

**Niger: Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver and Modification of Performance Criteria—Staff Report; Staff Statement and Supplements; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Niger**

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

- The staff report for the Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver and Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on April 2, 2007, 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 May 18, 2007. 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 June 1, 2007, and staff supplements of June 6, 2007 and June 7, 2007, updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its June 8, 2007 discussion of the staff report that completed the review and request.
- 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\*  
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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INTERNATIONAL MONETARY FUND

NIGER

**Fourth Review Under the Three-Year Arrangement Under the  
Poverty Reduction and Growth Facility, and Request for Waiver and  
Modification of Performance Criteria**

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

Approved by Jean A. P. Clément and Anthony Boote

May 18, 2007

- **Main issues:** Performance under the PRGF-supported program was satisfactory. All but two performance criteria through end-April 2007 were observed. Corrective measures have since been taken. The staff recommends completion of the review.
- **Recent developments:** A good harvest in 2006 has further improved food security and eased inflation. The outlook for 2007 is positive, pointing to healthy economic growth and low inflation. The authorities plan to complete a revised PRSP by end-May to address growth constraints and progress toward the Millennium Development Goals (MDGs).
- **The mission and participants:** Discussions were held in Niamey from March 20 to April 3, 2007. The staff team comprised Messrs. Sacerdoti (head), Callier, Farah, and Salinas (all AFR). It was assisted by Mr. Laporte, the Fund's Resident Representative in Niger, and liaised with a World Bank mission negotiating a new grant to support rural and social sector reforms. The staff team met with Mr. Zeine, the Minister of Finance and Economy; Mr. Gagere, the National Director of the Central Bank of West African States (BCEAO); and other senior government officials as well as civil society and donor representatives.
- **Past reviews:** The PRGF arrangement (SDR 6.58 million; 10 percent of quota) was approved by Executive Directors in January 2005, and was augmented to 40 percent of quota (SDR 26.32 million) in November 2005. The third review was completed in December 2006, and disbursements to date amount to SDR 23.5 million (35.7 percent of quota). In 2006, the Fund also approved debt relief amounting to SDR 60 million (excluding Highly-Indebted Poor Countries—HIPC—relief already committed) 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. The BCEAO conducts monetary and exchange rate policies at the regional level. Relations with the Fund and the World Bank are summarized in the Informational Annex.

Contents	Page
Executive Summary .....	3
I. Background.....	4
II. Recent Developments and Performance Under the Program.....	4
III. Report on Discussions.....	7
A. Medium-Term Outlook and the PRSP .....	7
B. Macroeconomic Objectives and Policies for 2007.....	10
C. Structural Reforms .....	12
IV. Program Monitoring and Risks.....	13
V. Staff Appraisal .....	14
 Figures	
1. Recent Macroeconomic Developments .....	5
2. Main Features of the 2007 Program.....	11
 Box	
Mining in the Nigerien Economy .....	9
 Tables	
1. Proposed Schedule of Disbursements Under the PRGF Arrangement, 2007-08.....	16
2. Selected Economic and Financial Indicators, 2004-10.....	17
3. Financial Operations of the Central Government, 2004-10.....	18
4. Monetary Survey, 2004-07 .....	19
5. Balance of Payments, 2004-10 .....	20
6. Actual and Projected Payments to the Fund, 2006-14.....	21
7. Budget Expenditure on Social and Rural Sectors, 2002-07.....	22
8. Millennium Development Goals.....	23
 Appendices	
I. Letter of Intent.....	24
Attachment I. Memorandum of Economic and Financial Policies of the Government of Niger for 2007 .....	26
Attachment II. Technical Memorandum of Understanding for 2007 .....	37

## EXECUTIVE SUMMARY

- **Macroeconomic performance in 2006 and the first months of 2007 was good.** Economic growth in 2006 was satisfactory at 4.8 percent, owing to a good harvest for the second year in a row, and strong mining, telecommunications and construction activities. Inflation was very low, and food security improved, partly because of continued donor support. All performance criteria through end-April 2007 were met, except for the flexible pricing for petroleum products (a tax deferment was introduced in April 2007, but the reversal began in May) and the concessionality of a newly-concluded bilateral loan for priority projects, for which interest subsidies have been requested from two African guarantee funds. The fiscal deficit in 2006 was smaller than programmed because of underspending and exceptional mining receipts.
- **Prospects for 2007 are favorable.** Assuming normal weather conditions, economic growth is expected to attain 4.5 percent with low inflation. The 2007 fiscal program has been modified to incorporate higher donor support and the expansion of pro-poor spending. The basic fiscal deficit would widen modestly relative to the original program, but domestic financing would be smaller than envisaged. The program includes a number of reforms in tax administration and public expenditure management.
- **The authorities are pressing ahead with reforms to improve the investment climate,** including privatization of a government-controlled bank, and revitalization of the microfinance institutions with a stronger regulatory framework. The authorities are also working with the World Bank to strengthen the judicial system and deepen financial intermediation.
- **Medium-term prospects have improved in view of a better outlook for mining activities.** Higher investment in mining, mainly uranium, is expected to lift GDP growth to somewhat higher than 5 percent in 2008–10.
- **A new PRSP for 2008–12 is being finalized,** and a donor conference is scheduled for June 2007. The authorities will be seeking a scaled-up aid to progress toward achieving the MDGs.
- **Downside risks to the program include droughts and a low revenue base in the context of increased spending pressures.** On the upside, ongoing renegotiation of uranium export prices could boost government revenue and strengthen the external position.
- **Given the strength of the program, and the corrective actions taken, staff supports the requested two waivers and completion of the fourth review.**

## I. BACKGROUND

1. **Niger remains one of the poorest countries in the World.** It was ranked last in the 2006 United Nations Human Development Index. The economy is landlocked, heavily dependent on drought-prone subsistence agriculture, and has a low export base. Large fiscal and external current accounts deficits are mainly covered by development assistance, and the debt burden was significantly reduced under the HIPC initiative and the MDRI.

Inflation remains low, with prudent monetary policy management by the regional central bank. Nevertheless, attaining high and sustained growth and poverty reduction remain a challenge. Continuing with prudent macroeconomic policies, bolstering domestic revenue, strengthening public expenditure management, and improving the investment climate are critical for attaining higher economic growth and reducing poverty.

**Human Development Index Rank and Per Capita GDP**

	HDI Rank <sup>1</sup> (2006)	Real per Capita GDP <sup>2</sup> (US\$, 2006)
Togo	147	259
Senegal	156	511
Benin	163	398
Cote d'Ivoire	164	580
Guinea-Bissau	173	135
Burkina Faso	174	278
Mali	175	300
<b>Niger</b>	177	178
Sub-Saharan Africa	...	592

Source: UN Human Development Report, 2006; and Sub-Saharan Africa Regional Economic Outlook, IMF.

<sup>1</sup> Rank out of 177 countries.

<sup>2</sup> At 2000 prices and exchange rates.

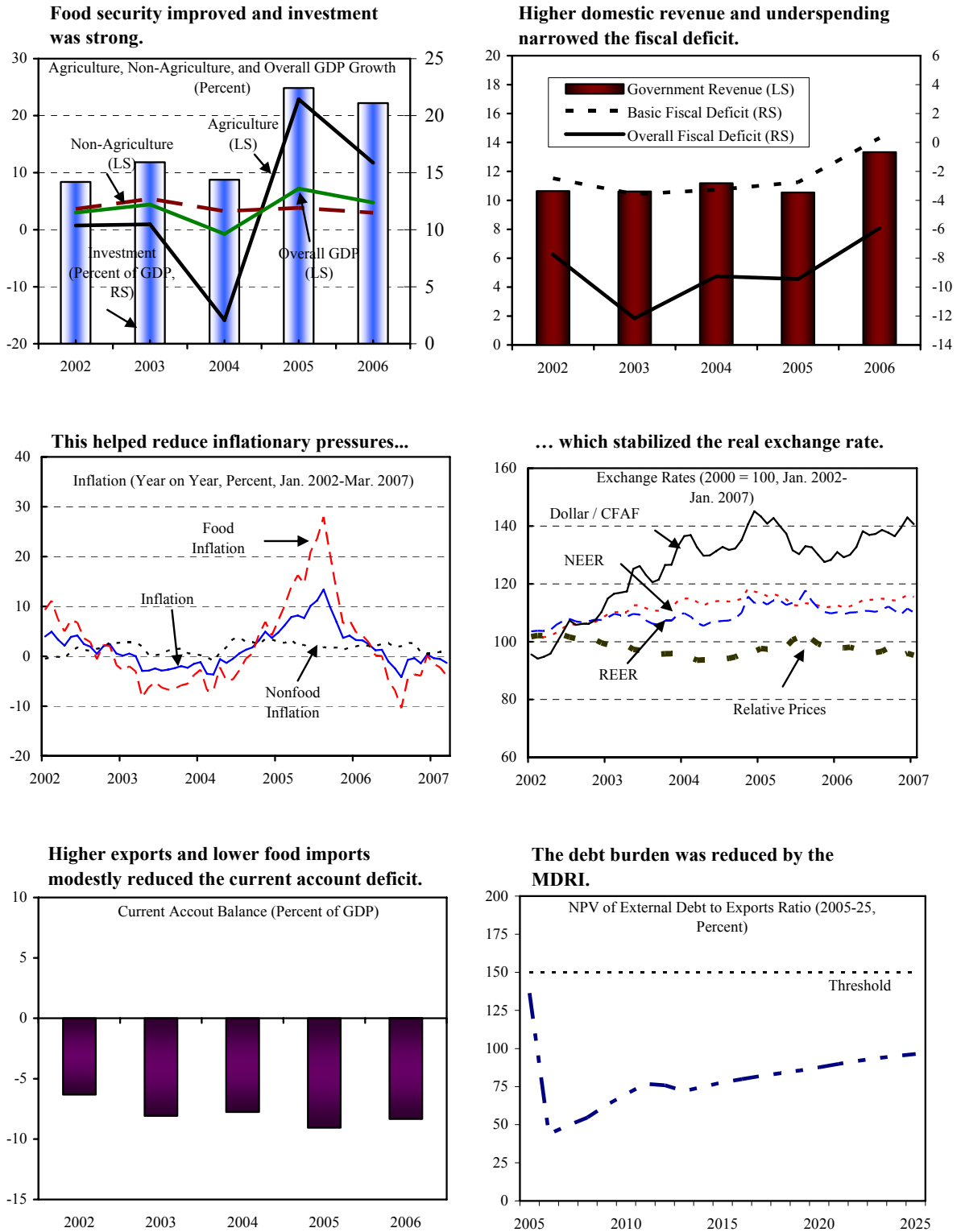
2. **The political situation is relatively stable.** However, there have been recent attacks on government forces in the North, where a long ethnic rebellion ended with a peace agreement in 1995. Also, student unrest has intensified in recent weeks. Parliamentary and presidential elections are planned for 2008 and 2009, respectively.

## II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

3. ***Macroeconomic performance was good in 2006.***

- Real GDP growth remained strong, after recovering from a drought in 2005. Good rains have strengthened agriculture output the second year in a row, improving food security. Growth was also supported by buoyant performance in mining, telecommunications, and construction activities. Private investment continued to be sustained, after a significant increase in 2005 related to the 5<sup>th</sup> Francophonie games (Table 2 and Figure 1).
- Inflation fell reflecting lower food prices. The real effective exchange rate rose modestly, as lower inflation than in trading partners was more than offset by an appreciation of the Euro-pegged CFA franc against the dollar.
- The external current account deficit narrowed because of higher agricultural exports (Tables 2 and 5). Development assistance and exceptional receipts received toward year's-end related to a new uranium mining concession (amounting to 1.6 percent of

Figure 1. Niger: Recent Macroeconomic Developments



Sources: IMF staff estimates; and Nigerien authorities.

- GDP) more than covered the external current account deficit and helped increase the net foreign assets the BCEAO attributes to Niger.
  - Credit to the economy remained buoyant (Tables 2 and 4). It increased 32 percent, albeit from a low level as increased trade-related credits and investment financing rose in telecommunications, construction, and mining. Money velocity declined, reflecting deepening financial intermediation. The health of the banking system, including rate of return and levels of provisioning, remains satisfactory, despite an increase in nonperforming loans in 2006.
4. *Macroeconomic policy and reform implementation was satisfactory*
- All quantitative and structural performance criteria and benchmarks for end-December 2006 were observed.
  - However, the continuous performance criterion on the full pass-through of international oil price movements was breached in April 2007. In the face of rising international oil prices in March 2007, the government deferred some petroleum-based taxes. In May it increased prices significantly, eliminating deferment on gasoil and reducing it on gasoline. The deferment will be eliminated by July 2007. Also, a 20-year concessional loan for import financing of priority agricultural equipments, concluded in the first quarter of 2007 with a bilateral official creditor, has a grant element of about 42 percent, below the required 50 percent, hence breaching the performance criterion on nonconcessional borrowing. The authorities have requested an interest subsidy from two African guarantee funds<sup>1</sup> to raise the grant element, and have good hope that both will be secured shortly. They are working with the World Bank to ensure efficient utilization of these resources.
  - The 2006 basic fiscal deficit was smaller than programmed (Table 3). Revenue (excluding the exceptional mining receipts) was somewhat higher than envisaged, while the authorities slowed expenditure because of shortfalls in external budgetary

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<sup>1</sup> A subsidy from the African Fund for Guarantee and Economic Cooperation is expected to reduce the interest rate on the loan from 1.75 percent to 1 percent; this would bring the grant element to slightly below 50 percent; the authorities have requested an additional intervention from the African Solidarity Fund to bring the grant element to the required level.



support.<sup>2</sup> Taking into account exceptional mining receipts received in late December, net domestic financing was far below program target.<sup>3</sup>

- The authorities advanced structural reforms, though some related benchmarks were implemented with delays (MEFP, paragraphs 8 and 9). In public financial management, reforms focused on reinforcing the large taxpayers unit, computerizing customs administration, improving budgetary and treasury management (including better monitoring of pro-poor spending), and strengthening ex-ante and ex-post control of budget execution. In the financial sector, the privatization of *Crédit du Niger* (CDN) progressed; five interested investors were identified, and a stronger supervisory agency for microfinance institutions was established.
- Parliament adopted revised mining and petroleum codes in August 2006 and January 2007, respectively. Both codes have tax provisions consistent with the WAEMU norms. Since the adoption of the revised mining code, the government has issued many mining exploration permits (mainly for uranium, gold, and tin), all of which were published in the official gazette. Petroleum permits were also published. In accordance with its commitment to the Extractive Industry Transparency Initiative (EITI), the government in late 2006 appointed a national consultative committee that includes representatives of civil society.

### III. REPORT ON DISCUSSIONS

5. The review discussions focused on the (i) the medium-term outlook and the preparation of a revised PRSP; (ii) macroeconomic policies and objectives for 2007; and (iii) structural reforms in 2007 for public financial management, the financial sector, and the investment climate.

#### A. Medium-Term Outlook and the PRSP

6. **Medium-term prospects have improved in view of the better outlook for uranium and other mining activities.** While uranium production is expected to accelerate starting in 2012-13 (Box 1), increased investment in mining and related sectors (such as construction and transportation) and private sector-led expansion in export-oriented agriculture products should help strengthen economic growth to some 5 percent a year in 2008–10. The external current deficit is expected to widen in 2008-09, reflecting an

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<sup>2</sup> The shortfall, amounting to 0.9 percent of GDP, was related to support from World Bank and France, which was disbursed in the first quarter of 2007. The World Bank support was delayed because of the late adoption by the government of measures in the education and health sectors.

<sup>3</sup> The target, adjusted for shortfall in external budgetary support, would have been achieved even without the unanticipated exceptional receipt.

increase in investment-related imports, mainly in the mining sector, but should narrow starting in 2012 when new uranium mines become operational. The basic fiscal deficit is projected to remain low over the medium term and would be financed primarily by external budget support. Projections incorporate strong increases in expenditure on goods and services to provide for more pro-poor spending and recurrent costs related to higher government investment.

7. **Ongoing negotiation of the uranium export price could significantly alter the baseline medium-term outlook for economic growth, the external position, and the fiscal situation.** Improved terms of trade would help boost economic growth and narrow the external current account deficit relative to the baseline. Further, an increase in the export price would bolster government revenue starting in 2008. In view of the ongoing negotiation and work involved in finalizing the PRSP (see below), the authorities propose to revisit the medium-term outlook at the fifth review.

8. **The authorities are finalizing a new PRSP for 2008–12 that contains policies and reforms to bolster economic growth and make progress toward the MDGs.** A preliminary draft of the PRSP underscores the need to preserve macroeconomic stability, increase public investment in human capital and physical infrastructure, strengthen economic governance and develop the private sector. It calls for more government support for social sectors, rural sector development (especially irrigation), and transport and roads infrastructure. The authorities have also recently completed medium-term expenditure frameworks (MTEFs) for rural sector development and roads and transport, supplementing already available MTEFs for education and health. Once the PRSP is completed, they plan to organize a donor conference to mobilize assistance to support its implementation. The regional investment program recently adopted by the WAEMU will also support PRSP-related investments.

9. **While external debt indicators over the long run would remain below the policy-based thresholds, the debt burden is projected to increase over time and could be aggravated by adverse shocks.**<sup>4</sup> The authorities intend to seek grants to finance most of the new investments. If enough grants do not become available, new debt should be contracted only at the most concessional financing terms and for highly-productive investments. With technical assistance from development partners, the Debt Directorate at the Ministry of Finance and Economy is building its capacity to develop a medium-term debt strategy and conduct debt sustainability analysis (DSA).

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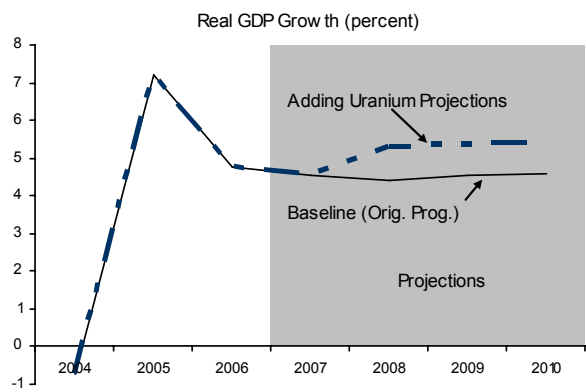
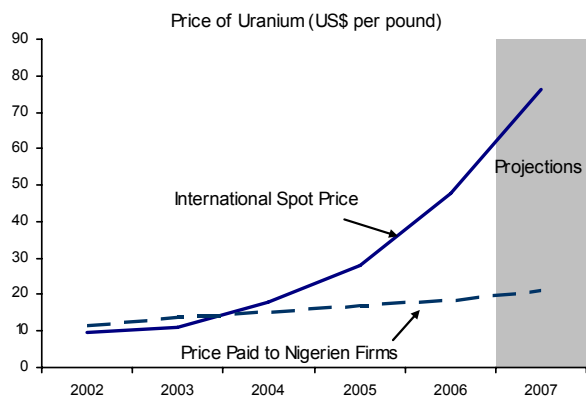
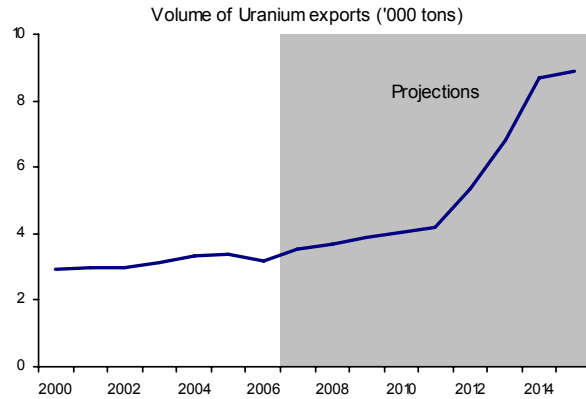
<sup>4</sup> Under the World Bank's Country Policy and Institutional Assessment Rating System, Niger is classified as a "medium performer." The debt sustainability thresholds applied for these countries, in terms of NPV of debt-to-exports, GDP, and revenue are 150 percent, 40 percent and 250 percent, respectively, and in terms of debt service to exports and to revenue 20 percent and 30 percent, respectively. A joint DSA analysis was included in Country Report No. 07/13, 12/06/2006.

### Box 1. Mining in the Nigerien Economy

**Mining prospects have significantly improved.** The sector accounts for 40 percent of exports and some 3 percent of GDP. A renewed interest in the generation of nuclear energy has led to increased demand for uranium and firming up of the international price. This has encouraged investment to expand existing uranium mines, exploit already identified deposits, and explore new mines. Foreign investment in 2008-12 is projected at US\$1.4 billion, and would double production by 2013. The government also recently issued a number of exploration permits for uranium, gold, petroleum and cassiterite.

**Ongoing renegotiation of Niger's export price would boost export receipts and government revenue.** The uranium world price has significantly increased since 2003.<sup>1</sup> However, Niger's uranium export price is based on medium-term agreements between government and the companies. The current contract price is much lower than the spot international price. The export price for 2008 is being negotiated, and any upward revision will boost the profit of the mining companies, as well as profit taxes, royalties and dividends for the government. The expansion of uranium-related investment and exports could fuel real output growth over the medium term.

**A revised mining code and new petroleum code have facilitated investment in the mining sector.** The Mining Code has been updated in August 2006 to align it with international best practices and WAEMU guidelines. Parliament adopted a petroleum code in early 2007, and the government is developing implementing regulations as well as model contracts. The authorities are also strengthening the transparency of natural resource receipts, in line with their commitment under the EITI.



Sources: Nigerian authorities, Nuexco Exchange, and IMF staff projections from 2007 onwards.

<sup>1</sup> The spot market is, however, thin and the bulk of uranium transactions takes place under medium-term contracts.

## B. Macroeconomic Objectives and Policies for 2007

10. **The macroeconomic outlook is positive.** In 2007 real GDP growth is forecast at 4½ percent, supported mainly by good performance in mining, construction and telecommunication activities. Average inflation is expected to increase to 2 percent as food price returns to normal, after a significant decline in 2006. The external current account deficit after grants is expected to widen by 1.7 percent of GDP because of higher investment-related imports.

11. **The authorities request the modification of the 2007 fiscal program (Country Report No. 07/13, 12/06/06) to take into account higher-than-anticipated external budget support** (Text Table and Figure 2). Specifically, the program allows for additional domestically-financed expenditures amounting to 0.9 percent of revised GDP related to:

- the expansion of priority programs by the equivalent of 0.4 percent of GDP, including for education, community development, and counterpart funds for foreign-financed projects;
- the allocation of an amount of 0.2 percent of GDP for recapitalizing financial institutions that are being restructured, and acquiring shares in mining companies as provided under the mining code; and
- an increase in the budget contingency reserve by 0.2 percent of GDP to reflect the full amount included in the budget law.

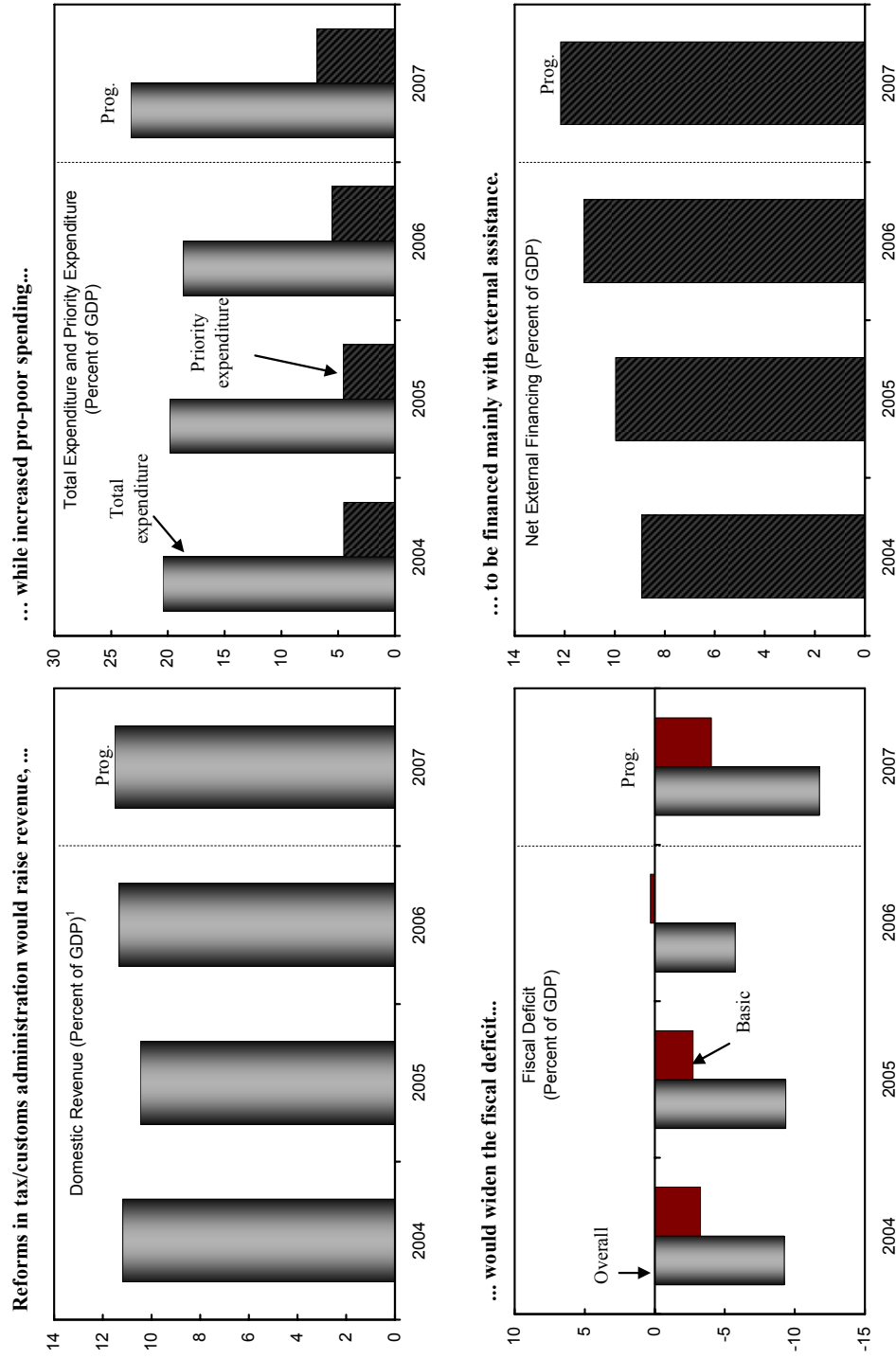
12. The external budget support is about 1 percent of GDP higher than envisaged because of larger World Bank budget support (0.6 percent of GDP), which this year will take the form

Government Financial Operations, 2006-07

	2006		2007	
	Orig. Prog.	Est.	Orig. Prog.	Revised
	(Percent of GDP)			
Total revenue (excluding grants)	11.3	12.9	12.0	11.5
<i>Of which: exceptional uranium receipts</i>	...	1.6	...	...
Total expenditure	19.1	18.6	21.3	23.3
<i>Of which: domestically financed</i>	14.0	12.6	15.3	15.6
Overall deficit (commitment)	-7.8	-5.7	-9.3	-11.8
Basic Deficit	-2.7	0.3	-3.3	-4.1
Change in payment arrears	-0.3	-0.7	-0.8	-0.8
Overall deficit (cash)	-8.1	-6.4	-10.1	-12.5
Financing	8.1	6.4	10.1	12.5
External financing (net)	11.3	11.2	6.0	12.2
<i>Of which: Grants</i>	46.3	45.9	3.6	8.5
Domestic financing	-3.3	-4.8	0.4	0.4
Financing gap	0.0	0.0	3.7	0.0
Identified	0.0	0.0	3.7	...
Memorandum item:				
Nominal GDP (Billions of CFAF)	1,854	1,914	1,971	2,053

Sources: Nigerien authorities; and IMF staff estimates.

Figure 2. Niger: Main Features of the 2007 Program



Sources: IMF staff estimates; and Nigerien authorities.

<sup>1</sup> In 2006, excluding uranium mining receipts.

of a grant, and higher EU and bilateral assistance. The net domestic financing (excluding PRGF resources) is targeted at 0.1 percent of GDP, or about two-thirds less than originally targeted. The program also projects higher foreign-financed investments, mainly covered by grants, reflecting large road projects and efforts to strengthen project execution capacity.

13. **In March 2007, the government submitted to parliament a draft bill proposing the establishment of a priority investment fund to be financed by the exceptional mining receipts.** After parliamentary approval, the list of eligible investments will be established and incorporated in the budgets for 2008 and beyond. On proposed investments, the staff encouraged the authorities to ensure that they are consistent with the priority programs under the new PRSP, and fully integrated into annual budgets and the medium-term expenditure framework.

14. The authorities have finalized in April 2007 a domestic arrears reduction plan covering both 2007 and the medium-term (MEFP, paragraph 16). For 2007 priority is given to arrears reduction to banks, petroleum products distributors, and payment orders pending at the Treasury for 2005 and 2006. The plan also details procedures for eliminating other arrears to suppliers and creditors that were outstanding at end-1999 and were audited in 2005.

15. **Negotiations with remaining non-Paris Club creditors for debt relief on terms comparable to those already obtained are ongoing** (Algeria, Iraq, and Libya), but no agreement has yet been reached.

### C. Structural Reforms

#### Public finance management

16. **Because of Niger's low revenue-to-GDP ratio and the significant expenditure needs associated with the MDGs, strengthening domestic revenue is high on the reform agenda.** Reforms focus on buttressing tax and customs administration with measures to strengthen auditing, control exemptions, and combat fraud (MEFP, paragraphs 18 and 19).

Niger: Ranking in "Doing Business" Indicators <sup>1</sup>		
General Areas	2006 Rank	2005 Rank
<i>Doing Business</i>	160	170
Starting a business	147	159
Dealing with licenses	126	155
Employing workers	168	168
Registering property	103	101
Getting credit	143	143
Protecting investors	99	96
Paying taxes	115	110
Trading across borders	174	173
Enforcing contracts	104	99
Closing a business	129	146

Source: *Doing Business 2007*, World Bank.

<sup>1</sup> Out of 175 countries

17. **Reinforcing public expenditure management will improve transparency and accountability for government transactions.** The program calls for the government to: (i) improve expenditure control; (ii) tighten procurement procedures; (iii) reduce delays in establishing treasury accounts; and (iv) strengthen the Auditor General (*Cour des Comptes*) (MEFP, paragraph 20). The Treasury is making

progress in establishing complete treasury accounts, including entry balances updated from 1997 on.<sup>5</sup>

### **Reforms to Improve the Investment Climate**

18. **The authorities plan to forge ahead with reforms to facilitate private sector development.** A recent World Bank Investment Climate Assessment (ICA) highlighted that the cost of doing business in Niger remains one of the highest in sub-Saharan Africa. Limited access to, and high cost of, financing, weak physical infrastructure, burdensome licensing and import procedures, labor market rigidities, and a weak judicial system, are some of key impediments to investment. To address these weaknesses, the authorities plan to finish privatizing *Crédit du Niger* and to operationalize the restructured financial branch of the post office. To give more people in rural areas access to financial services, a number of microfinance institutions in financial difficulties are being restructured, with donor assistance.<sup>6</sup> The government is also working with the World Bank to strengthen the judicial system, reform the land tenure system, and streamline the regulatory framework for businesses, including registration procedures. Increased investment in infrastructure would also help reduce the cost of doing business.

19. **The government is committed to ensuring transparency regarding government revenue from natural resources.** It is working closely with the World Bank to comply with the EITI. For this purpose, a test audit of resources from national resources will be conducted in 2007 on the basis of 2005 accounts; the results will be available to the public. The government has also committed to ensure that all natural resource-related transactions are clearly identified, described, and reported in the budget process.

## **IV. PROGRAM MONITORING AND RISKS**

20. The authorities request (i) a waiver for the nonobservance of the structural performance criterion on the application of flexible pricing for petroleum products, given the corrective actions taken; (ii) a waiver for nonobservance of the degree of concessionality of a loan for priority development, as interest subsidies are likely to be obtained; (iii) modification of two quantitative performance criteria; and (iv) modification of the structural performance criteria on the establishment of treasury balances to exclude pre-1997 entry balances, for which an amnesty will be requested from parliament, and on petroleum pricing, to reflect an agreement with the civil society on a higher threshold for monthly price changes.

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<sup>5</sup> For lack of adequate documentation, pre-1997 entry balances are unavailable, and the government will request an amnesty from parliament. Accordingly, the wording of the related performance criterion is being modified to eliminate the requirement of pre-1997 entry balances.

<sup>6</sup> The World Bank provides support for the implementation of financial sector reforms.

21. **Niger's reform agenda faces risks.** Droughts and negative terms of trade shocks could weaken economic growth and food security. The fiscal situation remains fragile in view of the relatively weak revenue base and increased pressures to expand expenditure. However, determined implementation of structural revenue measures combined with technical assistance from development partners would mitigate risks over the medium term. The advancement of reforms to strengthen public expenditure management should help catalyze aid from development partners, while the improved mining prospects could contribute to a more favorable revenue outlook.

## V. STAFF APPRAISAL

22. **Program performance thus far has been satisfactory with the observance of almost all performance criteria.** In May 2007, the government raised prices significantly, reducing the tax deferment introduced in April in response to higher international oil prices. The government is committed to eliminate the tax deferment by July 2007. It is also seeking interest subsidies from two African guarantee funds to raise the grant element of a recently-concluded loan for a priority project from the current level of around 42 percent.

23. **The 2007 program continues to stress the expansion of pro-poor expenditure, and the strengthening of revenue and expenditure management.** It provides significant increases to priority programs in health, education, and rural sector development, supported by higher external assistance. The authorities should continue to bolster revenue, with measures to tighten border controls, tax audits, and exemptions. Recent steps taken to strengthen budget preparation (including the development of medium-term expenditure frameworks (MTEFs) for key sectors), better monitor priority programs, and tighten controls and procurement procedures are welcome. The authorities are encouraged to further strengthen internal audits and the Auditor Court, including by providing adequate information and human resources.

24. **Progress to enhance the investment climate should be accelerated.** The steps under way to privatize and restructure public financial institutions, are welcome, as they should help expand access to, and reduce the cost of, credit. The restructuring of weak microfinance institutions should be accelerated, given the key role they play in supporting agriculture and other small-scale initiatives. To strengthen the economy's supply response, it is essential that the authorities, with World Bank support, work to improve the judicial system, reform the land tenure system, and streamline the regulatory framework for businesses.

25. **The authorities' ongoing work to finalize the new Poverty Reduction Strategy Paper is welcome.** The authorities plan to seek grants to finance the execution of the PRSP. If enough grants do not become available, new debt should be contracted only at the most concessional financing terms and for highly productive investments.

26. **Risks to the program are manageable.** The authorities' commitment to strengthening domestic revenue and expenditure management is expected to mitigate risks to fiscal sustainability. Progress in these areas should also catalyze the donor support needed to



promote growth and reduce poverty and address the economy's susceptibility to adverse shocks.

27. In light of the above considerations, and the corrective actions taken, staff recommends Board approval of the authorities' request for waivers for the nonobservance of two performance criteria, modification of performance criteria for the remainder of 2007, and completion of the fourth review under the PRGF arrangement.

Table 1: Niger: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2007-08

Amount (Millions)	Available date	Conditions Necessary for Disbursement <sup>1</sup>
SDR 0.940	June 1, 2007	Observance of December 31, 2006 and continuous performance criteria, and completion of the fourth review under the arrangement
SDR 0.940	September 15, 2007	Observance of June 30, 2007 and continuous performance criteria, and completion of the fifth review under the arrangement
SDR 0.940	January 15, 2008	Observance of December 31, 2007 and continuous performance criteria, and completion of the sixth review under the arrangement

Source: International Monetary Fund.

<sup>1</sup>In addition to the generally-applicable conditions under the Poverty Reduction and Growth Facility arrangement.

Table 2. Niger: Selected Economic and Financial Indicators, 2004-10

	2004	2005	2006		2007		2008	2009	2010
	Est.		Orig. Prog.	Est.	Orig. Prog.	Rev. prog.	Projections		
(Annual percentage change, unless otherwise indicated)									
National income and prices									
GDP at constant prices	-0.8	7.2	3.4	4.8	4.1	4.5	5.3	5.3	5.4
GDP deflator	-0.5	8.5	0.1	1.1	2.1	2.6	2.7	2.5	2.5
Consumer price index									
Annual average	0.4	7.8	0.3	0.1	2.0	2.0	2.0	2.0	2.0
End of period	3.7	4.2	1.5	0.4	2.0	2.0	2.0	2.0	2.0
External sector									
Exports, f.o.b. (Units, CFA francs)	12.8	9.2	-1.6	8.1	17.4	12.6	10.0	6.3	6.5
Imports, f.o.b. (Units, CFA francs)	9.2	30.7	-1.4	0.9	13.6	24.5	14.3	3.9	15.1
Export volume	7.9	-3.7	-3.8	-0.8	12.4	6.5	5.7	3.4	3.6
Import volume	2.9	23.1	-5.2	-1.8	9.3	22.7	16.8	4.4	16.1
Terms of trade (deterioration -)	-1.6	5.0	-1.6	6.2	0.5	3.6	4.6	3.3	3.6
Nominal effective exchange rate (depreciation -)	2.8	-4.5	...	3.6	...	...	...	...	...
Real effective exchange rate (depreciation -)	3.7	-3.1	...	1.5	...	...	...	...	...
Government finances									
Total revenue	4.0	8.8	11.2	30.8	12.3	-4.4	14.0	12.7	11.9
Total expenditure and net lending <sup>1</sup>	-11.4	12.8	9.3	-0.4	18.7	33.8	7.8	8.0	7.3
Of which: Current expenditure <sup>2</sup>	-1.0	-4.3	18.1	5.4	13.4	32.3	7.9	8.1	7.4
Capital expenditure	-21.7	34.1	-0.4	-5.4	26.0	35.3	10.5	7.8	7.2
Money and credit									
Domestic credit <sup>3</sup>	24.1	2.3	-17.3	-16.1	7.1	12.9	...	...	...
Credit to the government (net) <sup>3</sup>	14.8	-6.3	-23.8	-31.5	3.1	3.1	...	...	...
Credit to the economy <sup>3</sup>	9.3	8.7	6.5	15.4	4.0	9.9	...	...	...
Net domestic assets <sup>3</sup>	24.3	1.7	-18.1	-17.3	6.3	10.9	...	...	...
Money and quasi money	20.3	6.6	6.1	16.2	6.3	11.5	...	...	...
(Percent of GDP, unless otherwise indicated)									
Government finances									
Total revenue	11.2	10.5	11.3	12.9	12.0	11.5	12.1	12.7	13.1
Of which: exceptional mining receipts	...	...	...	1.6	...	...	...	...	...
Total expenditure and net lending	20.4	19.8	19.1	18.6	21.3	23.3	23.2	23.2	23.0
Current expenditure <sup>2</sup>	11.1	9.1	10.5	9.1	11.2	11.2	10.9	10.9	10.8
Capital expenditure	9.3	10.7	8.5	9.5	10.1	12.0	12.3	12.3	12.2
Basic balance (excluding grants) <sup>4</sup>	-3.3	-2.7	-2.7	0.3	-3.3	-4.1	-3.2	-2.6	-2.0
Overall balance (commitment basis, excluding grants)	-9.3	-9.4	-7.8	-5.7	-9.3	-11.8	-11.1	-10.5	-9.9
Overall balance (commitment basis, including grants) <sup>5</sup>	-3.5	-1.9	-3.7	-0.8	-5.8	-3.2	-5.9	-5.4	-4.8
Gross investment	14.4	22.4	15.5	21.1	18.0	22.3	25.8	25.1	27.8
Of which: fixed private investment	11.3	14.2	...	14.0	...	14.3	17.8	17.1	19.9
Gross national savings	6.6	13.4	7.9	12.8	7.4	12.0	9.1	9.3	8.6
External current account balance									
Excluding official grants	-9.5	-12.0	-10.3	-10.7	-11.5	-14.2	-17.4	-16.6	-19.8
Including official grants	-7.8	-9.1	-7.5	-8.3	-10.6	-10.2	-16.7	-15.8	-19.2
Debt-service ratio in percent of:									
Exports of goods and services <sup>6</sup>	13.2	10.1	227.1	227.1	2.3	2.4	2.3	2.5	2.8
Government revenue <sup>6</sup>	21.2	16.0	346.8	321.4	3.6	3.6	3.3	3.5	3.7
NPV of external debt	22.5	21.8	...	6.9	...	8.1	9.7	11.1	12.2
(Billions of CFA francs)									
GDP at current market prices	1,554	1,808	1,854	1,914	1,971	2,053	2,220	2,397	2,590
Overall balance of payments	-24.8	15.7	62.2	98.4	-77.2	11.0	-73.5	-60.6	-60.8

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

<sup>1</sup>Commitment basis as per payment orders issued.<sup>2</sup>Including budget reserve.<sup>3</sup>In percent of beginning-of-period money stock.<sup>4</sup>Total revenue, excluding grants, minus total expenditure, excluding foreign-financed investment projects.<sup>5</sup>Program Initiative data and projections include grants for projects. Actual data include budget grants.<sup>6</sup>After HIPC and MDRI debt relief starting in 2006.

Table 3. Niger: Financial Operations of the Central Government, 2004-10

	2004	2005	2006		2007		2008	2009	2010
	Est.		Orig. Prog.	Est.	Orig. Prog.	Rev. Prog.	Projections		
(Billions of CFA francs)									
Total revenue	173.8	189.0	210.3	247.2	236.2	236.2	269.3	303.6	339.7
Tax revenue	167.6	181.3	203.1	203.8	224.3	224.3	255.1	283.9	316.7
<i>Of which: International trade</i>	87.8	93.9	98.0	95.8	102.1	102.1	111.9	124.6	135.4
Nontax revenue	1.4	4.9	4.2	38.5	9.3	9.3	10.3	14.4	16.8
<i>Of which: exceptional uranium receipts</i>	0.0	0.0	0.0	30.4	...	...	...	...	...
Special accounts revenue	3.9	2.8	3.0	4.9	2.6	2.6	3.9	5.3	6.1
Total expenditure and net lending	317.6	358.4	354.1	356.9	420.4	477.6	514.7	555.7	596.3
<i>Of which: domestically financed</i>	224.6	238.4	259.9	241.4	301.5	319.4	340.9	366.7	392.1
Total current expenditure	172.7	165.3	195.2	174.2	221.5	223.8	241.6	261.2	280.5
Budgetary expenditure	155.8	148.7	182.4	163.8	207.8	210.1	227.6	247.0	265.4
Wages and salaries	59.2	63.0	68.8	68.0	73.3	73.3	77.7	82.4	87.3
Materials and supplies	50.3	43.6	48.8	47.4	61.8	63.0	71.7	81.4	87.9
Subsidies and transfers	38.2	31.9	59.5	43.5	66.2	68.3	71.8	75.3	81.4
Interest, scheduled	8.1	10.1	5.3	4.9	6.5	5.5	6.5	7.8	8.8
<i>Of which: External debt</i>	8.0	8.0	4.1	3.7	3.8	3.8	4.0	5.3	6.3
Special accounts expenditure	16.9	16.6	12.8	10.4	13.7	13.7	14.0	14.3	15.1
Capital expenditure and net lending	144.9	193.1	158.9	182.6	198.9	247.1	273.1	294.5	315.8
Capital expenditure	144.0	193.3	157.9	182.6	198.9	247.1	273.1	294.5	315.8
Domestically financed	34.0	51.0	47.1	51.5	61.3	70.2	81.3	87.5	93.6
HIPC Initiative resources	17.0	22.3	16.6	15.6	18.7	18.7	18.0	18.0	18.0
Externally financed	93.0	120.0	94.2	115.5	118.9	158.2	173.8	189.0	204.2
<i>Of which: grants</i>	46.5	77.2	74.2	74.2	70.3	109.9	112.9	121.9	131.7
Net lending	0.9	-0.2	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Budget reserve	...	...	...	...	...	6.7	...	...	...
Overall balance (commitment)	-143.8	-169.3	-143.9	-109.7	-184.2	-241.4	-245.5	-252.1	-256.7
Basic balance	-50.8	-49.3	-49.7	5.8	-65.3	-83.2	-71.7	-63.1	-52.4
Change in payments arrears	-19.3	-12.4	-6.1	-14.0	-15.2	-15.8	-15.2	-15.2	-15.0
<i>Of which: Domestic arrears</i>	-19.3	-12.4	-6.1	-14.0	-15.2	-15.8	-15.2	-15.2	-15.0
Errors and omissions	...	...	...	-0.4	0.0	0.0	0.0	0.0	0.0
Overall balance (cash)	-163.1	-181.7	-150.0	-124.1	-199.4	-257.2	-260.7	-267.3	-271.7
Financing	163.1	181.6	149.9	124.1	125.5	257.2	176.8	191.0	200.2
External financing	138.6	180.1	211.9	215.3	117.5	249.8	168.8	183.8	198.1
Grants	89.2	134.1	859.0	878.4	70.3	175.5	112.9	121.9	131.7
Budget financing	26.5	38.7	22.7	18.6	0.0	65.6	0.0	0.0	0.0
Project financing	46.5	77.2	51.9	75.5	70.3	109.9	112.9	121.9	131.7
HIPC Initiative assistance	16.2	18.2	...	...	...	...	...	...	...
MDRI assistance	...	...	784.3	784.3	0.0	0.0	0.0	0.0	0.0
Loans	64.1	57.6	75.3	59.8	48.6	75.7	60.8	67.1	72.5
<i>Of which: Budget financing</i>	17.6	14.8	33.0	19.8	0.0	27.4	0.0	0.0	0.0
Amortization	-22.4	-14.6	-725.1	-726.0	-4.8	-4.8	-5.0	-5.2	-6.1
Debt relief (incl. debt under discussion)	7.7	3.0	2.8	3.1	3.4	3.4	0.0	0.0	0.0
Domestic financing	24.5	1.5	-62.0	-91.2	8.0	7.4	8.0	7.1	2.0
Banking sector	28.7	-14.8	-59.5	-82.8	8.0	7.4	8.0	7.1	2.0
<i>Of which: IMF</i>	0.6	0.0	-56.9	-61.4	1.3	5.8	0.7	0.0	0.0
Non-banking sector	-4.2	16.3	-2.5	-8.4	0.0	0.0	0.0	0.0	0.0
Financing gap (+)	0.0	0.1	0.0	0.0	73.9	0.0	83.9	76.4	71.5
(Percent of GDP)									
Total revenue	11.2	10.5	11.3	12.9	12.0	11.5	12.1	12.7	13.1
<i>Of which: exceptional uranium receipts</i>	...	...	...	1.6	...	...	...	...	...
Total expenditure and net lending	20.4	19.8	19.1	18.6	21.3	23.3	23.2	23.2	23.0
Total current expenditure	11.1	9.1	10.5	9.1	11.2	10.9	10.9	10.9	10.8
Capital expenditure and net lending	9.3	10.7	8.6	9.5	10.1	12.0	12.3	12.3	12.2
Budget reserve	...	...	...	...	...	0.3	...	...	...
Basic balance	-3.3	-2.7	-2.7	0.3	-3.3	-4.1	-3.2	-2.6	-2.0
Overall balance (cash)	-10.5	-10.1	-8.1	-6.5	-10.1	-12.5	-11.7	-11.2	-10.5
External financing	8.9	10.0	11.4	11.2	6.0	12.2	7.6	7.7	7.7
Domestic financing	1.6	0.1	-3.3	-4.8	0.4	0.4	0.4	0.3	0.1
Financing gap (+)	0.0	0.0	0.0	0.0	3.7	0.0	3.8	3.2	2.8
(Billions of CFA francs)									
Memorandum items									
NGDP	1,554	1,808	1,854	1,914	1,971	2,053	2,220	2,397	2,590
MDRI Flow Relief	...	...	5.4	5.4	8.9	8.9	11.9	14.3	14.3
Social & Rural Sector Exp. (excl. foreign financed)	70.3	80.8	106.0	96.3	126.0	134.4	...	...	...
Domestic financing, excluding IMF	23.9	1.5	-5.1	-29.8	6.7	1.6	7.3	7.1	2.0

Source: Nigerien authorities; and IMF staff estimates.

Table 4. Niger: Monetary Survey, 2004-07

	2004	2005	2006		2007
	Dec.	Dec.	Orig. Prog.	Est.	Prog.
(Billions of CFA francs; end of period)					
Net foreign assets	67.9	79.2	139.4	162.5	164.1
BCEAO	49.0	67.1	132.0	168.4	185.0
Commercial banks	18.9	12.0	7.4	-5.8	-20.8
Net domestic assets	165.4	169.4	124.3	126.5	158.0
Domestic credit	186.4	191.8	148.8	151.7	189.1
Net bank claims on government	85.3	70.5	11.3	-7.9	1.0
BCEAO	85.6	75.1	15.4	0.6	11.7
<i>Of which</i> : Statutory advances	33.1	32.1	32.1	35.2	26.5
IMF resources	73.5	75.2	18.6	13.8	19.6
Commercial banks	-3.5	-7.1	-5.5	-10.4	-14.2
Other	3.2	2.5	1.4	1.8	2.0
Credit to the economy	101.1	121.3	137.5	159.6	188.1
Other items, net	-21.0	-22.4	-24.5	-25.2	-31.1
Money and quasi money	233.3	248.7	263.7	289.1	322.1
Currency outside banks	97.7	108.1	115.0	132.9	148.1
Private deposits with ONPE (postal savings institution)	3.2	2.5	1.4	1.8	2.0
Deposits with banks	132.5	137.9	147.3	154.4	172.0
(Annual change, in percent of beginning-of-period broad money, unless otherwise indicated)					
Net foreign assets	-4.1	4.8	24.2	33.5	0.6
BCEAO	-9.8	7.8	26.1	40.7	5.7
Commercial banks	5.8	-3.0	-1.9	-7.2	-5.2
Net domestic assets	24.3	1.7	-18.1	-17.3	10.9
Domestic credit	24.1	2.3	-17.3	-16.1	12.9
Net bank claims on the government	14.8	-6.3	-23.8	-31.5	3.1
BCEAO	15.2	-4.5	-24.0	-29.9	3.8
<i>Of which</i> : statutory advances	0.0	-0.4	0.0	1.3	-3.0
Commercial banks	-0.8	-1.5	0.6	-1.3	-1.3
Other	0.4	-0.3	-0.4	-0.3	0.1
Credit to the economy	9.3	8.7	6.5	15.4	9.9
Other items, net	0.3	-0.6	-0.9	-1.1	-2.0
Money and quasi-money	20.3	6.6	6.1	16.2	11.5
Memorandum items:					
Velocity of money (GDP/broad money)	6.7	7.3	7.3	6.6	6.4
Credit to the economy (Change, in percent)	21.7	20.0	13.4	31.6	17.9

Sources: BCEAO; and IMF staff estimates and projections.

Table 5. Niger: Balance of Payments, 2004-10

	2004	2005	2006		2007	2008	2009	2010
	Est		Orig. Prog.	Est.		Projections		
(Billions of CFA francs, unless otherwise indicated)								
Current account balance	-120.6	-163.9	-139.9	-159.6	-209.9	-359.0	-362.6	-468.7
Balance on goods and services	-175.4	-259.7	-233.4	-238.7	-321.4	-405.9	-418.7	-527.3
Balance on goods	-79.4	-153.5	-135.2	-136.7	-200.9	-244.6	-246.0	-314.1
Exports, f.o.b	230.6	251.9	259.3	272.3	308.3	337.4	358.7	382.0
Uranium	70.1	78.5	79.6	79.6	97.2	109.1	121.8	135.4
Cattle	26.8	31.8	23.0	48.6	48.5	46.8	46.3	45.6
Gold	10.3	34.2	33.6	25.0	46.9	60.0	61.6	64.2
Other exports	123.4	107.3	123.1	119.0	115.7	121.6	128.9	136.8
Imports, f.o.b	310.1	405.4	394.5	409.0	509.2	582.0	604.6	696.1
Of which: Food products	75.2	101.1	108.0	101.3	105.0	100.5	97.4	95.1
Petroleum products	34.6	57.1	82.1	58.4	73.0	79.5	82.2	84.9
Services and income (net)	-96.0	-106.2	-98.2	-102.0	-120.5	-161.3	-172.8	-213.2
Services (net)	-89.2	-101.2	-92.6	-100.1	-117.3	-134.7	-142.0	-164.5
Income (net)	-6.8	-5.0	-5.6	-1.8	-3.2	-26.6	-30.7	-48.7
Of which: interest on external public debt	-8.0	-8.0	-4.1	-3.7	-3.8	-4.0	-5.3	-6.3
Unrequited current transfers (net)	54.8	95.8	93.5	79.2	111.5	46.9	56.1	58.6
Private (net)	16.2	43.5	42.4	34.1	30.1	30.7	38.6	41.6
Public (net)	38.6	52.4	51.1	45.1	81.4	16.2	17.5	16.9
Of which: grants for budgetary assistance	0.0	38.7	22.7	18.6	65.6	...	...	...
Capital and financial account	98.4	187.9	202.1	258.0	220.9	285.5	302.0	407.9
Capital account	52.2	81.1	839.2	893.2	111.9	114.5	123.5	133.3
Private capital transfers	5.7	3.9	3.0	3.0	2.0	1.6	1.6	1.6
Project grants	46.5	77.2	51.9	75.5	109.9	112.9	121.9	131.7
Acquisition/disposal of nonproduced, nonfinancial assets	...	...	...	30.4	...	...	...	...
Debt cancellation	0.0	0.0	784.3	784.3	0.0	0.0	0.0	0.0
Financial account	46.2	106.8	-637.1	-635.2	109.0	171.0	178.5	274.6
Direct investment	7.0	18.3	6.9	12.5	25.0	111.6	112.8	204.0
Portfolio investment	1.4	22.0	-2.5	-2.8	1.5	2.0	2.2	2.3
Other investment	37.8	66.5	-641.5	-644.9	82.5	57.4	63.6	68.2
public sector (net)	41.7	46.0	-649.8	-659.7	70.9	55.8	61.9	66.4
Disbursements	64.1	60.6	75.3	65.4	75.7	60.8	67.1	72.5
Loans for budgetary assistance	17.6	17.8	33.0	22.6	27.4	...	...	...
Project loans	46.5	42.8	42.3	42.8	48.3	60.8	67.1	72.5
Amortization	22.4	14.6	725.1	725.1	4.8	5.0	5.2	6.1
Other (net)	-3.9	20.4	8.3	14.8	11.6	1.5	1.7	1.8
Errors and omissions	-2.6	-8.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-24.8	15.7	62.2	98.4	11.0	-73.5	-60.6	-60.8
Financing	26.2	-15.6	-62.1	-98.4	-13.2	-10.4	-15.8	-10.7
Net foreign assets (Central Bank of West African States)	19.1	-18.4	-64.9	-101.2	-16.6	-10.4	-15.8	-10.7
Of which: Net use of Fund resources	0.6	1.5	-51.9	-56.4	5.8	0.7	0.0	-0.1
Rescheduling obtained	7.1	2.8	2.8	2.8	3.4	0.0	0.0	0.0
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	83.9	76.4	71.5
(Percent of GDP, unless otherwise indicated)								
Memorandum items:								
External current account balance								
Including official grants (percent of GDP)	-7.8	-9.1	-7.5	-8.3	-10.2	-16.7	-15.8	-19.2
Excluding official grants (percent of GDP)	-10.2	-12.0	-10.3	-10.7	-14.2	-17.4	-16.6	-19.8
NPV of external debt (percent of exports)	125.0	132.2	...	41.3	46.7	54.7	63.7	71.0
Exchange rate (CFA francs per U.S. dollar, annual average)	527.4	526.9	...	522.4	...	...	...	...

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

Table 6. Niger: Actual and Projected Payments to the Fund, 2006-14  
(Millions of SDRs, unless otherwise indicated)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Actual and scheduled disbursements	5.9	7.8	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Debt service obligations on outstanding disbursements <sup>1</sup>	0.3	0.5	0.5	0.5	0.6	3.4	4.6	5.2	5.2
Principal repayments <sup>2</sup>	0.0	0.0	0.0	0.0	0.1	2.9	4.1	4.7	4.7
Interest and charges <sup>3</sup>	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
As percent of quota	0.5	0.7	0.7	0.8	0.9	5.2	7.0	7.9	7.8
Projected debt service on prospective disbursements <sup>4</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.5	0.6
Principal repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.5	0.6
Interest and charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As percent of quota	0.1	0.1	0.0	0.0	0.0	0.0	0.2	0.7	0.9
Total debt service (on outstanding and prospective disbursements)	0.3	0.5	0.5	0.5	0.6	3.5	4.7	5.7	5.7
Principal repayments	0.0	0.0	0.0	0.0	0.1	2.9	4.2	5.2	5.3
Interest and charges	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
As percent of quota	0.5	0.8	0.7	0.8	0.9	5.3	7.1	8.6	8.7
Outstanding Fund credit	17.6	25.4	26.3	26.3	26.2	23.3	19.1	13.9	8.7
As percent of:									
Exports of goods and services	4.2	5.3	4.9	4.6	4.2	3.5	2.6	1.6	0.8
Gross official reserves	7.4	9.2	8.9	8.2	7.7	6.7	5.6	4.8	2.9
GDP	0.7	0.9	0.9	0.8	0.7	0.6	0.5	0.3	0.2
Quota	26.8	38.6	40.0	40.0	39.9	35.4	29.0	21.2	13.2
Memorandum items:									
HIPC assistance <sup>5</sup>	17.7								
MDRI debt relief <sup>5,6</sup>	59.8								

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

<sup>1</sup>Based on disbursements after January 1, 2005.

<sup>2</sup>After HIPC Initiative and MDRI debt relief.

<sup>3</sup>Projections are based on current PRGF and SDR interest rates. Includes SDR charges and assessments.

<sup>4</sup>Assumes disbursement of the remaining balances of the current PRGF (SDR 2.8 million).

<sup>5</sup>Delivered on a stock basis on January 6, 2006.

<sup>6</sup>MDRI debt relief covers the full stock of debt owed to the IMF at end-year 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: Budget Expenditure on Social & Rural Sectors, 2002-07  
(Millions of CFA francs)

	2002		2003		2004		2005		2006		2007
	Outturn	% of Budget Allocation	Outturn	% of Budget Allocation	Outturn	% of Budget Allocation	Outturn	% of Budget Allocation	Est. Outturn	% of Budget Allocation	Budget
<b>EDUCATION</b>											
<b>Total</b>	<b>48,420</b>	<b>86</b>	<b>50,890</b>	<b>88</b>	<b>53,590</b>	<b>81</b>	<b>62,950</b>	<b>79</b>	<b>62,119</b>	<b>78</b>	<b>93,662</b>
<b>Percent of GDP</b>	<b>3.2</b>		<b>3.2</b>		<b>3.4</b>		<b>3.5</b>		<b>3.2</b>		<b>4.6</b>
Current Expenditure	38,630	96	38,990	103	37,640	84	48,970	96	50,859	91	67,985
Wage	22,610	100	23,080	113	23,440	97	23,790	93	25,904	93	28,133
Other	16,020	91	15,910	92	14,200	69	25,120	93	24,955	89	33,852
Investment Expenditure	9,790	61	11,900	59	15,950	76	14,040	49	11,260	48	31,677
Domestic financing	1,500	69	1,710	88	290	290	2,100	46	2,016	60	7,093
External financing	6,390	54	7,540	52	13,430	77	9,330	45	7,092	40	24,584
HIPC Resources	1,900	98	2,650	72	2,230	59	2,610	83	2,152	90	...
<b>HEALTH</b>											
<b>Total</b>	<b>28,240</b>	<b>79</b>	<b>33,640</b>	<b>68</b>	<b>27,870</b>	<b>78</b>	<b>31,740</b>	<b>84</b>	<b>25,095</b>	<b>72</b>	<b>49,081</b>
<b>Percent of GDP</b>	<b>1.9</b>		<b>2.1</b>		<b>1.8</b>		<b>1.8</b>		<b>1.3</b>		<b>2.4</b>
Current Expenditure	12,690	76	11,450	75	13,500	81	18,510	100	16,708	87	23,822
Wage	4,510	100	4,690	91	4,900	100	5,220	102	6,733	120	6,797
Other	8,180	68	6,760	67	8,600	73	13,290	99	9,975	74	17,025
Investment Expenditure	15,550	81	22,190	65	14,370	76	13,230	69	8,387	53	25,259
Domestic financing	660	55	1,470	59	870	82	1,370	54	1,635	83	6,472
External financing	12,080	80	16,990	62	10,540	80	7,340	61	3,047	30	18,787
HIPC Resources	2,810	94	3,730	79	2,960	65	4,520	98	3,706	99	...
<b>EDUCATION AND HEALTH</b>											
<b>Total</b>	<b>76,660</b>	<b>84</b>	<b>84,530</b>	<b>79</b>	<b>81,460</b>	<b>81</b>	<b>94,690</b>	<b>83</b>	<b>87,215</b>	<b>76</b>	<b>142,743</b>
<b>Percent of GDP</b>	<b>5.1</b>		<b>5.4</b>		<b>5.2</b>		<b>5.2</b>		<b>4.6</b>		<b>7.0</b>
Current Expenditure	51,320	90	50,440	95	51,140	83	67,420	110	67,567	90	85,807
Wage	27,120	100	27,770	108	28,340	98	29,010	99	32,637	97	34,930
Other	24,200	81	22,670	83	22,800	70	38,410	121	34,930	84	50,877
Investment Expenditure	25,340	73	34,090	62	30,320	77	27,270	52	19,648	50	56,936
Domestic financing	2,160	64	3,180	72	1,160	73	3,470	50	3,651	68	13,565
External financing	18,470	68	24,530	59	23,970	81	16,670	44	10,139	36	43,371
HIPC Resources	4,710	112	6,380	76	5,190	62	7,130	92	5,858	95	...
<b>RURAL SECTOR</b>											
<b>Total</b>	<b>41,160</b>	<b>69</b>	<b>43,930</b>	<b>53</b>	<b>66,586</b>	<b>70</b>	<b>57,819</b>	<b>66</b>	<b>40,260</b>	<b>34</b>	<b>99,166</b>
<b>Percent of GDP</b>	<b>2.7</b>		<b>2.8</b>		<b>4.3</b>		<b>3.2</b>		<b>2.1</b>		<b>4.8</b>
Current Expenditure	7,400	85	5,700	62	7,200	80	9,340	94	8,563	62	11,739
Wage	3,580	103	3,200	90	3,240	97	3,250	89	3,823	93	4,247
Other	3,820	73	2,500	44	3,960	69	6,090	97	4,740	48	7,492
Investment Expenditure	33,760	66	38,230	52	59,386	69	48,479	62	31,697	30	87,427
Domestic financing	1,200	68	1,000	48	1,270	69	1,150	80	1,854	10	23,269
External financing	28,400	63	30,530	49	52,776	73	42,479	63	21,017	29	64,158
HIPC Resources	4,160	95	6,700	72	5,340	47	4,850	53	8,826	62	...

Sources: Nigerian authorities; and IMF staff estimates.



Table 8. Niger: Millennium Development Goals

	1997	2000	2003	2004
<b>Goal 1: Eradicate extreme poverty and hunger</b>				
Malnutrition prevalence, weight for age (% of children under 5)	..	40	..	..
Prevalence of undernourishment (% of population)	42	..	32	32
<b>Goal 2: Achieve universal primary education</b>				
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
<b>Goal 3: Promote gender equality and empower women</b>				
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)	..	..	..	..
<b>Goal 4: Reduce child mortality</b>				
Immunization, measles (% of children ages 12-23 months)	35	34	64	74
Mortality rate, infant (per 1,000 live births <sup>1</sup> )	156	106	..	81
Mortality rate, under-5 (per 1,000 <sup>1</sup> )	265	239	..	198
<b>Goal 5: Improve maternal health</b>				
Births attended by skilled health staff (% of total)	..	15.7	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	1,600	..	..
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b>				
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
<b>Goal 7: Ensure environmental sustainability</b>				
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
<b>Goal 8: Develop a global partnership for development</b>				
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
<b>Other</b>				
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.

<sup>1</sup>Data in last column are for 2006.

**APPENDIX I****Letter of Intent**

Niamey, May 16, 2007

Mr. Rodrigo de Rato  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
USA

Dear Mr. de Rato

1. The government continues to implement the policies and reforms envisaged under the PRGF-supported arrangement. Through end-April 2007, all performance criteria have been met, with the exception of the application of flexible pricing system for petroleum products, as a tax deferment was introduced in April 2007 following a sharp rise of international prices, and of the degree of concessionality of a recently-concluded loan for importing priority agricultural equipment, which is close to 42 percent. In May we raised prices significantly, and reduced the deferment. The deferment will be completely eliminated in July. To raise the grant element of the above mentioned loan, we have already requested a subsidy from the African Fund of Guarantee and Economic Cooperation and from the African Solidarity Fund, and we have good hope that these requests will be met. Furthermore, all measures covered by structural benchmarks through end-April 2007 have also been implemented—albeit some with small delays—with one exception.

2. The good harvest in 2006 and continued good performance in mining, telecommunications and construction have supported a satisfactory growth rate of the economy, contributed to reduce inflationary pressures, and improved food security, which has also benefited from donor support.

3. In 2006, budgetary expenditures, excluding foreign-financed investments, remained below program targets, because of improved food security and lower outlays for transfers, while revenue, even excluding exceptional mining receipts toward year-end, have exceeded the target. Thus, the basic budget deficit and domestic financing have remained well below program targets.

4. The program for 2007, outlined in the Memorandum of Economic and Financial Policies for 2007 (MEFP), has been modified as higher external assistance is allowing more pro-poor spending. The program, updated in the attached MEFP, centers on the continuation of the policies and reforms designed to strengthen economic growth, reduce poverty. The 2007 Budget Law is consistent with our poverty reduction strategy, including increased budget allocations for health, education and rural sectors. The government is pursuing reforms to strengthen revenue mobilization, improve expenditure management, and strengthen the banking and financial system. The new Poverty Reduction Strategy Paper

(PRSP) for 2008-12 is being finalized, and a donor meeting to identify needed financial support to implement the strategy is scheduled for June 2007.

5. The government requests the completion of the fourth review of the PRGF-supported program and waivers for the nonobservance of two performance criteria, one quantitative and one structural. It also requests modifications of the two quantitative performance criteria for the remainder of 2007. 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 I****Memorandum of Economic and Financial Policies  
For 2007****I. RECENT DEVELOPMENTS AND PROGRAM IMPLEMENTATION****Macroeconomic developments**

1. Economic and social conditions continued to improve in 2006. The agriculture harvest late in the year was very good and real GDP growth is estimated at 4.8 percent, following 7.2 percent in 2005. Growth in the primary sector reached some 8 percent while performance in mining, telecommunications and construction activities remained healthy. Food prices fell markedly, facilitating a decline in average inflation from some 8 percent in 2005 to almost zero in 2006. Private investment, which increased in 2005 to 14.2 percent of GDP from 11.3 percent in 2004, remained buoyant, because of expansion in mining, telecom, electricity, transport and construction.
2. Two consecutive good harvests in 2005 and 2006 have helped reduce the number of people vulnerable to food shortages, and facilitated a significant build up of the national strategic grain reserves. With current stock and shipments underway, the grain reserve could reach about 90,000 metric tons by mid-2007, up from some 40,000 metric tons in late 2006. The government continues to monitor the food security situation in close collaboration with development partners.
3. In 2006, the external current deficit including grants is estimated at 8.3 percent of GDP, somewhat lower than in 2005, because of higher exports, while lower food imports were offset by higher oil bill and other imports, mainly equipment goods. Taking into account unanticipated government receipts related to a uranium mining concession, and external budgetary 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 62 billion) rose by CFAF 40 billion.
4. In 2006, credit to the economy by the banking sector grew strongly (32 percent)—after 20 percent increase in credit in 2005—reflecting support for new investments in expanding sectors. Bank deposits rose by 11.9 percent, much faster than in 2005. The increase in agricultural and livestock exports to Nigeria, and the increased settlement of these transactions in euros rather than in naira as in the past, contributed to a strong growth in currency holdings (22.7 percent) and money supply (16.2 percent). Banks continued to expand their branch network.

**Fiscal Policy**

5. During 2006, the government maintained prudent macroeconomic policies and advanced reforms critical for strengthening growth and reducing poverty. The basic fiscal

deficit, which excludes foreign financed investment, recorded a surplus of CFAF 5.8 billion (0.3 percent of estimated GDP), compared with a programmed deficit of CFAF 49.7 billion (2.7 percent of GDP), because of exceptional receipts related to the uranium sector that were collected at end-year (30.4 billion of CFAF or 1.6 percent of GDP), and lower than programmed outlays for subsidies and transfers (CFAF 16 billion or 0.8 percent of GDP) notably for food emergency programs, contractual teachers, and the budgetary contingency reserve. The lower spending was necessitated by shortfalls in external budget support during 2006, which was some CFAF 17 billion less than programmed. Domestic revenue, excluding exceptional mining related receipts, were CFAF 6.5 billion higher than envisaged, mainly because of strengthened collection of nontax revenue. Tax revenue remained in line with the program as a result of 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—yielding positive results.

6. All quantitative performance criteria under the Poverty Reduction and Growth Facility (PRGF) for end-December 2006 were observed (Table 1a). The lower basic deficit (an indicative target under the program) contained domestic financing of the budget (a performance criterion) below the program target, even when adjusted for the unanticipated uranium mining receipts. The performance criterion on net reduction of domestic arrears was met with a wide margin (CFAF 14 billion compared with CFAF 6.1 billion programmed), with priority given to the elimination of payments related to the budget years 2003 and 2004. The performance criterion related to the nonaccumulation of external arrears was also observed. The wage bill, domestic revenue, and the basic fiscal deficit (all indicative targets) were in line with program objectives. However, the indicative target on nonaccumulation of new domestic arrears was not observed because of a delay in fully repaying debt service to the BCEAO.

7. The structural performance criteria through end-March 2007 were observed with the exception of the application of the flexible pricing mechanism for petroleum products, as the price structure for April 2007 reintroduces a tax deferment (Table 2). The structural benchmarks for end-2006 on the recapitalization of Finaposte and the computerization of the management of customs transit between Torodi and Niamey were observed, as well as the structural benchmark for end-March 2007 regarding the updating the file of taxpayers under the Large Taxpayers Unit (consistent with the threshold of CFAF 100 million turnover). The establishment of the regulatory agency for microfinance, the payment of government subsidy to NigerPoste, and the preparation of an action plan to settle domestic arrears were completed in April 2007, with some delay.

### **Public expenditure management**

8. The government continued executing the recommendations of the Public Expenditure Management and Financial Accountability Review (PEMFAR). Specifically, the government has: (i) finalized and adopted the medium-term expenditure framework for the rural sector for 2007-09; (ii) prepared an action plan to strengthen the financial control function, including the preparation of a manual of procedures; (iii) adopted a new organizational structure for the Treasury so as to enhance its effectiveness; (iv) improved the classification and monitoring of priority programs; (v) established a new department of public procurement

to ensure conformity with rules and regulations and a regulatory agency under the Prime Minister with the role of issuing regulations and settle disputes; and (vi) established an Audit Court (*Cour des Comptes*) as an independent entity. In addition the government is finalizing the computerization of expenditure management. To that end it is putting into operation a pilot unit to allow spending ministries to initiate expenditure commitments, obtain the necessary approvals from the budget directorate, and information on treasury payments; the unit will be fully operational in January 2008.

### **Other structural reforms**

9. The government has advanced financial sector reforms. Regarding *Credit du Niger* (CDN), the privatization process is well advanced. The government has identified five potential investors and plans to launch the offer for sale in June 2007. The restructuring of the National Postal Office (ONPE) has been completed, 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 has provided CFAF 1.0 billion as planned.

10. The government is in the process of strengthening the microfinance sector. To this end, in April it adopted a decree to establish a regulatory agency for microfinance institutions endowed with stronger authority. This is expected to strengthen the supervision of the sector and catalyze additional technical and financial support by development partners.

## **II. ECONOMIC AND FINANCIAL POLICIES FOR 2007**

### **A. Macroeconomic Framework**

11. The macroeconomic framework for 2007 remains broadly in line with that contained in our MEFP of December 2006. Real GDP growth is likely to reach some 4½ percent, reflecting expansion in mining (uranium and gold), telecommunications, and construction sectors. Overall inflation is projected at 2 percent. The external current account deficit (including grants) is expected to widen to 10 percent of GDP, as an increase in the exports of uranium and gold would be more than offset by a strong increase in imports, mainly related to foreign-financed public investment and private investment. Taking into account external budget and project support, the net foreign assets of the central bank would increase further by CFAF 16 billion. The government is reviewing the medium-term outlook in the context of the ongoing preparation of the revised PRSP for 2008-12, and a revised outlook will be ready by mid-2007.

### **B. Fiscal Policy**

12. 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 context, the fiscal program contained in our December 2006 MEFP has been revised to take into account a higher-than-programmed external budget support.

13. Accordingly, the basic fiscal balance (excluding foreign-financed investment) is projected to shift from a surplus of CFAF 5.8 billion (0.3 percent of GDP) in 2006 to a deficit of CFAF 83.2 billion (4.1 percent of GDP) in 2007, which is 0.8 percent of GDP higher than originally programmed. Domestic revenue is expected to remain in line with the original program target of CFAF 236.2 billion (11.5 percent of GDP), 0.2 percent of GDP higher than in 2006 excluding exceptional uranium receipts. Ongoing improvements in customs and tax administration will help facilitate the achievement of the revenue target (see below).

14. Total domestic expenditure (excluding foreign-financed projects) is programmed to exceed the original program by CFAF 17.9 billion (0.9 percent of GDP). Transfers and expenditures on goods and services are expected to increase by CFAF 5.2 billion in comparison with the original program to provide additional support for education and community development. Domestically financed investment outlays would be higher than initially programmed by CFAF 9 billion because of higher needs of counterpart funds, and also because of the decision of the government to participate in new mining initiatives of the private sector, as provided for in the new mining code. The allocation for a budgetary reserve (CFAF 6.7 billion), included in the 2007 Budget Law but only partially incorporated in the original program, has now been included in the program. The government will make sure that transfers to the autonomous road fund, funded by part of petroleum tax receipts, are sufficient to cover its budgeted outlays. If additional resources are required, the budget reserve could be partially used for this purpose. The 2008 budget for the road fund will reflect the expansion of the road network currently under way.

15. The establishment of a priority investment fund to make use of the exceptional resources related to the mining sector was approved by the Council of Ministers in March 2007 and the related law was adopted by the National Assembly on May 15, 2007. It covers the following areas: national security, rural development, infrastructure, and development-related expenditures. Furthermore, foreign-financed projects are expected to increase significantly, especially those financed by grants, reflecting in part ongoing efforts to strengthen project execution capacity.

16. Domestic arrears repayments in 2007 are planned at CFAF 15.8 billion, and will be carried out according to a new arrears reduction plan that was finalized in April 2007 and which details arrears payments in 2007 and over the next few years. The priority in 2007 will be given to the sectors supporting the recovery of economic activity, and in particular to: (i) the banking and financial sectors; (ii) counterpart obligations related to the reconstitution of the national grain security stock; and (iii) the petroleum products distribution sector. In addition, the government will settle treasury obligations regarding the budget years 2005 and 2006 in order to enhance transparency.

17. The proposed revised fiscal program is fully financed. Given the planned reduction in domestic arrears, the overall cash deficit (excluding foreign-financed investment) is projected at CFAF 99 billion (4.8 percent of GDP). Taking into account identified external budget support of CFAF 93 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 1.6 billion. The revised quantitative performance criteria for

end-June 2007 and end-December 2007 on domestic arrears reduction and domestic financing, and the quantitative indicative targets, are presented in Table 1b.

### **Reforms in customs/tax administration and public expenditure management**

18. The revenue mobilization effort will be based on the implementation of the reforms under way at the Customs and Tax Departments. As outlined in our December 2006 MEFP, the focus in the customs area is on: (i) the gradual electronic interconnection between regional customs offices and those at the border so as to better monitor customs declarations at the destination centres; (ii) 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; (iii) strengthening control at the unloading harbours of Niger-bound goods, with the full utilization of shipment documentation; and (iv) reinforcing the monitoring of exemptions, while imposing strict limitation on exemptions for certain food and petroleum products.

19. Regarding the Tax Department, key measures are: (i) strengthening tax audits including 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 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; (v) continuation of on-site controls by the unit of small and medium-sized enterprises in order to ensure the timely filing of tax declarations; and (vi) recovery of tax arrears, including through cross-settlements. The implementation of these measures requires a strengthening of the structures of the tax department, through recruitment, training, and more space and equipment so as to increase its effectiveness. In 2007, recruitment of qualified personnel will be carried out through a competitive process for the customs and the tax directorates.

20. The strengthening of public expenditure management will continue on a number of key fronts: (i) improving budget preparation, with full integration with the medium-term expenditure framework; (ii) strengthening expenditure monitoring at the commitment, liquidation, payment order and payment stages, with particular attention to priority expenditures; (iii) enhancing ex-ante and ex-post controls (financial comptrollers, finance inspectors, auditor court), including through the preparation and adoption of procedures manuals and recruitment and training; and (iv) reducing delays in the establishment of treasury accounts and the preparation of the budget execution laws. The treasury is making progress in establishing complete treasury accounts including entry balances; the entry balances for 1997-2002 are under preparation and will be ready by end-June 2007. The government has requested an amnesty for entry balances before 1997, because of lack of necessary documentation. Accordingly, we are requesting a revision of the related performance criterion, to take into account of the amnesty request (Table 2). The delays in preparing the government accounts for submission to the Auditor Court (*Cour des Comptes*) are being reduced; thus, the accounts for 2005 will be submitted to the Court before end-June 2007, and those for 2006 during the first half of 2008. The treasury is in the process of closing dormant depositors' accounts, as planned.



### **C. Money, Credit and Financial Sector Reforms**

21. 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 some 19 percent because of sustained expansion in mining and telecommunications, while credit to government will remain limited. Net foreign assets of the banking system would rise by less than those of the central bank, as banks envisage increasing their medium and long term external borrowing, drawing on credit lines of the European Investment Bank and other development institutions in order to provide investment financing. Accordingly, broad money growth is projected at about 11.5 percent.

22. The government will continue to advance financial sector reforms in 2007. The offer for sale of *Crédit du Niger* will be launched in June 2007. Regarding the two largest microfinance institutions that are in financial difficulties (Taimako and MCPEC), the government will implement a restructuring plan with assistance from development partners. The government will make a contribution of CFAF 250 million to recapitalize Taimako and of CFAF 100 million to MCPEC, to accompany the support of foreign donors. Further, the microfinance regulatory agency will be provided with adequate human and material resources to carry out effectively its functions.

23. The establishment of national and regional guarantees funds is facilitating the extension of credit to small and medium-scale enterprises. However, access to credit remains constrained by the slowness in issuing legally valid land titles, and the slow and costly legal and judicial procedures for recovering collateral. Measures to correct for these obstacles are under study at the national and regional levels.

### **D. External Debt Sustainability and Management**

24. The government will continue to pursue a prudent external debt strategy following the debt relief obtained under the MDRI. To preserve the benefits of the MDRI, the government will continue to aim at contracting debt only with a grant element of at least 50 percent in 2007 and beyond. The authorities are strengthening, with technical assistance from development partners, the Debt Directorate at the Ministry of Finance and the Economy, with a view to developing a medium-term debt strategy and capacity to conduct debt sustainability analysis (DSA).

### **E. Other Structural Reforms and PRSP Issues**

25. Revised mining and petroleum codes were adopted by Parliament in August 2006 and January 2007 respectively. These are based on international best practices and have tax provisions consistent with the WAEMU norms. Implementing decrees will be adopted soon, as well as model contracts. Three petroleum research permits were granted in 2003-05 and the related conventions were published on the official gazette. Since the adoption of the new mining code in August 2006, the government has issued a significant number of new mining exploration permits. The government expects also to grant more petroleum research permits in 2007-08, given the large number of requests received for the available areas. Under the Extractive Industry Energy Initiative (EITI), which the government joined in 2005, the

government has appointed in late 2006 the national consultative committee including representatives of the civil society. A first audit report reconciling revenue paid by mining companies with government receipts is planned to be issued in late 2007. In view of the outlook for growth in the mining sector, the role of the Centre for Geological and Mining Research (ex-ONAREM) in the management of the government's shares in the mining companies will be clarified.

26. In the agricultural sector, the rural development strategy assigns priority to the increase of production and yields especially on irrigated land. However, the cooperatives that farm the irrigated land along the Niger River face significant difficulties, despite the support from the Niger Food Security Agency (OPVN), which since 2005 has contracted to purchase important rice quantities for the national security stock. The situation of the cooperatives is now being reviewed by a World Bank study to be concluded in few months. Appropriate corrective actions will be adopted on the basis of the study's recommendations. The difficulty in selling rice is also due to the low quality of the processed rice as a result of the deteriorated ginning equipment used by the existing ginneries, and in particular by the *Riz du Niger* company that is under majority government ownership. Their rehabilitation is a key priority, and is expected to benefit from donor support. Taking into account domestic purchases and the planned support by development partners, the national security stock should exceed 110,000 metric tons by end-2007. On other rural strategy issues, the authorities plan to review with FAO assistance the strategy to give farm concessions to investors, to take into account the possible negative impact on local small farmers who currently occupy the land.

27. Following the increase in the international petroleum prices in March 2007, the retail petroleum product price structure for the month of April 2007 has reintroduced a tax deferment, on the basis of the assumption that the price increase is of a temporary nature. In May 2007 the government has raised prices significantly, eliminated the deferment on diesel oil and reducing the one on gasoline. The tax deferment will be completely eliminated by July. Also, the government will modify the threshold for price changes under the August 2001 decree, in line with a recent agreement with civil society, so as not to revise prices when the changes under the formula are less than CFAF 15 per litre. 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.

28. The government reaffirms its commitment to adopting the PRSP as the unique framework for mobilizing donor support to assist us in achieving the MDGs. A revised PRSP for 2008-12 is being finalized, 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-term expenditure frameworks, and economic growth is being analyzed with assistance of technical partners, notably the World Bank and the UNDP. The revised PRSP is expected to be finalized in May, and a roundtable conference is scheduled for June 2007, at which the government will seek commitment of financial and technical assistance from the development partners.

29. The government is seeking to widen the support to his development program. To that end, it has entered into negotiations with civil society, resulting in an agreement in February 2007. Its main elements are the introduction of ceilings on health and school fees and on the water tariff for the smaller consumption tranches, and an agreement to auditing the electricity company NIGELEC to justify the level of its operating costs.

### **III. PROGRAM MONITORING**

30. Program monitoring will be based on quantitative performance criteria and benchmarks and quarterly structural performance criteria and benchmarks (Tables 1b and 2). They are the same as in the December 2006 MEFP, except for the change in the structural performance criterion on the treasury balances, referred to in paragraph 20, for the change in the threshold for petroleum price changes, referred to in paragraph 27, and the benchmark on the wage bill. Regarding the latter we are requesting its elimination, in view of Niger's significant progress reducing the fiscal burden of the wage bill over past several years, and continued adherence to relevant WAEMU convergence criterion. The definitions of performance criteria and benchmarks are provided in the attached Technical Memorandum of Understanding.

31. The government notes that its ability to request the sixth loan under the PRGF arrangement will be contingent upon the observance of performance criteria to end-June 2007 and the continuous performance criteria, as well as the completion of the fifth review under the arrangement, which is expected to take place before end-September 2007.



Table 1b. Niger: Performance Criteria and Indicative Targets for 2007  
(Billions of CFAF)

	End-March	End-June	End-September	End-December
	Indicative Targets Rev. prog.	Performance Criteria Rev. prog.	Indicative Targets Rev. prog.	Performance Criteria Rev. prog.
<b>A. Quantitative performance criteria and indicative targets</b> (cumulative from December 31, 2006)				
Domestic financing of the budget <sup>1,2</sup>	-7.0	7.9	6.4	1.6
Reduction in government domestic payments arrears <sup>3</sup>	1.0	5.0	6.0	15.8
Memorandum item:				
Exceptional external budgetary assistance <sup>4</sup>	15.8	30.8	51.9	87.8
Gross budget support	17.1	33.5	56.0	93.0
Debt service	1.4	2.7	4.2	5.2
<b>B. Continuous quantitative performance criteria</b>				
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 <sup>5</sup>	0.0	0.0	0.0	0.0
New nonconcessional external debt contracted or guaranteed by the government with maturities over 1 year <sup>6</sup>	0.0	8.5	8.5	8.5
<b>C. Indicative Targets</b> (cumulative from December 31, 2006)				
Basic budget balance (commitment basis, excl grants) <sup>7</sup>	-14.0	-42.6	-62.6	-83.2
Total revenue <sup>8</sup>	56.2	112.7	170.2	236.2
Accumulation of domestic payment arrears	0.0	0.0	0.0	0.0

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

<sup>1</sup>Performance criteria for program indicators under A and B; indicative targets otherwise.

<sup>2</sup>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 20.0 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 first CFAF 5.0 billion.

<sup>3</sup>Minimum.

<sup>4</sup>External budgetary assistance (including traditional debt relief and HIPC initiative assistance, but excluding net financing from IMF) less external debt service (excluding IMF repayments) and payments of external arrears.

<sup>5</sup>Excluding ordinary credit for imports or debt relief.

<sup>6</sup>Excluding debt relief obtained in the form of rescheduling or refinancing; 50 percent minimum concessionality for new loans from 2006.

<sup>7</sup>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.

<sup>8</sup>Minimum. Excluding (i) revenue from the settlement of reciprocal debts between the government and Nigerian enterprises; and (ii) revenue from the privatization of public enterprises that is included in financing.

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

Measures	Date	Status
<b>Structural performance criteria</b>		
Apply the pricing system for petroleum products adopted on August 1, 2001, with no tax deferment after July 1, 2007 (para. 27 of MEFP of May 2007).	Continuous	Not observed in April 2007
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
Set up, in the three largest regional customs offices, the units for expost control of imports valuations and exemptions.	End-December 2006	Observed
Establish the consolidated treasury balance for end-2002, with entry balances starting in 1997 (para. 20 of MEFP of May 2007).	End-June 2007	
Adopt a decree defining the modalities for reimbursing the frozen postal savings accounts of the former National Postal Saving Office over a two-year period (para. 15 of MEFP of December 2006).	End-December 2007	
Introduce a simplified tax regime with quarterly filing for the small and medium scale enterprises, replacing monthly filing (para. 22 of MEFP of December 2006).	End-December 2007	
<b>Structural benchmarks</b>		
Pay the government 's capital contribution to FinaPoste.	End-December 2006	Observed
Establish an action plan to settle domestic arrears outstanding at end-1999, resulting from the 2005 audit.	End-December 2006	Observed in April 2007
Adopt the decree establishing a supervisory agency for microfinance institutions.	End-December 2006	Observed in April 2007
Reduce the number of nonfilers at the medium-sized taxpayer office, MTO, to a maximum of 25 percent.	End-December 2006	Observed
Computerize the management of customs transit between Torodi and Niamey, including electronic exchange of messages.	End-December 2006	Observed
Payment of the annual government subsidy to NigerPoste for providing national services.	End-December 2006 and end-December 2007	Observed in March 2007
Launch tender for privatization of Credit to Niger to short-listed investors.	End-February 2007	Scheduled for June 2007
Fully update the list of companies obligated to file with the Large Taxpayers Unit, according to the 100 billion CFAF turnover threshold.	End-March 2007	Observed
Publish 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	Partially observed; data available, but publication pending
Regularize Treasury depositors accounts that are in overdraft, and close accounts of inactive depositors.	End-June 2007	

**APPENDIX I—ATTACHMENT II****Technical Memorandum of Understanding**

Niamey, May 16, 2007

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 end-June, September and December 2007 are set out in Table 1 attached to the government's Memorandum of Economic and Financial Policies for 2007 (MEFP) dated May 16, 2007. The memorandum also sets out the data-reporting requirements for monitoring the program.

**IV. 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 à 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).

## V. 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 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. 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 each end of quarter in 2007 will be raised by a maximum of CFAF 20 billion.

### **Reporting requirement**

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

## **B. Reduction of Domestic Payments Arrears on Government Obligations**

### **Definition of the performance criterion**

12. **Domestic payments arrears** comprise: (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) exceeding 120 days outstanding at end-2006. The stock of arrears will be reduced by the amounts indicated in Table 1 annexed to the MEFP. 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.

13. 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**

14. Monthly data on the outstanding balance (by creditor), accumulation (including *reste à 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.

### **C. Nonaccumulation of External Payments Arrears**

#### **Definition of the performance criterion**

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

#### **Reporting requirement**

16. 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.

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

#### **Definition of the performance criterion**

17. 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.

18. 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. 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**

19. 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.

### **E. Short-Term External Debt of the Central Government**

#### **Definition of the performance criterion**

20. 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**

21. 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.

## **F. Pricing of Petroleum Products**

### **Definition of the performance criterion**

22. The government will continuously implement the monthly pricing mechanism for retail petroleum products in accordance with the decree of August 2001, with no tax changes and/or tax deferments, with the only modification that if the formula indicates a price adjustment smaller than CFAF 15, no price change will be introduced. 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.

## **VI. INDICATIVE TARGETS**

### **A. Definitions**

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

24. The 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.

25. 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 2006 to end-June, end-September and end-December 2007.

### **B. Reporting Requirement**

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

## VII. ADDITIONAL INFORMATION FOR PROGRAM-MONITORING PURPOSES

### A. Public Finances

27. 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

28. 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

29. 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

30. 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**

31. 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 <i>restes à payer</i> (RAP) at the Treasury.	Monthly	End of month + six weeks
	Data on the stock of <i>restes à payer</i> 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

INTERNATIONAL MONETARY FUND

NIGER

**Fourth Review Under the Three-Year Arrangement Under the  
Poverty Reduction and Growth Facility, and Request for Waiver and  
Modification of Performance Criteria**

**Informational Annex**

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

Approved by Jean A. P. Clément and Anthony Boote

May 22, 2007

Contents	Page
I. Relations with the Fund.....	2
II. Relations with the World Bank Group.....	6
A. Partnership in Niger's Development Strategy .....	6
B. Areas in Which the Bank Leads.....	7
C. Areas Where Bank and Fund Share the Lead .....	10
D. Areas in Which the Fund Leads.....	12
E. World Bank Group Strategy.....	12



**APPENDIX I. NIGER: RELATIONS WITH THE FUND**

(As of March 31, 2007)

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

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

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Net cumulative allocation	9.41	100.0
Holdings	0.07	0.78

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>%Quota</b>
PRGF Arrangements	23.50	35.71

**V. Financial Arrangements:**

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
	01/31/2005	01/30/2008	26.32	23.50
PRGF				
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				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Principal				0.09	2.94
Charges/interest	<u>0.41</u>	<u>0.51</u>	<u>0.51</u>	<u>0.51</u>	<u>0.51</u>
Total	<u>0.41</u>	<u>0.51</u>	<u>0.51</u>	<u>0.61</u>	<u>3.44</u>

**VII. Implementation of HIPC Initiative:**

	<u>Enhanced Framework</u>
I. Commitment of HIPC assistance	
Decision point date	Dec 2000
Assistance committed by all creditors (US\$ Million) <sup>1/</sup>	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	31.23
Interim assistance	6.68
Completion point balance	24.55
Additional disbursement of interest income <sup>2/</sup>	2.74
Total disbursements	33.97

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

<sup>2/</sup> 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) <sup>1/</sup>	77.55
of which: MDRI	59.82
HIPC	17.73

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<sup>1/</sup> The Multilateral Debt Relief Initiative (MDRI) provides 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, 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, which includes Niger. The most recent safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment indicates that progress has been made in strengthening the bank's safeguards framework since the 2002 safeguards assessment.

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 for improving risk management and risk prevention have been established 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. The status report of the implementation of recommendations, received from the bank in March 2007, indicates that some progress has been achieved.

**X. Exchange Arrangements:**

Niger is a member of the West African Economic and Monetary Union (WAEMU) and has no separate legal tender. 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, was originally 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 March 30, 2007, the rate of the CFA franc in SDR terms was SDR 1 = CFAF 743.79. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus only reflects a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members.

**XI. Article IV Consultation:**

Niger is on the 24-month consultation cycle. The latest Article IV consultation discussions were held in Niamey in September/October 2006. The Executive Board concluded the consultation on December 20, 2006.

**XII. Technical Assistance:**

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

**XIII. Resident Representative:**

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

**APPENDIX II. NIGER: RELATIONS WITH THE WORLD BANK GROUP**

(As of April 30, 2007)

**A. Partnership in Niger's Development Strategy**

1. Niger's first Poverty Reduction Strategy Paper (PRSP) was adopted in January 2002 and 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 PRS was based on a thorough poverty diagnosis and key development challenges. The Government reconfirmed the main thrust of the PRSP through four progress reports. Bank and Fund staff prepared a Joint Staff Advisory Note (JSAN) which was discussed at the IMF Board in December 2006 and distributed to the Bank's Board on January 11, 2007. The Government has been 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 Reports were transmitted to IMF and World Bank in July and October 2006. Comments provided by IMF, EU, UNDP and WB in December 2005 were incorporated.

3. Following delays in launching the preparation of analytical background papers, the Government's second PRSP is expected to be finalized in May 2007. The PRSP Secretariat visited Washington in early March 2007 for technical discussions on the second PRSP draft and benefited from global knowledge on PRSP and advice for improving the quality of the document from Bank staff together with IMF, UNDP, EU, UNECA and Belgium counterparts. Based on comments received, the government has updated the PRS and held a national validation workshop in early April to discuss the strategy with parliamentarians, representatives from donor agencies, civil society and local government representatives from various regions of Niger. The second PRSP is built around three strategic pillars (against four for the previous one) and includes all the main objectives of the first PRS. The three pillars are: (i) improvement of revenue; (ii) improvement of human capital and equity; (iii) promotion of a sound environment for the management of development. Furthermore, the cross-cutting issues of population growth and decentralization, which had not been part of PRSP I, are addressed in the PRSP II. A donors Round Table for the financing of the revised PRS is scheduled in Brussels in June 2007. The Bank-administered PRS Trust Fund is

helping to finance activities to finalize the 2nd PRSP and a separate trust fund is financing activities to integrate gender issues in the strategy.

## **B. Areas in Which the Bank Leads**

4. **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 wholesale 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.

5. **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 and improving food security and managing natural resources sustainability; and (iii) enhancing the capacity of public institutions and rural organizations to improve the management of the rural sector. An action plan covering the 14 programs of the rural development strategy has 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 aimed at reducing Niger's vulnerability to future desert locust infestations by supporting improved strategies for prevention 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, as well as promotes an integrated community-based ecosystem management. Bank support also the RDS through the series of Rural and Social Reform Credit (RSRCs), IDA's Development Policy Credit to Niger, the first one was approved in June 2006. More specifically, the RSRCs will help the government to: (i) improve local governance of natural resources through further decentralization of land administration; (ii) reduce household vulnerability to food insecurity and improve the country's capacity to manage and prevent food crisis; and (iii) increase contribution of irrigation to agriculture GDP.

6. **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 other 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 to 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 Basic Education Project (US\$30 million) supports improved access of the poor to primary education services. In addition, the Rural and Social Reform Credit (RSRC-I) 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 budget allocations to the education sector; and (iii) foster 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, in earlier 2007, agreed with donors on fiduciary corrective measures to address this issue allowing the resumption of funding by external partners for this sector.

7. **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 preventative behaviors. To make this strategy more operational, government adopted a five-year development plan for the sector in January 2006 and the Bank approved a US\$35 million IDA credit for the Institutional Strengthening and Health Sector Support project to support a Sector Wide Approach Project (SWAP) that also covers reproductive health and malaria services. Through the RSRC operations, the Bank is also working with government to consolidate and enhance health sector reforms, notably: (i) strengthening human resources management at the regional level; (ii) improving budget execution to ensure sufficient resources are available to finance priority spending in the health sector; and (iii) reforming the cost-recovery scheme to improve health care accessibility. The Bank has also provided to Niger a US\$25 million IDA Credit for a multi-sector HIV/AIDS project approved in April 2003.

8. **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. Aware of the need to manage demographic dynamics, the Government created in March 2007, a new

Ministry of Population and Social Reform. The government also adopted in February 2007 a National Population Policy.<sup>1</sup> At the government's request, a multi-sector demographics operation was prepared and negotiated by the Bank to address the challenge of rapid population growth. The Project will be presented to Bank's Board in June 2007. As part of the project, the Government would 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 addition, the RSRC series will also promote the: (i) launch of information and awareness campaigns on premature marriage and family planning; and (ii) implementation of action plans to improve the status of women, including organizing a national forum to build consensus.

9. **Poverty monitoring.** The Bank worked closely with government to prepare a poverty profile that served as the basis for the PRSP poverty diagnosis. While this diagnosis was considered thorough and comprehensive by the Joint Staff Advisory Note (JSAN), it outdated, based on household survey data from 1993. Updating the existing database is a priority for the Government which recently completed a nationwide census. Preparation of a new household survey, to be partially funded by the government and the Bank, was launched in April 2007 and is expected to be completed in May 2008. A Demographic and Health survey is being finalized 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.

10. The Bank, together with other donors, is also advising the authorities on strengthening institutional arrangements for monitoring and evaluating poverty trends in the context of the PRSP, especially by enhancing the capacity of the National Statistics Institute (INS). In that context, under the RSRC I, the legal framework required for INS functioning was strengthened last December 2006 with the adoption of personnel status by a Bill signed by the Minister of Finance and Economy following the appointment by Decree of the INS Board President. With this new legal framework, the INS now has an autonomous personnel payroll scheme in place and the authority to select and hire technical staff without MEF approval. Finally, the INS is preparing a multi-year statistical development plan (2008-2012) to program its activities in the medium term and secure the requisite financing.

11. 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.

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<sup>1</sup> Déclaration du Gouvernement en matière de Politique de Population (DGPP).



### C. Areas Where Bank and Fund Share the Lead

12. **Poverty reduction strategy.** Together with other external development partners, the Bank and Fund have jointly provided assistance to government in the preparation and updating 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.

13. **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 December 2006. The DSA indicates that Niger's risk of debt distress is moderate thanks to significant debt reduction achieved in the context of the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI). Niger is receiving 100 percent debt cancellation from the IMF and IDA under the MDRI, which will free up some US\$30 million per year over the next decade. The results of the DSA show however 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 previous PRGF. Bank and Fund staffs have also supported the external evaluation of the use of HIPC resources under the President Special Program. As agreed with 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.

14. **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 previous 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) was a critical objective of the RSRC I. The Country Procurement Assessment Report (CPAR) was updated in 2004.

15. **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 but the government will request a waiver and propose a new deadline acceptable to IDA by end-April 2007; 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 with the creation of a Microfinance Institutions Regulation Authority by Decree on April 06, 2007. The post office was split into two entities in 2005, NigerPost, for pure mail transactions, and FinaPoste, a financial services affiliate. Finally, an actuarial audit was conducted of the CNSS, the social security institution.

16. **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. Following the first local elections of July 2004, the government needs support with reforms to strengthen capacity at the local level and deal with 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 (planned for FY08) will help build capacities in rural communities in planning, implementing, and monitoring micro-development projects.

#### **D. Areas in Which the Fund Leads**

17. **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 and Rural Development); and macroeconomic modeling.

18. **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.

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

#### **E. World Bank Group Strategy**

20. 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 FY08.

21. As of April 25, 2007, the World Bank lending portfolio in Niger consisted of nine IDA active operations, with a total commitment of US\$286.4 million, of which US\$95.4 million is undisbursed. IDA assistance has helped reduce the volatility in ODA by compensating short-term declines in assistance from other partners. IDA has also been responsive to regional exogenous shocks that have implications for Niger. 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 RSRC I were delivered in FY 06. IDA assistance to Niger in FY07 was 100% on non-repayable grant terms. Additional IDA Financing of US\$10 million (Grant) was provided for the water sector project in July 2006. In FY07, the Bank will have delivered two

additional projects, RSRC II (US\$50 million IDA Grant) and the Multi-sector Demographic Project (US\$10 million IDA Grant), both slated for Board presentation in June 2007. 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 RSRC series focuses on helping Government overcome 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. Going forward, the RSRC series will shift to support the accelerated and shared growth agenda, in particular to support policy reforms in the area of infrastructure and private sector development.

**Table 1: Niger Status of World Bank Portfolio (all IDA)**  
(In millions of U.S. dollars, as of April 30, 2007)

	<b>Commit. Amount (US\$ mil)</b>	<b>Undis- bursed</b>	<b>Approval Date</b>	<b>Closing Date</b>
Rural and Social Sector Reforms Credit I (RSSRC I)	50	0.0	13-06-06	30-06-2007
Instit. Strengthening & Health Sector Support Program (ISHSS)	35	33.5	05-01-06	30-01-2011
Locust Emergency	9.9	6.0	16-12-04	30-06-09
Water Sector	48.0	10.0	03-05-01	31-12-08
Private Irrigation Promotion	38.7	5.2	19-03-02	31-12-07
Community Action Program	35.0	4.0	20-03-03	30-06-07
Basic Education	30.0	12.5	17-07-03	31-12-07
Multisector STI/HIV-AIDS	25.0	13.3	04-04-03	30-06-08
Financial Sector TA	14.8	9.8	19-02-04	30-04-08
<b>TOTAL</b>	<b>286.4</b>	<b>94.3</b>		

22. The Bank's 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 was prepared in FY06 and finalized with comments from the government of Niger and is expected to be disseminated by end June 2007. 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 (PETS), initially in the education, health and rural development sectors. The objectives of the PETS 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.

23. The Bank is committed to enhancing external partnerships and donor harmonization within the framework of the government's efforts to mobilize and coordinate donor support

under the PRSP. 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.

INTERNATIONAL MONETARY FUND

NIGER

**Fourth Review Under the Three-Year Arrangement Under the  
Poverty Reduction and Growth Facility, and Request for Waiver and  
Modification of Performance Criteria  
Supplementary Information**

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

Approved by Sharmini Coorey and Anthony Boote

June 6, 2007

1. This supplement provides information on developments since the issuance of the staff report. The thrust of the staff appraisal remains unchanged.
2. The National Assembly passed on May 31 a no confidence motion against the government, leading to the government's immediate fall, as provided by the constitution. The grounds for the motion was dissatisfaction with the degree of collaboration of the Prime Minister with the investigation under way by the High Court of Justice on the procurement irregularities that emerged in mid-2006 related to contracts in the educational sector.<sup>1</sup>
3. A new Prime Minister was nominated by the President on June 3, and has been backed by the parties that had supported the previous government until the motion of censure. A new cabinet is expected to be appointed in the coming days. Management received on June 1 the attached letter by the director of cabinet of the President, on the instruction of the President, confirming all the commitments in the letter of intent and the memorandum of economic and financial policies of May 16, 2007.
4. Staff have confirmed that financing assurances supporting the program remain unchanged. The World Bank Board is expected to consider in mid-June a US\$50 million policy support grant. The financial support of key donors, such as the European Union, also remains as envisaged under the 2007 program.

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<sup>1</sup> These irregularities had led to the suspension of European Union and other donor disbursements for this sector. The government brought those responsible to justice and took comprehensive measures to strengthen procurement. The latter measures have been reported in a previous Board document (see Country Report No. 07/13, 12/6/2006). On the basis of these remedial actions, donors resumed disbursements for the education sector in early 2007.

5. In conclusion, as is standard with any program review, staff have assessed whether these recent events have had a significant impact on the policy framework under Niger's PRGF arrangement, including on forward-looking elements such as financing assurances under the program. Staff have concluded that no new issues of concern have emerged and the actions undertaken by the authorities since mid-2006 to strengthen governance were appropriate and support the program's objectives. Thus, on the basis of assurances received from the authorities as well as key partners, staff continue to recommend the completion of the fourth review under the PRGF arrangement.



REPUBLIC OF NIGER  
PRESIDENCY OF THE REPUBLIC  
OFFICE OF THE PRESIDENT

Niamey, June 1, 2007

No. \_\_\_\_\_/PRN/DIR/CAB  
Director of Cabinet, Office of the President  
Republic of Niger

Mr. Rodrigo De Rato  
Managing Director  
International Monetary Fund  
Washington, DC 20431  
United States of America

Sir:

The Republic of Niger maintains excellent relations with the International Monetary Fund, which it intends to promote and consolidate.

Due democratic process, which our country holds dear, led to the adoption of a motion of censure by the National Assembly on May 31, 2007, which entailed the resignation of the government, in accordance with the Constitution.

On the instructions of His Excellency the President of the Republic, Head of State, I have the honor of hereby confirming maintenance of all the commitments contained in the Letter of Intent and the Memorandum on Economic and Financial Policies for the year 2007, signed on May 16, 2007 by the Minister of the Economy and Finances, Governor of the Fund.

Very truly yours,

/s/

Mammane Bachir Yahaya  
Director of Cabinet, Office of the President

INTERNATIONAL MONETARY FUND

NIGER

**Fourth Review Under the Three-Year Arrangement Under the  
Poverty Reduction and Growth Facility, and Request for Waiver and  
Modification of Performance Criteria  
Supplementary Information**

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

Approved by Sharmini Coorey and Anthony Boote

June 7, 2007

The Managing Director has received the attached letter from the new Prime Minister of Niger, Mr. Seini Oumarou, dated June 6, 2007 in which he reiterates the commitment of the Government of Niger to pursue the actions and reforms outlined in the Letter of Intent and Memorandum of Economic and Financial Policies of May 16, 2007, as a complement to the assurances already given by the President of the Republic in the letter dated June 1, 2007 signed by his Director of Cabinet.

REPUBLIC OF NIGER  
OFFICE OF THE PRIME MINISTER  
THE PRIME MINISTER

Niamey , June 6, 2007

No\_\_\_\_/Prime Minister/ Cabinet

Mr. Rodrigo de Rato  
Managing Director  
International Monetary Fund  
Washington D.C. 20431, USA

Sir:

To complement the confirmation by the President of the Republic, Head of State, in its letter of June 1, 2007 signed by the Minister Director of Cabinet, of all commitments contained in the Letter of Intent and Memorandum of Economic and Financial Policies for 2007, signed on May 16, 2007 by the Minister of Economy and Finance, Governor for the Fund, I have the honor to renew the commitment of the Republic of Niger to pursue the actions and reforms outlined therein.

The Republic of Niger has implemented with success prudent macroeconomic policies and structural reforms under two consecutive programs supported by the Fund through its Poverty Reduction and Growth Facility. It is therefore determined to continue this process.

Very truly yours,

/s/

Seini Oumarou  
Prime Minister  
Republic of Niger

**Statement by the IMF Staff Representative**  
**June 1, 2007**

The following information has become available since the issuance of the staff report for the Fourth Review under the Poverty Reduction and Growth Facility. It does not change the thrust of the staff appraisal.

Priority Investment Fund

- As anticipated in the Staff Report, parliament approved on May 15 the priority investment fund in the amount equivalent to 1.5 percent of GDP financed by the exceptional mining revenue received in late 2006. The fund will finance investment for national security, rural development, infrastructure, and other development-related investments. At the request of the authorities, the Memorandum of Economic and Financial Policies has been corrected to reflect this new development.
- The authorities have informed the staff that the specific sectoral allocation remains to be finalized, and will be reviewed with the staff during the fifth review mission, envisaged for September 2007. While the staff report anticipated that the investment expenditures will be carried out in 2008 and beyond, some spending could take place already in the latter part of 2007, subject to discussions during the fifth review.
- In case additional security expenditure is needed before the review to confront insecurity in the Northern mining regions, it will be offset by savings in other budget lines, or by using the budgetary reserve.

Loan Concessionalty

As mentioned in the Staff Report, the authorities requested from the African Fund for Guarantee and Economic Cooperation (FAGACE) a subsidy to bring down from 1.75 percent to 1 percent, for a maximum duration of 10 years, the effective interest rate on the bilateral loan for which the degree of concessionalty was about 42 percent and in breach of the performance criteria under the arrangement, which stipulated a 50 percent grant element. The authorities confirmed to staff that this subsidy was approved by the FAGACE on May 22, 2007. The subsidy would have the economic effect of bringing the grant element of the loan to about 46 percent.



INTERNATIONAL MONETARY FUND

EXTERNAL  
RELATIONS  
DEPARTMENT

Press Release No. 07/125  
FOR IMMEDIATE RELEASE  
June 8, 2007

International Monetary Fund  
Washington, D.C. 20431 USA

**IMF Executive Board Completes the Fourth Review Under Niger's PRGF  
Arrangement and Approves US\$ 1.4 Million Disbursement**

The executive Board of the International Monetary Fund (IMF) today completed the fourth review of Niger's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement originally approved on January 31, 2005 (See [Press Release No 05/20](#)). The completion of the review enables the release of a further SDR 0.94 million (about US\$1.4 million), which will bring the total amount disbursed under the arrangement to SDR 24.44 million (about US\$36.9 million).

The Board also approved Niger's request for waivers pertaining to the non-observance of the structural performance criterion on the application of a flexible pricing mechanism for petroleum products and the quantitative performance criterion on the government's contracting or guaranteeing of new nonconcessional external debt.

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

“The Nigerian authorities are to be commended for the overall satisfactory performance under the PRGF-supported program. Economic growth accelerated in 2006 and inflation is close to zero, reflecting good policies and a good agricultural harvest. The national cereal security stocks have been replenished, aided also by substantial external assistance. The assurances by the Nigerian authorities renewing their commitment to full implementation of the program under the new government are welcome.

“The planned fiscal deficit through end-December 2007 has been expanded to accommodate higher-than-expected external budget support. The fiscal program continues to shift resources toward health, education, and rural development, guided by the Poverty Reduction Strategy for 2008-2012. The program also emphasizes improvements in tax administration and a widening of the tax base, in part through fewer tax exemptions and simpler tax procedures.

“The ongoing reforms in public expenditure management, including strengthening of budget preparation and execution procedures, remain critical for enhancing the effectiveness of public spending, achieving the Millennium Development Goals, and mobilizing external resources. In addition, it will be important to further strengthen internal audits and the Auditor Court. To preserve debt sustainability, it is essential that external financial assistance be sought in the form of grants and highly concessional loans.

“Efforts to enhance the business and investment climate deserve high priority. It will be important to improve the judicial and land tenure systems and streamline the regulatory framework for businesses. The steps under way to privatize and restructure public financial institutions, including microfinance institutions, should help expand access to credit and reduce its costs.” said Mr. Portugal.

**Statement by Laurean W. Rutayisire, Executive Director for Niger**  
**June 1, 2007**

On behalf of my Nigerien authorities, I would like to express my appreciation to staff for the constructive policy dialogue held in the context of the fourth review of the three year arrangement under the PRGF-supported program. I also wish to convey to management and Executive Board my authorities' appreciation of their support to Fund's continued involvement in Niger. Reflecting their broad agreement with the staff's analysis and policy recommendations, my authorities have consented to the publication of the letter of intent as well as the staff report.

My authorities are well aware of the challenges ahead, in particular the need for improving social indicators, strengthening domestic revenue collection, and enhancing the business climate. They are cognizant that further commitment is needed to reduce the high vulnerability of the Nigerien economy, which has undermined over the past their efforts to put the economy on the path of a solid and sustainable growth, less sensitive to weather vagaries, locust invasion, and other exogenous shocks. To this end, my Nigerien authorities have maintained their resolve to implement the PRGF program achieving all but two program performance criteria for end 2006. Corrective actions for the two missed criteria have been taken. Furthermore, the medium-term expenditure framework for rural sector and transport has been completed; food security has been strengthened and a new poverty reduction strategy is being finalized. Several reform measures to reinforce public expenditure management and strengthen domestic revenue are being implemented, including measures to ensure more transparency in the management of natural resources. Through the ongoing policy actions, my Nigerien authorities expect to achieve significant improvement of human development indicators. My authorities request waiver for missed performance criteria. They are also requesting modifications of the two quantitative performance criteria for the remainder 2007 as well as the completion of the fourth review under the PRGF.

**I. Objectives and Policies for 2007**

**1. Fiscal Policy**

The objectives of fiscal policy for 2007 are to provide more resources to priority programs – taking into account a higher-than-programmed external budget support–, while increasing revenue mobilization and tax administration efforts and safeguarding debt sustainability.

The **revenue mobilization efforts** will be based on the implementation of the reforms under way at the Customs and Tax Departments which include the gradual electronic interconnection between regional customs offices and those at the border so as to better monitor customs declarations at the destination centers; and reinforcing the monitoring of

exemptions, while imposing strict limitation on exemptions for certain food and petroleum products. The Tax Department will also be further enhanced notably through the strengthening of tax audits; and strengthening joint controls by customs and tax departments on companies benefiting from exemptions, and the follow-up of the use of exempted products.

**On the expenditure side**, transfers and expenditures on goods and services are expected to increase by CFAF 5.2 billion in comparison with the December 2006 MEFP fiscal program to provide additional support for education and community development. Domestically financed investment outlays would also be higher than initially programmed, in part, because of the decision of the government to participate in new mining initiatives of the private sector, as provided for in the new mining code.

**Domestic arrears repayments** in 2007 will continue to be made according to the new arrears reduction plan that was finalized in April 2007. The priority in 2007 will be given to the sectors supporting the recovery of economic activity, and in particular to the banking and financial sectors, counterpart obligations related the reconstitution of the national grain security stock, and the petroleum products distribution sector.

The authorities will also continue to strengthen **public expenditure management** by fully integrating budget preparation with the medium-term expenditure framework and strengthening expenditure monitoring at the commitment, liquidation, payment order and payment stages, with particular attention to priority expenditures. Their intention is also to reduce delays in the establishment of treasury accounts. In this regard, my authorities are requesting an amnesty for the entry balances before 1997 and the revision of the related performance criterion because of a lack of documentation including on budget execution corresponding to that period due to continued political and social unrest that has disturbed the good functioning of public services in Niger from 1990 up to the end 1998.

## **2. Monetary Policy and Financial Sector Reforms**

**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 rapidly (around 19 percent) because of sustained expansion in mining and telecommunications, while credit to government will remain limited. Net foreign assets are expected to rise more moderately –especially the banking system–, as banks envisage increasing their medium and long term external borrowing. Accordingly, broad money growth is projected at about 11.5 percent.

The government will continue to advance **financial sector reforms** in 2007. In order to enable better access to credit that remains constrained by the slowness in issuing legally valid land titles, and the slow and costly legal and judicial procedures for recovering collateral, my



authorities are continuing at national and within the context of WAEMU to examine ways to remove these obstacles. Furthermore, the offer for sale of Crédit du Niger will be launched in June 2007. Regarding the two largest microfinance institutions that are in financial difficulties, the government will implement a restructuring plan with assistance from development partners. The microfinance regulatory agency will be provided with adequate human and material resources to carry out effectively its functions.

### **3. Structural Reforms**

In the **agricultural sector**, the priority of the rural development strategy will be to increase production and yields especially on irrigated land. The situation of the cooperatives along the Niger River that continue to face significant difficulties is now being reviewed by a World Bank study to be concluded in few months. Appropriate corrective actions will be adopted on the basis of the study's recommendations. The rehabilitation of Riz du Niger that is under majority government ownership is a key priority, and is expected to benefit from donor support.

In the **mining and petroleum sectors**, revised codes were adopted by Parliament in August 2006 and January 2007 respectively. These are based on international best practices and have tax provisions consistent with the WAEMU norms. Implementing decrees will be adopted soon, as well as model contracts. Under the Extractive Industry Energy Initiative (EITI), which the government joined in 2005, the government has appointed in late 2006 the national consultative committee including representatives of the civil society. A first audit report reconciling revenue paid by mining companies with government receipts is planned to be issued in late 2007. My authorities have also decided to establish in March 2007 a priority investment fund to make use of the exceptional resources related to the mining sector. The related draft bill has been transmitted to the National Assembly.

## **II. Conclusion**

My Nigerien authorities have shown their firm commitment to sound macroeconomic policies and reforms, as evidenced by the satisfactory implementation of the current PRGF-supported program, as well as the important achievements made so far, in particular the finalization of the new PRSP and the completion of sectoral medium-term expenditure frameworks for health and education sectors, and more recently for rural sector. They are aware of the high vulnerability of Nigerien economy highlighted by the 2004 drought and locust invasion shocks, which undermined the positive outcomes recorded during the last PRGF-program. My authorities believe that an adequate response to the vulnerability requires the firm implementation of the new PRSP, which supposes continued efforts to diversify production, execute priority programs, enhance the business environment and strengthen the domestic revenue collection. My authorities also continue to count on timely donor support.

Maintaining a sustainable debt position while seeking additional financing needed to carry out their PRSP and make progress towards the MDGs remains a serious challenge. In this regard, the authorities rely on the continuous support of the Fund, in particular through its catalytic role in mobilizing development partners' assistance. My authorities remain committed to pursuing a prudent external debt strategy following the debt relief obtained under the MDRI. They will continue to aim at contracting debt only with a grant element of at least 50 percent in 2007 and beyond.

On their behalf, I would like to ask Directors' support for my authorities' request for waiver and modification of performance criteria and the completion of the fourth review under the PRGF arrangement.