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Niger: Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Niger

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

- the staff paper for the Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on October 22, 2004, 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 January 13, 2005. 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 Press Release summarizing the views of the Executive Board as expressed during its January 31, 2005 discussion of the staff report that completed the request.

- a statement by the Executive Director for Niger.

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

Joint Staff Advisory Note of the Poverty Reduction Strategy Paper
Progress Report
Letter of Intent sent to the IMF by the authorities of Niger*
Memorandum of Economic and Financial Policies by the authorities of Niger*
Poverty Reduction Strategy Paper—Progress Report
Technical Memorandum of Understanding*

*May also be included in Staff Report

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

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

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INTERNATIONAL MONETARY FUND

NIGER

Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the African Department

(In consultation with the Finance, Fiscal, Legal, Monetary and Financial Systems, Policy Development and Review, and Statistics Departments)

Approved by Siddharth Tiwari and Anthony R. Boote

January 13, 2005

- Discussions on a new three-year Poverty Reduction and Growth Facility (PRGF)-supported program were held in Niamey during October 8-22, 2004. The staff team comprised Messrs. Matungulu (Head), Dridi, Farah, Fontaine, Nsengiyumva, and Ms. Malouf-Hardesty (Assistant). Mr. Mamadou, Advisor (OED), participated in policy discussions. The team met with President Tandja, Prime Minister Amadou, Minister of Economy and Finance Zeine, and other senior officials, as well as the representatives of the donor community.
- On April 12, 2004, Niger reached the completion point under the enhanced HIPC Initiative, with debt relief totaling US$663.1 million in NPV terms (US$42 million from the Fund), including topping up. The Executive Board concluded the 2004 Article IV consultation with Niger on June 28, 2004; Directors commended the authorities for their strong reform effort under the 2000-04 PRGF-supported program. They stressed the need to make progress in long-term fiscal sustainability, deepen structural reforms, and redirect spending to priority sectors. Niger's last PRGF arrangement (equivalent to 90 percent of quota), expired on June 30, 2004.
- The mission and the authorities agreed on macroeconomic and structural reform policies and objectives for 2005-07, and measures to be implemented in 2005, based on Niger's 2002 Poverty Reduction Strategy Paper (PRSP). Key elements include fiscal consolidation, particularly by broadening the tax base and strengthening expenditure management; privatization and financial sector reforms; and reforms to help achieve the Millennium Development Goals (MGDs). The authorities recently completed the second annual progress report of the PRSP, and Fund and World Bank staffs have prepared a Joint Staff Advisory Note (JSAN).
- In support of a new three-year reform program, the authorities request a successor PRGF in an amount equivalent to SDR 6.58 million (10 percent of quota), reflecting Niger's fragile debt situation and current limited balance of payments need. Niger's outstanding use of Fund resources at end-November 2004 was equivalent to SDR 88.2 million (134 percent of quota); it would amount to 78.9 percent of quota at the end of the new PRGF arrangement.
- The World Bank currently holds an active portfolio of 9 project and sector credits for programs in, inter alia, health/HIV-AIDS, education, public expenditure management, and private irrigation promotion. As of November 2004, the amount committed totaled US$289.4 million.

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Executive Summary

Over the last several years, in the context of a PRGF-supported program that expired on June 30, 2004, Niger has made substantial progress toward macroeconomic stability and in liberalizing the economy. Nevertheless, while growth has improved, it remains short of the rate that is needed to reach the MDGs and is vulnerable to exogenous shocks. Poverty continues to be widespread.

Drawing from the 2002 PRSP, the authorities' reform program for 2005-07, to be supported by a successor PRGF arrangement, focuses on: (i) fiscal consolidation; (ii) public and financial sector reforms; and (iii) development of social and priority sector strategies.

- **To raise the government's contribution to domestic savings and investment, gradual reductions in fiscal imbalances will be sought in 2005-2007.** The recent introduction, under a revised 2005 budget, of core revenue-enhancing measures, is critical in this effort. Further, overall expenditure is projected to remain largely unchanged as a percent of GDP with changes in its composition favoring priority socio-economic programs.
- **The structural reform agenda focuses on measures to further improve the supply response of the economy through more efficient allocation of resources and by improving economic governance.** In this context, the government will revisit its privatization program, with technical support from the World Bank, and continue reform of public administration with a focus on improving transparency and accountability in government financial operations. To strengthen financial intermediation, the government will expedite outstanding financial sector reforms, focusing on the sale of government's share capital in the Crédit du Niger (CDN) and the Banque Commerciale du Niger (BCN); and restructuring of the Caisse des Prêts aux Collectivités Territoriales and the Postal and Savings Institution.
- **The authorities will develop and implement coherent sectoral strategies, in line with the PRS**. In view of delays in fully developing sectoral strategies, the government has decided to postpone the updating of the 2002 PRSP from June 2005 to 2006. It intends, instead, to complete during 2005 the third annual report on the implementation of the PRSP and undertake the costing of programs required to help achieve the MDGs. The government will also continue improving its medium-term expenditure frameworks (MTEFs), especially for education and health, so as to better align them with the budget and ultimately facilitate access by the most vulnerable groups to basic social services.

I. BACKGROUND

1. **In 2000-03, Niger made significant progress in strengthening its economy.** Macroeconomic imbalances were reduced, and key structural reforms were implemented to improve the supply response of the economy. In these circumstances, growth performance was strengthened and inflation maintained at low levels. Nevertheless, macroeconomic imbalances remain relatively large; the economy is susceptible to droughts, terms of trade volatility, and uncertain aid flows; and poverty is widespread (Box 1).

2. **The key challenge facing the country in the period ahead is to create conditions for stronger and sustainable growth to make poverty reduction more effective**. To meet this challenge, the government's strategy focuses on priority areas set out in the Poverty Reduction Strategy Paper (PRSP), namely, strengthening macroeconomic stability, expanding access by vulnerable groups to basic social services, institutional capacity building and improved governance, and supporting sectors with high growth potential. Rural activities,[1] tourism, and mining, have been identified as areas with strong growth potential and, accordingly, defined as priority sectors.[2]

Box 1. Niger: Economic and Social Challenges

- **The ex post assessment (EPA) of Fund-supported programs established that Niger's growth performance remains weak and highly dependent on weather conditions.** In a predominantly rural economy that experiences recurrent droughts, lackluster growth is related to inadequate water management infrastructure and irrigation systems. Other constraints to growth have included a deterioration in the terms of trade, heavy dependence on volatile external assistance, and social and political disturbances.

- **Poverty continues to be widespread, and the achievement of the Millennium Development Goals (MDGs) remains a major challenge.** Two thirds of the population lives below the poverty line, with one-third considered to be extremely poor. With real GDP growth of 4-5 percent a year over the medium term, poverty is projected to be reduced by only 5 percent by 2015. Hence, Niger is unlikely to achieve the MDG goal of halving poverty by that date relative to the poverty rate in 1995.

- **Niger has made remarkable gains in macroeconomic and sociopolitical stability over the past four years,** but an important concern is the weak revenue effort, which continues to be the lowest in the WAEMU.

[1] About 84 percent of Niger's population resides in rural areas and depends on agriculture activities for a livelihood.

[2] A recently completed study on the sources of growth in Niger reaffirms this conclusion. Drawing on this, the authorities have initiated development of sectoral strategies to bolster activity in the identified growth-supporting sectors.

3. **Drawing from the PRSP, the authorities have developed a medium-term Program that would move toward long-term fiscal sustainability, improve allocative efficiency and financial intermediation, and increase investment in human capital (Appendix I, Attachment II)**. The core elements are (i) fiscal consolidation, (ii) public and financial sector reforms, and (iii) development of social and priority sector strategies to ensure broader access to social services.

4. **There is a broad political and social consensus in implementing the Poverty Reduction Strategy (PRS)**. The PRSP and related progress reports were developed with broad participation by stakeholders and were widely disseminated to the public. This and the recent peaceful conclusion of presidential and parliamentary elections should facilitate continuity of reforms. President Tandja won a second and final five-year term, and his party and its coalition also won majority seats in Parliament. The new government has indicated its commitment to the program to be supported by a PRGF arrangement**.**

5. **The remaining sections of the report are as follows. Section II reviews Niger's recent achievements in the macroeconomic and structural areas; Section III presents an outline of the authorities' new three-year reform program; and Section IV contains the staff's appraisal of the program**. Summaries of Niger's relations with the Fund and the World Bank Group are presented, respectively, in Appendices II and III and Appendix IV discusses statistical issues.

II. Recent Economic Developments and Progress in Structural Reforms

Economic and Financial Developments

6. **Economic performance weakened in 2004 owing to the negative impact of drought, a locust plague, and, to a lesser extent, higher energy prices**. Real GDP growth is estimated to have been limited to only about 1 percent, with agricultural production contracting by 12 percent.[3] However, the performance of nonagriculture sectors remained strong. The drought and higher energy prices spurred inflation to an estimated 4 percent by end-2004, 1 percentage point higher than the West African Economic and Monetary Union (WAEMU) target. The external current account deficit before

Niger: Selected Economic Indicators 2001-04
(Annual percentage change, unless otherwise indicated)

	2001	2002	2003	2004 Est.
GDP at constant prices	7.1	3.0	5.3	0.9
Nonagricultural GDP	2.6	3.2	3.9	4.3
CPI (end of period)	3.2	0.6	-1.5	3.7
External current account balance /1	-6.6	-7.8	-7.6	-7.3

Sources: Nigerien authorities and staff estimates.
1/ In percent of GDP.

[3] Agriculture, excluding livestock, accounts for some 23 percent of GDP.

budgetary grants is estimated to have narrowed slightly, reflecting the coming on stream of new gold exports and lower HIPC-generated external debt interest payments, which offset a deterioration in the terms of trade. The Central Bank of West African States (BCEAO) continues to hold adequate foreign exchange reserves.

7. **In 2004, Niger further improved its implementation of budgetary policy.** The basic[4] and overall fiscal deficit targets are likely to have been observed as the government reduced spending in the face of lower-than-expected external assistance including expenditures for education and health.[5] Improvements in tax and customs administration[6] offset the adverse revenue impact of continued border closings with Nigeria[7] and persistent difficulties in collecting budgeted WAEMU transfers. Revenue performance also benefited from higher profit taxes, reflecting increased corporate incomes in 2003. Accordingly, the revenue-to-GDP ratio is likely to have reached the targeted level of 10.3 percent of GDP for 2004. Total expenditure is likely to be 0.4 percent of GDP lower than envisaged, reflecting lower-than-programmed external budget and project support. The overall fiscal deficit was financed mainly by grants and concessional loans, with net bank credit to government limited to 0.3 percent of GDP.

Niger: Selected Fiscal and Monetary Indicators 2002-04
(In percent of GDP)

	2002	2003	2004	
			Proj.	Est.
Total revenue	10.6	9.9	10.3	10.5
Total expenditure	18.4	17.4	18.6	18.2
Basic balance (excluding grants) 1/	-1.8	-2.0	-1.4	-1.1
Overall balance (excluding grants) 1/	-7.7	-7.5	-8.3	-7.6
Overall balance (including grants) 1/	-2.8	-2.7	-4.5	-2.7
Net bank credit to government	0.3	0.2	0.3	0.3
Net external financing	9.2	8.3	9.3	8.7

Sources: Nigerien authorities and staff estimates.
1/ Commitment basis

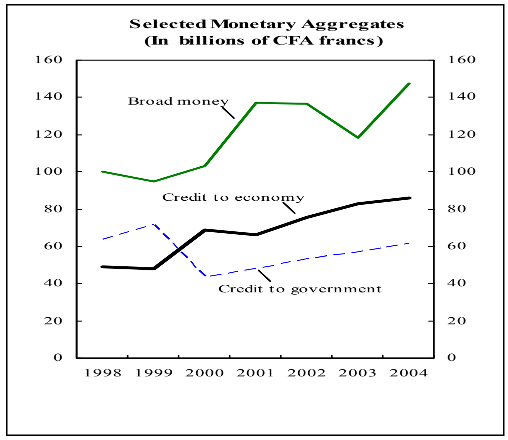
[4] Basic deficit defined as domestic revenue minus total expenditure, excluding foreign-financed investment outlays.

[5] Education and health outlays amounted to an estimated 4.6 percent of GDP in 2004, compared with a targeted 5.6 percent of GDP.

[6] The authorities established closely monitored monthly revenue targets, effected personnel changes at key positions, and provided more logistical support for tax and customs departments.

[7] To stem the reexport to Nigeria of goods originating mostly from Asia, authorities in Nigeria routinely close their borders with several neighboring countries, including Niger. These closings result in substantial losses of customs revenue.

8. **In the monetary area, limited government borrowing from the banking sector has facilitated a modest credit growth to the economy**. Domestic credit grew by close to 6 percent, with a large share allocated to nongovernment sectors. The BCEAO plans to use updated coefficients for estimating currency in circulation in member countries and introduce new currency notes. These measures will improve the estimation of currency in circulation and, thus, broad money.[8]



Structural reform and PRSP implementation

9. **Progress in public and financial sector reforms in 2004 was mixed.** The authorities took important steps to strengthen economic governance, including by creating the National Tender Board and adopting supporting regulations, as well as by completing the Public Expenditure Management and Financial Accountability Review (PEMFAR). The review identified weaknesses in the management of public finances, and an action plan is being developed to address them (Box 2). The privatization of the petroleum distribution (SONIDEP) and power (NIGELEC) companies has been further delayed, in part because of limited investor interest.[9] On **financial sector** reform, the privatization/restructuring of two government-owned financial institutions was also not completed as a result of a delay in the establishment of a management unit to oversee the process. Except for the above-mentioned financial institutions, all banks meet most of the required prudential requirements. However, nonperforming loans amounted to about 26 percent of the banking sector's portfolio at end-2003.[10]

10. **The second-year PRSP evaluation report, completed in October 2004, stresses the need for more progress in addressing the weaknesses identified in the first PRSP progress report,**[11] especially in the analysis of sources of growth and its impact on poverty

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[8] The BCEAO has had difficulty providing reliable monetary data for member countries, and there had been large unexplained swings in currency in circulation partly because of outdated estimation coefficients.

[9] After an unsuccessful tender in 2003 for SONIDEP, a new tender in 2004 resulted in the sale of only 6.9 percent of share capital to local private petroleum distributors. For NIGELEC, one of the two potential buyers declined to undertake the required rehabilitation investment, and the second one faces severe financial difficulties.

[10] Nonperforming loans net of provisions are about 10 percent of sector portfolio (IMF Country Report No. 04/191).

[11] Joint Staff Assessment (JSA) (IMF Country Report No. 03/387)

and in the development of a population policy and socioeconomic data to track poverty. The report notes that development of coherent sectoral strategies and programs for the identified growth-enhancing sectors still needs considerable strengthening. A rural sector strategy and programs to support it were completed only in August 2004, and the proposed programs are yet to be costed; only initial steps have been taken to develop irrigation infrastructure and encourage the development of marketable agriculture products. In tourism and mining, except for the recently launched gold extraction, work lags behind. Finally, progress in improving Niger's physical infrastructure, such as roads, has also been limited. In view of the delays in these critical areas, the government has decided to postpone the updating of the 2002 PRSP from June 2005 to 2006. It intends, instead, to complete during 2005 the third annual report on the implementation of the PRSP.

Box 2. Niger: 2004 Public Expenditure Management and Financial Accountability Review

The review identified weaknesses in (i) budget planning and execution, (ii) public accounting and Treasury Management, (iii) internal and external controls, and (iv) technical and logistical capacity as follows:

Budget planning and execution

- Lack of multiyear expenditure framework consistent with strategic objectives of the PRS
- Cumbersome and centralized budget execution process, mired by "exceptional" procedures that are outside normal expenditure procedures
- Weak expenditure control and reporting systems, in part related to limited computerization

Public accounting and treasury management

- Lack of reconciliation of fiscal balances with below-the-line financial transactions
- Lack of comprehensive treasury accounts
- Weak cash-management system
- Ad hoc cash budget system
- Inadequate recording and monitoring of domestic arrears

Internal and external controls

- Limited controls on "exceptional" budgetary transactions
- Lack of harmonized practices and procedures for internal auditors
- Limited follow-up on audit reports
- Limited independence of internal and external auditors
- Weak oversight by parliament
- Unavailability of budget execution reports to parliament/public during the year

Weak technical and logistical capacity

- Shortages of skilled staff (especially in the areas of internal and external controls) as well as material resources

An action plan covering 2005-07 and identifying the required technical assistance programs is being finalized to address the identified weaknesses.

11. **Progress toward the PRSP's main social objectives has, however, been encouraging**. Sectoral strategies for health and education have been completed, with supporting medium-term expenditure frameworks, and the tracking of expenditure for these sectors is being strengthened. Further, preliminary indications point to modest improvements in the priority sectors (see Box 3). Other achievements in the priority sectors include the building of water infrastructure in selected rural areas; implementation of anti-erosion works; and initiation of steps to develop income-generating activities (IGA) that will enhance food security for the most vulnerable social groups.

Box 3. Niger: The President's Special Program for Poverty Reduction

Following the restoration of multiparty democracy and his election in 1999, President Tandja proposed a comprehensive investment program to reduce poverty in Niger. Instituted in 2001, the Special Program of the President of the Republic is in line with the poverty reduction strategy and has been fully financed with enhanced HIPC Initiative resources. It is intended specifically to strengthen the country's rural education, health, food security, and water systems.

In 2001-03, CFAF 30.6 billion was spent under the program, and about CFAF 14.3 billion was disbursed in the initial eight months of 2004. As shown in the table below, important achievements have been made in all of the program's priority areas, including the availability of basic education and health care facilities. Basic school enrollment rose from 45 percent in 2002 to 50 percent in 2003, and health coverage expanded from 56 percent to 65 percent.

Although much has been accomplished under the President's Special Program, problems must still be addressed in some key areas, such as in planning and implementation capacity. A recent audit of the program has underscored the effectiveness of its internal control mechanisms while stressing the need for substantive improvements in accounting and procurement practices. The audit has called for enhanced integration of HIPC-funded projects into Niger's sectoral strategies.

Execution of the President's Special Program, January 2001-March 2004

Item	Completed	Completed 2003-04		In Progress	To Be Started
	2001-02	Units/Number	Percent of planned		
Health units	955	406	41	144	450
Classrooms	1,003	418	42	121	461
Small dams	46	0	0	2	21
Recruitment of nurses	955	56	56	574	370
Recruitment of teachers	1003	396	40	143	461
Farm pumps	6	7	28	14	4
Village wells	125	78	54	64	3

Source: Nigerien authorities.

Regional integration

12. **Despite recent improvements in its economic conditions, Niger is far from observing the WAEMU convergence criteria** (see Box 4). In 2004, two of the four primary criteria were met, and none of the four secondary convergence indicators was observed. The

authorities continue to implement reforms and policies to facilitate realization of the regional convergence criteria over time. Niger complies with the WAEMU's common external tariff, adopted in January 2000, and does not impose quantitative restrictions on imports.

Box 4. Niger and WAEMU Convergence, Stability, Growth, and Solidarity Pact

	WAEMU	Niger		
	Targets	2002	2003	2004
Primary criteria				
Basic fiscal balance (as percent of GDP)	≥ 0	-1.8	-2.0	-1.1
Domestic and external debt (as percent of GDP)	≤ 70	85.3	76.1	75.5
Annual average inflation rate (in percent)	≤ 3	2.7	-1.8	0.3
Nonaccumulation of domestic and external payments arrears	√	X	√	√
Secondary criteria				
Wage bill (as percent of revenue)	≤ 35	38.2	37.5	35.3
Domestically financed investment (as percent of tax revenue)	≥ 20	18.7	18.7	18.2
External current account deficit, excl. grants (as percent of GDP)	≤ 5	7.8	7.6	7.3
Tax revenue (as percent of GDP)	≥ 17	9.6	9.6	10.3

III. THE NEW PROGRAM OUTLOOK AND RISKS

A. Macroeconomic Framework

13. **Within its broad growth strategy spelled out in the PRSP, Niger's key macroeconomic objectives for 2005-07 are to** (i) achieve an annual real GDP growth rate of about 4 percent, (ii) limit annual inflation to under 3 percent, and (iii) reduce the external current account deficit (excluding official transfers) by 1 percent of GDP to about 6.3 percent of GDP by 2007.

14. **In 2005, the recovery of agriculture from the 2004 drought and continued robust growth in nonagricultural sectors, buoyed in part by government investment in infrastructure, should raise growth to 4 percent.** For 2006-07, ongoing investment in water management and output diversification (Box 3) should somewhat help increase agriculture productivity. Nonagricultural sectors would benefit from HIPC-initiative funded investments in the social sectors, new investment in mining, and more tourism activities. More generally, public and financial sector reforms, as well as improvement in the sociopolitical environment, should strengthen overall confidence in the country, increase private investment and help achieve the medium-term growth objectives. Niger's exchange rate peg to the euro and prudent policies by the BCEAO will be instrumental in keeping inflation under control. Finally, in addition to fiscal consolidation, a gradual reduction in the external current account deficits should be facilitated by structural reforms to strengthen the supply response of the economy.

15. **To generate a significant reduction in poverty over the long-term, Niger needs stronger economic growth performance than projected in the baseline macroeconomic scenario**. In addition to policies and reforms envisaged for 2005-2007, implementation of coherent sectoral strategies, especially in the rural sector, tourism and mining, is critical for raising growth above the current objective of 4 percent. Consistent with both the authorities' PRS and the recommendations of the EPA, the focus should be on the development of irrigation infrastructure and encouragement of the use of modern inputs to raise productivity in agriculture and livestock, and reduce the rural sector's vulnerability to droughts. Further, strengthening ongoing efforts to diversify exports, including through mineral and oil explorations and determined promotion of tourism should also help strengthen external viability and raise economic growth. In this regard, the authorities, with technical assistance from the World Bank, are committed to moving forward in 2005, in the context of the preparation of a revised PRSP, the work on developing medium-term strategies for growth-supporting sectors and costing of related programs. This exercise is likely to identify much higher financing needs than the current baseline scenario and require additional commmitments from development partners.

B. Fiscal Policy in 2005 and Beyond

16. **Continued fiscal consolidation will be essential to raise the government's contribution to domestic savings and investment.** This will require implementing strong measures to boost revenue collection and improve expenditure management while providing adequate resources to priority sectors identified under the PRSP. The overall fiscal deficit (on a payment order basis and excluding budgetary grants) is expected to decline by 0.9 percentage points to 6.7 percent of GDP by 2007, with the basic budget balance recording a small surplus by then. The projected fiscal deficits in the medium term take into account Niger's financing prospects as well as the need to ensure that its external debt remains at a sustainable level.

17. **In line with the recommendations of the EPA, strengthening revenue mobilization will feature prominently in the new PRGF-supported program.** Over time, Niger's revenue-to-GDP ratio will have to be raised to the WAEMU threshold of 17 percent of GDP. However, achieving this target remains a long-term challenge in view of the country's relatively high tax rates and its obligations regarding fiscal harmonization in the WAEMU region. In this context, the increase in revenue over the medium term is premised on the successful

Niger: Medium-term Budgetary Indicators
(In percent of GDP)

	2004	2005	2006	2007
	Est.	Projections		
Total revenue	10.5	11.1	11.6	12.1
Total expenditure	18.2	18.8	19.1	18.9
Current Expenditure	9.7	9.9	10.0	9.6
of which: wages	3.6	3.6	3.5	3.5
Interest on ext.debt	0.6	0.6	0.6	0.6
Other	5.5	5.7	5.9	5.5
Capital expenditure	8.4	9.0	9.1	9.2
Domestic-funded	1.9	2.1	1.9	2.3
Overall fiscal balance	-7.6	-7.7	-7.4	-6.7
Basic fiscal balance	-1.1	-0.8	-0.2	0.2
Domestic financing	0.1	0.2	0.1	-0.3

Sources: Nigerien and staff estimates.

implementation of planned reforms of the tax system. These reforms include streamlining exemptions and expanding the tax base and strengthening tax and customs administration through capacity building for the concerned agencies. Beyond the specific revenue measures for 2005 (paragraph 20 below), the authorities are preparing an ambitious and more comprehensive action plan to address Niger's revenue weaknesses in the last two years of the program. The action plan is to be completed by end-September 2005, with technical support from the IMF (AFRITAC-West).

18. **The authorities will maintain a prudent expenditure policy** especially regarding the wage bill, and will strictly adhere to the PRSP spending targets for the social sectors.[12] Based on the fiscal program described above and after taking account of external debt amortization payments, a net reduction in domestic arrears, and identified external resources for the development budget, a residual financing requirement of some CFAF 150 billion (annual average of 2.7 percent of GDP) is projected for 2005-07, including CFAF 60.1 billion (3.4 percent of GDP) for 2005. The latter is expected to be covered by grants and concessional lending from the European Union (CFAF 25 billion), the World Bank (CFAF 20 billion), France (CFAF 7 billion) and other bilateral and multilateral donors (CFAF 8 billion).

19. **To prevent deterioration of Niger's debt sustainability, the authorities intend to continue relying mostly on grants for their financing needs.** In this context, they are seeking to ensure that at least 60 percent of the country's financing needs are met with grants and that loans are contracted with a grant element of at least 60 percent.[13] Under this scenario, the debt-to-export ratio (in NPV terms) will remain broadly sustainable during 2003-12, but will increase to an annual average of 164 percent during 2013-22.[14]

20. **The 2005 fiscal program makes further progress towards long-term fiscal sustainability.** It contains measures that will expand the tax base and generate most of the 0.6 percent of GDP revenue increase that is targeted. These measures are (i) the extension of the VAT to several processed food products,[15] (ii) the reduction of VAT exemptions on water and electricity consumption, and (iii) the imposition of an excise tax on soft drinks and sodas.

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[12] Under the PRSP, expenditures for priority sectors as a share of total government spending are as follows: education (20 percent), health (17 percent), rural development (12 percent), road infrastructure (12 percent), and water management (3.3 percent).

[13] The strategy is consistent with the recommendations of the debt sustainability analysis at the HIPC Initiative Completion Point (IMF Country Report No. 04/161).

[14] Since a May 12, 2004, Paris Club meeting, with the exception of Taiwan (Province of China) and Libya, all of Niger's creditors have confirmed their participation in the enhanced HIPC Initiative with respect to both the completion point and the topping-up; Paris Club creditors have written-off their claims.

[15] Milk, sugar, and wheat flour.

The authorities intend to introduce several other measures, including those aimed at minimizing exemptions from, and evasion of, customs duties, strengthening revenue collecting agencies, and improving the monitoring and assessment of tax obligations (MEFP, paragraph 28). Overall expenditure will be limited to 18.8 percent of GDP, with the wage bill maintained at 3.6 percent of GDP in 2005, taking into account limited recruitment by the Customs and Tax Departments. With the overall fiscal deficit expected to be fully covered by external assistance,[16] government recourse to domestic financing will be very limited (MEFP, paragraph 32).

21. **In 2005, the authorities will continue efforts to redirect spending to priority sectors.** Total expenditures on health and education are budgeted to increase from 4.6 percent of GDP in 2004 to 5.5 percent of GDP in 2005, reflecting higher HIPC Initiative resources and increased budgetary assistance and revenues. HIPC initiative-financed capital expenditure is projected to rise to 2.1 percent of GDP (from 1.5 percent of GDP in 2004).

C. Monetary Policy

22. **The BCEAO will continue to conduct monetary policy at the regional level.** With a targeted modest increase in net credit to government, credit to the economy is expected to increase by 6.6 percent. The authorities plan to issue treasury bills to meet the 2005 amortization requirements for the statutory advances from the central bank.[17]

D. Structural Reforms

23. **The structural reform agenda focuses on further improving the supply response of the economy by making resource allocation more efficient and improving economic governance.** Privatization and reforms in public administration and the financial sector will be key. These reforms are being supported by development partners, including the World Bank, and some of them will be initiated in 2005 (MEFP, paragraphs 35-37).

24. **The government will revisit its privatization strategy and continue to reform public administration.** In view of past difficulties, the authorities plan to reassess the privatization program for SONIDEP and NIGELEC, with technical support from the World Bank; a decision on how to proceed is expected to be made in the second half of 2005. The focus in public administration will be on improving transparency and accountability in government financial operations. On public expenditure management, the authorities will continue implementing the PEMFAR. Specific actions in 2005 include the computerization

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[16] A financing gap estimated in 2005 at CFAF 60.1 billion (3.4 percent of GDP) is expected to be covered mainly by the World Bank, France and the African Development Bank.

[17] The WAEMU Council of Ministers decided in September 2002 to eliminate statutory advances from the central bank and established procedures for the issuance of regional securities. Niger has not issued securities thus far. The outstanding stock of central bank advances totals CFAF 33.1 billion and will be amortized over 10 years.

of five regional treasury offices (a structural benchmark) and the establishment of a computer link between the Treasury and the Budget Departments (a structural benchmark). The authorities will appoint a committee to review outstanding domestic financial claims against the government, estimated at about 3.1 percent of GDP at end-2004. On the basis of this review, they will take additional steps, in consultation with IMF staff, including a possible audit of identified claims. The government will review the adequacy of the size and incentive structure of the civil service to ensure that government services are delivered efficiently while preserving the long-term sustainability of the wage bill.

25. **To strengthen financial intermediation, the authorities will expedite outstanding financial sector reforms, focusing on three main tasks**: (i) selling the government's share capital in the Crédit du Niger (CDN) and the Banque Commerciale du Niger (BCN); (ii) restructuring the Caisse des Prêts aux Collectivités Territoriales and the Postal and Savings Institution; and (iii) providing resources and technical assistance for capacity building in the financial sector.[18] Regarding the BCN, the authorities plan to appoint new board members, as required under a restructuring plan approved by the BCEAO, which will be followed by the sale of government minority shares in the bank. The recently established management unit will oversee implementation of the financial sector reform agenda.

E. Poverty Reduction Strategy and the Millennium Development Goals

26. **The PRSP remains the overarching instrument of policymaking and a strategic anchor for fighting poverty.** The government will continue to enhance the effectiveness of Niger's PRS by (i) better aligning the budget with the PRS objectives, (ii) strengthening and updating existing medium-term expenditure frameworks annually; and (iii) improving coordination among the many government agencies that are involved in the PRSP. In the same vein, the authorities plan in 2005, with technical support from donors, to cost the programs required to help Niger achieve the MDGs. The third and possibly second annual programs of new PRGF arrangement would be updated to take account of the outcome of the costing exercise.

27. **The authorities will seek to make aid flows more reliable and reduce the transactions costs related to aid delivery.** Accordingly, they are attempting to align program reviews with the budget cycle and developing an action plan to make donor participation in Niger more focused and effective. In particular, the government has agreed on a list of "partner sector leaders" in several key areas, with a view to enhancing donor

[18] World Bank financial assistance will provide, among other things, resources for training the staffs of restructured institutions and insurance companies.

Box 5. Niger: Structural Conditionality Under the PRGF Arrangement

Coverage of structural conditionality in the current program

The structural areas covered by Fund conditionality in the 2005 program include the following: (i) continuous implementation of the petroleum product pricing system; (ii) adoption of performance indicators for customs offices and close tracking of these indicators; (iii) preparation of a list of customs exemptions and credible plan to reduce them; (iv) preparation and adoption of a plan to enhance revenue mobilization in line with 2003 IMF technical assistance recommendations; (v) establishment of a master list of poverty reducing outlays and a mechanism to track them; (vi) preparation of a status report on government domestic arrears and adoption of a timetable for their elimination; (vii) computerization of five provincial treasury offices; and (viii) implementation of a bidirectional Treasury-Budget computer link. The continuous implementation of the petroleum product pricing system contributes to securing a steady supply of petroleum imports. Items (ii)-(iv) are critical for the authorities efforts to raise domestic revenue and make progress towards long-term fiscal consolidation. Item (iii) aims at ensuring the monitoring and protection of resources allocated to poverty reduction programs. The remaining measures aim at enhancing transparency in, and accountability for, government budgetary transactions.

Relevant structural measures not included in the current program

Reforms related to the strengthening of the financial sector and privatization of public enterprises are the main responsibility of the World Bank; they are not included as structural conditions under the current program.

Status of structural conditionality included in earlier programs

In the 2000-2004 PRGF arrangement, structural conditionality focused on strengthening the budgetary execution and reporting processes, as well as improving economic governance. The track record of reform implementation was broadly satisfactory. Progress was made in strengthening public resource management. These included the adoption of budget review laws, the preparation of new government charter of public accounts, the introduction of a new budget nomenclature, the creation of a National tender Board and introduction of supporting regulations, the preparation of medium-term expenditure frameworks for the health and education sectors, and the continuous application of a flexible petroleum pricing system. However, some of the programmed reform measures were introduced with delay, especially the computerization of regional treasury offices, the completion of an actuarial study of the National Retirement Pension Fund and a financial audit of the wage bill.

Structural areas covered by World Bank lending and conditionality

World Bank support and conditionality focus on (i) privatization and regulatory reforms; (ii) financial sector reform; (iii) economic governance (in conjunction with the Fund); (iv) civil service reform and decentralization; and (iv) and social and other priority sectors. A financial sector reform credit was approved by the World Bank Board in February 2004, and a new adjustment credit to support public sector reforms is expected to be considered in March 2005; a Public Expenditure Adjustment Credit approved by the World Bank Board in October 2003 was fully disbursed by July 2004.

coordination and streamlining program conditionality and aid-delivery procedures. [19]

28. **Niger's reform agenda faces major risks.** Droughts and terms of trade shocks (in the context of a narrow export base) could undermine economic performance. Also, a reemergence of domestic sociopolitical tensions, exacerbated by the conflict in Côte d'Ivoire, could impair Niger's investment and export performance and cloud its growth prospects. Other risks to effective program implementation pertain to the country's continuing technical and institutional weaknesses, including delays in the preparation and implementation of sectoral strategies to support PRS objectives and inefficiencies in public administration. Lack of timely and good quality socioeconomic statistics could also impair the monitoring and effectiveness of social programs. In response, the World Bank has posted a resident expert to assist in monitoring implementation of poverty reduction programs, and the authorities have requested technical assistance in customs and tax administration from AFRITAC-West and the French and American authorities.

F. Prior Actions, Program Monitoring and Capacity to Repay the Fund

29. **The authorities had agreed that Board consideration of their request for a PRGF arrangement would take place after the agreed-upon revenue measures for 2005 are submitted to the new parliament.** Execution of this prior action on December 21, 2004 ensures that conditions conducive to the program's success are in place by the time the Executive Board discusses the PRGF request. The program will be monitored quarterly on the basis of quantitative performance criteria, quantitative benchmarks, and indicators (MEFP, Table 1) and on the basis of structural performance criteria and benchmarks (MEFP, Table 2). Progress under the program for 2005 will be assessed in the context of the first review, scheduled to be completed no later than mid-July 2005.

30. **Niger's capacity to repay the Fund appears sound.** The proposed access of SDR 6.58 million (10 percent of quota) takes into account the country's current indebtedness to the Fund, its excellent record of servicing debt, and its satisfactory record in program implementation. During the program, the annual average repayment to the Fund (after debt relief) would be SDR 6.1 million, and by 2007 it is projected at about 1.8 percent of exports of goods and services and 2.4 percent of total government revenue.

IV. Staff Appraisal

31. **Niger's economic situation weakened markedly in 2004.** Following major improvement in 2000-03, economic growth declined significantly and inflation rose above the WAEMU target. The poor economic performance in 2004 underscores Niger's vulnerability to external shocks, and reducing this vulnerability will be critical to raising economic growth to rates consistent with significant poverty reduction over the long term.

[19] France is the sector leader in education and rural development; Belgium in health; United Nations AIDS program in the area of HIV/AIDS; and Switzerland in water resources management.

32. **The staff commends the authorities for broadly satisfactory fiscal policy** implementation notwithstanding shortfalls in external budget support and strong elections-related expenditure pressures. To meet their fiscal targets, the authorities compressed expenditure in the face of shortfalls in aid. Regrettably, this has resulted in under spending in priority sectors, including health and education. Looking forward, staff stresses the need for Niger, in close collaboration with development partners, to ensure that revenue and aid targets are consistently met.

33. **The staff considers that the government's medium-term program, which is aligned to the PRSP policy agenda, is an adequate framework** for Niger to pursue fiscal consolidation and continue the reform process with a view to diversifying the economy and achieving higher poverty-reducing economic growth.

34. **Further fiscal consolidation is essential to maintain macroeconomic stability and achieve Niger's growth and poverty reduction objectives.** It requires sustained efforts to enhance revenue mobilization. In this regard, the staff commends the authorities for the diligent approval of the 2005 revenue measures by the newly elected legislature. In the medium-term, it will be a challenge to increase government revenue substantially and attain the corresponding WAEMU convergence criterion. Achieving this objective will require further broadening of the tax base through a reduction in tax exemptions and a strengthening of tax and customs administration. The staff encourages the authorities to expeditiously complete, with assistance from development partners, their action plan to improve revenue performance. It welcomes their commitment to a prudent expenditure policy, including that for the wage bill, while protecting allocations for priority sectors.

35. **The staff urges the authorities to prevent deterioration of the country's debt sustainability.** It welcomes the government's commitment to rely mainly on grants to meet a large part of Niger's financing requirements. However, development partners will also have to commit to providing the country with adequate concessional financing so as to preserve debt sustainability in the post-HIPC initiative era.

36. **Strengthening public expenditure management will be critical for improving economic governance and prioritizing expenditure.** The staff commends the authorities for establishing the Tender Board and supporting regulations and for developing an action plan to further improve expenditure management under the recently completed PEMFAR. However, more needs to be done to better align expenditure programs with the priorities established in the PRSP. In this regard, the staff encourages the authorities to continue developing full-fledged medium-term expenditure frameworks. The tracking of priority sector expenditures also needs further strengthening, including through the computerization of regional treasury offices.

37. **The staff agrees that privatization and financial sector reforms will support efforts to diversify the economy**. To this end, it welcomes the setting up of the management unit to oversee implementation of financial sector reforms and encourages the authorities to execute these reforms expeditiously. The staff urges the authorities to accelerate technical discussions with the World Bank on their privatization strategy.

38. **The staff notes the prevailing weaknesses in the implementation of the PRSP and concurs with the authorities on postponing the updating of the poverty reduction strategy.** More work is required for the government to better understand, for example, Niger's poverty profile and the poverty impact of economic growth. Further, the development of coherent sectoral strategies to strengthen economic growth, which is critical for poverty reduction as underscored in the EPA, lags behind. Staff welcomes the recent completion of a rural sector strategy aimed, inter alia, at strengthening rural infrastructure, including irrigation systems. However, programs supporting the strategy are yet to be costed and complementary strategies in other areas such as export diversification and promotion remain in their infancy. The staff urges the authorities to accelerate efforts to address weaknesses in these areas to ensure that the PRSP can be updated in 2006, following the issuance of a third annual PRSP implementation report in 2005. It welcomes the authorities' plan to undertake in 2005, with assistance from development partners, the costing of programs required to help achieve the MDGs.

39. **Niger's reform agenda faces major risks,** including droughts and negative terms of trade shocks. Further, a reemergence of domestic socio-political instability, and ongoing conflict in Côte d'Ivoire, as well as weak implementation capacity, could undermine implementation of the reform agenda. However, the recent progress in strengthening democracy and better coordinated capacity building support by development partners are expected to mitigate program risks.

40. **The staff believes that the government's reform program merits the support of the international community** and recommends Board approval of the authorities' request for a new three-year arrangement under the PRGF.

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

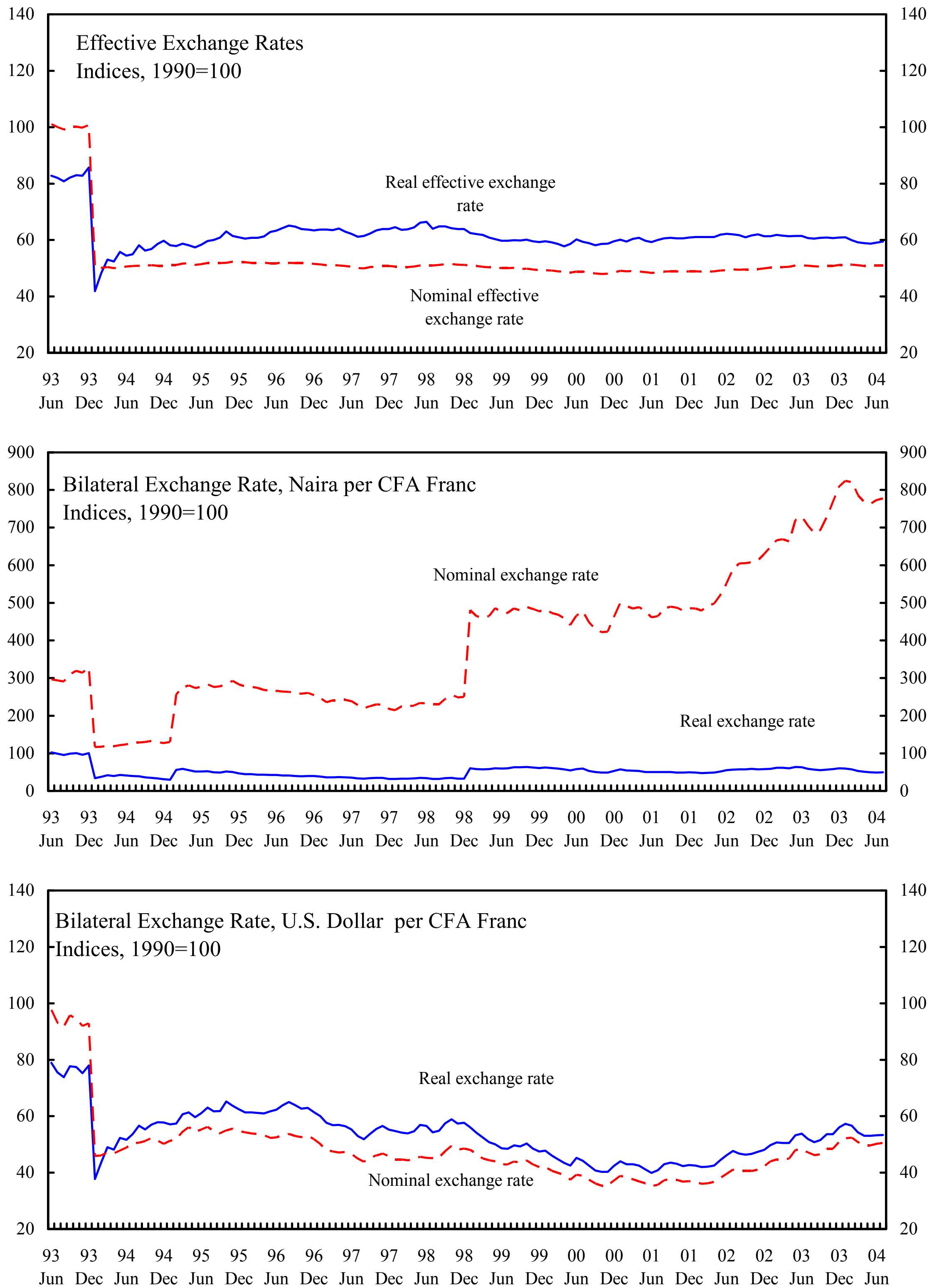

Table 1. Niger: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2005-08

Amount (In millions)	Available Date	Conditions Necessary for Disbursement 1/
SDR 0.940	January 31, 2005	Executive Board approval of the three-year PRGF arrangement
SDR 0.940	July 15, 2005	Observance of the performance criteria for June 30, 2005, and completion of the first review under the arrangement
SDR 0.940	January 15, 2006	Observance of the performance criteria for December 31, 2005, and completion of the second review under the arrangement
SDR 0.940	July 15, 2006	Observance of the performance criteria for June 30, 2006, and completion of the third review under the arrangement
SDR 0.940	January 15, 2007	Observance of the performance criteria for December 31, 2006, and completion of the fourth review under the arrangement
SDR 0.940	July 15, 2007	Observance of the performance criteria for June 30, 2007, and completion of the fifth review under the arrangement
SDR 0.940	January 15, 2008	Observance of the performance criteria for December 31, 2007, and completion of the sixth review under the arrangement

Source: IMF

1/ In addition to the generally applicable conditions under the PRGF arrangement.

Table 2. Niger: Fund Position, 2000-08

	Outstanding Dec 30, 2000	2001	2002	2003	2004	2005	2006	2007	2008
						Projections			
			(In millions of SDRs)						
Total transactions (net) 1/	8.23	7.29	14.55	12.63	3.35	-7.78	-8.51	-9.12	-9.91
Disbursements	8.46	8.46	16.92	16.92	8.44	1.88	1.88	1.88	0.94
PRGF Repayments before HIPC Assistance	0.00	0.97	2.90	6.76	9.66	9.66	10.39	11.00	10.85
HIPC Assistance		0.43	1.09	3.03	5.16				
PRGF Repayments after HIPC Assistance		0.54	1.81	3.73	4.50				
Charges and interest	0.23	0.63	0.56	0.56	0.59	0.60	0.57	0.51	0.50
Total Fund credit outstanding 2/									
Outstanding PRGF disbursements	56.76	64.25	78.27	88.43	87.21	79.43	70.92	61.80	51.89
			(In percent of quota)						
Total Fund credit outstanding 2/ Outstanding PRGF disbursements	86.26	97.64	118.95	134.39	132.54	120.71	107.78	93.92	78.86
Memorandum item:									
Quota (in millions of SDRs)	65.80								

Source: IMF, Finance Department.

1/ Calculations for 2000-04 are based on repayments after HIPC Assistance.
2/ End of period.

Table 3 Niger: Medium-Term Macroeconomic Framework 2002-08

	2002	2003	2004		2005	2006	2007	2008
			Proj.	Est.	Projections			
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
GDP at constant prices	3.0	5.3	4.1	0.9	4.2	4.2	4.3	4.4
GDP deflator	3.0	-0.4	1.1	1.6	2.5	2.0	2.0	2.0
Consumer price index								
Annual average	2.7	-1.8	0.4	0.3	2.4	2.0	2.0	2.0
End of period	0.6	-1.5	1.8	4.7	2.0	2.0	2.0	2.0
External sector								
Exports, f.o.b. (units, CFA francs)	-2.5	-0.1	4.8	10.9	12.1	2.1	6.1	5.7
Imports, f.o.b (units, CFA francs)	6.4	5.3	12.9	7.3	10.3	3.9	3.8	3.5
Export volume	-4.0	-1.3	3.9	9.2	10.2	1.6	4.1	4.1
Import volume	4.4	1.2	12.2	2.4	3.8	2.5	3.0	3.2
Terms of trade (deterioration -)	-0.4	-3.7	-0.5	-3.1	-2.1	0.2	-0.1	0.3
Nominal effective exchange rate (depreciation -)	1.4	2.5	…	…	…	…	…	…
Real effective exchange rate (depreciation -)	2.1	-0.8	…	…	…	…	…	…
Gross official reserves (in months of imports)	2.8	2.0	2.1	2.2	2.2	2.4	2.5	2.6
Government finances								
Total revenue	21.1	-2.6	9.6	9.6	12.9	11.0	10.9	10.2
Total expenditure and net lending 1/	13.2	-0.8	12.6	7.3	10.5	7.7	5.4	8.4
Of which: current expenditure	2.8	-0.8	3.0	-1.7	8.6	7.5	3.0	6.9
capital expenditure	31.0	-0.9	25.9	19.0	13.3	8.1	8.0	10.0
Money and credit								
Domestic credit 2/	10.9	7.9	6.1	6.6	4.7	…	…	…
Credit to the government (net) 2/	3.7	2.6	3.6	4.1	0.8	…	…	…
Credit to the economy 2/	7.1	5.3	2.4	2.4	3.8	…	…	…
Net domestic assets 2/	5.9	4.3	14.3	11.9	-4.7	…	…	…
Money and quasi money	-0.4	-13.4	27.1	24.7	10.6	…	…	…
Interest rate (money market, in percent; end of period)	5.0	5.0	…	…	…	…	…	…
	(In percent of GDP, unless otherwise indicated)							
Government finances								
Total revenue 3/	10.6	9.9	10.3	10.5	11.1	11.6	12.1	12.6
Total expenditure and net lending	18.4	17.4	18.6	18.2	18.8	19.1	18.9	19.2
Of which: Current expenditure	10.7	10.1	9.9	9.7	9.9	10.0	9.6	9.7
Capital expenditure	7.7	7.3	8.7	8.4	9.0	9.1	9.2	9.5
Primary budget balance 4/	-6.3	-6.4	-7.7	-7.0	-7.1	-6.8	-6.2	-5.7
Basic balance (excluding grants) 3 / 5/	-1.8	-2.0	-1.4	-1.1	-0.8	-0.2	0.2	0.3
Overall balance (commitment basis, excluding grants) 6/	-7.7	-7.5	-8.3	-7.6	-7.7	-7.4	-6.7	-6.6
Overall balance (commitment basis, including grants) 6/	-2.8	-2.7	-4.5	-2.7	-4.3	-3.4	-2.6	-1.9
Gross investment	14.2	14.2	16.1	15.9	16.7	17.1	17.4	17.6
Gross national savings	7.6	8.2	8.2	9.9	9.5	10.2	11.1	11.4
External current account balance								
Excluding grants for budgetary assistance	-7.8	-7.6	-7.9	-7.3	-7.2	-6.9	-6.3	-6.2
Including grants for budgetary assistance	-6.5	-6.0	-7.9	-6.0	-7.2	-6.9	-6.3	-6.2
External public debt (end of period) 7/	76.4	62.7	62.4	62.4	63.0	62.8	61.9	59.6
	(In percent)							
Debt-service ratio in percent of :								
Exports of goods and services 8/	30.4	24.4	12.4	12.3	9.1	9.9	10.2	10.6
Government revenue 8/	43.7	39.2	21.0	21.0	15.1	15.1	14.7	14.9
	(In billions of CFA francs)							
GDP at current market prices	1512.8	1587.5	1670.8	1627.8	1738.6	1848.1	1965.6	2093.7
Government payments arrears (reduction -)	-33.4	-12.2	-18.5	-18.5	-18.4	-15.0	-10.0	-7.7
Domestic	-33.4	-12.2	-18.5	-18.5	-18.4	-15.0	-10.0	-7.7
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance of payments 9/	-43.0	-42.7	-39.5	-0.1	-43.0	-29.8	-27.7	-31.8

Sources: Nigerien authorities; and staff estimates and projections.
1/ Commitment basis as per payment orders issued.
2/ In percent of beginning-of-period money stock.
3/ In 2002, includes 0.6 percent of GDP of revenue from the settlement of reciprocal debts between the government and public enterprises.
4/ Total revenue, excluding grants, minus expenditure, excluding interest payments.
5/ Total revenue, excluding grants, minus total expenditure, excluding foreign-financed investment projects.
6/ Program data and projections include grants for projects and HIPC Initiative assistance. Actual data also include grants.
for budgetary assistance.
7/ Including obligations to IMF. The estimate for 2002 reflects the latest debt stock reconciliation exercise undertaken for the
completion point under the HIPC Initiative.
8/ For 2002, debt service data includes payments of arrears resulting from debt-relief agreements. Data for 2003-07 is calculated after the provision of debt relief.
9/ Before debt relief. For projections, including the financing gap.

Table 4. Niger: Financial Operations of the Central Government, 2002-07

	2002	2003	2004		2005	2006	2007
			Proj.	Rev Est	Projections		
	(In billions of CFA francs)						
Total revenue	160.9	156.7	171.8	171.7	193.8	215.2	238.8
Tax revenue	144.6	152.1	162.7	167.3	184.3	203.9	225.5
Nontax revenue	3.8	1.2	2.1	1.1	4.4	5.6	7.0
Settlement of reciprocal debts 2/	8.4	0.0	3.0	0.0	0.0	0.0	0.0
Annexed budgets/special accounts	4.1	3.4	4.0	3.3	5.1	5.7	6.3
Total expenditure and net lending	278.1	276.0	310.6	296.0	327.0	352.3	371.3
Total current expenditure	161.8	160.5	165.2	157.8	171.3	184.1	189.6
Budgetary expenditure	153.7	151.9	158.3	150.3	163.3	176.0	181.2
Wages and salaries	55.3	57.1	59.0	59.0	63.1	65.0	68.3
Goods and services	45.5	39.5	43.0	37.3	45.4	52.0	53.0
Of which : HIPC resources	0.0	0.0	0.0	0.0	1.9	2.2	2.2
Subsidies and transfers	30.3	37.9	46.1	43.8	44.6	48.1	48.2
Of which : HIPC resources	1.9	1.7	3.5	3.5	3.2	3.0	3.0
Interest, scheduled	22.6	17.4	10.2	10.2	10.2	10.9	11.6
External debt	21.2	16.1	9.2	9.2	8.0	8.5	8.9
Domestic debt	1.5	1.3	1.0	1.0	2.2	2.4	2.7
Annexed budget/special accounts	8.1	8.6	6.9	7.5	8.0	8.1	8.5
Capital expenditure and net lending	116.3	115.5	145.4	138.2	155.7	168.2	181.7
Capital expenditure	116.5	115.5	145.4	137.4	155.7	168.2	181.7
Domestically financed	27.1	28.5	30.5	30.5	37.2	34.7	44.4
Externally financed	89.4	87.0	114.9	106.9	118.5	133.5	137.3
Of which : HIPC resources	9.8	12.0	24.7	24.7	35.8	36.0	36.1
Net lending	-0.2	0.0	0.0	0.8	0.0	0.0	0.0
Overall balance (commitment basis excl. grants)	-117.2	-119.3	-138.8	-124.3	-133.2	-137.1	-132.6
Change in payments arrears	-33.4	-12.2	-18.5	-18.5	-18.4	-15.0	-10.0
Domestic arrears (net)	-33.4	-12.2	-18.5	-18.5	-18.4	-15.0	-10.0
External arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash, excl. grants)	-150.6	-131.5	-157.3	-142.8	-151.6	-152.1	-142.6
Financing	150.6	131.5	157.3	142.8	151.6	152.1	142.6
External financing	139.9	134.2	98.0	141.2	88.3	101.7	103.7
Grants	74.6	76.0	63.5	79.7	57.8	74.8	81.5
Budget financing	18.6	25.1	0.0	21.2	0.0	0.0	0.0
Project financing	45.8	39.4	50.1	45.1	42.1	58.5	65.7
HIPC Initiative assistance	10.3	11.5	13.4	13.4	15.7	16.3	15.8
Loans	78.0	68.4	40.1	67.1	40.5	39.0	35.5
Budget financing	44.2	32.8	0.0	30.0	0.0	0.0	0.0
Project financing	33.8	35.6	40.1	37.1	40.5	39.0	35.5
Amortization 3/	-46.2	-38.6	-17.3	-17.3	-11.6	-13.6	-15.2
Debt relief obtained	18.8	20.3	1.8	1.8	1.5	1.5	1.9
Current debt	18.8	16.6	0.4	0.4	0.0	0.0	0.0
Arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC Initiative assistance 4/	0.0	3.7	1.4	1.4	1.5	1.5	1.9
Debt under discussion	14.7	8.1	9.8	9.8	0.0	0.0	0.0
Domestic financing	10.7	-2.7	1.2	1.6	3.2	2.7	-6.7
Banking sector	5.1	3.5	4.3	4.9	1.2	0.7	-6.7
Of which : IMF (net)	12.9	8.2	0.6	0.6	-7.5	-8.1	-8.5
Nonbanking sector	8.6	-3.7	-3.1	-3.5	2.0	2.0	0.0
Privatization receipts (net)	-3.0	-4.0	0.0	0.2	0.0	0.0	0.0
Financing gap (+)	0.0	-0.1	58.1	0.0	60.1	47.7	45.6
Financing assurances	0.0	0.0	51.7	...	60.1	...	...
Loans for budgetary assistance	0.0	0.0	23.2	...	...	...	...
Grants for budgetary assistance	0.0	0.0	28.5	...	...	...	...
Residual financing gap	0.0	0.0	6.4	0.0	0.0	47.7	45.6
				(In percent of GDP)			
Total revenue	10.6	9.9	10.3	10.5	11.1	11.6	12.1
Total expenditure and net lending	18.4	17.4	18.6	18.2	18.8	19.1	18.9
Overall balance, commit. basis, excl. grants	-7.7	-7.5	-8.3	-7.6	-7.7	-7.4	-6.7
Overall balance, cash basis, excl. grants	-10.0	-8.3	-9.4	-8.8	-8.7	-8.2	-7.3
Basic fiscal balance 5/	-1.8	-2.0	-1.4	-1.1	-0.8	-0.2	0.2
Current budget balance	-0.1	-0.2	0.4	0.9	1.3	1.7	2.5
	(In billions of CFA francs, unless otherwise indicated)						
Memorandum items:							
Basic fiscal balance 5/	-27.8	-32.3	-23.9	-17.4	-14.7	-3.6	4.7
Total HIPC Initiative assistance 6/	10.3	18.4	28.3	28.3	40.9	41.2	41.3
Wage bill in percent of tax revenue	38.3	37.5	36.3	35.3	34.2	31.9	30.3
Stock of domestic payments arrears	81.8	69.6	51.1	51.1	32.7	17.7	7.7
GDP at market prices	1,513	1588	1,671	1628	1739	1848	1966

Sources: Nigerien authorities; and staff estimates and projections.

1/ Based on interim assistance under the HIPC Initiative in 2003.

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

3/ In 2002, includes payment of end-1999 external payments arrears vis-à-vis the OPEC Fund, Libya, the Saudi Fund for Development, and a commercial bank. In 2003, includes payment of external arrears vis-à-vis the European Investment Bank.

4/ Includes in 2002 program assistance from IDA and the AfDB that are now classified as grants.

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

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

Table 4. Niger: Financial Operations of the Central Government, 2002-07

	2002	2003	2004		2005	2006	2007
			Proj.	Rev Est	Projections		
			(In percent of GDP)				
Total revenue	10.6	9.9	10.3	10.5	11.1	11.6	12.1
Total expenditure and net lending	18.4	17.4	18.6	18.2	18.8	19.1	18.9
Overall balance, commit. basis, excl. grants	-7.7	-7.5	-8.3	-7.6	-7.7	-7.4	-6.7
Overall balance, cash basis, excl. grants	-10.0	-8.3	-9.4	-8.8	-8.7	-8.2	-7.3
Basic fiscal balance 5/	-1.8	-2.0	-1.4	-1.1	-0.8	-0.2	0.2
Current budget balance	-0.1	-0.2	0.4	0.9	1.3	1.7	2.5
	(In billions of CFA francs, unless otherwise indicated)						
Memorandum items:							
Basic fiscal balance 5/	-27.8	-32.3	-23.9	-17.4	-14.7	-3.6	4.7
Total HIPC Initiative assistance 6/	10.3	18.4	28.3	28.3	40.9	41.2	41.3
Wage bill in percent of tax revenue	38.3	37.5	36.3	35.3	34.2	31.9	30.3
Stock of domestic payments arrears	81.8	69.6	51.1	51.1	32.7	17.7	7.7
GDP at market prices	1,513	1588	1,671	1628	1739	1848	1966

Sources: Nigerien authorities; and staff estimates and projections.

1/ Based on interim assistance under the HIPC Initiative in 2003.

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

3/ In 2002, includes payment of end-1999 external payments arrears vis-à-vis the OPEC Fund, Libya, the Saudi Fund for Development, and a commercial bank. In 2003, includes payment of external arrears vis-à-vis the European Investment Bank.

4/ Includes in 2002 program assistance from IDA and the AfDB that are now classified as grants.

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

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

Table 5. Niger: Financial Operations of the Government, Quarterly Program 2005
(In billions of CFAF)

	Mar. 05 Prog.	Jun. 05 Prog.	Sept. 05 Prog.	Dec. 05 Prog.	Q1 Prog.	Q2 Prog.	Q3 Prog.	Q4 Prog.
	Cumulative							
Total revenue	45.8	93.7	142.1	193.8	45.8	47.9	48.4	51.8
Tax revenue	44.1	90.4	136.2	184.4	44.1	46.3	45.7	48.2
International trade	22.7	46.8	69.6	93.1	22.7	24.1	22.8	23.5
Goods and services	12.1	24.3	36.7	49.8	12.1	12.2	12.4	13.1
Income	6.8	13.9	21.3	29.1	6.8	7.1	7.4	7.8
Other	2.6	5.5	8.6	12.4	2.6	2.9	3.1	3.8
Nontax revenue	0.8	1.4	2.5	4.4	0.8	0.7	1.1	1.9
Special accounts revenue	0.9	1.8	3.4	5.1	0.9	0.9	1.6	1.7
Settlement of reciprocal debts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	73.4	155.8	241.9	327.1	73.4	82.4	86.1	85.2
Total current expenditure	37.9	81.7	126.3	171.3	37.9	43.8	44.6	45.0
Budgetary expenditure	36.2	78.0	120.4	163.3	36.2	41.8	42.4	42.9
Wages and salaries	15.7	31.5	47.3	63.1	15.7	15.8	15.8	15.8
Materials and supplies	8.3	20.4	32.6	45.4	8.3	12.1	12.2	12.8
Subsidies and transfers	9.6	21.0	32.9	44.6	9.6	11.4	11.9	11.7
Road fund	1.0	2.1	3.2	4.3	1.0	1.1	1.1	1.1
Social measures	1.9	3.6	5.5	7.2	1.9	1.7	1.9	1.7
Integration - ex-Rebellion	0.4	0.8	1.2	1.6	0.4	0.4	0.4	0.4
New Education Program	1.4	2.8	4.3	5.7	1.4	1.5	1.5	1.5
of which: salaries	1.4	2.8	4.3	5.7	1.4	1.5	1.5	1.5
Scholarships	0.3	0.9	1.5	2.0	0.3	0.7	0.6	0.5
Petroleum	0.0	0.0	0.1	0.3	0.0	0.0	0.1	0.1
Health public institutions	1.3	2.7	4.0	5.4	1.3	1.3	1.3	1.3
Subsidy on electricity tariff	0.7	1.0	1.6	2.0	0.7	0.3	0.6	0.4
Other	2.7	7.1	11.4	16.1	2.7	4.3	4.4	4.7
Interest, scheduled	2.6	5.1	7.6	10.2	2.6	2.5	2.6	2.6
External debt	2.0	4.0	6.0	8.0	2.0	2.0	2.0	2.0
Domestic debt	0.5	1.0	1.6	2.2	0.5	0.5	0.6	0.6
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special accounts expenditure	1.7	3.7	5.9	8.0	1.7	2.0	2.1	2.1
Capital expenditure and net lending	35.4	74.1	115.6	155.8	35.4	38.6	41.5	40.2
Capital expenditure	35.4	74.1	115.6	155.8	35.4	38.6	41.5	40.2
On budgetary resources	7.7	17.8	28.3	37.2	7.7	10.0	10.6	8.8
Tax component	3.9	8.3	13.0	17.7	3.9	4.3	4.7	4.7
Counterpart funds	0.5	1.1	1.7	2.3	0.5	0.6	0.6	0.6
Equity investment	0.4	0.8	0.8	0.8	0.4	0.4	0.0	0.0
Government projects	2.9	7.6	12.9	16.4	2.9	4.7	5.2	3.5
On grants	9.3	18.9	30.1	42.3	9.3	9.6	11.2	12.2
On loans	9.7	19.7	30.4	40.5	9.7	10.0	10.7	10.1
On HIPC resources	8.7	17.7	26.7	35.8	8.7	9.0	9.0	9.1
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment)	-27.5	-62.1	-99.8	-133.2	-27.5	-34.6	-37.7	-33.4
Basic Balance	0.2	-5.8	-12.6	-14.6	0.2	-6.0	-6.7	-2.1
Change in payments arrears	-4.2	-8.4	-13.4	-18.4	-4.2	-4.2	-5.0	-5.0
Domestic arrears	-4.2	-8.4	-13.4	-18.4	-4.2	-4.2	-5.0	-5.0
External arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash)	-31.7	-70.5	-113.2	-151.6	-31.7	-38.8	-42.7	-38.4

Table 5. Niger: Financial Operations of the Government, Quarterly Program 2005
(In billions of CFAF)

	Mar. 05 Prog.	Jun. 05 Prog.	Sept. 05 Prog.	Dec. 05 Prog.	Q1 Prog.	Q2 Prog.	Q3 Prog.	Q4 Prog.
	Cumulative							
Financing	26.3	55.1	79.0	91.5	26.3	28.8	23.9	12.5
External financing	21.0	42.5	65.6	88.3	21.0	21.5	23.1	22.7
Grants	13.3	27.0	42.5	57.9	13.3	13.7	15.5	15.5
Budget financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project financing	9.3	18.9	30.1	42.3	9.3	9.6	11.2	12.2
HIPC Initiative assistance	4.0	8.1	12.3	15.7	4.0	4.1	4.3	3.3
Loans	9.7	19.7	30.4	40.5	9.7	10.0	10.7	10.1
Budget financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project financing	9.7	19.7	30.4	40.5	9.7	10.0	10.7	10.1
Amortization	-2.4	-4.9	-8.3	-11.6	-2.4	-2.5	-3.5	-3.3
Debt relief	0.3	0.7	1.0	1.5	0.3	0.3	0.3	0.5
Current debt	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
Arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC Initiative assistance	0.3	0.7	1.0	1.4	0.3	0.3	0.3	0.3
Debt under discussion	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	5.3	12.6	13.4	3.2	5.3	7.3	0.8	-10.2
Banking sector	4.8	11.6	11.9	1.2	4.8	6.8	0.3	-10.7
Non banking sector	0.5	1.0	1.5	2.0	0.5	0.5	0.5	0.5
Privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	5.5	15.4	34.2	60.1	5.5	10.0	18.8	25.9
Financing Assurances	**5.4**	**15.4**	**34.2**	**60.1**	**5.4**	**10.0**	**18.8**	**25.9**
France	4.6	4.6	6.6	6.6	**4.6**	0.0	**2.0**	0.0
World Bank	0.0	10.0	10.0	20.0	0.0	10.0	0.0	10.0
African Development Bank	0.0	0.0	3.5	3.5	0.0	0.0	3.5	0.0
European Union	0.0	0.0	12.5	25.0	0.0	0.0	12.5	12.5
Others	0.8	0.8	1.6	5.0	0.8	0.0	0.8	3.4

Sources: Nigerien authorities; and staff estimates and projections.

Table 6. Niger: Monetary Survey, 2001-05

	2001 Dec.	2002 Dec.	2003 Dec.	2004 Dec. Est.	2005 Dec. Proj.
	(In billions of CFA francs)				
Net foreign assets	33.1	24.4	0.2	15.3	37.8
Central Bank of West African States (BCEAO)	19.7	10.2	-7.8	2.4	19.5
Commercial banks	13.4	14.2	8.0	12.9	18.3
Net domestic assets	103.9	112.0	117.9	131.9	125.1
Domestic credit	114.0	128.9	139.7	147.4	154.3
Net bank claims on government	48.0	53.1	56.6	61.5	62.7
BCEAO 1/	47.6	54.5	56.2	58.3	60.5
Of which : statutory advances	32.2	33.1	33.1	25.1	25.1
IMF resources	53.0	66.2	74.4	75.0	67.5
Commercial banks	-1.3	-3.1	-2.0	-4.4	-5.4
Other	1.6	1.7	2.4	7.6	7.6
Credit to the economy	66.0	75.8	83.0	85.9	91.6
Other items, net	-10.1	-16.9	-21.7	-15.5	-29.2
Of which : revaluation account	0.0	-8.0	0.0	0.0	0.0
Money and quasi money	137.0	136.4	118.2	147.3	162.9
Currency outside banks	49.8	39.3	9.1	36.4	42.4
Private deposits with ONPE (postal savings institution)	1.6	1.7	2.4	7.6	7.6
Deposits with banks	85.5	95.4	106.6	103.3	112.9
Private sector	82.2	92.6	104.0	100.0	110.1
Public institutions	3.4	2.8	2.6	3.3	2.8
Financial institutions	0.0	0.0	0.0	0.0	0.0
	(Annual change, in percent of beginning-of-period broad money, unless otherwise indicated)				
Net foreign assets	33.3	-6.3	-17.7	12.8	15.3
BCEAO	16.7	-6.9	-13.2	8.6	11.6
Commercial banks	16.6	0.6	-4.5	4.1	3.7
Net domestic assets	-0.5	5.9	4.3	11.9	-4.7
Domestic credit	2.3	10.9	7.9	6.6	4.7
Net bank claims on the government	4.9	3.7	2.6	4.1	0.8
BCEAO	5.7	5.0	1.3	1.8	1.5
Of which : statutory advances	6.2	0.7	0.0	-6.8	0.0
Commercial banks	-0.9	-1.3	0.8	-2.0	-0.7
Other	0.1	0.1	0.5	4.4	0.0
Credit to the economy	-2.5	7.1	5.3	2.4	3.8
Other items, net	-2.8	-4.9	-3.6	5.3	-9.3
Money and quasi money	32.8	-0.4	-13.4	24.7	10.6
Memorandum items:					
Velocity of circulation of money (GDP/broad money)	10.4	11.1	13.4	11.1	10.7
Credit to the economy (Change from beginning of year, in percent)	-3.8	14.8	9.5	3.5	6.6

Sources: BCEAO; and staff estimates and projections.
1/ In 2002, bank financing includes the impact of the OPEC Fund financing for the settlement of external payment arrears and delivery of HIPC initiative assistance

Table 7. Niger: Balance of Payments, 2002-07
(In billions of CFA francs, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007
			Est.		Projections	
Current account balance						
Incl. grants for budgetary assistance	-99.0	-95.2	-98.0	-124.3	-127.3	-124.8
Excl. grants for budgetary assistance	-117.5	-120.3	-119.2	-124.3	-127.3	-124.8
Balance on goods	-63.8	-77.6	-76.4	-80.4	-87.7	-85.3
Exports, f.o.b	194.8	194.7	215.9	242.0	247.2	262.2
Uranium	62.5	65.5	65.3	65.3	65.3	62.2
Cattle	38.9	29.3	26.9	29.3	31.9	34.8
Cowpeas	7.6	9.7	11.7	12.9	15.0	18.3
Onions	13.8	13.9	16.5	18.7	21.6	26.2
Gold	0.0	0.0	7.3	28.3	22.3	20.7
Other exports	72.2	76.3	88.1	87.5	91.0	100.1
Of which : reexports	24.0	24.2	26.3	27.3	28.2	30.0
Imports, f.o.b	258.7	272.3	292.3	322.4	334.9	347.6
Food products	83.0	78.0	87.5	87.4	91.8	94.6
Petroleum products	28.4	37.4	44.4	49.0	45.5	47.5
Intermediate goods	14.4	17.3	18.0	19.3	20.5	21.5
Capital goods	64.9	72.8	76.7	85.3	92.3	99.8
Other products 1/	68.0	66.9	65.8	81.4	84.9	84.2
Services and income (net)	-87.7	-84.4	-87.6	-91.9	-90.3	-91.5
Services (net)	-70.9	-76.5	-80.6	-87.1	-89.0	-93.2
Income (net)	-16.8	-7.9	-7.0	-4.8	-1.3	1.7
Of which: interest on external public debt	-21.2	-16.1	-9.2	-8.0	-8.5	-8.9
Unrequited current transfers (net)	52.5	66.8	66.1	48.0	50.7	52.0
Private (net)	8.6	15.0	16.5	17.3	18.4	19.2
Public (net)	43.9	51.8	49.6	30.7	32.3	32.8
Of which: grants for budgetary assistance 2/	18.6	25.1	21.2	0.0	0.0	0.0
HIPC assistance initiative	10.3	11.5	13.4	15.7	16.3	15.8
Capital and financial account	56.0	52.5	97.9	81.4	97.5	97.1
Capital account	53.8	42.9	48.8	46.0	63.2	69.3
Private capital transfers	8.0	3.5	3.7	3.9	4.7	3.6
Project grants	45.8	39.4	45.1	42.1	58.5	65.7
Debt cancellation	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition/disposal of nonproduced, nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	2.2	9.6	49.1	35.3	34.3	27.8
Direct investment	2.9	13.0	8.1	3.9	7.9	6.5
Portfolio investment	1.0	1.0	1.5	2.5	1.0	1.1
Other investment	19.9	21.5	39.6	28.9	25.4	20.3
Public sector (net)	31.8	29.8	49.8	28.9	25.4	20.3
Disbursements	78.0	68.4	67.1	40.5	39.0	35.5
Loans for budgetary assistance 3/	44.2	32.8	30.0	0.0	0.0	0.0
Project loans	33.8	35.6	37.1	40.5	39.0	35.5
Amortization 4/	46.2	38.6	17.3	11.6	13.6	15.2
Other (net)	-11.9	-8.3	-10.3	0.0	0.0	0.0
Commercial banks' net foreign assets	-0.8	6.2	-4.9	-5.4	-5.7	-5.9
HIPC assistance 5/	0.0	3.7	1.4	1.5	1.5	1.9
Errors and omissions	-21.6	-25.9	0.0	0.0	0.0	0.0
Overall balance	-43.0	-42.7	-0.1	-43.0	-29.8	-27.7

Table 7. Niger: Balance of Payments, 2002-07
(In billions of CFA francs, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007
			Est.		Projections	
Financing	43.0	42.7	0.1	43.0	29.8	27.7
Net foreign assets (Central Bank of West African States)	9.5	18.0	-10.2	-17.1	-17.9	-17.9
Of which : Net use of Fund resources	12.4	8.2	0.6	-7.5	-8.1	-8.5
Purchases	15.2	13.7	7.0	0.0	0.0	0.0
Repurchases	-2.6	-5.5	-6.4	-7.5	-8.1	-8.5
Rescheduling obtained 6/	33.5	24.7	10.3	0.0	0.0	0.0
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	60.1	47.7	45.6
Financing assurances	0.0	0.0	0.0	60.1	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	47.7	45.6
Memorandum items:						
Balance on goods and services	-134.7	-154.1	-157.1	-167.5	-176.7	-178.5
Total HIPC Initiative assistance	10.3	18.4	28.3	40.9	41.2	41.3
of which assistance delivered on						
stock-of-debt operation 7/	...	3.2	13.5	23.7	23.4	23.6
External current account balance						
Including grants for budgetary assistance						
(in percent of GDP)	-6.5	-6.0	-6.0	-7.2	-6.9	-6.3
Excluding grants for budgetary assistance						
(in percent of GDP)	-7.8	-7.6	-7.3	-7.2	-6.9	-6.3
GDP	1513	1587	1628	1739	1848	1966
Exchange rate (CFA francs per U.S. dollar, annual average)	695	581	…	…	…	…

Sources: Nigerien authorities; and staff estimates and projections.

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

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

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

4/ In 2002, includes payment of end-1999 external payments arrears, whose setltlements were agreed with the OPEC Fund, Libya, the Saudi Fund for Development and a commercial bank.

5/ Includes in the 2002 program assistance from IDA and the AfDB that are now classified as grants.

6/ Includes debt under discussion for CFAF 14.7 billion in 2002, and CFAF 8.1 billion in 2003.

7/ Includes assistance from the IsDB, the Opec Fund, the West African Economic and Monetary Union (WAEMU), the Arab Bank for Development in Africa (BADEA), and the Kuwait Fund for Arab Economic Development (KFAED).

Table 8. Niger: External Debt Indicators, 2002-22
(In percent, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2014	2015	2016	2018	2020	2022	2003-12	2013-22
			Est.							Projections								Averages	
I. After traditional debt-relief mechanisms 1/																			
NPV of debt-to-GDP ratio	54.0	44.7	39.7	42.3	40.5	38.8	37.3	35.5	34.0	32.6	31.3	29.2	28.2	27.2	25.4	23.6	22.2	37.7	26.0
NPV of debt-to-exports ratio 2/	407.2	380.1	324.9	292.9	273.4	260.9	252.4	243.1	235.3	227.9	221.7	211.7	205.7	199.6	186.5	174.3	164.1	271.3	190.1
NPV of debt-to-revenue ratio 3/	508.1	452.7	376.6	364.9	335.2	307.5	283.0	259.8	240.0	222.0	209.7	189.5	180.0	171.1	154.4	141.7	130.5	305.1	161.3
Debt service-to-exports ratio 4/	…	21.1	18.2	18.2	18.5	18.5	17.5	16.8	14.7	14.1	13.0	10.6	10.2	9.9	9.8	9.3	8.5	17.1	9.7
Debt service-to-revenue ratio 3/	…	29.9	25.6	24.8	23.9	22.8	20.5	18.9	15.8	14.4	13.0	10.0	9.5	9.1	8.6	8.0	7.3	21.0	8.8
II. After enhanced HIPC Initiative assistance																			
NPV of debt-to-GDP ratio	54.8	24.5	23.3	26.2	26.5	26.7	26.8	26.6	26.3	26.0	25.7	25.2	24.9	24.6	23.9	23.2	22.0	25.9	24.0
NPV of debt-to-exports ratio 2/	412.9	208.2	190.5	181.7	178.8	179.3	181.3	182.1	182.1	181.9	182.2	182.6	181.5	179.9	175.8	171.0	162.5	184.8	175.4
NPV of debt-to-exports ratio (existing debt at end-2002 only) 2/	412.9	185.6	156.9	141.0	130.5	122.7	116.0	109.7	103.6	97.6	92.2	82.4	77.4	72.3	62.9	53.9	42.1	125.6	65.2
NPV of debt-to-exports ratio after hypothetical full delivery in 2002 2/	208.7	208.2	190.5	181.7	178.8	179.3	181.3	182.1	182.1	181.9	182.2	182.6	181.5	179.9	175.8	171.0	162.5	184.8	175.4
NPV of debt-to-revenue ratio 3/	515.1	248.0	220.8	226.4	219.3	211.4	203.2	194.7	185.8	177.2	172.3	163.4	158.8	154.2	145.6	138.9	129.2	205.9	148.4
Debt service-to-exports ratio 4/	…	9.4	5.2	5.7	6.6	7.4	7.8	7.8	8.0	7.9	7.4	6.5	6.3	6.4	6.1	6.6	8.0	7.3	6.7
Debt service-to-revenue ratio 3/	…	13.3	7.3	7.8	8.5	9.1	9.2	8.7	8.6	8.1	7.4	6.2	5.8	5.8	5.4	5.7	6.8	8.8	6.0
III. After bilateral debt relief beyond HIPC Initiative assistance 5/																			
NPV of debt-to-GDP ratio	51.9	23.6	22.6	25.5	25.8	26.1	26.2	26.1	25.9	25.6	25.3	24.8	24.5	24.2	23.5	22.8	21.6	25.3	23.6
NPV of debt-to-exports ratio 2/	391.2	200.9	184.5	176.5	174.1	175.0	177.4	178.6	178.9	179.0	179.4	179.7	178.6	177.0	173.0	168.3	160.0	180.4	172.6
NPV of debt-to-exports ratio (existing debt at end-2002 only) 2/	391.2	178.2	150.9	135.8	125.8	118.4	112.1	106.1	100.4	94.7	89.4	79.6	74.5	69.5	60.0	51.2	39.6	121.2	62.4
NPV of debt-to-exports ratio after hypothetical full delivery in 2002 2/	199.3	200.9	184.5	176.5	174.1	175.0	177.4	178.6	178.9	179.0	179.4	179.7	178.6	177.0	173.0	168.3	160.0	180.4	172.6
NPV of debt-to-revenue ratio 3/	488.0	239.2	213.8	219.8	213.5	206.3	198.8	190.9	182.5	174.3	169.6	160.9	156.3	151.8	143.2	136.7	127.3	200.9	146.1
Debt service-to-exports ratio 4/	…	8.1	4.9	5.4	6.3	7.1	7.6	7.5	7.8	7.7	7.4	6.7	6.4	6.5	6.2	6.6	8.0	7.0	6.8
Debt service-to-revenue ratio 3/	…	11.5	7.0	7.4	8.1	8.7	8.9	8.5	8.3	7.9	7.4	6.3	5.9	5.9	5.5	5.7	6.8	8.4	6.1
IV. After topping-up of assistance at the completion point																			
NPV of debt-to-GDP ratio	51.9	18.2	17.7	20.5	21.2	21.8	22.3	22.5	22.5	22.5	22.6	22.7	22.7	22.6	22.5	22.2	21.3	21.2	22.3
NPV of debt-to-exports ratio 2/	391.2	154.6	145.0	141.9	143.0	146.7	151.3	154.0	155.8	157.7	160.0	164.4	165.4	165.8	165.3	164.0	157.5	151.0	163.6
NPV of debt-to-exports ratio (existing debt at end-2002 only) 2/	391.2	131.9	111.5	101.2	94.7	90.1	86.0	81.6	77.3	73.4	70.0	64.2	61.3	58.2	52.4	46.9	37.0	91.8	53.4
NPV of debt-to-exports ratio after hypothetical full delivery in 2002 2/	150.0	154.6	145.0	141.9	143.0	146.7	151.3	154.0	155.8	157.7	160.0	164.4	165.4	165.8	165.3	164.0	157.5	151.0	163.6
NPV of debt-to-revenue ratio 3/	488.0	184.1	168.1	176.8	175.4	172.9	169.6	164.6	159.0	153.6	151.3	147.2	144.7	142.1	136.8	133.3	125.2	167.5	138.3
Debt service-to-exports ratio 4/	…	8.0	4.1	3.5	4.2	4.8	5.5	6.2	6.5	6.2	5.8	4.9	4.7	4.8	4.9	5.1	7.4	5.5	5.4
Debt service-to-revenue ratio 3/	…	11.3	5.8	4.8	5.4	6.0	6.4	7.0	7.0	6.4	5.7	4.6	4.4	4.4	4.3	4.4	6.3	6.6	4.9
Memorandum items (in millions of U.S. dollars):																			
NPV of debt after enhanced HIPC Initiative assistance	1,192.7	669.9	731.6	782.8	833.4	883.0	932.8	984.9	1,034.9	1,087.5	1,145.3	1,278.4	1,347.8	1,422.1	1,586.8	1,767.8	1,932.6	908.6	1,557.1
Of which: existing debt at end-2002	1,192.7	597.0	602.7	607.4	608.1	604.2	597.0	593.2	588.8	583.4	579.7	577.0	574.7	571.7	567.6	557.4	500.4	596.1	559.2
Debt service after enhanced HIPC Initiative assistance	…	35.9	24.3	26.9	32.2	37.9	42.2	44.1	47.9	49.9	49.2	48.4	49.6	53.5	59.1	72.6	102.3	39.0	65.0
Gross domestic product	2,177.3	2,736.3	3,141.3	2,985.8	3,143.5	3,308.5	3,483.8	3,699.3	3,930.4	4,183.0	4,454.9	5,071.3	5,416.2	5,790.1	6,637.6	7,630.1	8,795.9	3506.7	6,559.4
Exports of goods and services 4/	303.1	382.5	466.6	472.8	490.9	513.6	539.2	569.3	596.5	627.7	661.8	739.8	789.0	842.7	963.9	1,105.8	1,276.2	532.1	953.5
Exports of goods and services 2/	288.9	321.7	384.1	430.8	466.0	492.4	514.6	540.7	568.3	597.8	628.7	700.2	742.6	790.5	902.5	1,033.9	1,189.2	494.5	893.9
Government revenue 3/	231.5	270.1	331.3	345.8	380.1	417.7	459.0	505.9	557.1	613.8	664.9	782.2	849.0	922.0	1,090.2	1,272.3	1,495.2	454.6	1,068.7

Sources: Nigerien authorities; and staff estimates and projections.

1/ Assumes a stock-of-debt operation on Naples terms at end-1999, and at least comparable treatment by non-Paris Club creditors.
2/ Based on a three-year backward-looking moving average of exports of goods and services.
3/ Revenue is defined as central government revenue, excluding grants.
4/ Current-year exports, as defined in IMF, *Balance of Payments Manual*, 5th ed., 1993, and excluding transit trade.
5/ Reflects debt relief provided by some bilateral creditors, on a voluntary basis, in addition to the assistance provided under the HIPC Initiative.

Table 9. Niger: Public Expenditure for Health and Education, 2002-05

	2002				2003				2004				2005
	Budget	Execution	*of which:* HIPC assistance	Rate of execution (in percent) 1/	Budget	Execution	*of which:* HIPC assistance	Rate of execution (in percent)	Budget	Execution	*of which:* HIPC assistance	Rate of execution (in percent)	Budget
	(In billions of CFA francs)												
Health	35.7	31.8	2.8	89.1	39.8	31.7	3.7	79.6	28.7	19.0	3.0	66.1	28.1
Current Outlays	16.7	14.1	0.0	83.9	15.4	11.5	0.0	74.7	16.3	11.7	0.0	71.7	17.6
Personnel	4.7	4.7	0.0	100.0	5.2	4.7	0.0	90.4	4.9	4.9	0.0	100.0	5.1
Nonpersonnel	12.1	9.4	0.0	77.8	10.2	6.8	0.0	66.6	11.4	6.8	0.0	59.4	12.5
Investment program	19.0	17.8	2.8	93.6	24.4	20.2	3.7	82.8	12.4	7.3	3.0	58.8	10.5
Domestically financed 2/	3.7	3.5	2.8	94.3	7.2	5.3	3.7	73.6	6.3	3.7	3.0	58.7	4.8
Financed from abroad 3/	15.3	14.3	0.0	93.5	17.2	14.9	0.0	86.6	6.1	3.6	0.0	59.0	5.8
Education	56.2	51.4	1.9	91.4	57.9	51.4	2.6	88.9	65.1	55.9	2.1	85.9	67.6
Current outlays	40.2	38.6	0.0	96.0	37.7	39.0	0.0	103.6	43.4	40.1	0.0	92.4	42.7
Personnel	22.6	22.6	0.0	100.0	20.5	23.1	0.0	113.0	24.1	24.1	0.0	99.8	24.3
Nonpersonnel	17.6	16.0	0.0	90.9	17.2	15.9	0.0	92.4	19.3	16.0	0.0	83.0	18.4
Investment program	16.0	12.7	1.9	79.6	20.2	12.4	2.6	61.4	21.7	15.8	2.1	72.9	24.9
Domestically financed 2/	4.1	3.4	1.9	83.7	5.6	4.3	2.6	76.8	4.3	2.4	2.1	55.3	4.1
Financed from abroad 3/	11.9	9.3	0.0	78.2	14.6	8.1	0.0	55.5	17.4	13.5	0.0	77.3	20.8
	(In percent of GDP)												
Total expenditure on health and education	6.1	5.5	0.3	...	6.1	5.2	0.4	...	5.6	4.6	0.3	...	5.5
Current outlays	3.8	3.5	0.0	...	3.3	3.2	0.0	...	3.6	3.2	0.0	...	3.5
Personnel	1.8	1.8	0.0	...	1.6	1.8	0.0	...	1.7	1.8	0.0	...	1.7
Nonpersonnel	2.0	1.7	0.0	...	1.7	1.4	0.0	...	1.8	1.4	0.0	...	1.8
Investment program	2.3	2.0	0.3	...	2.8	2.1	0.4	...	2.0	1.4	0.3	...	2.0
Domestically financed	0.5	0.5	0.3	...	0.8	0.6	0.4	...	0.6	0.4	0.3	...	0.5
Financed from abroad	1.8	1.6	0.0	...	2.0	1.4	0.0	...	1.4	1.0	0.0	...	1.5

Sources: Nigerien authorities; and staff estimates.

1/ Execution rates may not strictly reflect budget execution because off-budget expenditures are also included in the calculation of the execution rates.

2/ Includes HIPC Initiative assistance.

3/ All off-budget expenditures are assumed to be financed from abroad as most of these are related to projects directly managed by foreign donors which are not known to the authorities at the time when the investment budget is elaborated.

Table 10. Niger: Selected Social and Demographic Indicators

	Latest Single Year			Same Region/Income Group	
	1970-75	1980-85	1995-2001	Sub-Saharan Africa	Low income
Population					
Total population, midyear (in millions)	4.8	6.6	11.2	673.9	2,505.9
Growth rate (annual average for period in percent)	2.9	3.2	3.4	2.5	1.9
Urban population (in percent of population)	10.6	14.3	21.1	32.3	30.8
Total fertility rate (births per woman)	8.0	8.0	7.2	5.1	3.5
Income					
GNI per capita (in U.S. dollars)	250.0	230.0	180.0	460.0	430.0
Consumer price index (1995=100)	31.2	89.0	118.5	...	...
Food price index (1995=100)	...	101.6	131.2	...	...
Share of income or consumption					
Gini index	...	...	50.5	...	...
Lowest quintile (percentage of income or consumption)	...	...	2.6	...	...
Highest quintile (percentage of income or consumption)	...	...	53.3	...	...
Social Indicators					
Public expenditure (in percent of GDP)					
Health	...	...	1.8	2.5	1.1
Education	2.3	3.1	2.7	3.4	2.8
Social security and welfare	...	0.31	...	...	...
Net primary school enrollment rate (in percent of age group)					
Total	...	24.6	30.4	...	...
Male	...	32.2	36.3	...	...
Female	...	17.0	24.4	52.0	...
Access to an improved water source (in percent of population)					
Total	...	...	59.0	58.1	76.1
Urban	...	...	70.0	82.7	90.2
Rural	...	...	56.0	46.4	70.1
Immunization rate (percent under 12 months)					
Measles	...	27.0	51.0	57.8	59.8
DPT	...	4.0	31.0	52.9	61.5
Child malnutrition (percent under 5 years)	...	49.4	40.0	...	...
Life expectancy at birth (in years)					
Total	39.9	43.7	45.7	46.2	58.9
Male	38.4	42.1	44.0	45.4	57.9
Female	41.5	45.3	47.5	47.0	60.0
Mortality					
Infant (per 1,000 live births)	194.0	191.0	156.0	105.4	80.4
Under 5 (per 1,000 live births)	325.0	320.0	265.0	170.6	120.6
Adult (15-59)					
Male (per 1,000 population)	610.7	561.9	473.0	519.9	311.9
Female (per 1,000 population)	490.2	452.9	308.0	461.3	255.7
Maternal (modeled, per 100,000 live births)	...	...	920.0	...	...
Births attended by skilled health staff (in percent)	...	20.0	15.7	...	...

Source: World Bank; *World Development Indicators* 2003.

Table 11. Niger: Millennium Development Goals

	1995	2001	2002
1 Eradicate extreme poverty and hunger (2015 target = $1 a day poverty and malnutrition rates)			
Population below $1 a day (%)	61.4	..	..
Poverty gap at $1 a day (%)	33.9	..	..
Percentage share of income or consumption held by poorest 20%	2.6	..	..
Prevalence of child malnutrition (% of children under 5)	..	40.1	..
Population below minimum level of dietary energy consumption (%)	43	34	..
2 Achieve universal primary education (2015 target = net enrollment to 100)			
Net primary enrollment ratio (% of relevant age group)	24.5	34.2	..
Percentage of cohort reaching grade 5 (%)	72.6	71	..
Youth literacy rate (% ages 15-24)	19.8	23.8	24.5
3 Promote gender equality (2015 target = education ratio to 100)			
Ratio of girls to boys in primary and secondary education (%)	58.4	67.2	..
Ratio of young literate females to males (% ages 15-24)	39.7	43.6	44.4
Share of women employed in the nonagricultural sector (%)	..	..	..
Proportion of seats held by women in national parliament (%)	4	..	..
4 Reduce child mortality (2015 target= reduce 1990 under 5 mortality by two-thirds)			
Under 5 mortality rate (per 1,000)	295	270	264
Infant mortality rate (per 1,000 live births)	176	159	155
Immunization, measles (% of children under 12 months)	40	51	48
5 Improve maternal health (2015 target = reduce 1990 maternal mortality by three-fourths)			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	1,600.00	..
Births attended by skilled health staff (% of total)	..	15.7	..
6 Combat HIV/AIDS, malaria and other diseases (2015 target = halt, and begin to reverse AIDS etc.			
Prevalence of HIV, female (% ages 15-24)	..	1.5	..
Contraceptive prevalence rate (% of women ages 15-49)	..	..	..
Number of children orphaned by HIV/AIDS	..	31,000.00	..
Incidence of tuberculosis (per 100,000 people)	..	182	193.4
Tuberculosis cases detected under DOTS (%)	13	22	..
7 Ensure environmental sustainability			
Forest area (% of total land area)	..	1	..
Nationally protected areas (% of total land area)	7.6	7.7	7.7
GDP per unit of energy use (PPP $ per kg oil equivalent)	..	..	..
CO2 emissions (metric tons per capita)	0.1	0.1	..
Access to an improved water source (% of population)	..	59	..
Access to improved sanitation (% of population)	..	20	..
Access to secure tenure (% of population)	.. ..		..
8 Develop a Global Partnership for Development			
Youth unemployment rate (% of total labor force ages 15-24)	..	..	..
Fixed line and mobile telephones (per 1,000 people)	1.5	2.1	3.3
Personal computers (per 1,000 people)	0.2	0.5	0.6

Source: ***World Development Indicators database, April 2004***

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

Attached hereto is a letter dated January 10, 2005 from the Minister of Economy and Finance of Niger (the "Letter")**,** together with its attached Memorandum of Economic and Financial Policies for 2005 (the "MEFP") and Technical Memorandum of Understanding (the "TMU"), requesting from the International Monetary Fund ("IMF") as Trustee of the Poverty Reduction and Growth Facility Trust ("the Trustee") a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

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

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

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

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

1. (a) For a period of three years from January 31, 2005, Niger will have the right to obtain loan disbursements from the Trustee in a total amount equivalent to SDR 6.58 million, subject to the availability of resources in the Poverty Reduction and Growth Facility Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 2.82 million until January 30, 2006, and the equivalent of SDR 4.7 million until January 30, 2007.

(c) During the first year of the arrangement:

(i) the first disbursement, in an amount equivalent to SDR 0.94 million, will be available upon approval of this arrangement at the request of Niger;

(ii) the second disbursement, in an amount equivalent to SDR 0.94 million, will be available on or after July 15, 2005 at the request of Niger and subject to paragraph 2 below; and

(iii) the third disbursement, in an amount equivalent to SDR 0.94 million, will be available on or after January 15, 2006 at the request of Niger and subject to paragraph 2 below.

(d) The right of Niger to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined. The phasing of, and conditions for, disbursements during the second year of this arrangement shall be determined in the context of the second review of Niger's program with the Trustee as referred to in paragraph 2(I)(b) of this arrangement.

2. Niger will not request

I. the second and third disbursements respectively specified in paragraph 1(c)(ii) and 1(c)(iii) above:

(a) if the Managing Director of the Trustee finds that, with respect to the second disbursement specified in paragraph 1(c)(ii), the data as of June 30, 2005, and with respect to the third disbursement specified in paragraph 1(c)(iii), the data as of December 31, 2005, indicate that:

(i) the ceiling on the net domestic financing of the government, or

(ii) the limit on the basic budget balance of the government, or

(iii) the limit on the reduction in domestic payments arrears on government obligations,

as specified in Table 1 of the MEFP and in the TMU is not observed; or

(b) until the Trustee has determined that, with respect to the second disbursement, the first review, and with respect to the third disbursement, the second review, of Niger's program as referred to in paragraph 42 of the MEFP have been completed; or

II. any disbursement under this arrangement if at any time during the period of this arrangement

(a) Niger imposes or intensifies restrictions on payments and transfers for current international transactions, or

(c) Niger introduces or modifies multiple currency practices, or

(c) Niger concludes bilateral payments agreements which are inconsistent with Article VIII, or

(d) Niger imposes or intensifies import restrictions for balance of payments reasons, or

(e) Niger accumulates any external payments arrears as specified in Table 1 of the MEFP and paragraph 15 of the TMU, or

(f) the limit on the contracting or guaranteeing of external debt with original maturity of less than one year by the government as specified in Table 1 of the MEFP and paragraph 20 of the TMU is not observed; or

(g) the limit on the contracting or guaranteeing of nonconcessional external debt with original maturity of one year or more by the government as specified in Table 1 of the MEFP and paragraphs 17 and 18 the TMU is not observed; or

(h) Niger fails to apply the petroleum products pricing system adopted on August 1, 2001 as specified in Table 2 of the MEFP; or

(i) Niger fails to adopt monthly performance indicators for the main customs offices and to track compliance with these indicators by producing monthly implementation reports for submission to the IMF as specified in Table 2 of the MEFP.

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

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

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

Niamey, January 10, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, DC 20431

Mr. de Rato:

1. In view of economic reforms over the past decade, especially those in 2000-04 supported by the IMF under the Poverty Reduction and Growth Facility (PRGF), Niger has laid a strong foundation for the full implementation of its poverty reduction strategy (PRS). Ongoing democratization and a consensus among Nigeriens on the way forward ensure determined implementation of the strategy as outlined in the government's Poverty Reduction Strategy Paper (PRSP) of 2002.

2. Notwithstanding progress in recent years, a large segment of our population remains poor, and the economy is susceptible to the vagaries of weather and other external shocks. In line with the PRSP, the government plans to implement reforms that will boost productivity and diversify the economy, including the export base. Prudent macroeconomic policies and accelerated structural reforms will form the core of our poverty reduction strategy, which seeks to increase domestic revenue mobilization, improve the allocation of public resources to priority sectors, and enhance economic competitiveness. We believe that this strategy and the government's commitment to it, combined with adequate support from our development partners, will facilitate Niger's achievement of the Millennium Development Goals.

3. Accordingly, the attached Memorandum of Economic and Financial Policies (MEFP) describes the recent progress Niger has made in implementing its PRS and outlines objectives and policies for 2005-07, focusing particularly on those for 2005. In view of these policies, our successful implementation of reforms supported by the IMF's PRGF through mid-2004, and the government's commitment to consolidate these reforms, the government of Niger requests the approval of a new three-year PRGF arrangement with access in an amount equivalent SDR 6.58 million (10 percent of quota).

4. The government of Niger will continue to provide the Fund with such information as the Fund requires to assess Niger's progress in carrying out policies outlined in the attached MEFP. Niger will also continue to consult with the Fund on its economic and financial policies in accordance with IMF policies and practices on such consultations.

Yours sincerely,
/s/

Ali Lamine Zeine
Minister of Economy and Finance

NIGER

Memorandum of Economic and Financial Policies for 2005

Niamey, January 10, 2005

I. Introduction

1. **In June 2004, Niger successfully completed the three-year reform program supported by the Fund under the Poverty Reduction and Growth Facility (PRGF),** which reduced the country's internal and external economic imbalances. In view of the authorities' firm commitment to deepen reforms, Niger's development partners agreed to grant it debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative; thus, on April 12, 2004, the country reached the completion point under the HIPC Initiative. Despite the progress made, key reforms that are essential for the achievement of higher and sustainable economic growth and poverty reduction remain unfinished. Further, Niger's economy is susceptible to the vagaries of weather and continues to rely on a narrow commodity-export base that is vulnerable to terms of trade shocks.

2. **During 2005–07, the government plans to implement its poverty reduction program vigorously while maintaining macroeconomic stability.** It has decided to deepen and accelerate the implementation of its economic, financial, and social policies and to strengthen its structural reform agenda. These efforts are designed to reduce Niger's vulnerability to exogenous shocks, diversify the economy, and facilitate private sector development, all of which are critical for Niger's achievement of strong and sustainable economic growth and durable poverty reduction.

3. **Against this background, the government adopted economic reforms for 2005-07, whose objectives are anchored in the poverty reduction strategy paper (PRSP) it adopted in January 2002.** The second progress report on the implementation of the strategy has just been issued and is being circulated for information to the Executive Boards of the International Monetary Fund and the World Bank. This memorandum describes recent economic and financial developments and sets out the objectives and economic and financial policies that the government has adopted for 2005–07, with a special focus on the policies for calendar year 2005.

II. Performance During the 2000–03 Program

4. **Macroeconomic conditions were largely satisfactory during 2001–03,** thanks to good fiscal management, an increase in public investment expenditure, and higher productivity gains resulting from the structural reforms Niger implemented during the past 10 years. Annual average real GDP growth rate over the period was 5 percent, compared with 2.9 percent during 1996–2000, generating an increase in real per capita income of nearly 2 percent a year. On a year-on-year basis, inflation declined from 4 percent in 2001 to -1.5 percent in 2003, as a result of the good weather that improved agricultural production and the BCEAO's prudent monetary policy. The external current account deficit (excluding

grants for budgetary assistance) widened slightly to an annual average equivalent to 7.4 percent of GDP, against 6.5 percent in 1996–2000, largely because of an increase in public and private investment, as well as hihger petroleum imports values. The deficit was financed mainly by grants and concessional loans. The real exchange rate appreciated by nearly 5 percent between 2001 and 2003, reflecting the strong appreciation of the euro, to which the CFA franc is pegged at a fixed exchange rate, against the dollar.

5. **Improvements in fiscal management in 2001–03 helped contain the basic fiscal deficit[20] to an annual average of 2.4 percent of GDP, against 3.4 percent over the preceding five years.** Nonetheless, revenue levels have remained low (annual average of approximately 10 percent of GDP) because of customs revenue shortfalls related, in part, to repeated closings of the border with Nigeria and poor VAT collection. In view of improved expenditure control, overall government spending was limited to about 17.5 percent of GDP, with the wage bill representing the equivalent of 3.6 percent of GDP. Nevertheless, social spending (health and education) rose slightly, from 5 percent of GDP in 2001 to 5.2 percent in 2003. At the same time, the government reduced its stock of domestic arrears from 10.6 percent of GDP at end-2000 to 3.1 percent of GDP at end-2004.

6. **During the period, the government also made progress in strengthening budget planning and implementation.** Fiscal management tools were harmonized with West African Economic and Monetary Union (WAEMU) directives; the budget preparation process was improved so that the annual budget would better reflect the priorities of Niger's poverty reduction strategy; monitoring and control of public expenditure was strengthened, including through enhanced computerization of government financial operations and the reform of the procurement system.

7. **Improvement in the fiscal position helped in the monetary area by containing the growth of net bank credit to the government and allowing more credit to the nongovernment sector**, which had decreased slightly in 2001, to grow in real terms during 2002–03. The health of the banking system remained broadly satisfactory, and almost all commercial banks are in compliance with nearly all of the prudential ratios required by the regional Banking Commission.

8. **In the structural area, the telecommunications company, SONITEL, was privatized through the sale of 51 percent of its capital, and the sector was further liberalized with the licensing of two new cellular telephone networks.** The government also signed a 10-year contract with a private company for the production, transport, and distribution of safe water in the 51 centers previously managed by a state utility. It also set up a multisector regulatory entity in 2003. However, the privatization of the petroleum importing company (SONIDEP) was delayed despite the government's efforts to finalize the

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[20] Total revenues, excluding grants, minus total spending, excluding foreign-financed investment projects.

process in compliance with the applicable standards and to meet the schedule agreed on with its development partners, especially the World Bank. The privatization of the electricity company (NIGELEC) proved difficult, owing to the substantial amount of financing needed for rehabilitation and expansion and the financial difficulties faced by one of its potential investors, the Nigerian Electrical Power Authority (NEPA), which also supplies the electricity distributed by NIGELEC. Planned financial sector reforms were also delayed, mainly the restructuring of the National Postal and Savings Office (ONPE) and two financial institutions (Crédit du Niger (CDN) and the Caisse de Prêts aux Collectivités Territoriales (CPCT)) in which the government remains the majority shareholder.

III. Economic Performance in 2004

9. **Preliminary figures indicate that growth performance in 2004 has been weaker than envisaged.** A drought, a locust plague, and the recent rise in energy prices limited real GDP growth to 0.9 percent (against an initial forecast of 4.1 percent). A sharp decline in agricultural production more than offset the impact of buoyant growth in other sectors, including gold production, which came on stream in 2004. Inflation is estimated at some 5 percent at end-year, 2 percentage points higher than the WAEMU convergence criterion (3 percent). The external current account deficit before budgetary grants is estimated to have narrowed slightly to 7.3 percent of GDP (from 7.6 percent of GDP in 2003), reflecting the coming on stream of new gold exports and lower HIPC-generated external debt interest payments. Niger has made a positive contribution to the BCEAO's reserve position, reflecting, for the most part, the concessional financing and debt relief it has been granted.

10. **On the fiscal side, the government took the necessary steps to achieve its budgetary targets for 2004.** Total revenue mobilization is estimated at 10.5 percent of GDP, reflecting improvements in revenue administration that offset the adverse revenue impact of border closings with Nigeria and difficulties in collecting budgeted WAEMU transfers. At end-October 2004, total expenditure stood at about 83 percent of the total programmed for the year, suggesting that overall expenditure would not exceed the objective of 18.6 percent of GDP for the year.

11. **Accordingly, the basic fiscal and the overall budget deficits (commitment basis, excluding budgetary grants) are estimated to have been contained within the programmed levels.** Taking into account a net reduction in domestic arrears equivalent to 1.1 percent of GDP, the government's total financing requirements, estimated at 8.8 percent of GDP, were covered almost entirely by external resources.

12. **The government has implemented measures to improve expenditure management.** Medium-term expenditure frameworks (MTEFs) were finalized for the health and education sectors during the year and partially used in preparing the budget for 2005. The government has also begun to implement measures identified in the Public Expenditure and Financial Accountability Review (PEMFAR) conducted with technical support from the World Bank and the European Union. Actions have been taken to ensure consistency between the poverty reduction strategy (PRS) and the budget law. In this context, the

government prepared program budgets for basic education and, in general, began to allocate HIPC resources to activities included in the sector strategies.

13. **On the monetary side, the net domestic assets of the banking system rose by 21 percent of beginning-of-period money supply during the first half of 2004,** with the bulk of the increase reflecting higher government indebtedness in view of delays in the disbursement of programmed external assistance. However, the government considerably reduced its net bank borrowing in the latter part of the year, facilitating about a 4 percent increase in credit to the economy. The financial health of the banking system remained broadly satisfactory, with nearly all banks meeting the required prudential regulations.

14. **On structural reforms, the privatization program and financial sector reforms continued to experience delays.** The authorities solicited new bids for SONIDEP, which resulted in the sale of 6.9 percent of its shares to oil importers in the private sector. Regarding NIGELEC, one of the two potential investors,Veolia, withdrew from the bidding. The second potential investor, the NEPA, continued to face financial difficulties. The reform of the CDN, CPCT, and ONPE was not completed during 2004 as a result of unanticipated delays in establishing a management unit, financed by the World Bank, to push the reform process forward.

IV. Macroeconomic Framework for the Medium Term

15. Niger continues to face significant socioeconomic constraints, which are reflected in the difficult living conditions for the vast majority of the population. **The government intends to implement policies to help remove these constraints gradually.** In this regard, it will enhance its efforts to mobilize tax revenue and ensure that public spending continues to be redirected toward infrastructure and health, education, and rural development.

16. **Niger has a private sector-led growth strategy, as defined in the PRSP.** The strategy entails strengthening activities in the agriculture and livestock, tourism, services, and mining sectors, which have been identified as having strong growth potential. In this context, the government plans to strengthen its food security program and assist in the development of revenue-generating activities, notably through IDA-funded projects in extension services, agricultural research, and irrigation. To revitalize tourism, the government intends to promote Niger as a vibrant tourist destination by, among other steps, improving border-crossing conditions and revamping tourism infrastructure. Specifically, it intends to (i) develop two new tourism sites along the Niger River; and (iii) promote the International Festival of African Fashion (FIMA). At the same time, to diversify mining beyond uranium and gold, it is intensifying the prospecting for petroleum and other minerals. These initiatives are expected to increase the involvement of private sector operators in the economy and, ultimately, create employment opportunities.

17. **Within the general framework of the policies specified above, the macroeconomic goals for 2005–07 are to** (i) achieve average annual real GDP growth of at least 4 percent, with a view to increasing per capita income by more than 1 percent a year;

(ii) keep the annual rate of inflation below 3 percent, the WAEMU threshold; and (iii) reduce the external current account deficit (excluding official transfers) to 6.3 of GDP by 2007 (from 7.3 percent in 2004).

18. **Continued fiscal consolidation is essential to increasing public saving and investment.** To achieve this, the government is determined to increase revenues and pursue a prudent spending policy while keeping social expenditure aligned with the relevant PRSP objectives. In this context, the overall budget deficit (on a payment-order basis and excluding grants) is expected to narrow from an estimated 7.6 percent of GDP in 2004 to 6.7 percent in 2007. The basic fiscal balance would improve gradually over the same period, to reach the equivalent of 0.2 percent of GDP in 2007, compared with an estimated deficit equivalent to 1.1 percent of GDP in 2004. In setting these goals, the government has taken into account the prospects for external financing in the medium term and the need to keep Niger's external debt sustainable.

19. **To increase revenue, the government plans to reform the tax system and improve tax and customs administration,** with a view to expanding the tax base and improving the performance of the revenue agencies. These measures are expected to help increase the revenue-to-GDP ratio to 12.1 percent in 2007, from an estimated 10.5 percent in 2004. The revenue measures for 2005 are spelled out in paragraphs 27 and 28 below. The measures relating to the last two years of the program will be specified in an action plan to be prepared before end-September 2005. Achievement of the revenue objectives will require considerable strengthening of customs and tax administration, for which the government will request technical assistance from France, the United States, and the IMF (AFRITAC-West).

20. **The government will continue improving its prioritization of public spending, in accordance with the PRSP.** To that end, it intends to implement swiftly the recommendations of the PEMFAR. Against this background, wage policy will continue to be prudent, and the wage bill will be held below 35 percent of tax receipts, in compliance with the relevant WAEMU criterion. Moreover, expenditure **directly related to poverty reduction** will be set at levels compatible with targets determined in the MTEFs for education and health; and a unified list of these expenditures and a mechanism for their monthly monitoring will be established before end-September 2005, with technical support from the World Bank.

21. **After taking into account external debt amortization payments and external resources identified to finance public investment projects, the government projects a residual financing gap of approximately CFAF 150 billion for 2005–07,** equivalent to an annual average of 2.8 percent of GDP. Niger's determined implementation of the PRSP and continued fiscal consolidation are expected to encourage development partners to continue providing the financial support needed to cover the gap.

22. **In the external sector,** the volume of exports is projected to increase by an annual average of about 5 percent during 2005–07, owing mainly to an increase in exports of gold, onions, and cowpeas. The volume of imports is projected to grow slightly less than the

growth rate of real GDP. Accordingly, the external current account deficit, excluding grants, is expected to narrow from an estimated 7.3 percent of GDP in 2004 to 6.3 percent in 2007; it will be financed essentially with external assistance. Niger will increase its contribution to the international reserves of the BCEAO during the period.

23. **The government will pursue a prudent external debt policy.** To prevent deterioration of Niger's debt sustainability, the authorities intend to continue relying mostly on grants to finance their fiscal gaps. In this context, efforts will be made to ensure that at least 60 percent of the country's financing needs are met with grants and that loans are contracted with a grant element of at least 60 percent.

24. **In light of the importance of regional integration for Niger's landlocked economy, the government will take steps to meet the WAEMU convergence criteria over the medium term.** Toward that end, the government will continue to conduct a budgetary policy conducive to the preservation of macroeconomic stability. It remains committed to adhering strictly to the WAEMU Common External Tariff (CET) and will accelerate Niger's adoption of the regional investment code.

V. The Program for 2005

A. Macroeconomic Policies

25. **The key macroeconomic objectives of the program for the first year are to** (a) achieve real GDP growth of about 4 percent, (b) keep the rate of inflation below 3 percent in 2005 on a year-on-year basis, and (b) limit the external current account deficit (excluding grants for budgetary assistance) to some 7 percent of GDP.

Fiscal policy

26. **The 2005 budget reflects the poverty reduction goals the government set in its PRSP.** The policy aims to safeguard poverty reduction spending while continuing to reduce the basic budget deficit. In this context, the basic and overall fiscal deficits are targeted to be contained at 0.8 percent of GDP and 7.7 percent of GDP, respectively. Total revenue is expected to increase by 0.6 percentage points of GDP relative to 2004, to 11.1 percent of GDP, and total government expenditure will be limited to 18.8 percent of GDP.

27. **The government will improve revenue collection by expanding the tax base.** The specific measures it envisages and will implement in early 2005, are (1) extension of the VAT to processed food products (milk, sugar, wheat flour); (2) reduction of VAT exemptions on water and electricity consumption; and (3) imposition of an excise tax on soft drinks and sodas.[21]

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[21] The World Bank has agreed to conduct a social impact assessment of these measures.

28. **Further, the government will implement additional measures to strengthen the efficiency of tax and customs administration and improve tax collection.** These measures include (i) establishment of monthly performance indicators for the main customs offices and of mechanisms to monitor these indicators closely; (ii) establishment, as of March 1, 2005, of an administrative procedure for weekly exchanges of taxpayer data among the Tax, Customs, and Treasury Departments; (iii) evaluation of exemptions from customs duties and completion, by end-March 2005, of a credible plan to reduce exemptions; (iv) assessment of tax arrears and development of a credible timetable for their clearance; and (v) effective participation, beginning in January 2005, of the pre-shipment inspection company in import valuation activities along the border with Nigeria. The government is determined to ensure the strict application of regulations governing the granting of customs exemptions, the estimated cost of which amounted to 1 percent of GDP in 2003. Quarterly evaluations will be made of the final destination of goods exempted from import taxation, and efforts to combat fraud in this area will be stepped up.

29. **In addition to the measures specified above, the government is preparing an operational strategy to further enhance revenue mobilization beyond 2005**. The measures under consideration include (i) a reduction of property tax rates; (ii) application of the VAT to domestic sales of secondhand goods; and (iii) introduction of a special environmental tax.

30. **The authorities intend to limit total expenditure to 18.8 percent of GDP in 2005 and current expenditure to the equivalent of 9.9 percent of GDP**. The wage bill is expected to be held at CFAF 63.1 billion, or 3.6 percent of GDP, against the backdrop of a net freeze on government employment, as has been the case over the past several years. Domestically financed investment will total 2.1 percent of GDP, compared with 1.9 percent in 2004, and the net reduction in domestic arrears is expected to amount to 1.1 percent of GDP.

31. **The government will ensure that budget appropriations for priority sectors are protected.** Spending funded by HIPC resources is expected to total CFAF 40.9 billion (2.3 percent of GDP) in 2005, including CFAF 36 billion for investment outlays. Management of these resources is to be streamlined and improved based on the conclusions of the (HIPC resources) audit carried out in late 2004. The government will reassess Niger's domestic payment arrears. To that end, the authorities will carry out an internal review of the government's arrears evaluation reports that have been issued in the past few years. The conclusions of the review will be communicated to Fund staff before end-February 2005, followed by an audit, if necessary, and the adoption of an arrears clearance strategy by end-June 2005.

32. **The overall budget deficit (cash basis) is estimated at about CFAF 152 billion (8.7 percent of GDP),** of which CFA 88.3 billion (5.1 percent of GDP) is covered by identified net external support. With net domestic financing limited to 0.2 percent of GDP, a residual financing gap is projected at CFAF 60.1 billion, or 3.4 percent of GDP. This amount would be covered by the European Union (CFAF 25 billion), the World Bank

(CFAF 20 billion), and France (CFAF 7 billion). The remaining CFAF 8 billion would be financed by the African Development Bank and other multilateral and bilateral partners, notably Belgium.

Monetary and credit policy, and financial sector reforms

33. **The BCEAO will continue to conduct monetary policy at the regional level, with the goal of preserving the parity of the CFA franc with the euro.** Consistent with this objective, the zone's international reserves will be maintained at an adequate level, and the inflation target will be compatible with that in the euro area. In this context, broad money in Niger is expected to increase by 10.6 percent in 2005, a growth rate somewhat higher than that of nominal GDP. While net bank credit to the government is expected to remain roughly unchanged, credit to the economy should rise by about 7 percent. The government will begin repaying the statutory advances from the central bank.[22] To that effect, the authorities will issue treasury bills on the regional financial market.

34. **The reform of the financial sector will aim to complete the privatization and/or restructuring of the CDN, the CPCT, and the ONPE, with financial and technical support from the World Bank.** A unit has been established to manage the financial sector reform under the World Bank-supported Financial Sector Development Project (PDSF). In 2005, the unit will privatize the CDN and restructure the ONPE and the CPCT. The PDSF will also underwrite the training needs of Niger's insurance companies to help strengthen their management. The government is well aware that, in addition to an appropriately streamlined regulatory framework, an efficient insurance sector plays a crucial role in private sector development.

B. Other Structural Reforms

35. **Outside the financial sector, Niger's structural reform agenda for 2005 will seek** to (i) continue strengthening public expenditure management under the PEMFAR, (ii) advance the privatization process in the electricity and petroleum importing enterprises, and (iii) initiate the reform of the judiciary. In the area of public expenditure management, the authorities aim to further improve the effectiveness and transparency of government financial operations. By end-June 2005, five provincial treasury offices will be computerized, and the authorities will activate the computer link between the Treasury and budget offices. Finally, the authorities will complete their ongoing assessment of the opening balances of government accounts for 1997–2003.

36. **In 2005, the privatization program will focus primarily on NIGELEC and SONIDEP.** The ongoing technical discussions with World Bank staff are aimed at completing these privatizations. Failing complete privatization, a reformulation of the

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[22] The decision to eliminate statutory advances and establish procedures for the issuance of regional securities was made by the WAEMU Council of Ministers in September 2002.

government's divestiture strategy for the two enterprises could be considered. The authorities are contemplating other structural reforms to further improve the business and investment climate, including an overhaul of the judiciary (the Judicial Reform Support Program), with technical assistance from the World Bank and other development partners.

37. **The government also plans to begin an in-depth assessment of the efficiency of Niger's public administration.** The review will focus on the size of the civil service, as well as on the financial situation of the National Retirement Pension Fund. The authorities plan to involve Niger's development partners in the evaluation, whose recommendations are expected to translate into measures to improve the effectiveness of government services in the medium term.

VI. PRSP Implementation

38. **The government is determined to implement its PRS as presented in the PRSP**. As the second annual PRSP progress report underscores, the results achieved so far in the education and health sectors are encouraging. School enrollment rates increased from 45 percent in 2002 to over 50 percent in 2003, while the proportion of the population living within 5 kilometers of a health center rose from 56 percent to 65 percent over the same period. The education and health shares of government expenditure steadily increased between 2001 and 2004, a trend that is preserved in 2005, reflecting the government's strategic choices as defined in the PRSP and integrated in the medium-term expenditure frameworks (MTEFs) for the two sectors.

39. **The second annual PRSP progress report singles out areas of weaknesses in the implementation of the PRSP,** including a limited understanding of the sources of growth and its impact on poverty, inadequate monitoring and evaluation capacities for the PRS, and lack of population and reproductive policies. The report stresses the government's determination to address these weaknesses in 2005, which would permit the PRSP to be updated in 2006. In the same vein, the government will undertake costing of the MDGs and issue its third annual PRSP progress report in 2005.

VII. Prior Actions and Program Monitoring

40. **Presentation of Niger's PRGF request to the IMF Executive Board was predicated on submission to Parliament of programmed revenue measures for FY 2005.** This prior action has been executed. Submitted to Parliament on December 21, 2004, the revenue measures were approved by the new legislature on January 4, 2005.

41. **The monitoring of the 2005 program will be based on quarterly performance criteria and benchmarks (Table 1), as well as structural performance criteria and benchmarks (Table 2).** The government will provide the IMF with the statistical data and information listed in the attached technical memorandum of understanding, on a monthly basis, as well as any information it deems necessary or that the Fund staff requests for program monitoring purposes. During the program period, the government will not introduce or strengthen restrictions on the making of payments and transfers for international current

transactions without Fund consent, introduce or modify any multiple currency practices, conclude any bilateral payment agreements that are incompatible with Article VIII of the Fund's Articles of Agreement, or introduce or strengthen import restrictions for balance of payments reasons.

42. **The government will conduct two program reviews with the Fund** to assess the progress made during the first year of the program; the first of these reviews will take place by mid-July 2005, the second by mid-January 2006.

Attachments

Table 1. Niger: Quantitative Performance Criteria and Indicative Targets for the Period January 01, 2005-December 31, 2005
(In billions of CFA francs)

	End-March 2005 Indicative targets	End-June 2005 Performance criteria	End-September 2005 Indicative targets	End-December 2005 Performance criteria
	Program	Program	Program	Program
A. Quantitative performance criteria and indicative targets (cumulative from December 31, 2004)				
Domestic financing of the government 1/ 2/	5.3	12.6	13.4	3.2
Basic budget balance (commitment basis, excl. grants) 3/ 4/	0.2	-5.8	-12.6	-14.6
Reduction in government domestic payments arrears 5/	4.2	8.4	13.4	18.4
Memorandum item:				
Exceptional external budgetary assistance 6/	1.4	7.2	20.9	41.9
B. Continuous quantitative performance criteria				
Accumulation of external payments arrears	0.0	0.0	0.0	0.0
External debt contracted or guaranteed by the government with maturities of 0-1 year 7/	0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government with maturities over one year 8/	0.0	0.0	0.0	0.0
C. Indicative targets (cumulative from December 31, 2002)				
Total revenue 5/ 9/	45.8	93.7	142.1	193.8
Wage bill 3/ 10/	15.7	31.5	47.3	63.1

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

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

2/ The ceiling on domestic financing of the budget will be adjusted if the amount of disbursements of external budgetary assistance, as defined in footnote 6, exceeds or falls short of program forecasts. If disbursements are less than the programmed amounts, the ceiling will be raised pro tanto in line with the observed shortfalls up to a maximum of CFAF 7.5 billion at end-March 2005, CFAF 7.5 billion at end-June 2005, CFAF 15.0 billion at end- September 2005, and CFAF 7.0 billion at end-December 2005. If disbursements of assistance exceed programmed amounts by more than CFAF 3.0 billion, the ceilings will be lowered pro tanto by any additional amount beyond this CFAF 3.0 billion unless the excess assistance is used for a reduction of domestic payments arrears in excess of the programmed reduction.

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

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

5/ Minimum.

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

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

8/ Excluding debt relief obtained in the form of rescheduling or refinancing; 60 percent minimum concessionality for new loans.

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

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

Table 2. Niger: Prior Action and Structural Performance Criteria and Benchmarks for the 2005 Program

Measures	Date	Status
Prior action		
Present revenue mobilization measures to Parliament, including: (i) extension of the VAT to processed food products (milk, sugar, wheat flour); (ii) reduction of VAT exemptions on water and electricity consumption; and (iii) application of the excise tax to soft drinks and sodas.		Executed
Structural performance criteria		
Apply the pricing system for petroleum products adopted on August 1, 2001.	Continuous	
Adopt monthly performance indicators for the main customs offices and consistently track compliance with these indicators by producing monthly implementation reports for submission to the IMF.	Continuous starting March 1, 2005	
Structural benchmarks		
Prepare a list of customs exemptions and a credible plan to reduce them.	End-March 2005	
Prepare a report clarifying the status of the government's domestic arrears and adopt a timetable for their elimination.	End-June 2005	
Computerize the financial operations of five provincial pay offices.	End-June 2005	
Implement the bidirectional Treasury-Budget computer link.	End-June 2005	
Establish a master list of expenditure directly related to poverty reduction and a monthly mechanism to track their execution.	By end-September 2005	
Prepare and adopt an operating strategy and detailed plan of action (based on the recommendations of the 2003 IMF technical assistance mission) to enhance the mobilization of tax revenues.	By end-September 2005	

(Translated from French)

INTERNATIONAL MONETARY FUND

NIGER

Technical Memorandum of Understanding

Niamey, January 10, 2005

1. This technical memorandum of understanding provides the definitions of the quantitative performance criteria and indicative targets for Niger's program under the Poverty Reduction and Growth Facility (PRGF) arrangement. The quantitative performance criteria and indicative targets for March, June, September, and December 2005 are set out in Table 1 attached to the government's memorandum of economic and financial policies (MEFP) dated January 10, 2005. This technical memorandum also sets out the data-reporting requirements for monitoring the program.

I. Definition of Terms

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

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

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

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

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

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

II. Quantitative Performance Criteria

A. Net Domestic Financing of the Government

Definition of the performance criterion

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

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

5. The scope of the net bank credit to the government as defined by the BCEAO includes all central government administrations. The targets are based on the variation of

stock in net bank credit to the government from December 31, 2004 to the date considered for the performance criterion or indicative target.

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

Adjustment

7. The **ceiling on net domestic financing of the government** will be subject to adjustment if disbursements of external budgetary assistance (excluding IMF financing and the assistance to be provided under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative), but including traditional debt relief), net of debt-service obligations (excluding IMF repayment obligations) and payments of external arrears, exceed or fall short of program forecasts. In the event of disbursements in excess of more than CFAF 3.0 billion, the ceiling will be adjusted downward pro tanto by the amount of the excess disbursements beyond the CFAF 3.0 billion, unless they are used to absorb domestic payments arrears. In contrast, if at the end of each quarter disbursements are less than the programmed amounts, the ceiling will be raised pro tanto by the amount of the shortfalls up to the limit (on a noncumulative basis) of CFAF 7.5 billion at end-March and end-June 2005, CFAF 15.0 billion at end-September 2005, and CFAF 7.0 billion at end-December 2005. The amount of external assistance provided is calculated from end-December 2004 onward.

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

Reporting requirement

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

B. Basic Budget Balance

10. The basic budget balance is defined as the difference between total revenue, excluding grants and revenue from the settlement of reciprocal debts between the government and enterprises, and total expenditure, excluding externally financed capital expenditures (including investment expenditures financed by resources freed up as a result of the HIPC Initiative assistance). The performance criterion and indicative targets are based on the cumulative basic budget balance since end-December 2004.

Reporting requirement

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

Adjustment

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

C. Reduction of Domestic Payments Arrears on Government Obligations

Definition of the performance criterion

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

Reporting requirement

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

D. Nonaccumulation of External Payments Arrears

Definition of the performance criterion

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

Reporting requirement

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

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

Definition of the performance criterion

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 60 percent. Nonconcessional external debt is defined as all debt with a concessionality level of less than 60 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 Dept adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. However, this performance criterion does not apply to financing provided by the Fund, to debt rescheduling in the form of new loans, and to treasury notes and bonds issued in CFA francs on the WAEMU regional financial market.

Reporting requirement

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.

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

III. Indicative Targets

A. Definitions

22. 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.

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

B. Reporting Requirement

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

IV. Additional Information for Program-Monitoring Purposes

A. Public Finances

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

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

B. Monetary Sector

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

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

C. Balance of Payments

27. 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

28. 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

29. The government will provide the following information:

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

F. Summary of Main Data Requirements

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

Niger: Relations with the Fund
(As of November 30, 2004)

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

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

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	9.41	100.0
Holdings	0.06	0.66

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
Enhanced Structural Adjustment Facility (ESAF) Arrangements	88.18	134.01

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Poverty Reduction and Growth Facility (PRGF)	12/22/2000	06/30/2004	59.20	59.20
ESAF	06/12/1996	08/27/1999	57.96	48.30
Stand-By Arrangement	03/04/1994	03/03/1995	18.60	11.11

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

	Forthcoming				
	2004	2005	2006	2007	2008
Principal	0.97	9.66	10.39	10.99	10.85
Charges/interest	0.27	0.62	0.57	0.51	0.46
Total	1.23	10.28	10.96	11.51	11.31

VII. Projected Payments to Fund, with Board-approved HIPC Assistance (SDR Million; based on existing use of resources and present holdings of SDRs.):

	Forthcoming				
	2004	2005	2006	2007	2008
Principal	0.54	5.47	5.33	7.44	9.22
Charges/interest	0.22	0.62	0.57	0.51	0.46
Total	0.76	6.09	5.90	7.95	9.69

VIII. Implementation of HIPC Initiative:

Commitment of HIPC assistance	Enhanced framework
Decision point date[23]	12/14/00
Assistance committed (NPV terms)[24]	End-1999
Total assistance (us$ million)	520.60
Of which: Fund assistance (US$ million)	27.80
(SDR equivalent in millions)	21.56[25]
Completion point date	April 2004
Delivery of Fund assistance (SDR million)	
Amount disbursed	21.56
Interim assistance	6.68
Completion point balance	14.88
Addition disbursement of interest income	2.54
Total disbursement	**24.10**

IX Safeguards Assessments:

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

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

[24] 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.

[25] Excludes commitment of additional enhanced HIPC assistance of SDR 9.664 million subject to receipt of satisfactory financial assurances from other creditors.

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

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

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

X. Exchange Arrangements:

Niger is a member of the West African Economic and Monetary Union (WAEMU). The exchange system, common to all members of the WAEMU, is free of restrictions on the making of payments and transfers for current international transactions. The union's common currency, the CFA franc, is pegged to the French franc. On January 12, 1994, the CFA franc was devalued by 50 percent in foreign currency terms, and the exchange rate was adjusted from CFAF 50 = F 1 to CFAF 100 = F 1. Effective December 31, 1998, the parity was switched to the euro at a rate of CFAF 655.96 = EUR 1. On June 30, 2004, the rate of the CFA franc in SDR terms was SDR 1 = CFAF 791.26.

XI. Article IV Consultation:

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

XII. Technical Assistance:

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

XIII. Resident Representative:

The Fund has had a Resident Representative in Niger since 2000. The position is currently filled by Mr. Jemma Dridi.

Niger: Relations with the World Bank Group

(As of December 31, 2004)

Partnership in Niger's development strategy

1. Niger's poverty reduction strategy paper (PRSP), which was adopted in January 2002, presents a thorough poverty diagnosis and identifies key development challenges. The government reconfirmed the main thrust of the PRSP through a second progress report that prepared in a consultative way involving all stakeholders and was validated by the Government. Bank and Fund staff are currently preparing a Joint Staff Advisory Note (JSAN). The PRSP outlines a sound strategy for poverty reduction centered around four strategic pillars: (i) a macroeconomic framework ensuring economic and financial stability while promoting sustained and sustainable economic growth; (ii) the development of productive sectors, especially in rural areas; (iii) the development of basic social services; and (iv) the promotion of good governance and the strengthening of human and institutional capacities. The government has begun using the PRSP to improve coordination of development efforts in the country, including donor-supported activities. To that end, a donors' forum was held in Niamey on June 7-8, 2003. At this forum, donors reaffirmed their endorsement of the PRSP as a strategic anchor for their assistance, and agreed on a progressive shift from project to program financing, and the need for further coordination and harmonization of policies and procedures. In this regard, the signing of a protocol relating to coordination among all donors supporting the education sector is a positive outcome and a great step forward. A revised PRSP is scheduled for preparation in 2006. In the meantime, the Government is committed to prepare a third PRSP Progress Report in 2005.

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

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

IMF-World Bank collaboration in specific areas

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

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

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

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, supported by a Bank credit. However, the privatization of the electricity utility (NIGELEC) has been delayed mainly due to the difficulty in finding private companies ready to invest US$60-100 million required for expansion and rehabilitation of the power system. The privatization of the whole sale petroleum product distribution company (SONIDEP) has failed in part because of difficulties in finding sound foreign private partners interested in investing in Niger. With Bank's assistance, the authorities are revisiting their objectives and approach in private provision of infrastructure. The Bank's policy dialogue with the government on structural reforms is also being conducted in the context of the third Public Expenditure Adjustment Credit (PEAC III) currently under preparation. The Fund is also a key partner in this policy dialogue and has included elements of the public enterprise reform agenda, such as the continuous implementation of a petroleum pricing system .

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

6. **Social sector reforms.** Improvement of access for the poor to social services is one of the strategic pillars in the PRSP. The Bank supports this objective through ongoing and new lending operations, which combine project assistance with program support, as well as analytical work, notably on population, gender, and poverty. There has also been close collaboration between the Bank and the government in the design and implementation of reforms in the education and health sectors, such as the introduction of decentralized recruitment of teachers ("volunteer teachers") and health workers on a contractual basis. This contractual recruitment program has helped address issues of human resource shortages and supply-side constraints while keeping payroll costs sustainable. PEAC III would support the ongoing reforms in education sector. The Bank has also assisted the government in the preparation of a ten-year development plan in the education sector (PDDE) that is based on the PRSP and includes a medium-term expenditure framework for the basic education sector. It has also provided assistance and played a key role in Niger's eligibility for participation in the Education for All—Fast-Track Initiative. In addition, a post primary education study is underway and it will be completed in May 2005. Once the strategy on post primary education is in place, it should be integrated with the PDDE. In the health sector, the Bank has worked with the government on the preparation of the Strategic Orientations for Health Sector Development. The Government adopted a ten-year health policy strategy (2002-2011). Its

main objectives are to further improve access to health services (from 47% in 2000 to 80% in 2011) and to reduce the incidence of infectious diseases, by promoting new approaches, including preventive action. With a view to make this strategy more operational, the Government has initiated the preparation of a five-year development plan for the sector. The Bank is currently supporting the preparation of a health SWAP which will include a reproductive health component.

7. **Poverty monitoring.** The Bank worked closely with the government in preparing a poverty profile that served as the basis for the PRSP poverty diagnosis. While this diagnosis has been judged as thorough and comprehensive by the joint staff assessment (JSA), it is based on household survey data from 1993. Updating the existing database is therefore an important concern of the government. A nationwide census has been completed recently, and preparations for a new household survey are under way. A survey for Niamey was completed in 2004. The Bank, together with other donors, is also advising the authorities on strengthening institutional arrangements for the monitoring and the evaluation of poverty in the context of the PRSP. In addition, the Bank is preparing a Participatory Poverty Assessment (PPA) and a Poverty and Social Impact Analysis (PSIA) of revenue-enhancing measures, as a contribution to the government's efforts to update and strengthen the knowledge base on poverty and social development.

Areas where Bank and Fund share the lead

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

9. **Debt sustainability**. The Bank and Fund have supported the government's efforts to reach the HIPC completion point in April 2004. The need to build technical and institutional capacity for managing Niger's external debt has been stressed by the Fund and the Bank. Several measures 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. PEAC III would support measures to ensure full integration of HIPC resources into sectoral programs.

10. **Budgetary and public expenditure reforms.** Strengthening public finances is a prerequisite for success of Niger's broader reform agenda. The Bank and Fund share the lead in this area. Both institutions have played key roles in helping the government reduce domestic and external arrears. While the Fund is leading the dialogue on revenue-enhancing measures, the Bank is concentrating its efforts on budgetary reforms, in particular in the area of public expenditure. The Fund is also making key contributions to improving budgetary processes: a number of important measures, such as preparation of budget review laws and computerization of budgetary expenditure, have been included as structural benchmarks in the previous PRGF arrangement. The Bank has supported budgetary reforms through PEAC I and II. Consolidating and deepening these reforms would be a critical objective of PEAC III.

In addition, the Bank intends to help strengthen Niger's fiduciary framework through analytical work on public finance issues, in particular the Public Expenditure Management and Country Financial Accountability Assessment (PER/CFAA) and the Country Procurement Assessment Report (CPAR).

11. **Financial sector reform**. The Government launched a comprehensive financial sector reform program in 2002. Supported by a World Bank project, the program covers the regulatory and legal environment, the banking sector, micro-finance, postal financial services and social security.[26] 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) will be either privatized or liquidated; the Community Lending Bank (CPCT) will 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 will be strengthened. The post office will be split into two entities, Niger Post, for pure mail transactions, and Fina Post, a financial services affiliate. Finally, an actuarial audit was conducted of the CNSS, the social security institution.

12. **Civil service reform and decentralization.** The reform and modernization of the civil service is an important element of Niger's PRSP, yet there has been little progress in this area so far. The authorities are currently making an effort to put in place an integrated civil service database. By allowing a more transparent and effective management of the civil service, this database should improve control over the wage bill. Controlling the wage bill is important for maintaining fiscal balance, as recognized by the previous PRGF arrangement, which has set quantitative benchmarks for the wage bill. Planning for the implementation of the legal framework for political decentralization of 1996 has recently gained momentum. The first local elections took place on July 24, 2004. However, important concerns regarding this reform remain, such as the lack of capacity at the local level and the fiscal implications of decentralization. To help the government address some of these concerns, the Community Action Program will help build capacities in rural communities in planning, implementing, and monitoring micro-development projects.

Areas in which the Fund leads

13. **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

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[26] The Financial Sector Technical Assistance Loan was approved by the Board in February 2004.

and overall positive fiscal performance. A second PRGF is underway. In the context of the macroeconomic framework underlying the PRSP, the Bank has provided technical assistance in building capacity in the Ministry of Finance and Economy to monitor economic performance and macroeconomic modeling.

14. **Fiscal policy**. Fiscal consolidation is a key objective of the PRGF and is supported by a number of performance criteria and benchmarks. Increasing budgetary revenue in order to progressively lower the government's reliance on external assistance is particularly important, given Niger's low level of revenues, compared with 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, in particular in the key sectors of education, health, and rural development.

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

World Bank Group strategy

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

17. As of January 1st, 2005, the World Bank lending portfolio in Niger consisted of nine IDA operations, with a total commitment of US$289.4 million. The CAS includes a base-case IDA lending program of US$238 million for FY 03 to FY 05. IDA has provided critical financial and budgetary assistance to the Government. In terms of gross disbursement, IDA assistance has been important averaging about 1.5 percent of GDP per year during the CAS implementation period. IDA assistance has also helped reduce the volatility in ODA by compensating short-term declines in assistance from other partners. IDA has also been responsive to exogenous shocks. For instance, an Africa Emergency Locust Project (AELP) aiming at fighting the locusts infestation in West Africa will be delivered in FY05. All in all, IDA financing may exceed the US$238 million of the CAS base case. The Bank's nonlending program for the CAS period is designed with a view to further assisting Niger in refining its Poverty Reduction Strategy and building capacity for a gradual transition toward programmatic lending.

Table 2. Niger: Status of World Bank Portfolio (all IDA)
(In millions of U.S. dollars, as of January, 1st 2005)

Projects under implementation					
	Commit. amount (US$ mil)	**Devt. Object. Rating**	**Impl. Progress Rating**	**Approval Date**	**Closing Date**
Privatization/Regulatory Reform TA	$18.6	S	S	15-09-98	31-12-04
Public Expenditure Adjustment Credit II	$65	S	S	23-10-03	31-12-04
Agro-Pastoral Export Promotion	$10.3	S	S	01-06-00	31-10-05
Water Sector	$48	S	S	03-05-01	31-12-06
Private Irrigation Promotion	$38.7	S	U	19-03-02	31-12-07
Community Action Program	$39	S	S	20-03-03	30-06-07
Basic Education	$30	S	S	17-07-03	31-12-07
Multisector STI/HIV-AIDS	$25	S	S	04-04-03	30-06-08
Financial Sector TA	$14.8	S	S	19-02-04	30-04-08
TOTAL	**$289.4**				

18. The CAS outlines the Bank's Analytical and Advisory Activities (AAA) for the coming years. The AAA program will help the government refine the PRSP by designing policy responses to issues raised in the joint staff assessments of the PRSP and PRSP progress report, such as poverty analysis, gender, population growth, and sources of growth. The AAA program also aims at reinforcing public sector capacity in pursuit of the PRSP's objectives and in preparing Niger for the transition to consolidated programmatic lending. In support of these objectives, sector work on population, rural development, Public Expenditure Management and Financial Accountability Review (PEMFAR) and CPAR have been completed. Others are ongoing, including a Participatory Poverty Assessment (FY05) and a Country Economic Memorandum (CEM) (FY 06).

19. The Bank is committed to enhancing external partnerships in the framework of the government's current efforts to mobilize and coordinate donor support for PRSP implementation. Besides the strong partnership with the Fund, the Bank is collaborating with a number of donors in different areas, including the European Union, the African Development Bank (AfDB), the United Nations Development Program (UNDP), and key bilateral donors involved in development issues in Niger.

Prepared by World Bank and IMF staff. Questions may be addressed to Mr. Pedro Alba, Country Director for Niger, at 458 2246; or Emmanuel Pinto Moreira, Country Economist for Niger, at 458-1834; Thomson Fontaine (Economist, IMF).

Niger: Core Statistical Indicators
(As of November 30, 2004)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt/ Debt Service
Date of latest Observation	Current	Sept.. 2004	Sept.. 2004	Sept. 2004	Sept.. 2004	Nov. 2004	Oct. 2004	Dec 2003	Dec. 2003	Dec. 2003	Dec. 2003	Dec. 2003
Date received	Current	11/2/04	11/2/04	11/2/04	11/2/04	12/16/04	Nov 2004	May 2004	May 2004	May 2004	May 2004	May 2004
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Variable	Monthly	Annually	Annually	Monthly	Annually	Quarterly
Frequency of reporting	Monthly	Variable	Variable	Variable	Variable	Variable	Monthly	Variable	Variable	Variable	Variable	Variable
Source of update	EIS/FIN 1/	BCEAO 2/	BCEAO2/	BCEAO2/	BCEAO2/	BCEAO2/	Statistics directorate	BCEAO2/	BCEAO2/	Ministry of Finance	Ministry of Finance	Ministry of Finance
Mode of reporting	On-line	e-mail	e-mail	e-mail	e-mail	e-mail	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	3/	3/	3/	3/	3/	3/	3/	3/	3/	3/	3/
Frequency of Publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Monthly	Annually	Annually

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

Press Release No. 05/20
FOR IMMEDIATE RELEASE
February 2, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$10 Million PRGF Arrangement for Niger

The Executive Board of the International Monetary Fund (IMF) has approved a three-year arrangement under the Poverty Reduction Growth Facility (PRGF) for Niger in an amount equivalent to SDR 6.58 million (about US$10.0 million) to support the government's economic program into 2008. The first disbursement under the arrangement will amount to SDR 940,000 (about US$1.4 million).

Following the Executive Board's discussion of Niger, on January 31, 2005, Agustín Carstens, Deputy Managing Director and Acting Chair, stated:

"The Nigerien authorities continued to strengthen macroeconomic policy implementation in 2004, including through a reduction in fiscal imbalances, notwithstanding elections-related expenditure pressures and a significant slowdown in economic growth caused by a drought. They also continued to make progress in the implementation of their poverty reduction strategy (PRS). However, higher food and fuel prices raised end-period inflation to about 4 percent, from negative 1.5 percent the previous year, and there were also some delays in implementing public and financial sector reforms.

"While Niger has made welcome progress in strengthening macroeconomic stability and liberalizing its economy under the previous PRGF arrangement, major challenges remain. The main challenges going forward are: to attain stronger and broad-based economic growth in a low-inflation environment, with reduced vulnerability to external shocks; and to significantly reduce poverty so as to accelerate progress toward the Millennium Development Goals. This will require continuation of prudent macroeconomic policies, a vigorous implementation of structural reforms, and development and costing of coherent strategies and programs to boost activity in the growth-supporting sectors of the economy, especially agriculture.

"The authorities' medium-term program for 2005-07 seeks to strengthen macroeconomic stability by effecting gradual reduction in fiscal imbalances, including strengthened revenue mobilization. The authorities have taken an important step in this regard by introducing, under a revised 2005 budget, core fiscal measures that will expand the tax base. These will be complemented by additional measures to strengthen tax and customs administration. With technical assistance from the Fund, the authorities are also developing a broader strategy that will underpin the revenue effort in the medium to long term. Niger's new PRGF-supported program contains a prudent expenditure stance, including with regard to the wage bill, and an explicitly defined pro-poor focus.

“An important element of the structural reform agenda is to move forward with needed improvements in the public and financial sectors. In consultation with the World Bank, the authorities will take stock of their disengagement strategies regarding the electricity and petroleum importing companies, with a view to addressing existing difficulties and expediting reform in this key area. Efforts to enhance efficiency in the public sector also include implementation of an action plan to continue improving public resource management, based on the recommendations of a Public Expenditure Management and Financial Accountability Review that has been completed with technical assistance from the World Bank and the European Union. Finally, a recently established management unit to oversee reform of problematic financial institutions is expected to bring about the long-awaited privatization of the state-owned Credit du Niger (CDN) and restructuring of the National Post and Saving Institution (ONPE).

“Niger has made important achievements under the President’s Special Program for Poverty Reduction, including expanding health and education coverage. Nevertheless, further efforts are necessary to strengthen the PRSP. The authorities are committed to addressing identified weaknesses in the design and implementation of the strategy, which will pave the way for the planned updating of the PRSP in 2006. The authorities recognize that successful completion of their new medium-term reform agenda is predicated on continued strengthening of Niger’s weak institutional capacity, in collaboration with development partners,” Mr. Carstens said.

The PRGF is the IMF’s concessional facility for low-income countries. PRGF loans carry an annual interest rate of 0.5 percent, and are payable over 10 years with a 5½-year grace period on principal payments.

ANNEX

Background

Niger has made substantial economic progress over the past several years, but poverty is widespread and growth, though improved, remains short of the rate required to reach the Millennium Development Goals.

Under the previous three-year PRGF arrangement, which Niger completed on June 28, 2004, macroeconomic imbalances were reduced and key structural reforms were implemented to improve the supply response of the economy. Growth performance strengthened and inflation remained at low levels. And in April 2004, Niger reached the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, with debt relief totaling US$663.1 million in net present value terms. Macroeconomic imbalances remain relatively large, however, and the economy is susceptible to droughts, terms of trade volatility, and uncertain aid flows.

The key challenge facing the country is to create conditions for stronger and sustainable growth to make poverty reduction more effective. To meet this challenge, the government's strategy focuses on strengthening macroeconomic stability, expanding access by vulnerable groups to social services, building institutional capacity and improving governance, and supporting sectors with high growth potential, such as agriculture, tourism, and mining.

Program Summary

Niger's PRGF-supported reform program focuses on fiscal consolidation, public and financial sector reforms, and development of social and priority sector strategies.

Key macroeconomic objectives for 2005-07 are to achieve an annual real GDP growth rate of about 4 percent; limit annual inflation to under 3 percent; and reduce the external current account deficit (excluding official transfers) by 1 percent of GDP to about 6.3 percent of GDP by 2007.

On the fiscal side, the government will seek to gradually reduce fiscal imbalance so as to raise its contribution to domestic savings and investment. Core revenue-enhancing measures introduced under the revised 2005 budget will be critical to this effort. Overall spending is projected to remain largely unchanged as a percent of GDP, with shifts in spending favoring priority socio-economic programs.

The structural reform agenda will focus on achieving a more efficient allocation of resources and on improvements in economic governance. The government will continue reform of public administration and revisit its privatization program, with the technical support of the World Bank. It will also take steps to strengthen financial intermediation by expediting financial sector reforms.

Finally, the authorities will seek to develop and implement sectoral strategies, in line with the country's Poverty Reduction Strategy. The government expects to complete during 2005 the third report on the implementation of the Poverty Reduction Strategy Paper (PRSP) and to outline the steps and costs required to achieve the Millennium Development Goals.

Niger: Selected Economic Indicators 2002-07

	2002	2003	2004	2005	2006	2007
			Est.		Projections	
	(Annual percentage change, unless otherwise indicated)					
GDP at constant prices	3.0	5.3	0.9	4.2	4.2	4.3
GDP deflator	3.0	-0.4	1.6	2.5	2.0	2.0
Consumer price index (annual average)	2.7	-1.8	0.3	2.4	2.0	2.0
Consumer price index (end of period)	0.6	-1.5	3.7	2.0	2.0	2.0
Exports, f.o.b. (units, CFA francs)	-2.5	-0.1	10.9	12.1	2.1	6.1
Imports, f.o.b (units, CFA francs)	6.4	5.3	7.3	10.3	3.9	3.8
Export volume	-4.0	-1.3	9.2	10.2	1.6	4.1
Import volume	4.4	1.2	2.4	3.8	2.5	3.0
Terms of trade (deterioration -)	-0.4	-3.7	-3.1	-2.1	0.2	-0.1
Nominal effective exchange rate (depreciation -)	1.4	2.5	…	…	…	…
Real effective exchange rate (depreciation -)	2.1	-0.8	…	…	…	…
Gross official reserves (in months of imports)	2.8	2.0	2.2	2.2	2.4	2.5
Domestic credit	10.9	7.9	6.6	4.7	…	…
Credit to the government (net)	3.7	2.6	4.1	0.8	…	…
Credit to the economy	7.1	5.3	2.4	3.8	…	…
Money and quasi money	-0.4	-13.4	24.7	10.6	…	…
	(In percent of GDP, unless otherwise indicated)					
Total revenue	10.6	9.9	10.5	11.1	11.6	12.1
Total expenditure and net lending	18.4	17.4	18.2	18.8	19.1	18.9
Primary budget balance	-6.3	-6.4	-7.0	-7.1	-6.8	-6.2
Basic balance (excluding grants)	-1.8	-2.0	-1.1	-0.8	-0.2	0.2
Overall balance (commitment basis, excluding grants)	-7.7	-7.5	-7.6	-7.7	-7.4	-6.7
Gross investment	14.2	14.2	15.9	16.7	17.1	17.4
Gross national savings	7.6	8.2	9.9	9.5	10.2	11.1
External current account balance (excluding grants)	-7.8	-7.6	-7.3	-7.2	-6.9	-6.3
External current account balance (including grants)	-6.5	-6.0	-6.0	-7.2	-6.9	-6.3
External public debt (end of period)	76.4	62.7	62.4	63.0	62.8	61.9

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

Statement by Damian Ondo Mañe, Executive Director for Niger
January 31, 2005

I. Introduction

On behalf of my authorities, I would like to reiterate my appreciation to Management and staff for their advice and their continued support to Niger in its efforts to address the many challenges facing the economy. Niger also reached the HIPC completion point in 2004 and benefited from enhanced HIPC debt relief.

Presidential elections were held in October 2004, and President Tandja was reelected. The reform efforts started with the first PRGF and which had the full support of the authorities and people will be pursued steadfastly. The objective remains the reduction of poverty through the continued implementation of reform measures.

Notwithstanding the low administrative and institutional capacities in Niger, my authorities are of the view that their successful implementation of reforms supported by the Fund's PRGF over the past few years has been critical to the progress achieved so far. They would like to pursue this close collaboration with the Fund in the context of a successor PRGF Arrangement which could help to consolidate the progress made. To this end, in line with the PRSP, my Niger authorities envisage to implement the remaining reforms that will boost productivity and diversify the economy. They believe that this strategy combined with adequate support from the development partners, will facilitate Niger's achievement of the Millennium Development Goals (MDGs).

II. Recent Developments and Performance under the former PRGF

Macroeconomic conditions were broadly satisfactory during the period 2001-03, thanks to good fiscal management, an increase in public investment expenditure, and higher productivity gains resulting from the structural reforms. Annual average GDP growth over the period was 5 percent. Inflation declined from 4 percent in 2001 to – 1.5 percent in 2003, as a result of the good weather that improved agricultural production and the prudent monetary policy of the regional central bank, the BCEAO.

On the fiscal front, improvements in fiscal management under the program helped contain the basic fiscal deficit to around 2.4 percent of GDP on average. Nonetheless, revenue levels at less than 10 percent of GDP have remained low. In view of improved expenditure control, overall government spending was contained. It is to be noted that social spending (health and education) rose slightly to 5.2 percent in 2003. At the same time, the government reduced its stock of domestic arrears from 10.6 percent of GDP at end-2000 to 3.1 percent of GDP at end-2004.

On the **monetary and financial fronts,** the good implementation of budgetary policy described above limited government borrowing from the banking sector, facilitating a moderate increase in credit to the private sector. The regional Central Bank implemented a prudent monetary policy consistent with the CFA franc's parity vis-à-vis the Euro and aiming at preserving the financial health of banking system in the member countries. Accordingly, the health of the banking system remained broadly satisfactory, and almost all commercial banks are in compliance with the prudential ratios required by the regional Banking Commission.

In the **structural area,** although reforms have been slower than envisaged, the telecommunications company, SONITEL, was privatized and the sector was further liberalized with the licensing of two new cellular phone operators. The government also signed a 10-year contract with a private company for the production and distribution of safe water. It also set up a multisector regulatory entity in 2003. However, the privatization of the petroleum importing company, SONIDEP, was delayed despite the government's efforts to finalize the process as agreed with the World Bank. My authorities have solicited new bids which resulted in the sale of 6.9 percent of its shares in SONIDEP to oil importers in the private sector. The privatization of the electricity company, NIGELEC, proved difficult, due to the substantial amount of financing needed for rehabilitation and expansion and the lack of interest expressed by potential regional and international buyers. The restructuring of state-owned companies in the financial sectors, mainly the National Postal and Savings office (ONPE) and two other financial institutions was also delayed.

In view of the progress achieved and the authorities' good performance under the PRGF arrangement, Niger reached the completion point under the HIPC Initiative in April 2004. However, macroeconomic developments in 2004 were mixed contrasting with the significant progress made under the last program between 2001 and 2003. A drought, a locust plague, and the recent rise in energy prices have limited real GDP growth to around 1 percent, against an initial forecast of 4.1 percent. Inflation is estimated to be around 4 percent. On the fiscal side, total revenue mobilization increased slightly reflecting improvements in revenue administration. The government has also implemented measures to improve expenditure management. MTEFs have been finalized for the health and education sectors and used for the preparation of the 2005 budget. In addition, the government has begun to implement measures identified in the Public Expenditure and Financial Accountability Review (PEMFAR) conducted with the assistance of the World Bank and the European Union.

III. New PRGF Program

Notwithstanding the progress in stabilizing the macroeconomic framework and liberalizing the economy, the authorities are fully committed to address the major challenges facing the economy in the context of the medium-term program covering the period 2005 to 2007.

Aligned to the PRSP objectives, **the macroeconomic goals of the successor PRGF program** covering the period 2005-07 are to (i) achieve average annual GDP growth of at least 4 percent; (ii) keep the annual inflation rate below 3 percent; and (iii) reduce the external current account deficit (excluding official transfers) to 6.3 percent of GDP by 2007 against 7.3 percent in 2004. To reach the objectives described above, the government intends to direct its strategies on the development of irrigation infrastructure in order to improve the productivity in agriculture and livestock, and reduce the vulnerability to droughts. It also intends to implement the strategy of export diversification by intensifying the mineral and oil explorations and promoting tourism activities.

In the fiscal area, continued efforts at fiscal consolidation will be the cornerstone of the medium-term strategy. To this end, my authorities are determined to take steps to increase revenues and pursue a prudent spending policy while keeping social outlays in line with their PRSP objectives. To this end, the basic fiscal balance will improve gradually over the same period, to reach an equivalent of 0.2 percent of GDP in 2007. To increase revenue, the government intends to reform the tax system and improve tax and customs administration, with a view to broadening the tax base and improving the performance of the revenue agencies. My authorities are requesting TA from various development partners to achieve these revenue objectives. They would also like to receive assistance from the IMF's FAD and the AFRITAC-West to enhance the capacities of their customs and tax administrations. The government will continue improving the prioritization of public spending, in accordance with the PRSP relying on such tools as the MTEFs and the PEMFAR. On public expenditure management, the government envisages to complete the computerization of five regional treasury offices, create a computer link between the Treasury and the Budget Department and set up a committee to review the outstanding domestic financial claims of the government. My authorities are well aware of the necessity to conduct an appropriate debt management policy so as to preserve the country's debt sustainability. To this end, they will continue to rely mainly on grants and concessional loans.

As regards structural reforms, my authorities are committed to press ahead with the implementation of the reform agenda, including privatization. In addition, they will undertake a review to appreciate the adequacy between the size and the incentive mechanism of civil servants, and the services delivered. As for the privatization program, my authorities plan to continue technical discussions with the World Bank with a view to completing the privatization of NIGELEC and SONIDEP Concerning the creation of an environment conducive to the development of private sector activities, the government plans to undertake other structural reforms including the reform of the judiciary system. In the financial sector, the establishment of a unit to manage the reform process should help to make further stride in the privatization of CDN and the restructuring of ONPE and CPCT.

IV. Program For 2005

The key macroeconomic objectives of the program for the first year are to achieve real GDP growth of about 4 percent while keeping the inflation rate below 3 percent.

In the **fiscal sector**, the 2005 budget contains several measures, which are consistent with the Medium-term objectives. On the revenue side, the measures envisaged are (i) the extension of the VAT to several food products such as milk, sugar, wheat flour, (ii) the reduction of VAT exemptions on water and electricity consumption, and (iii) the imposition of an excise tax on soft drinks and sodas. The government intends to implement additional measures to strengthen the efficiency of tax and customs administration and improve tax collection. To this end, monthly performance indicators will be set for the main customs offices along with a credible plan to reduce exemptions and combat tax fraud. On the expenditure side, the wage bill is expected to be contained to 3.6 percent of GDP and the reduction of domestic arrears will be pursued further. The government will also ensure that budget allocations for priority sectors are protected.

As regards monetary policy, the Central Bank of West African States (BCEAO), will continue to conduct a policy consistent with the objective of low inflation while preserving the parity of CFA to the Euro. In this context, broad money in Niger is expected to increase by 10.6 percent in 2005. While net bank credit to the government is expected to remain roughly unchanged, credit to the economy should rise by about 7 percent. My authorities intend to issue treasury bills on the regional financial market to repay the statutory advances from the central bank.

Concerning structural reforms, Niger's agenda for 2005 seek to (i) continue strengthening public expenditure management under the PEMFAR, (ii) advance the privatization process of the electricity and petroleum importing companies, and (iii) initiate the reform of the judiciary system. In the area of public expenditure management, my authorities intend to further improve the effectiveness and transparency of government financial operations. As for the financial sector reforms**,** a unit has been established with the assistance of the World Bank to manage the financial sector reform. In 2005, the unit will privatize the CDN and restructure the ONPE and the CPCT. This unit will also assess the training needs of Niger's insurance companies to help strengthen their management.

V. Poverty Reduction Strategy

The **PRSP** remains a key instrument for the authorities' policies and actions to alleviate poverty in Niger. While the second annual progress report underscores the commendable results obtained on the education and health sectors, it has also highlighted some areas where further improvements are needed. These include the absence of identification of the sources of growth and their impact on poverty, the inadequate monitoring and evaluation capacities of the PRS, and the lack of population and reproductive policies. My authorities intend to take into account the recommendations made and update their PRSP.

VI. Conclusion

To reiterate, Niger has under past Fund-supported programs, implemented sound macroeconomic policies and achieved a remarkable economic performance. These achievements constitute a strong foundation for the full implementation of the poverty reduction strategy. Despite the progress made, there remains daunting challenges that need to be addressed in order to boost economic growth, diversify the economy so as to mitigate major risks such as drought and other exogenous shocks, and reduce poverty. My authorities are strongly committed to continue the reform process. They would like to build on past and recent achievements to consolidate their reform efforts and put their economy on a sustainable growth path. In so doing, they call for the continued support of timely and predictable assistance from the international community to which they would like to renew their gratitude. They are also requesting a new three-year PRGF Arrangement which will be paramount to help Niger attain the MDGs. However, in view of their large financing needs over the medium term, my authorities would have preferred a much higher access PRGF. They are hopeful that donors will continue to give them their full support.