengthened, with assistance from donors, through training of staff and the provision of equipments.

E. Other Structural Reforms and PRSP Issues

28. The government reaffirms its commitment to adopting the PRSP as the unique vehicle for mobilizing donor support to assist us in achieving the MDGs. We are in the process of updating the PRSP for 2007–09, with participation by a cross section of Nigerien society and development partners. The revised PRSP takes into account, *inter alia,* the results of recently completed surveys to update Niger's poverty indicators. Further, the relationship between the sectoral strategies, the medium expenditure frameworks, and economic growth was analyzed with assistance from the World Bank and the UNDP. The revised PRSP is expected to be finalized before end-November 2006 and will be submitted then to a national conference for validation. It will be submitted to the national assembly by December 2006. We will be convening a roundtable conference in early 2007, at which we will be seeking commitment of financial and technical assistance from our development partners. In the meantime, the government has issued the annual progress report on the implementation of the PRSP during 2004-2005.

29. On **petroleum pricing**, the government will implement the monthly pricing mechanism for retail petroleum products in accordance with the decree of August 2001. In case world fuel prices decline in the future, government will not reduce domestic retail petroleum prices until deferred revenue during July-September 2006 is fully recovered. In case of an emergency situation that would require the review of this policy, the government will consult with the Fund concerning the adoption of appropriate measures.

IV. PROGRAM MONITORING

30. Program monitoring will be based on six-monthly and continuous quantitative performance criteria, structural performance criteria, including continuous structural performance criteria, and on indicative targets and structural benchmarks (Tables 1b and 2b). The definitions of performance criteria and benchmarks are provided in the Technical Memorandum of Understanding (TMU; Attachment II). Program ceilings on domestic financing (excluding the position vis-à-vis the IMF) will be adjusted for deviations in external budget support relative to program projections. This will allow the smooth implementation of poverty reducing outlays, and, in the case of higher than projected external budget support, permit a faster implementation of these programs. In case of shortfalls relative to projections in external budget support, the quarterly ceilings on net domestic financing will be adjusted upward by a maximum of CFAF 15 billion. In case of higher than projected external budget support, the quarterly ceilings on net domestic financing will not be adjusted downward up to CFAF 5 billion. The fourth review under the program is expected to be completed by end-May 2007, the fifth review by end-November 2007, and the sixth review before the arrangement expires.

Table 1a. Niger: Quantitative Performance Criteria and Indicative Targets for the Period January 01, 2007-December 31, 2007

(Billions of CFA francs)

	End-March Indicative Targets	End- June Performance Criteria	End- September Indicative Targets	End-December Performance Criteria
	Prog.	Prog.	Prog.	Prog.
A. Quantitative performance criteria and indicative targets				
(cumulative from December 31, 2006)				
Domestic financing of the budget [1, 2]	6.1	10.8	17.6	6.7
Reduction in government domestic payments arrears[3]	3.4	6.3	11.4	15.2
Memorandum item:				
Exceptional external budgetary assistance[4]	5.3	18.5	34.6	68.6
B. Continuous quantitative performance criteria				
Accumulation of external payments arrears	0.0	0.0	0.0	0.0
New external debt contracted or guaranteed by the government with maturities of 0-1 year[5]	0.0	0.0	0.0	0.0
New nonconcessional external debt contracted or guaranteed by the government with maturities over 1 year [6]	0.0	0.0	0.0	0.0
C. Indicative Targets				
(cumulative from December 31, 2006)				
Basic budget balance (commitment basis, excl. grants)[7]	-8.9	-24.8	-41.2	-65.3
Total revenue[8]	56.8	113.3	170.6	236.2
Wage bill [9]	18.3	36.6	54.9	73.3
Accumulation of domestic payment arrears	0.0	0.0	0.0	0.0

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

[1]Performance criteria for program indicators under A and B; indicative targets otherwise.

[2]The ceiling on domestic financing of the budget will be adjusted if the amount of disbursements of external budgetary assistance, as defined in footnote 4, exceeds or falls short of program forecasts. If disbursements are less than the programmed amounts, the ceiling will be raised pro tanto, up to a maximum of CFAF 15.0 billion at the end of each quarter of 2007. If disbursement exceeds programmed amounts by more than CFAF 5.0 billion, the ceilings will not be adjusted downwards for the the first CFAF 5.0 billion.

[3]Minimum.

[4]External budgetary assistance (including traditional debt relief including HIPC assistance and resources freed up under the MDRI, but excluding net financing from the IMF) less external debt service and payments of external arrears.

[5]Excluding ordinary credit for imports or debt relief.

[6]Excluding debt relief obtained in the form of rescheduling or refinancing; 50 percent minimum concessionality for new loans from 2006.

[7]Minimum, defined as the difference between total revenue, excluding grants and revenue from the settlement of reciprocal debts between the government and enterprises, and total expenditures, excluding externally financed capital expenditures. If external budgetary assistance defined in footnote 4 exceeds the amounts programmed by up to CFAF 5.0 billion, the basic budget balance will be decreased only by that amount.

[8]Minimum. 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.

[9]The scope of the wage bill is defined in the technical memorandum of understanding.

Table 1b. Niger: Quantitative Performance Criteria and Indicative Targets for the Period January 01, 2006-December 31, 2006
(Billions of CFA francs)

	End-March Indicative Targets			End-June Performance Criteria			End-September Indicative Targets	End-December Performance Criteria
	Prog.	Prog. Adj.	Est.	Prog.	Prog. Adj.	Est.	Prog.	Prog.
A. Quantitative performance criteria and indicative targets								
(cumulative from December 31, 2005)								
Domestic financing of the budget[1, 2]	27.8	27.8	-2.2	44.2	46.4	6.2	-9.1	-5.1
Reduction in government domestic payments arrears (accumulated through end-2005)[3]	2.0	2.0	-4.6	2.8	2.8	-2.7	4.2	6.1
Memorandum item:								
Exceptional external budgetary assistance [4]	5.2	...	6.3	7.0	...	4.7	55.1	48.3
B. Continuous quantitative performance criteria								
Accumulation of external payments arrears	0.0	...	0.0	0.0	...	0.0	0.0	0.0
New external debt contracted or guaranteed by the government with maturities of 0-1 year[5]	0.0	...	0.0	0.0	...	0.0	0.0	0.0
New nonconcessional external debt contracted or guaranteed by the government with maturities over 1 year[6]	0.0	...	0.0	0.0	...	0.0	0.0	0.0
C. Indicative Targets								
(cumulative from December 31, 2005)								
Basic budget balance (commitment basis, excl. HIPC Initiative financed investment)	-21.8	...	-4.6	-35.6	...	-17.0	-31.7	...
Basic budget balance (commitment basis)[7]	...		...	...		...	...	-49.7
Total revenue[8]	50.1	...	51.1	92.7	...	106.2	154.0	210.3
Wage bill [9]	17.2	...	17.2	34.5	...	34.2	51.9	68.8
Accumulation of domestic payment arrears	0.0	...	0.0	0.0	...	0.0	...	0.0

Note: The terms in this table are defined in the TMU.
[1]Performance criteria for program indicators under A and B; indicative targets otherwise.
[2]The ceiling on domestic financing of the budget will be adjusted if the amount of disbursements of external budgetary assistance, as defined in footnote 4, exceeds or falls short of program forecasts. If disbursements are less than the programmed amounts, the ceiling will be raised pro tanto, up to a maximum of CFAF 7.5 billion at the end of March, June and September 2006, and up to a maximum of CFAF 15 billion at end December 2006. If disbursement exceeds programmed amounts by more than CFAF 5.0 billion, the ceilings will not be adjusted downwards for the the first CFAF 5.0 billion.
[3]Minimum.
[4]External budgetary assistance (including traditional debt relief including HIPC assistance and resources freed up under the MDRI, but excluding net financing from the IMF) less external debt service and payments of external arrears.
[5]Excluding ordinary credit for imports or debt relief.
[6]Excluding debt relief obtained in the form of rescheduling or refinancing; 50 percent minimum concessionality for new loans from 2006.
[7]Minimum, defined as the difference between total revenue, excluding grants and revenue from the settlement of reciprocal debts between the government and enterprises, and total expenditures, excluding externally financed capital expenditures. If external budgetary assistance defined in footnote 4 exceeds the amounts programmed by up to CFAF 5.0 billion, the basic budget balance will be decreased only by that amount.
[8]Minimum. 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.
[9]The scope of the wage bill is defined in the technical memorandum of understanding.

Table 2a. Niger: Structural Performance Criteria and Benchmarks for 2006

Measures	Date	Status
Structural performance criteria		
Apply the pricing system for petroleum products as defined in paragraph 15 of the MEFP and paragraph 22 of the TMU.	Continuous	Not observed
Adopt monthly performance indicators for the main customs offices and consistently track compliance with these indicators by producing monthly implementation reports for submission to the IMF.	Continuous	Observed
Reduce the number of VAT non-filers at the large taxpayers' office (LTO) to maximum of 5 percent.	End-September 2006	Observed
Audit a minimum of 60 large enterprises under the control of the LTO by September 2006.	End-September 2006	Observed
Set up, in the three largest regional customs offices, the units for ex-post control of imports valuations and exemptions.	End-December 2006	Underway
Structural benchmarks		
Design a time schedule to audit entities that benefit from tax and customs duty exemptions, with the objective of auditing 30 percent of revenue foregone in each year.	End-June 2006	Observed
Reduce the number of non-filers at the medium sized taxpayer office (MTO) to a maximum of 10 percent.	End-December 2006	Modified (see Table 2b)
Computerize the management of customs transit between Torodi and Niamey, including electronic exchange of messages.	End-December 2006	Underway

Table 2b. Niger: Structural Performance Criteria and Benchmarks for the December 2006-December 2007 Program

Measures	Date	Comments
Structural performance criteria		
Apply the pricing system for petroleum products adopted on August 1, 2001 (para. 29 of MEFP).	Continuous	
Adopt monthly performance indicators for the main customs offices and consistently track compliance with these indicators by producing monthly implementation reports for submission to the IMF.	Continuous	
Set up, in the three largest regional customs offices, the units for ex-post control of imports valuations and exemptions.	End –December 2006	
Establishment of the consolidated treasury balance for end-2002, including entry balances for the years before 1997 (para. 24 of MEFP).	End –June 2007	
Adoption of a decree defining the modalities for reimbursing the frozen postal savings accounts of the former National Postal Saving Office over a two years period (para. 15 of MEFP).	End-December 2007	
Introduction of a simplified tax regime with quarterly filing for the small and medium scale enterprises, replacing monthly filing (para. 22 of MEFP).	End-December 2007	
Structural benchmarks		
Payment by the government of the capital contribution to FinaPoste.	End-December 2006	
Establishment of an action plan to settle domestic arrears outstanding at end-1999, resulting from the 2005 audit.	End-December 2006	
Adoption of the decree establishing a supervisory agency for microfinance institutions .	End-December 2006	
Reduce the number of non-filers at the medium sized taxpayer office (MTO) to a maximum of 25 percent	End-December 2006	
Computerize the management of customs transit between Torodi and Niamey, including electronic exchange of messages.	End-December 2006	
Payment of the annual government subsidy to NigerPoste for providing national services.	End-December 2006 and end-December 2007	
Launch tender for privatization of Credit to Niger to short listed investors.	End-February 2007	
Fully updating the list of companies obligated to file with the Large Taxpayers Unit, according to the 100 billion CFAF turnover threshold.	End-March 2007	
Publication of data on the 2006 execution of the state budget, on a payment order basis, and the execution of the 2006 expenditures on the priority unified list.	End-March 2007	
Regularize Treasury depositors accounts which are in overdraft, and close accounts of inactive depositors.	End-June 2007	

APPENDIX I—ATTACHMENT II
NIGER: TECHNICAL MEMORANDUM OF UNDERSTANDING

Niamey, December 6, 2006

1. This technical memorandum of understanding updates the definitions of the quantitative performance criteria and indicative targets for Niger's program under the Poverty Reduction and Growth Facility (PRGF) arrangement approved by the Executive Board in January 2005 Country Report 05/79. The quantitative performance criteria and indicative targets for December 2006, March 2007, June 2007, September 2007 and December 2007 are set out in Table 1 attached to the government's memorandum of economic and financial policies (MEFP) dated December 6, 2006. The memorandum also sets out the data-reporting requirements for monitoring the program.

I. DEFINITION OF TERMS

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

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

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

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

(c) **External payments arrears** are external payments due but not paid. **Domestic payments arrears** are domestic payments due but not paid, including *reste á payer* at the Treasury that are over 120 days overdue.

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

II. Quantitative Performance Criteria

A. Net Domestic Financing of the Government

Definition of the performance criterion

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

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

5. The scope of the net bank credit to the government as defined by the BCEAO includes all central government administrations. The 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.

6. Nonbank net domestic financing includes : (i) the change in the amount of government bonds issued in the regional WAEMU market and not held by Niger's commercial banks; (ii) the change in the deposits of Treasury correspondents; (iii) the change in "*comptes de consignations"* at the Treasury.

7. The target for end-December 2006 is based on the variation of stock in net bank credit to the government from December 31, 2005; the 2007 quarterly targets are based on the variation of stock in net bank credit to the government from December 31, 2006 to the date considered for the performance criterion or the indicative target.

Adjustment

8. The quarterly **ceilings on net domestic financing** will be subject to adjustments if disbursements of external budgetary support (including IMF financing under the PRGF) less external debt service and arrears payments exceed or fall short of projected amounts. External budgetary support includes resources freed up under the MDRI. The adjustor for end-December 2006 will be based on external budgetary assistance calculated from January 1, 2006. For 2007, external budget support is calculated from January 1, 2007.

9. In the event disbursements exceed projected budgetary assistance by up to a limit of CFAF 5 billion, the quarterly ceilings on net domestic financing will not be adjusted downward. If disbursements exceed programmed budgetary assistance by more than CFAF 5 billion, the ceilings on net domestic financing will be adjusted downward pro tanto by the amount of the excess disbursements beyond the CFAF 5 billion.

10. In the event disbursements fall short of projected external budgetary assistance, the quarterly ceilings on net domestic financing for end-December 2006 and for 2007 will be raised by a maximum of CFAF 15 billion.

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

Reporting requirement

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

Reduction of Domestic Payments Arrears on Government Obligations

Definition of the performance criterion

13. **Domestic payments arrears** are constituted by: (i) arrears identified at end-1999 on the basis of the audit conducted by the Ministry of Finance in 2005; (ii) the *restes à payer* at the Treasury (Treasury float) outstanding at end-2005 and not paid by end-September 2006. The stock of arrears will be reduced by the amounts indicated in Table 1 annexed to the

MEFP. The objective for end –December 2006 is expressed in term of the change in the stock of arrears from end-December 2005. The quarterly objectives for 2007 are expressed in terms of changes of the stock of arrears from end-December 2006 to the end of each quarter in 2007.

14. The *Centre d'Amortissement de la Dette Intérieure de l'Etat* (CADDIE) and the Treasury are responsible for calculating the stock of domestic arrears, and recording their repayments.

Reporting requirement

15. Monthly data on the outstanding balance (by creditor), accumulation (including reste á payer at the Treasury), and repayment of domestic payments arrears on government obligations will be provided monthly within six weeks following the end of each month.

B. Nonaccumulation of External Payments Arrears

Definition of the performance criterion

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

Reporting requirement

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

C. 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.

D. 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 six weeks following the end of each month. The same requirement applies to guarantees extended by the central government.

E. Pricing of Petroleum Products

Definition of the performance criterion

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

III. Indicative Targets

A. Definitions

24. 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.

25. 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.

26. The basic fiscal deficit is defined as the difference between total expenditure (excluding foreign-financed investment, but including HIPC-financed investment) and domestic revenue as defined in paragraph 23.

27. The government undertakes not to accumulate any new domestic payments arrears on government debt as defined in paragraph 2c above. Thus the amount of the *restes à payer* at the Treasury of more than 120 days will not increase in the period from end-December 2005 and end-December 2006, and, similarly, will not increase during the periods from end-December 2006 to end-March, end-June, end-September and end-December 2007.

B. Reporting Requirement

28. 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

29. 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;
- the table of government financial operations with monthly data on domestic and external financing, and the changes in arrears (arrears outstanding at end-1999) and *restes à payer* at the Treasury. These data are to be provided monthly within six weeks following the end of each month;
- quarterly data on the expenditures of the unified priority list, and the data on expenditures on HIPC resources, on a payment order basis, to be provided within six weeks following the end of each quarter;
- quarterly data on implementation of the public investment program, including details on financing sources, to be provided quarterly within eight weeks following the end of each quarter; and
- monthly data on debt service, to be provided within six weeks following the end of each month.

B. Monetary Sector

30. 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 (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

31. 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

32. 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

33. 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.

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 the government financial operations, including breakdown of revenue and expenditure, the repayments of arrears outstanding at end-1999 and the change in the *restes à payer* (RAP) at the Treasury.	Monthly	End of month + six weeks
	Data on the stock of *restes à payer* at the Treasury (total and RAP older than 120 days)	Monthly	End of month + six weeks
	Monthly data on the deposits of the correspondents with the Treasury	Monthly	End of month + six weeks
	Investment expenditure execution	Quarterly	End of quarter + eight weeks
	Table on the execution of budgetary expenditures, of the expenditures in the priority unified list, and of expenditures on HIPC resources	Quarterly	End of quarter + six weeks
	General balance of Treasury accounts	Monthly	End of month + six quarters
	Petroleum product pricing formula, tax receipts, and pricing differentials	Monthly	End of month + two 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

Type of Data	Tables	Frequency	Reporting Lag
	Lending and deposit interest rates	Monthly	End of month + eight weeks
	Banking prudential 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 + six weeks
	Terms of new external loans		End of month + six weeks

Appendix II. Niger: Relations with the Fund
(As of October 31, 2006)

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

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

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	9.41	100.0
Holdings	0.07	0.71

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
Enhanced Structural Adjustment Facility (ESAF) Arrangements	17.63	26.79

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	01/31/2005	01/30/2008	26.32	17.63
PRGF	12/22/2000	06/30/2004	59.20	59.20
PRGF	06/12/1996	08/27/1999	57.96	48.30

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

	Forthcoming				
	2006	2007	2008	2009	2010
Principal					0.09
Charges/interest	0.14	0.47	0.47	0.47	0.47
Total	0.14	0.47	0.47	0.47	0.56

VII. Implementation of HIPC Initiative:

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

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

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

VIII. Implementation of MDRI assistance:

Total Debt Relief (SDR million)[1/]	77.55
of which: MDRI	59.82
HIPC	17.73

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

IX. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union. A new safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment found that progress has been made in strengthening the BCEAO's safeguards framework of the bank since 2002 when the last safeguards assessment took place.

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

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

X. Exchange Arrangements:

Niger is a member of the West African Economic and Monetary Union (WAEMU). The exchange system, common to all members of the WAEMU, is free of restrictions on the making of payments and transfers for current international transactions. The WAEMU's common currency, the CFA franc, is pegged to the French franc. On January 12, 1994, the CFA franc was devalued by 50 percent in foreign currency terms, and the exchange rate was adjusted from CFAF 50 = F 1 to CFAF 100 = F 1. Effective December 31, 1998, the parity was switched to the Euro at a rate of CFAF 655.96 = EUR 1. On September 30, 2006, the rate of the CFA franc in SDR terms was SDR 1 = CFAF 764.96.

XI. Article IV Consultation:

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

XII. Technical Assistance:

Dept.	**Type of Assistance**	**Time of Delivery**	**Responsibility**
FAD	Staff	June 2000	Fiscal review of data and improvement of budgetary procedure
FAD	Staff	February 2001	Tax and customs administration
FAD	Staff	April 2001	Public accounting, public expenditure process, and budget classification
FAD	Resident expert	April 2001 to date	Budget preparation, public accounting, and automation of budget execution
FAD	Resident expert	June 2001 to May 2003	Assistance for tax administration
FAD	Staff	May 2002	Public accounting and fiscal operations table
STA	Staff	January 2003	Multisector statistical mission
FAD	Staff	October 2003	Tax policy and revenue administration
STA	Staff	March 2005	ROSC
FAD	Staff	September 2005	Tax policy and revenue administration

XIII. Resident Representative:

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

Appendix III. Niger: Relations with the World Bank Group

(As of October 30, 2006)

Partnership in Niger's development strategy

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

2. At a donors' forum in Niamey on June 7 and 8, 2003, 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. The forum resulted in the signing of a protocol agreement by all donors to coordinate their aid to the education sector. The third (2004) and the fourth (2005) PRSP Progress Report were transmitted to IMF and World Bank in October 2006. Comments provided by IMF, EU, UNDP and WB in December 2005 were incorporated. Due to delays in launching the preparation of analytical background papers, the Government is behind schedule in the preparation of its second PRSP, which is expected to be finalized by end-December 2006. The PRSP Secretariat is planning to visit Washington for technical discussions on the second PRSP after circulation of a draft which is expected by end-November 2006. The World Bank has mobilized a PRSP trust fund to support the preparation of the revised PRSP together with a trust fund intended to integrate Gender issues into the strategy.

Areas in which the Bank leads

3. **Privatization and regulatory reform.** Key utility sectors, such as telecommunications and water supply have been liberalized and privatized with support from an IDA credit. However, the privatization of the electricity company (NIGELEC) has been delayed mainly due to the difficulty in finding private companies ready to invest US$60-100 million required for expansion and rehabilitation of the power system. The privatization of the whole sale petroleum product distribution company (SONIDEP) has failed in part because of difficulties in finding sound foreign private partners interested in investing in Niger. With the Bank's assistance, the authorities revisited their objectives and approach to the private provision of infrastructure as they seek to enhance corporate governance for selected state owned companies (NIGELEC, SONIDEP) and create a Government unit to implement the necessary

reforms. The Fund is also a key partner in the policy dialogue in this area, for example through the continuous implementation of a petroleum pricing system.

4. **Rural development**. The Bank has provided support to Niger to develop and implement a comprehensive rural development strategy. This strategy aims at mitigating vulnerability and stimulating income generation and is centered on three pillars: (i) improving the access of rural populations to economic opportunities; (ii) protecting rural populations against risks, improving food security, and managing natural resources in sustainable; and (iii) enhancing the capacity of public institutions and rural organizations to improve the management of the rural sector. An action plan covering the 14 programs of the rural development strategy have been adopted by Decree in October 2006. The transition to a budget-program approach for the rural sector was finally completed with the adoption in October 2006, by Decree, of a rural sector MTEF regrouping four line ministries. Bank assistance in this sector is provided through ongoing operations directly linked to the rural strategy, including: the Private Irrigation Project II, which aims at increasing production and profitability of high-value, irrigated crops by private, smallholder farmers with simple, low-cost technologies; the Emergency Locust Project aiming at reducing Niger's vulnerability to future desert locust infestations by supporting improved strategies for prevention (through early warning systems, reactions), and mitigation at both the national and regional levels; and the Community Action Program, which supports decentralized local financing mechanisms for village groups and communes, and promotes an integrated community-based ecosystem management.

5. **Education sector.** Within the framework of the Fast track Initiative (FTI), Government has prepared a ten-year development plan in the education sector (PDDE) for 2003-2013 in collaboration with the Bank and donors. The key objectives of the government program, which focuses mainly on primary education, are: (i) increasing access to both formal and non-formal basic education, in particular for children in rural areas, girls, and the poor; (ii) improving the quality and relevance of education; and (iii) developing capacities for the strategic and operational management of the sector at both the central and regional levels and increasing responsibilities assumed at the community level. The preparation of a post-primary education program is also underway and will help define a strategic framework to ensure sustainable expansion of the secondary and other segments of the system as a response to the growing demands from the primary education leavers. The Bank's ongoing investment lending operation (Basic Education Project of US$30 million) supports improvement in access of the poor to social services, which is one of the strategic pillars of the PRSP, In addition, the first Development Policy Loan (the Rural and Social Reform Credit, RSRC-I) approved in June 2006 is helping the government to (i) implement reforms to increase access of the population to basic education of acceptable quality; (ii) improve personnel management and allocations; and (iii) fostering governance and accountability through information sharing and empowering the community in the education sector. In the context of the FTI, the Bank facilitated the establishment of a Pooled Fund supplied by several donors to finance the PDDE. This Pooled Fund is currently frozen following findings of an audit which revealed mismanagement of resources. Government is taking measures to remove this suspension by early 2007.

6. **Health sector.** The Bank has worked with Government on the preparation of the Strategic Orientations for Health Sector Development. In 2002, Government adopted a ten-year health policy strategy (2002-2011). Its main objectives are to further improve access to health services facilities (from 47 percent in 2000 to 80 percent in 2011) and to reduce the incidence of infectious diseases, by promoting new approaches, including preventive action. With a view to make this strategy more operational, Government adopted a five-year development plan for the sector in January 2006. In the same month, the Bank approved a health SWAP of US$35 million which includes reproductive health and malaria components. The RSRC series are helping Government consolidate and enhance health sector reforms by: (i) strengthening human resources management by recruiting 715 qualified agents in 2006; (ii) improving budget execution to ensure sufficient resources are available to finance priority spending; and (iii) reforming the cost-recovery scheme to improve health care accessibility.

7. **Population.** Niger's ability to reduce poverty levels and to meet the MDGs is constrained by its high rate of population growth, estimated at 3.3 percent per annum. Government recently acknowledged the need to manage demographic dynamics. In 2004 Government created a new Ministry of Population and Social Action. Recently it has revised the 1992 National Population Policy, which is an important step towards developing an articulated national program. At the government's request, a multi-sector demographics operation is under preparation by the Bank to address the challenge of rapid population growth. The Government is also planning to launch a communication and sensitization strategy to build national consensus on issues related to improving the status and protection of women and to reduce fertility rates. In this context, the RSRC series will support: (i) launching information and awareness campaigns on premature marriage and family planning; and (ii) implementing action plans relative to improving the status of women, including organization of national forum to build consensus..

8. **Poverty monitoring.** The Bank worked closely with Government in preparing a poverty profile that served as the basis for the PRSP poverty diagnosis. While this diagnosis was judged as thorough and comprehensive by the Joint Staff Advisory Note (JSAN), it is based on household survey data from 1993. Updating the existing database is therefore a priority of the Government. A nationwide census was recently completed, and preparation of a new household survey, to be partially funded by the government and the Bank, is scheduled to be launched in April 2007. A Demographic and Health survey is under finalization and the 2005 Bank financed Core Welfare Indicators Survey (CWIQ) was completed in May 2006 with a validation workshop held in Niamey. It provides updated social indicators which are needed for the PRSP update and assessment of progress towards PRSP targets. The Bank, together with other donors, is also advising the authorities on strengthening institutional arrangements for the monitoring and the evaluation of poverty in the context of the PRSP. In addition, the Bank has financed the revision of the 2001 Participatory Poverty Assessment (PPA) as a contribution to Government's efforts to update and strengthen the knowledge base on poverty and social development.

Areas where Bank and Fund share the lead

9. **Poverty reduction strategy**. Together with other external development partners, the Bank and Fund have jointly provided assistance to Government in the preparation of its

PRSP. Since its completion, both institutions have jointly advised the authorities on the refinement and implementation of the strategy. The four progress reports on the implementation of the PRSP have been prepared with the assistance of the Bank and the Fund and other development partners.

10. **Debt sustainability**. In April 2005, the Executive Boards of the Bank and Fund endorsed a joint framework for debt sustainability analysis (DSA) in low income countries. A joint Bank/Fund DSA under this framework was completed in September 2005. The DSA indicates that Niger's risk of debt distress remains high in spite of the significant debt reduction achieved in the context of the HIPC Initiative and the MDRI. The results of the DSA show that Niger's debt situation: i) would worsen significantly in the event of shocks or weaker economic performance, and ii) is particularly sensitive to the terms and composition of external financing. Hence, the authorities need to pursue sound macroeconomic policies and reforms, with particular focus on growth-enhancing measures, and prudent debt policies. The urgent need to build technical and institutional capacity for debt management has been stressed by the Bank and the Fund. Several measures aiming to strengthen the external debt unit were implemented as structural benchmarks under the PRGF-supported programs. Bank and Fund staffs have also supported the external evaluation of the use of HIPC resources under the President Special Program. As agreed in the Bank's Public Expenditure Reform operation (PERCG), the government integrated HIPC resources into the human development sectoral expenditures included in the 2006 Budget Law and is in the process of expanding this to rural development expenditures following completion of the rural sector MTEF in June 2006 and the elaboration of sector Program Budget.

11. **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 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 and cash management system. 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. In 2004, the Bank prepared jointly with Government, EU and France a comprehensive assessment of Niger's Public Expenditure Management Systems and Capacities (Public Expenditure Management and Financial Accountability Review: PEMFAR). The Bank has supported budgetary reforms through four adjustment operations (PEAC I, PEAC II, PERCG and the ongoing RSRC I). Consolidating and deepening these reforms (based on the PEMFAR priority action plan) is a critical objective of the RSRC I which was approved by the Board in June 2006. The Country Procurement Assessment Report (CPAR) was updated in 2004.

12. **Financial sector reform**. Government launched a comprehensive financial sector reform program in 2002. Supported by the Financial Sector Technical Assistance Loan approved in February 2004, the program covers the regulatory and legal environment, the banking sector, micro-finance, postal financial services and social security. Some progress has already been realized. Two commercial banks, BCN and BINCI and three insurance

companies were restructured and recapitalized. Audits of all major micro-finance institutions have been completed. Restructuring plans for the post office have been designed and staff reduction has started. In the next two to three years, measures will be taken to improve the legal and judicial environment (modification of legislation for the issuing of land titles, improvement of the legal framework for the taking of guarantees, training of magistrates, etc.). The Housing Bank (CDN) should be either privatized or liquidated by end December 2006; the Community Lending Bank (CPCT) should be restructured. Micro-finance institutions will be restructured on the basis of the results of the audits, and the supervisory unit at the Ministry of Finance and Economy will be strengthened by the creation of a Microfinance Institutions Regulation Authority by end December 2006. The post office was split into two entities in 2005, Niger Post, for pure mail transactions, and FinaPoste, a financial services affiliate. Finally, an actuarial audit was conducted of the CNSS, the social security institution.

13. **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 previous PRGF arrangement, which had set quantitative benchmarks for the wage bill. The planning for the implementation of the legal framework for the political decentralization of 1996 has recently gained momentum. The first local elections took place on July 24, 2004. However, important concerns regarding this reform remain, such as the lack of capacity at the local level and the fiscal implications of decentralization. To help Government address some of these concerns, the Community Action Program and the forthcoming Local Urban Infrastructure Development Project will help build capacities in rural communities in planning, implementing, and monitoring micro-development projects.

Areas in which the Fund leads

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

15. **Fiscal policy**. Fiscal consolidation is a key objective of the PRGF and is supported by a number of performance criteria and benchmarks. Increasing budgetary revenue in order to

progressively lower the Government's reliance on external assistance is particularly important, given Niger's low level of revenues, compared with regional partners in WAEMU. In terms of expenditures, the Fund is mainly concerned with overall budget envelopes, while the Bank focuses on inter and intrasectoral allocations and protection of key expenditure items in Education, Health and Rural Development.

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

World Bank Group Strategy

17. The Bank's most recent Country Assistance Strategy (CAS) covered the period 2003 to 2005 and was approved by the Bank's Board in January 2003. It supports the implementation of the PRSP. A new CAS is under preparation and Board presentation is planned in the Bank's fiscal year 2007.

18. As of October 30, 2006, the World Bank lending portfolio in Niger consisted of nine IDA active operations, with a total commitment of US$305 million, of which US$127.5 million is undisbursed. IDA assistance has helped reduce the volatility in ODA by

Table 1. Niger: Status of World Bank Portfolio (all IDA)

(In millions of U.S. dollars, as of October 30, 2006)

	Commit Amount (US$ mil)	Undis-bursed	Approval Date	Closing Date
Rural and Social Sectors Reforms Credit I (RSSRC I)	50.0	25.0	13-06-06	30-06-07
Instit. Strengthening & health Sector Support Program (ISHSS)	35.0	32,4	05-01-06	30-01-2011
Locust Emergency	9.9	6.6	16-12-04	30-06-09
Privatization/Regulatory Reform TA	18.6	5.8	15-09-98	31-12-06
Water Sector	48.0	1.0	03-05-01	31-12-06
Private Irrigation Promotion	38.7	7.4	19-03-02	31-12-07
Community Action Program	35.0	9.3	20-03-03	30-06-07
Basic Education	30.0	14.4	17-07-03	31-12-07
Multisector STI/HIV-AIDS	25.0	15.0	04-04-03	30-06-08
Financial Sector TA	14.8	10.6	19-02-04	30-04-08
TOTAL	**305.0**	**127.5**		

compensating short-term declines in assistance from other partners. IDA has also been responsive to exogenous shocks. For instance, an Africa Emergency Locust Project (AELP) aiming at fighting the locust's infestation in West Africa was delivered in FY05 and a Niger Avian Influenza Control and Human Pandemic Preparedness and Response Activities program is under preparation. A Health sector SWAP and the first Development Policy Lending (Rural and Social Reform Credit–RSRC-I) were delivered in FY 06. Within a medium-term framework, and building on the previous three budget support operations as well as ongoing investment projects in agriculture, education, and health, the Rural and Social Reform Credits series will focus on overcoming policy constraints and institutional bottlenecks in: (i) public sector management; (ii) growth and agricultural development; and (iii) human development, including demographic growth and gender issues. Pre-appraisal of the Multi-sector Demographic Program is scheduled for November 2006.

19. The AAA program helps the Government in areas such as poverty analysis, gender, population growth, sources of growth, and the Millennium Development Goals (MDGs). The AAA program also aims at reinforcing public sector capacity in pursuit of the PRSP's objectives and in preparing Niger to transition to consolidated programmatic lending. In support of these objectives, sector work on population, rural development, public expenditure management and financial accountability review (PEMFAR), CPAR, and Participatory Poverty Assessment have been completed. A Country Economic Memorandum (CEM) focusing on accelerating growth and achieving the MDGs in Niger is being finalized with comments received from the government of Niger. For FY06/07, to help the Government reduce vulnerability to food insecurity and develop a comprehensive social protection strategy, the Bank is preparing a sector work on food security and social protection for Niger. Finally, the Bank is preparing a Public Expenditure Tracking Survey (P.E.T.S.), initially in the education and health sectors. The objectives of the P.E.T.S. is to improve the efficiency of public spending in social sectors and enhance the social sector outcomes by tracking leakages, execution rate, and delays of public spending as well as document the arrays of administrative procedures.

20. 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. In addition to 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.

Prepared by World Bank and IMF staff. Questions may be addressed to Mr. Madani Tall, Country Director for Niger; Bruno Boccara, Lead Economist for Niger; Amadou Ibrahim, Economist for Niger; Joelle Dehasse, Senior Operations Officer for Niger; or Thomson Fontaine (Economist, IMF).

Appendix IV. Joint Fund-Bank Debt Sustainability Analysis

1. This debt sustainability is based on end-2005 data for external debt outstanding provided by the Direction de la Dette for most creditors and staff estimates for debts outstanding to IDA, the IMF, and the AfDB.[12] The overall staff assessment is that Niger is at a moderate risk of debt distress, although it remains vulnerable to a number of shocks.

2. **Following the Multilateral Debt Relief Initiative, Niger's debt outlook shows remarkable improvement over the short term, while trending upward during the medium and long term.**[13] The NPV of debt-to-GDP ratio declined from 22 percent in 2005 to 7.9 percent in 2006 as a result of the MDRI, while the NPV of debt-to-exports ratio fell from 136 percent in 2005 to 46 percent in 2006. However, Niger's high financing requirements, critical for promoting growth, will weigh heavily on the country's debt dynamics (Table 1b). Under the baseline scenario the NPV of debt-to-GDP ratio is expected to increase gradually to 22 percent in 2025, still lower than the policy-based indicative threshold (40 percent); and the NPV of debt-to-export ratio would rise gradually to 107 percent by 2025, significantly below the 150 percent threshold. The increase tapers off in the outer years and stabilizes close to 2021.

3. **Sensitivity tests show that Niger's debt burden would worsen, in the event of an adverse macroeconomic shock or weaker economic performance.** If key variables remain at the historical average of the previous eight years, the debt-to-exports ratio would rise to 120 percent in 2025. Also, a temporary reduction in export growth would have a pronounced impact on the country's debt indicators if the ensuing current account deficit had to be covered by borrowing.

4. **Favorable terms on new borrowing are critical to maintaining debt sustainability;** thus, if interest on new loans increase by 2 percentage points, the NPV of the debt-to-exports ratio would exceed modestly the indicative threshold, rising to 154 percent by 2025.

5. **The results from the DSA underscore the need for the authorities to pursue prudent debt policies combined with sound macroeconomic policies and reforms**. These should focus on growth-enhancing measures and investments, while continuing to seek grants and highly concessional loans in order to mitigate the likelihood of debt distress. The DSA suggests that although the risk of debt distress has declined with the granting of HIPC and MDRI assistance, debt management needs to remain very vigilant, given the country's continuing vulnerability to external shocks. This vulnerability must be reduced with sustained efforts to broaden the export base.

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[12] This analysis does not account for domestic debt, for which no reliable estimates exist and follows the granting of MDRI assistance in 2005.

[13] The indicative debt-burden thresholds for Niger are NPV of debt-to-exports ratio of 150 percent; NPV of debt-to-GDP of 40 percent, and debt service to exports ratio of 20 percent.

Box 1. Baseline scenario assumptions

The baseline and alternative scenarios for 2006–25 is based on the following assumptions, which are broadly consistent with those used in the HIPC Completion Point document:

- Over the length of the projection period, real GDP growth is expected to rise from its historical average of 2.7 percent to an average of 4.3 percent in 2006–09, and further to about 5 percent by 2025. This results from investments in irrigation and infrastructure, which would raise productivity in the agriculture sector. This improvement, combined with efforts to diversify the economy, including through the development of tourism, would reduce vulnerability to macroeconomic shocks.
- Average inflation, as measured by the implicit GDP deflator, would average at about 1.5 percent.
- The revenue to GDP ratio is projected to rise gradually from 10.4 percent in 2005 to 12.6 percent by 2008 and to about 17 percent by 2025, reflecting the gradual convergence of the tax revenue ratio to the 17 percent WAEMU norm.
- Public expenditures, currently at 19.0 percent of GDP, would rise sharply to 23.0 percent by 2009, reflecting the authorities' efforts to embark on major projects to promote growth. However, it will eventually fall to about 20 percent of GDP over the longer term, as the authorities make progress towards meeting the Millennium Development Goals (MDGs).
- Total exports of goods and services, which benefited from a temporary boost in gold exports in 2005, are projected to grow at an annual average rate of 7.2 percent over 2009–25 in value, spurred by the strengthening of uranium and non-mineral exports. Imports are projected to grow at an annual average of 6.7 percent in value, broadly in line with nominal GDP growth. These assumptions lead to an improvement in the non-interest current account deficit from an average of 10.3 percent of GDP in 2006–10 to about 8.1 percent of GDP by 2025.

The baseline scenario assumes that half of total external financing needs (including project assistance) will be covered by concessional loans with a 50 percent grant element, excluding the borrowings from the IMF, while the remaining financial requirements are met by grants and net-FDI. Two alternative scenarios are considered; the first is based on borrowing at average historical terms; the second assumes that borrowing is made at less favorable terms (interest rates higher by 2 percent).

Table 1a. Niger: External Debt Sustainability Framework, Following Mulatilateral Debt Relief Initiative, 2005-2025[1]
(In percent of GDP, unless otherwise indicated)

	Act.	His. Ave.[2]	St. Dev.[2]	Est.	Projections								
	2005			2006	2007	2008	2009	2010	2011	2006-11 Ave.	2016	2025	2012-25 Ave.
External debt (nominal)[1]	**51.2**			**15.3**	**17.9**	**21.3**	**24.5**	**27.8**	**30.7**		**43.1**	**55.3**	
o/w public and publicly guaranteed (PPG)	51.2			15.3	17.9	21.3	24.5	27.8	30.7		43.1	55.3	
Change in external debt	-6.7			-35.9	2.5	3.5	3.2	3.3	2.9		2.1	0.7	
Identified net debt-creating flows	-0.8			5.4	9.7	9.6	9.6	8.5	8.0		7.1	5.7	
Non-interest current account deficit[3]	**7.3**	**5.9**	**1.0**	**7.3**	**10.4**	**10.5**	**10.7**	**9.8**	**9.4**	**9.7**	**9.1**	**8.1**	**8.9**
Deficit in balance of goods and services	13.3			12.3	13.2	13.4	14.1	13.0	12.4		11.8	11.0	
Exports	18.2			17.3	18.8	19.2	19.0	19.3	19.4		19.4	20.5	
Imports	31.5			29.6	32.0	32.5	33.1	32.3	31.8		31.2	31.5	
Net current transfers (negative = inflow)	-6.3	-3.7	1.3	-5.0	-2.8	-2.9	-3.5	-3.3	-3.1	-3.4	-2.8	-2.9	-2.8
o/w official	-3.2			-2.8	-0.9	-0.9	-1.5	-1.2	-1.0	-1.4	-0.4	0.0	
Other current account flows (negative = net inflow)	0.3			0.1	0.0	0.1	0.0	0.0	0.1		0.1	0.0	
Net FDI (negative = inflow)	**-0.4**	**-0.6**	**0.4**	**-0.4**	**-0.3**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.3**	**-0.4**
Endogenous debt dynamics[4]	**-7.7**			**-1.5**	**-0.4**	**-0.5**	**-0.7**	**-0.8**	**-1.0**		**-1.5**	**-2.1**	
Denominator: 1+g+r+gr	1.1			1.0	1.1	1.1	1.1	1.1	1.1		1.1	1.1	
Contribution from nominal interest rate	0.1			0.2	0.2	0.2	0.2	0.2	0.2		0.2	0.3	
Contribution from real GDP growth	-3.4			-1.7	-0.6	-0.7	-0.9	-1.1	-1.2		-1.8	-2.4	
Contribution from price and exchange rate changes	-4.3			…	…	…	…	…	…		…	…	
Residual (3-4)[5]	**-5.9**			**-41.3**	**-7.1**	**-6.1**	**-6.4**	**-5.2**	**-5.1**		**-5.1**	**-5.0**	
o/w exceptional financing	0.0			0.00	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt[6]	21.9			7.9	8.8	10.6	12.3	13.7	14.9		19.1	22.0	
In percent of exports	136.4			45.6	46.5	55.1	64.7	70.9	76.9		98.6	107.1	
NPV of PPG external debt	**21.9**			**7.9**	**8.8**	**10.6**	**12.3**	**13.7**	**14.9**		**19.1**	**22.0**	
In percent of exports	136.4			45.6	46.5	55.1	64.7	70.9	76.9		98.6	107.1	
Debt service-to-exports ratio (in percent)	9.3			227.1	2.3	2.2	2.4	2.5	2.6		2.8	3.1	
PPG debt service-to-exports ratio (in percent)	**9.3**			227.1	2.3	2.2	2.4	2.5	2.6		2.8	3.1	
Total gross financing need (billions of U.S. dollars)	0.3			1.6	0.4	0.4	0.5	0.5	0.5		0.6	1.1	
Non-interest current account deficit that stabilizes debt ratio	10.3			43.2	7.9	7.1	7.5	6.4	6.5		7.0	7.4	
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.8	2.7	3.6	3.4	4.1	4.3	4.5	4.6	4.7	4.3	4.7	4.7	4.7
GDP deflator in US dollar terms (change in percent)	8.1	3.9	9.2	-4.0	4.4	2.4	2.4	2.5	2.8	1.8	2.0	2.0	2.0
Effective interest rate (percent)[7]	0.2	0.7	0.3	0.4	1.4	1.1	1.1	1.0	0.9	1.0	0.6	0.6	0.7
Growth of exports of G&S (US dollar terms, in percent)	13.7	7.4	12.7	-5.4	23.8	8.6	6.0	9.3	7.9	8.4	7.3	7.2	7.2
Growth of imports of G&S (US dollar terms, in percent)	23.8	10.3	15.1	-6.8	23.1	8.5	8.9	4.8	5.6	7.4	6.5	7.0	6.7
Grant element of new public sector borrowing (in percent)	...	...	...	53.0	52.5	50.0	50.0	50.0	50.0	50.9	50.0	50.0	50.0
Memorandym item:													
Nominal GDP (billions of US dollars)	3.4			3.5	3.8	4.1	4.4	4.7	5.1		7.0	12.7	

Source: Staff simulations.
[1]Includes both public and private sector external debt.
[2]Historical averages and standard deviations are generally derived over the period since 1997, subject to data availability.
[3]For 2007, the figures include additional financing assurances to cover the residual financing gap.
[4]Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
[5]Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
[6]Assumes that NPV of private sector debt is equivalent to its face value.
[7]Current-year interest payments devided by previous period debt stock.

Table 1b. Niger: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt following Mulatilateral Debt Cancellation Initiative, 2006-25
(In percent)

	Est.	Projections											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	**2016**	2021	2025
							NPV of debt-to-GDP ratio						
Baseline	7.9	8.8	10.6	12.3	13.7	14.9	16.1	17.1	17.9	18.6	**19.1**	21.1	22.0
A. Alternative Scenarios													
A1. Key variables at their historical averages in 2007-25[1]	7.9	8.8	12.8	15.5	17.2	18.7	20.1	21.2	22.1	22.9	**23.3**	24.5	24.6
A2. New public sector loans on less favorable terms in 2007-25 [2]	7.9	10.9	13.4	15.6	17.5	19.0	20.6	21.9	23.0	23.9	**24.5**	27.1	31.7
B. Bound Tests													
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	7.9	9.3	11.9	13.9	15.6	16.9	18.4	19.5	20.5	21.3	**21.9**	24.2	25.4
B2. Export value growth at historical average minus one standard deviation in 2007-08[3]	7.9	10.6	15.2	16.8	18.0	19.1	20.2	21.0	21.7	22.2	**22.4**	23.0	23.2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	7.9	9.8	13.0	15.2	17.1	18.6	20.2	21.4	22.5	23.4	**24.0**	26.6	27.8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08[4]	7.9	10.7	13.9	15.6	17.0	18.2	19.4	20.3	21.1	21.7	**22.1**	23.3	23.8
B5. Combination of B1-B4 using one-half standard deviation shocks	7.9	13.8	21.9	23.8	25.3	26.5	27.8	28.8	29.7	30.2	**30.2**	30.2	30.0
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007[5]	7.9	12.4	15.1	17.6	19.7	21.4	23.2	24.7	25.9	26.9	**27.7**	30.6	32.0
							NPV of debt-to-exports ratio						
Baseline	46	47	55	65	71	77	84	89	93	97	**99**	105	107
A. Alternative Scenarios													
A1. Key variables at their historical averages in 2006-25[1]	46	47	67	82	89	96	105	110	115	118	**120**	122	120
A2. New public sector loans on less favorable terms in 2006-25[2]	46	58	70	82	90	98	108	114	120	124	**126**	135	154
B. Bound Tests													
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	46	45	53	63	69	75	83	88	92	95	**97**	104	107
B2. Export value growth at historical average minus one standard deviation in 2007-08[3]	46	71	114	127	135	142	152	158	163	166	**166**	165	163
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	46	45	53	63	69	75	83	88	92	95	**97**	104	107
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08[4]	46	54	69	78	84	89	97	101	105	107	**109**	110	111
B5. Combination of B1-B4 using one-half standard deviation shocks	46	79	124	136	142	148	157	162	167	169	**169**	163	158
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007[5]	46	45	53	63	69	75	83	87	91	95	**97**	103	106
							Debt service-to-export ratio						
Baseline	5.4	2.3	2.2	2.4	2.5	2.6	2.8	2.8	2.8	2.8	**2.8**	3.0	3.1
A. Alternative Scenarios													
A1. Key variables at their historical averages in 2007-25[1,6]	5.4	3.3	2.8	2.8	2.9	3.1	3.5	4.4	5.0	6.0	**7.9**	7.2	7.9
A2. New public sector loans on less favorable terms in 2007-25[2]	5.4	3.1	2.3	2.0	2.3	2.4	2.7	3.0	3.2	3.5	**3.7**	5.1	6.0
B. Bound Tests													
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	5.4	3.1	2.5	2.5	2.4	2.6	3.0	3.7	4.2	4.9	**5.4**	5.8	6.1
B2. Export value growth at historical average minus one standard deviation in 2007-08[3]	5.4	4.0	4.0	4.2	4.1	4.3	4.8	5.9	6.7	8.2	**9.9**	9.7	9.9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	5.4	3.1	2.5	2.5	2.4	2.6	3.0	3.7	4.2	4.9	**5.4**	5.8	6.1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08[4]	5.4	3.1	2.7	2.7	2.6	2.8	3.1	3.9	4.4	5.4	**6.2**	6.3	6.6
B5. Combination of B1-B4 using one-half standard deviation shocks	5.4	3.8	3.4	3.3	3.3	3.5	4.3	5.4	6.4	7.3	**7.9**	7.9	8.0
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007[5]	5.4	3.1	2.5	2.5	2.4	2.6	3.0	3.7	4.2	4.9	**5.4**	5.7	6.1
Memorandum item:													
Grant element assumed on residual financing (i.e., financing required above baseline)[7]	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	**50.0**	50.0	50.0

Source: Staff projections and simulations.

[1]Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), and non-debt creating flows.

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

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

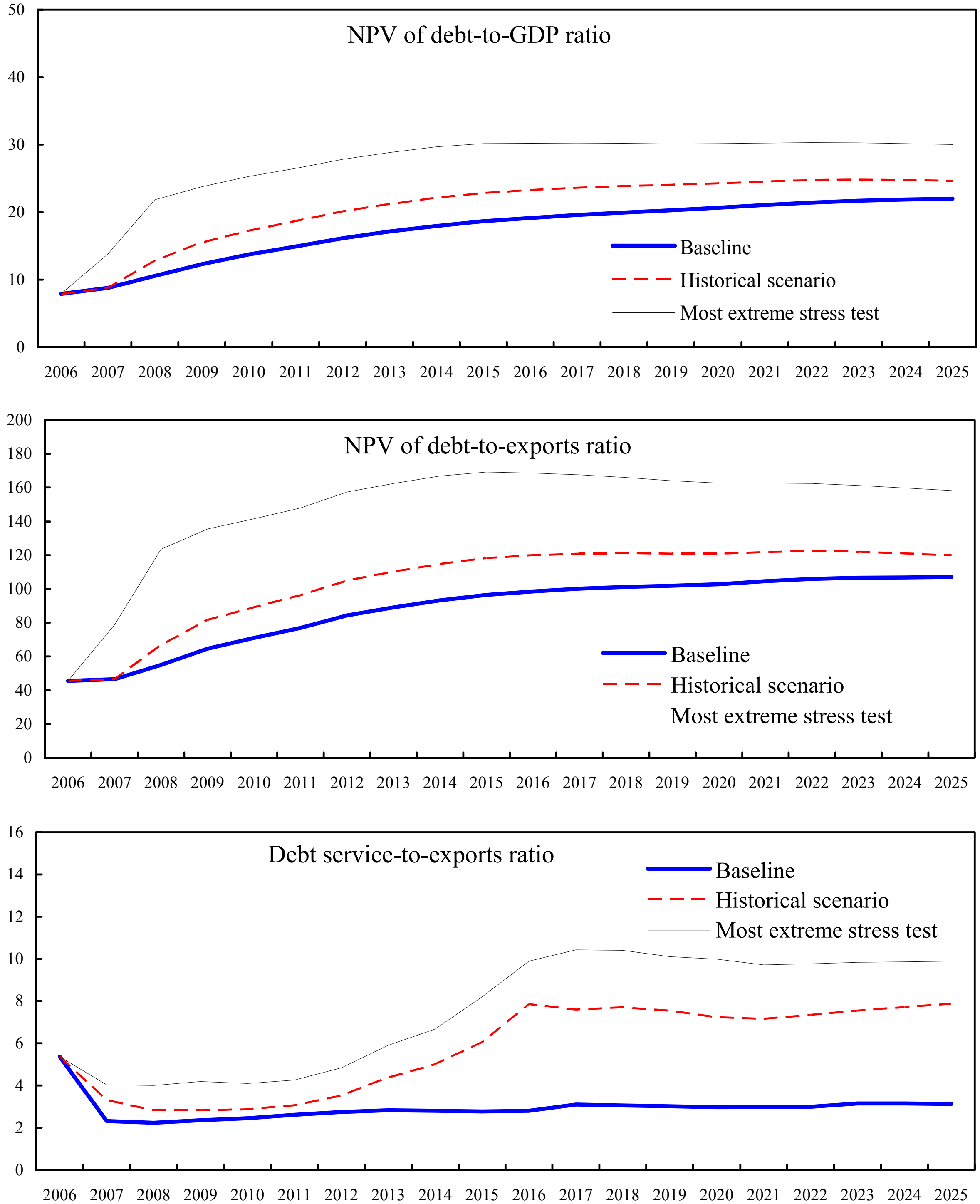
[4]Includes official and private transfers and FDI.

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

[6]In 2006, it excludes the impact of MDRI on debt service.

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

Figure 1. Niger: Indicators of Public- and Publicly-Guaranteed External Debt
Following Mulatilateral Debt Relief Initiative, 2006-2025
(In percent)



Source: IMF staff projections and simulations.

Appendix V. Niger: Statistical Issues

(As of November 28, 2006)

1. While the economic database is broadly adequate for surveillance and programming purposes, there are deficiencies in the statistical system that complicate the monitoring of certain economic developments. The common indicators for surveillance are generally provided to the Fund on a timely basis. Weaknesses mainly affect the national accounts and the public finance statistics. Niger participates in the General Data Dissemination System (GDDS), and its metadata were posted on the Fund's Dissemination Standards Bulletin Board on February 26, 2002. The metadata refer to January 2003 and need to be updated. Metadata for the health and population data categories have not been updated since June 2001, and there are no plans for improvement for the poverty and education data categories. As a follow-up to GDDS participation, STA technical assistance (funded by the Japanese government) is being offered to eight member countries of the Western African Economic and Monetary Union (WAEMU) to assist with implementation of plans for the improvement of their statistical systems. A Fund regional statistical advisor initiated a program of assistance in government finance statistics, which is now managed by the West Africa Regional Technical Assistance Center (AFRITAC West). A real sector statistics improvement program, conducted in collaboration with the regional statistical office AFRISTAT and initiated in May 2002, is currently being implemented.

2. A mission visited Niamey in March 2005 to prepare the data module of the Report on the Observance of Standards and Codes (ROSC). It carried out a review of data dissemination practices against the GDDS, as well as an in-depth assessment of the quality of national accounts, consumer price, monetary, balance of payments and government finance statistics. The data ROSC, which was published on June 9, 2006, found that: (i) Niger does not meet the recommendations of the GDDS for timeliness of all data categories; (ii) improvements need to be made in data coverage (especially national accounts by institutional sectors), periodicity (especially quarterly government financial statistics), and timeliness (especially national accounts, government finance statistics, balance of payments); and (iii) plans for improvement in these areas should address resource constraints, reinforce the legal framework for data collection and coordination, and clarify the responsibilities for dissemination of government operations and public debt data.

3. Law No 2004-011 of March 2004 transformed the Statistical and National Accounts Directorate of the Ministry of Economy and Finance into a National Statistical Office (INS), and created a new unit responsible for statistical coordination, the National Council on Statistics. Both the institute and the council initiated operations in June 2005.

Real sector

4. Niger participates in WAEMU's harmonization of statistical methodologies through the multilateral surveillance process, currently seeking regional improvements in the area of national accounts. Ongoing work on overhauling the national accounts and the resulting

change in the base year are based on the recommendations of the ROSC mission and technical assistance from AFRISTAT. Under the GDDS project for the AFRITAC West countries, a statistical register and an industrial production index are being developed, and a series of missions are scheduled to assist in the implementation of the *System of National Accounts, 1993* (*SNA 1993*).

5. While the national accounts compilation generally follows best methodological practice, the data ROSC found that some gaps remain for the full adoption of the *SNA 1993*. In addition, national accounts data originate mainly from administrative sources, with many shortcomings, and the household and informal sector surveys are not up-to-date. This paucity of data sources has compelled compilers to use some questionable statistical techniques. GDP is estimated using the production and expenditure approaches, but is based on largely obsolete ratios for many line items. In the absence of appropriate price indices, deflators are mostly derived from the Harmonized Consumer Price Index (HCPI). GDP validation possibilities are limited because the same calculation methods are used for estimates and final data. Efforts are being made to improve and widen data collection procedures, and reduce delays in data dissemination. Other actions, as indicated in the February 2004-April 2005 AFRITAC West Work Program, are the redevelopment of the industrial production index, development of a statistical register, and production of a CPI with national coverage.

6. The new WAEMU's HPCI was introduced in January 1998. However, the coverage is limited to Niamey, the weights are based on a household budget survey conducted during only three months in 1996. As noted, work is under way to revise the HPCI.

Public finances

7. Monthly government finance statistics are compiled by the Ministry of Economy and Finance (MEF) with a one- to three-month lag, based on information provided by the budget, customs, tax, and treasury directorates. The MEF prepares a monthly reconciliation of spending commitments made by the budget directorate and payments made by the treasury, but the data are not disseminated to the general public. Data are limited to the operation of the budgetary central government, that is covering the general budget, special funds, and operations of the treasury special accounts. They do not cover the social security administration. No final budget or treasury accounts are published at the end of the fiscal year.

8. Following their participation in the AFRITAC-WEST seminar on the *GFSM 2001,* held in Lomé, Togo in November 2005, MEF has approved a strategy for migrating from the methodology of the *Government Finance Statistics Manual 1986* (*GFSM 1986*) to the new *GFSM 2001*. No data are reported for publication in *International Financial Statistics (IFS)*

Monetary data

9. The monetary statistics are generally based on the *Guide to Money and Banking Statistics in IFS* (*1984 Guide*), but use an incomplete sectorization of assets and liabilities.

Implementation of the new *Monetary and Financial Statistics Manual* (*MFSM*) has started, but without a precise timetable. The source data for monetary statistics are generally reliable, though they may be reported late. However, the free circulation of banknotes within countries of the zone complicates the estimation of currency in circulation. Preliminary monetary data are compiled by the national agency of the Central Bank of West African States (BCEAO) and released officially by BCEAO headquarters. There has been an improvement in the timeliness of data provided on interest rates, monetary institutions, and deposit money banks. The authorities are now reporting monetary data to STA on a regular basis, with a reduction in the lag from about six months to about three to four months. Most of the key monetary statistical issues have been resolved.

10. A monetary and financial statistics mission visited BCEAO headquarters in Dakar in May 2001. The mission reviewed the procedures for collecting and compiling monetary statistics and addressed outstanding methodological issues that concern all the member countries of the WAEMU. The mission also briefed the BCEAO authorities on the methodology in the new *MFSM* and discussed the modalities for introducing an *IFS* area-wide page for the WAEMU zone, which was subsequently introduced in the January 2003 issue of *IFS*.The reorganized website of the BCEAO entered in effect in late 2004 and allows access to all publications of the central bank and statistical data.

11. In August 2006, as part of the authorities' efforts to implement the *MFSM*'s methodology, the BCEAO reported to STA monetary data for June 2006 for all member countries using Standardized Report Forms (1SR-central bank, 2SR-other depository corporations, and 5SR-monetary aggregates). The data are being reviewed in STA.

Balance of payments data

12. The balance of payments statistics are compiled in conformity with the *Balance of Payments Manual, Fifth Edition (BPM5).* Since December 1998, the responsibility for compiling and disseminating balance of payments statistics has been formally assigned to the BCEAO by area-wide legislation adopted by the countries participating in the WAEMU. The national agency of the BCEAO in Niamey is responsible for compiling and disseminating the balance of payments statistics, and the BCEAO headquarters in Dakar for delineating the methodology and calculating the international reserves managed on behalf of the participating countries.

13. Data consistency has significantly improved over the past few years, with a full transition to the *BPM5*. The BCEAO national agency disseminates balance of payments statistics with a seven month lag, exceeding GDDS guidelines. The BCEAO also compiles and disseminates the annual data of the international investment position data with an 18-month lag.

14. Further improvement in the data for services and transfers (especially workers' remittances) will depend on the intensification of the contacts with reporting bodies.

Concerning the financial account, the foreign assets of the private nonbanking sector are still not well covered, especially the assets of WAEMU residents, which are obtained through partial surveys of residents' foreign assets. The organization of an exhaustive annual survey of foreign direct investment transactions is still at a very preliminary stage. The BCEAO has recently updated the compilation of commercial bank data on payments involving nonresidents (settlement reports). In principle, these settlement reports should be used to produce a quarterly balance of payments. In practice, a tentative quarterly statement is produced but not published, and these data are not used to produce annual balance of payments estimates, but rather to assess existing information.

Appendix V. Niger: Table of Common Indicators Required for Surveillance

(As of November 27, 2006)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items:	
						Data Quality – Methodological soundness[7]	Data Quality – Accuracy and reliability[8]
Exchange Rates	Current	Current	D	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]							
Reserve/Base Money	Sep. 2006	Oct. 2006	M	I	M	LO, LO, LNO, LO	LO, O, O, O, NA
Broad Money	Sep. 2006	Oct. 2006	M	I	M		
Central Bank Balance Sheet	Aug. 2006	Nov. 2006	M	I	M		
Consolidated Balance Sheet of the Banking System	Aug. 2006	Nov. 2006	M	I	M		
Interest Rates[2]	Oct. 2006	Nov. 2006	I	I	M		
Consumer Price Index	Sep. 2006	Oct. 2006	M	M	M	O, LNO, O, O	LNO, O, O, LO, NA
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]						LO, LNO, O, LO	LO, O, O, O, NO
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Sep. 2006	Oct. 2006	Q	Q	I		
Stocks of Central Government and Central Government-Guaranteed Debt[5]							
External Current Account Balance	Dec 2005	Oct. 2006	A	I	A	O, O, O, LO	LO, LO, LO, O, LO
Exports and Imports of Goods and Services	Dec 2005	Oct. 2006					
GDP/GNP	Dec 2005	Oct. 2006	A	I	A	LO, LO, LNO, LO	LNO, LO, LNO, LO, NO
Gross External Debt	Dec 2005	Oct. 2006	Q	I	A		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
7 Reflects the assessment provided in the data ROSC published on June 9, 2006, based on the findings of the mission that took place during March1–18, 2005. For the dataset corresponding to the variable in each row, the assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[8] Same as footnote 7, except referring to international standards concerning source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs and revision studies.

Statement by the IMF Staff Representative
December 20, 2006

The following information has become available sinde the issuance of the staff report for the 2006 Article IV Consultation and Third Review under the Poverty Reduction and Growth Facility. The thrust of the staff appraisal remains unchanged.

1. **Fiscal developments at end-September 2006 remained in line with program objectives.** Revenue performance was higher than programmed by the equivalent of 0.3 percent of GDP, while domestically financed expenditure remained below program by 0.9 percent of GDP. The revenue overperformance reflects the impact of ongoing reforms to strengthen tax and customs administration, while underspending was mainly related to the food security program, because of improved food supply and large donor assistance. As a result, the basic budget deficit (on commitment basis, excluding grants) and net domestic financing were smaller than the indicative targets.

2. **The improvement in food security situation continued to reduce inflation.** Year-on-year inflation declined from 0.4 percent in September 2006 to 1.4 percent in November.

INTERNATIONAL MONETARY FUND
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EXTERNAL
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DEPARTMENT

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

IMF Executive Board Concludes 2006 Article IV Consultation with Niger

On December 20, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Niger.[1]

Background

Since 2000, the Nigerien authorities have maintained a strong commitment to prudent policies and reforms. The policy and reform agenda was underpinned by a poverty reduction strategy (PRS) adopted in 2002 that identifies four pillars: enhancing macroeconomic stability; increasing public investment, especially in irrigation infrastructure; deepening human capital formation; and buttressing economic governance. A large number of reforms have been introduced since 2000 to improve public expenditure management, strengthen domestic revenue, and enhance the economy's supply reforms.

However, over the past five years real GDP growth has not been sufficient to improve per capita income, and social indicators remain weak. In this regard, Niger remains one of the poorest countries in the World and is far from achieving the Millennium Development Goals (MDGs). Economic growth has been constrained by weak productivity. In particular, inadequate irrigation infrastructure and limited use of modern inputs have undermined

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

agricultural performance. Also, economic diversification has been hampered by infrastructure bottlenecks.

In 2004-05, Niger’s economy was hit by a severe drought that had significant socioeconomic costs**.** In late 2004, the drought significantly reduced agricultural production, triggered a food crisis, and raised inflation during the first half of 2005. The external current account deficit remained stable because of a significant increase in humanitarian assistance. However, the situation improved in late 2005, with a bumper harvest pushing real GDP growth for the year as a whole to about 7 percent, and easing inflationary pressures.

In 2006 macroeconomic performance was broadly satisfactory. Real GDP growth is expected to slow to 3½ percent. Growth in the agriculture sector moderated, with cereal production remaining close to the record level of late 2005; performance in the mining and services has been strong. Average inflation declined to 1¼ percent in the 12 months to September 2006 and is expected to decrease further to almost zero by end-2006 because of falling food prices. In 2006, the external current account deficit (including grants) remained close to 2005 level as lower food imports offset the high cost of fuel imports. Niger’s external debt burden was further reduced by debt relief under the Multilateral Debt Relief Initiative (MDRI) totaling SDR 638 million (US$956.7 million) from the Fund, IDA and the African Development Fund. This reduced the NPV of debt-to-export ratio from 136 percent in 2005 to 46 percent in 2006.

The implementation of macroeconomic policies thus far in 2006 has been satisfactory. In the first half of 2006, the basic fiscal deficit was significantly lower than programmed because of higher revenue and lower spending. Improvements in tax and customs administration (achieved mainly by tightening control of import valuation and transit operations, and reinforcing the auditing of large- and medium-sized enterprises) boosted revenue collection. Good harvest and strong external assistance facilitated a significant buildup of the strategic grain reserves. For the year as whole, the fiscal deficit and domestic financing are expected to be lower than originally envisaged. The Central Bank of West African States pursued a prudent monetary policy.

The authorities continued to implement reforms to strengthen revenue, enhance public expenditure management (PEM), and increase the supply response of the economy. They prepared and started implementing an action plan with a focus on strengthening tax and customs administration. On PEM, they have advanced the computerization of the operations of the treasury and budget departments, completed a comprehensive assessment of Niger’s public financial management systems, and adopted medium-term expenditure plans for key sectors. Other key reforms included the adoption of new mining code, steps to streamline business regulations, and the removal of duties on imports (manufacturing, animal products and vegetables) from all members of the Economic Community of West African States.

Executive Board Assessment

Executive Directors commended the Nigerien authorities for their track record of implementing prudent macroeconomic policies and structural reforms under two successive PRGF-supported programs, notwithstanding the economy's vulnerability to economic shocks. These reforms have resulted in an increase in revenue collection, improvements in expenditure management, and a more flexible market-based economy. Prospects for 2007 are relatively favorable, with stronger growth and continued low inflation. Significant challenges remain, however, to boost economic growth rates to the levels needed to achieve the MDGs. This will require increased investment in human capital and in infrastructure, with a focus on agriculture, irrigation, and transport in rural areas; and a streamlined regulatory framework to promote private sector development. Improving social services delivery and strengthening governance will also be critical.

Directors welcomed the authorities' plan to adopt soon a revised Poverty Reduction Strategy for 2007-2009, outlining policies and reforms to promote economic growth and reduce poverty. The forthcoming PRSP and the accompanying medium-term expenditure framework are likely to entail significantly higher financing needs than currently envisaged. In this regard, Directors encouraged the authorities to work closely with development partners to mobilize the needed financial assistance, mostly in the form of grants. Debt management should be strengthened, in view of the risks to debt sustainability, even though they remain moderate.

Directors commended the prudent fiscal stance in 2006, which is expected to lead to a smaller deficit than originally envisaged, due in part to ongoing reforms in tax mobilization and expenditure management. Directors welcomed the shift in expenditure toward priority programs envisaged in the 2007 budget, and underscored the importance of effective and timely execution of these programs. Higher priority spending will need to be supported by donor assistance, as well as by increased domestic revenue based on further reforms in the tax and customs administrations, including simpler tax procedures and tighter exemptions. Full implementation of the flexible pricing system for petroleum products will help redirect resources toward development needs. Directors looked forward to the prompt implementation of an action plan to eliminate domestic arrears.

Directors emphasized the need to strengthen public expenditure management. They welcomed the preparation of medium-term expenditure frameworks for key sectors, the computerization of the budget and treasury operations, and the establishment of a unified list of priority programs. Further efforts will be needed to streamline budgetary procedures, strengthen treasury accounting, and reinforce ex-ante and ex-post controls.

Directors urged the authorities to accelerate reforms aimed at enhancing agricultural productivity, diversifying the economic base, and improving the business environment. Efforts should continue to reduce the regulatory burden on investment, complete the restructuring of the electricity company, and reform the land tenure and judiciary systems. Financial sector reforms should aim at enhancing competitiveness, deepening financial intermediation, and facilitating private investment. In this context, Directors recommended acceleration of the restructuring of weak microfinance institutions and reinforcement of the office responsible for their supervision in order to improve access to credit. They looked forward to the recapitalization of the restructured financial branch of the postal network and the privatization of the housing bank.

Directors welcomed the authorities' commitment to pursue a prudent external debt strategy following the debt relief under the MDRI, and to use resources freed up by the Initiative in the most effective manner to reach the MDGs. They urged the authorities to continue to pursue good faith negotiations with remaining non-Paris Club creditors in order to reach agreements on debt relief on terms comparable with those already obtained.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Niger: Selected Economic Indicators

	2003	**2004**	**2005**	**2006 Est.**
	(Annual percentage change)			
GDP and prices				
GDP at constant prices	4.4.	-0.6	6.8	3.4
Consumer prices (annual average)	-1.8	0.4	7.8	0.3
	(Percent of GDP)			
Central government finances				
Total revenue	10.0	11.2	10.5	11.3
Total expenditure	17.5	20.4	18.1	19.1
Overall fiscal balance (commitment basis, excluding grants)	-7.5	-9.2	-7.5	-7.8
External sector				
Exports of goods and services	15.9	18.4	18.2	17.3
Imports of goods and services	25.6	29.4	31.5	29.6
Current account deficits (including grants)	-6.0	-7.0	-7.4	-7.5

Sources: Nigerien authorities; and staff estimates.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes the Third Review Under Niger's PRGF Arrangement and Approves US$8.9 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed today the third review of Niger's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review enables the release of a further SDR 5.9 million (about US$8.9 million), which will bring the total amount disbursed under the arrangement to SDR 23.5 million (about US$35.4 million). Niger's PRGF arrangement was approved on January 31, 2005 (see Press Release No. 05/20).

The Board waived Niger's non-observance of the quantitative performance criterion on the reduction in domestic payment arrears on government obligations and the continuous structural performance criterion on the application of the petroleum pricing mechanism.

Following the IMF Executive Board discussion, Mr. Murilo Portugal , Deputy Managing Director and Acting Chair, stated:

“The Nigerien authorities are to be commended for the satisfactory overall performance of the economy under the PRGF-supported program. Following the strong rebound of agricultural production in 2005, economic activity continued to expand in 2006, sustained by a good harvest and a strengthening of mining and service activities. During 2006, inflationary pressures have eased, as food prices declined. The improved food supply and strong donor support have allowed the reconstitution of the strategic grain reserves.

“The authorities are committed to persevering with their program of strong macroeconomic policies and economic reforms in 2007 and beyond. The 2007 fiscal program calls for shifting expenditure toward priority outlays. It also emphasizes continued improvements in the tax and customs administrations aimed at broadening the tax base by tightening exemptions and simplifying tax procedures. Steadfast implementation of reforms in public expenditure management will be critical for enhancing the effectiveness of Niger’s pro-growth and pro-poor programs.

“The debt relief under the Multilateral Debt Relief Initiative (MDRI) has reduced Niger’s external debt burden significantly. The authorities are committed to using the resources freed up by the MDRI effectively, so as to advance toward the Millennium Development Goals (MDGs). To preserve debt sustainability, it is important that the authorities strengthen debt management and rely only on highly concessional resources, preferably in the form of grants, to finance highly productive investment.

“The authorities plan to adopt in early 2007 a revised Poverty Reduction Strategy for 2007-2009. In the face of the significant challenges that lie ahead as Niger advances toward the MDGs, the strategy will outline policies and reforms to help sustain high economic growth and reduce poverty. Increased investment in human capital and infrastructure will be required, and government investment in key sectors will need to be accompanied by reforms to promote private sector development. Other priorities are to deepen financial intermediation, including through the development of a viable microfinance system; to reform the regulatory framework; and to enhance the efficiency of key public utilities,” Mr. Portugal said.

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

Statement by Laurean W. Rutayisire, Executive Director for Niger
December 20, 2006

On behalf of my Nigerien authorities, I would like to express my deep appreciation to management and staff for their invaluable policy advice and assistance which have contributed to strengthening macroeconomic stability, after the profound economic disruption in the wake of the 2005 food crisis. I also wish to convey to Executive Directors my authorities' appreciation of their support to Fund's continued involvement in Niger. A testimony of my authorities' gratitude has been well reflected in the staff report, as my authorities expressed their satisfaction about the effectiveness of Fund's surveillance and technical assistance.

My Nigerien authorities have shown a strong commitment to sound policies and reforms in recent years which helped strengthen macroeconomic stability and growth, and support initiatives taken to reduce poverty. In this regard, several measures have been implemented, including those aimed at better formulating and executing the budget, increasing revenue collection, improving social indicators, and accelerating private sector development. As regards public expenditure management, my authorities have completed the medium-term framework for the rural sector for 2007-09 and finalized an action plan to strengthen financial control function. As a result, the basic fiscal deficit and the net domestic financing have been much lower than initially projected. Furthermore, the domestic financing target has been revised to take into account these developments. My authorities have also envisaged finalizing by end-December 2006 the revised PRSP, whose key-components include the expansion of irrigation, the use of modern inputs in agriculture, the investment on roads and transport, and the enhancement of human capital training. However, my authorities' efforts have been hampered by adverse effects of exogenous shocks, including the 2004 drought with its subsequent food crisis which hit the Nigerien economy. With the favorable developments on agricultural production in 2005 and 2006 as well as the substantial donor support, the food security was improved in 2006 while the economy resumed its recovery from the drought effects. All performance criteria and benchmarks through end-September were met, except two, for which my authorities have already taken the needed correctives measures.

My authorities are fully aware of the challenges ahead, in particular the need for strengthening the execution of priority programs, improving the business environment, and enhancing domestic revenue. The achievement of such objectives requires further progress in fostering higher and broad-based growth, through the development of an agriculture production system less vulnerable to weather vagaries, with an emphasis on important irrigation projects. The rural sector accounts, on average, for 40 percent of the total value added of the Nigerien economy and it employs about 80 percent of active population. My authorities welcome the findings of the interesting Selected Issues Paper on ***Sources of Economic Growth in Niger*** which identifies investments on irrigation among others (foreign

aid, financial sector development etc.) as one of the most relevant variables having high correlation with growth in Niger. Despite the capacity constraints facing the economy, my authorities remain determined to address the challenges ahead, in close collaboration with development partners. They are grateful to the international community for its support in helping mitigate the adverse effects of food shortage in 2005. In view of the investment programs and other necessary reforms to address the challenges described above, the financial needs are daunting and require substantial and timely external assistance.
Given their strong commitment, the corrective measures taken, and the set of reforms underway, my authorities are requesting waivers for nonobservance of missed criteria, the completion of the third review under the PRGF Arrangement and that of the 2006 Article IV consultation.

I. Recent economic developments

A severe drought in late 2004 with its subsequent consequences on food security compromised the positive economic developments noted since 2000, showing once again the high vulnerability of Nigerien economy to exogenous shocks. Indeed, GDP growth rate felled to -0.9 percent in 2004 against an average growth rate of 5.1 percent achieved between 2000 and 2003. An exceptional harvest in 2005 and normal weather conditions in 2006 significantly increased the levels of agriculture production and pushed annual growth rates to respectively 7 percent and 3.5 percent. The combined effects of the favorable agricultural production during these two last years, the donor food assistance and the authorities' sound economic policies--including sales at moderate prices, building of strategic grain reserves, and free distributions to vulnerable groups--helped reduce the number of vulnerable people from 1.8 million to 1 million. Those effects also contributed to easing the inflation rate which averaged about 0.3 percent a year. Thanks to donors support, including that from MDRI, the external current account deficit, estimated at 7.5 percent of GDP, could remain stable in 2006 in spite of the still high level of food imports.

On the revenue side, my authorities have tightened control of imports valuation and transit operations while reinforcing the auditing of large-and-medium taxpayers enterprises. Those actions could yield a little more revenue than envisaged initially. On the expenditure side, we note that the total expenditure, excluding those related to foreign-financed projects, could be lower by about 1.5 percent of GDP than envisaged under the program. As outlined in the authorities' memorandum of economic and financial policies, the underspending resulted from lower spending on food security, as agriculture production improved throughout the country, lower interest payments to multilateral creditors in view of MDRI, and slower execution of investment projects constrained by lack of institutional capacity. Finally, the resulting effects of higher revenue collection, underspending, and important external support led to a 2006 basic deficit lower than envisaged and a revised domestic financing, reduced by 0.3 percent of GDP.

On the financial sector, my authorities take good note of the staff's favorable assessment of the soundness of the Nigerien banking system as well as the development of credit to economy. They are working on the elaboration of a restructuring plan for the two largest microfinance institutions experiencing financial difficulties. My authorities reaffirm that Finaposte will be operational by December 2006 and the offer for sale of CDN will be launched by end-February 2007.

Regarding the program performance, all performance criteria and benchmarks through end-September 2006 were met, except those on the reduction of domestic arrears and the flexible pricing system for domestic petroleum products. As corrective actions, my authorities have increased the pace of arrears reduction while committing to elaborate a clearance plan by end-December 2006 in order to avoid any slippage in the future. As regards the overrun on the petroleum pricing, the government has already recovered part of the deferred tax in October and November 2006. In the event of a future decline in world fuel prices, my authorities will take steps to maintain stable domestic retail prices until deferred revenue is fully recouped.

II. Medium-term Outlook and Objectives

My authorities reached an agreement with the staff on the main economic priorities over the medium-term, with the view to strengthen economic growth, in particular by increasing productivity in agriculture, broadening diversification of the economic base, bolstering public and private investments, and improving business environment. The first priority of this agreement relates to the effective execution of growth-critical PRSP-based programs. Key-actions for its implementation are focused on the expansion of irrigation, improvement on credit access, higher investments on roads and transport, and better enhancement of human capital training. The second priority suggests the implementation of reforms conducive to the development of private sector with a great emphasis on measures aimed at reducing the cost of doing business, accelerating the pace of ongoing privatization and restructuring process, improving the development and supervision of microfinance institutions. The third priority is related to measures pertaining to the strengthening of revenue collection and public expenditure management.

The medium-term prospects, based on increased domestic revenue and higher international community support to finance the priorities set forth in the revised PRSP, appear favorable. In this context, a GDP growth rate above 4 percent is projected for 2007-09, starting from 4.1 percent in 2007 and growing steadily up to 4.5 percent in 2009. My authorities' medium-term fiscal objectives are centered on a strategy that promotes the preservation of debt sustainability, through a large recourse to grants and highly concessional loans to finance basic budget deficit. While taking good note of the staff's assessment concluding that Niger remains at moderate risk of debt distress, my authorities are eager to implement cautious debt policy focused on the mobilization of grants and concessional loans to finance their new investments. In the mining and agriculture sectors, their strategy aim to put emphasis on more productive projects which could have a high growth impact and ensure more income for rural people over the years.

Fiscal Policies for 2007

My authorities are developing a dynamic approach to revenue collection. They have set a revenue collection target of 12 percent of GDP for 2007. Building on their successful experience of the two last years, my authorities are envisaging to consolidate in 2007 the existing measures implemented so far, including the computerization of border posts and the extension of taxpayers' audits and exemption controls. To be consistent with the objective of revenue collection described above, my authorities agreed that the existing measure of ex-post controls at the major regional customs offices could be shift to a structural performance criterion for end-December 2006. As new measures to be implemented in 2007, they envisage to introduce tax collection simplification and enhance the electronic information-sharing between border posts for goods in transit as well as for those declared at the main regional centers. Aware of the positive impact of qualified human resources and sufficient material on the level of revenue collection, my authorities are planning to have recourse to technical and financial assistance from development partners in these areas.

On the expenditure side, my authorities' immediate concern is to ensure adequate budget resources to finance the priority programs set out in the 2007 budget law. To that end, they are envisaging to increase the resources allocated to priority spending from 5.7 percent of GDP in 2006 to 6.4 percent GDP in 2007. As rightly reflected in the staff report, most of these resources will be directed to health, education and rural sectors. Consistent with their commitment on public expenditure management, my Nigerien authorities intend to pursue steadfastly the implementation of PEMFAR recommendations. To that end, they will continue to (i) strengthen the preparation of the budget and fully integrate it with medium-term expenditure framework; (ii) enhance the execution and monitoring of expenditure; (iii) reinforce ex-ante and ex-post audits by allocating more human and material resources to agencies; (iv) streamline budget procedures and regulations to avoid delays in customs execution. In view of the need to increase transparency and governance in financial operations, my authorities are committed to publish quarterly reports on the execution of the budget, update and streamline treasury accounts.

PRSP and Structural Reforms

My authorities underscore the importance of the PRSP which remains the unique vehicle for mobilizing donor support. With the elaboration of this document, they intend to centralize and streamline agreed policy reforms aiming at achieving higher and sustainable growth with the goal to reducing poverty and making progress towards the MDGs. The process of updating it for the period 2007-09 is at its final stage and all stakeholders; including Civil society and development partners have been involved. Moreover, the results of recent surveys updating Niger's poverty indicators have been taken into account and the sectoral strategies, the medium-term frameworks on health, education and rural sector, as well as the main conclusions of the 2005 annual progress report have been reflected, with assistance from World Bank and UNDP. Based on the fact that all their strategies are set out in this document and encouraged by the 2005 international community mobilization which has been effective in helping mitigate the food crisis, my Nigerien authorities would like to organize a donor conference in early 2007, at which they will seek commitments of financial and technical assistance from developments partners to put in place those reforms. They call upon the international community to increase their invaluable support, as domestic revenue remains insufficient despite the efforts made in recent years to improve revenue collection.

On the structural reforms, my authorities are committed to press ahead with the implementation of reform agenda. For the financial sector, some progress has been made during 2006. Indeed, regarding the ***Crédit du Niger (CDN)***, reports on financial situation of the bank and the privatization options have been completed and understandings have been reached with the central bank, the ***BCEAO***, for repaying the **CDN** debt. The solicitation of investors' interest will be launched on December 2006. The restructuring of the national postal office (ONPE) is advancing, with the establishment of two separate entities, ***NIGERPOSTE***, for the postal branch, and ***FINAPOSTE***, for the financial activities. Commitment to meet requirement for ***FINAPOSTE*** has been taken for end-December 2006 by the government and modalities of reimbursement of frozen postal deposits are to be finalized by end-December 2007. In order to strengthen the microfinance sector, a decree for creating a regulatory agency will be adopted by end-December 2006 and a restructuring plan for the two largest microfinance entities is being designed. Important strides have been achieved on the area of business environment. To that end, my authorities have recently reduced the number of procedures for starting business and adopted a new mining code to stimulate investment. In the same vein, they are working with the World Bank to review the land-tenure system and strengthen the judiciary system, especially the commercial courts. The discussions with the World Bank on the new strategy to render more attractive the offer for sale of the electricity company, the ***NIGELEC***, are underway.

III. Conclusion

Under the last PRGF-supported program, my Nigerien authorities have implemented sound macroeconomic policies and made important progress in the macroeconomic stabilization. These achievements have created a strong foundation for the full implementation of the poverty reduction strategy. However, the recent economic and social disruption in the wake of drought and locust invasion that occurred in the last quarter of 2004 has once again shown the high vulnerability of the Niger economy to shocks. My authorities believe that an adequate response to the vulnerability requires continued efforts to diversify production and put the economy on a sustainable growth path, which would render it less dependent on weather conditions. In particular, they stress the need to encourage the development of irrigation infrastructure and the use of modern technology to improve agricultural productivity. To this end, they are committed to pursue their reforms agenda, in particular the implementation of measures pertaining to the execution of priority programs, the improvement of business environment and that of the domestic revenue collection. They also rely on the continuous support of the Fund, in particular through its catalytique role in mobilizing the development partners to assist them in addressing these daunting challenges. I would like, therefore, to ask Directors for their support for my authorities' request for waivers, and the completion of the third review under the PRGF arrangement as well as that of the 2006 Article IV Consultation.