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Niger: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

December 6, 2006

The following item is a Letter of Intent of the government of Niger, which describes the policies that Niger intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Niger, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Niamey, December 6, 2006

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

Dear Mr. de Rato:

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

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

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

4. The government requests the completion of the third review of the PRGF-supported program and waivers for the nonobservance of two performance criteria. It consents to the publication by the Fund of this letter of intent, the MEFP, the technical memorandum of understanding, and the staff report. The government considers that the policies presented in the MEFP are adequate to attain the objectives of the program. It will take any further measures that may become appropriate for this purpose. Niger will consult with the Fund on

the adoption of any policy measures in advance of any revisions to the policies contained in the MEFP, in conformity with the rules of the IMF policies on such consultation.

Sincerely yours,

/s/

Ali Lamine Zeine
Minister of Finance and Economy

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

ATTACHMENT I**NIGER: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES
OF THE GOVERNMENT OF NIGER FOR 2006-2007****I. RECENT DEVELOPMENTS AND PROGRAM IMPLEMENTATION****Background and Macroeconomic developments**

1. Economic and social conditions continued to improve since the last quarter of 2005. The 2005 harvest late in year was one of the largest on record, pushing real GDP growth up to 7 percent for the year as a whole, after a decline of 1 percent in 2004. This led to significant declines in food prices in the last quarter of 2005; on the basis of data for the first 8 months of 2006, inflation is projected at about 0.3 percent on average in 2006. Good rains in July-September have resulted in a normal harvest in late 2006. These conditions have helped reduce the number of vulnerable people from 1.8 million in early 2006 to about 1 million in September. Overall economic growth in 2006 is estimated at some 3.5 percent.
2. In 2006, the external current account deficit is estimated at 7.5 percent of GDP, broadly unchanged from 2005, as an increase in the oil import bill of CFAF 16 billion would be offset by lower cereal imports, which were high in 2005 because of a drought. In addition to high fuel prices in 2006, the higher oil import bill also reflects increased import volume aimed at rebuilding domestic stocks after their depletion in 2005 because of production interruptions in regional refineries. Taking into account project grants and loans and budget support, the net foreign assets of the central bank (excluding the impact of debt relief provided by the Fund under the MDRI of about CFAF 60 billion) would remain unchanged from its 2005 level.
3. Bank credit to the economy grew strongly during January-September (21.6 percent) reflecting support for new investments in key sectors such as mining and telecommunication; this followed 20 percent increase in credit in 2005. The expansion of credit also reflects the activities of new banks. Broad money expanded by 12.6 percent during January-July, with a 17 percent increase in currency in circulation. Net foreign assets of the banking system (excluding the impact of MDRI) remained broadly unchanged during the first 7 months of 2007. Broad money growth is expected to slowdown to some 6 percent by end-year.

Fiscal Policy

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

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

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

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

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

would reach some CFAF 32 billion in 2006, relative to CFAF 51 billion estimated in March 2006.

Public expenditure management

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

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

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

II. ECONOMIC AND FINANCIAL POLICIES FOR THE REMAINDER OF 2006

Fiscal policy

11. The fiscal program for 2006 has been revised to incorporate slower execution of certain expenditure programs and the impact of debt relief (CFAF 3 billion) provided by the International Development Association (IDA) and the African Development Fund. Total

expenditure (excluding foreign-financed projects) is estimated to be CFAF 27.8 billion lower than envisaged under the program (1.5 percent of GDP). This reflects lower spending on the food security program, lower interest payments to multilateral creditors in view of MDRI, and a slower execution of investment because of capacity constraints. The revenue mobilization effort will continue on the basis of the medium-term action plans of the customs and tax directorates. The tax revenue target for the year is CFAF 203 billion, 2 billion higher than programmed, while overall revenue is targeted at CFAF 210 billion (equivalent to 11.3 percent of GDP), in line with the program objective. In customs administration, key measures envisaged for end-December 2006 are: (i) finalizing an electronic interconnection between the border posts of Torody and Gaya and Niamey to ensure a rigorous monitoring of the goods that are processed in the Niamey main custom offices (structural benchmark); and (ii) establishing units of ex-post control of imports valuations and exemptions in the three largest regional customs offices (performance criterion). The tax department will continue its efforts to contain the number of non filers at the medium size tax payer office (MTO); however, the initial target of 10 percent by end December 2006 cannot be observed due to an increase in the number of tax payers now under the office, many of which are inactive; accordingly, the target has been revised to 25 percent (structural benchmark). More efforts will be made to control the final use of tax-exempted goods, including by strengthening the coordination between the customs and the tax departments.

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

Structural reforms

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

CFAF 15.2 billion. For the remainder, a reduction plan will be finalized by end-December 2006 (structural benchmark).

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

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

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

III. ECONOMIC AND FINANCIAL POLICIES FOR 2007

A. Macroeconomic Framework

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

B. Fiscal Policy

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

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

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

Reforms in customs/tax administration and public expenditure management

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

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

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

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

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

C. Money, Credit and Financial Sector Reforms

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

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

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

D. External Debt Sustainability and Management

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

E. Other Structural Reforms and PRSP Issues

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

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

IV. PROGRAM MONITORING

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

Table 1a. Niger: Quantitative Performance Criteria and Indicative Targets for the Period January 01, 2007-December 31, 2007
(Billions of CFA francs)

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

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

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

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

³Minimum.

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

⁵Excluding ordinary credit for imports or debt relief.

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

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

⁸Minimum. 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.

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

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

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

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

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

²The ceiling on domestic financing of the budget will be adjusted if the amount of disbursements of external budgetary assistance, as defined in footnote 4, exceeds or falls short of program forecasts.

If disbursements are less than the programmed amounts, the ceiling will be raised pro tanto, up to a maximum of CFAF 7.5 billion at the end of March, June and September 2006, and up to a maximum of CFAF 15 billion at end December 2006. If disbursement exceeds programmed amounts by more than CFAF 5.0 billion, the ceilings will not be adjusted downwards for the first CFAF 5.0 billion.

³Minimum.

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

⁵Excluding ordinary credit for imports or debt relief.

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

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

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

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

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

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

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

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

ATTACHMENT II**NIGER: TECHNICAL MEMORANDUM OF UNDERSTANDING**

Niamey, December 6, 2006

1. This technical memorandum of understanding updates the definitions of the quantitative performance criteria and indicative targets for Niger's program under the Poverty Reduction and Growth Facility (PRGF) arrangement approved by the Executive Board in January 2005 (EBS/05/08). The quantitative performance criteria and indicative targets for December 2006, March 2007, June 2007, September 2007 and December 2007 are set out in Table 1 attached to the government's memorandum of economic and financial policies (MEFP) dated December 6, 2006. The memorandum also sets out the data-reporting requirements for monitoring the program.

I. DEFINITION OF TERMS

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

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

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

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

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

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

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Net Domestic Financing of the Government

Definition of the performance criterion

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

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

5. The scope of the net bank credit to the government as defined by the BCEAO includes all central government administrations. The net bank credit to the government and the net amounts of government treasury bills and bonds issued in CFA francs on the regional

financial market of the WAEMU are calculated by the BCEAO, and nonbank financing is calculated by the Nigerien Treasury, whose figures are those deemed valid within the context of the program.

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

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

Adjustment

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

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

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

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

Reporting requirement

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

Reduction of Domestic Payments Arrears on Government Obligations

Definition of the performance criterion

13. **Domestic payments arrears** are constituted by: (i) arrears identified at end-1999 on the basis of the audit conducted by the Ministry of Finance in 2005; (ii) the *restes à payer* at the Treasury (Treasury float) outstanding at end-2005 and not paid by end-September 2006.

The stock of arrears will be reduced by the amounts indicated in Table 1 annexed to the MEFP. The objective for end–December 2006 is expressed in term of the change in the stock of arrears from end-December 2005. The quarterly objectives for 2007 are expressed in terms of changes of the stock of arrears from end-December 2006 to the end of each quarter in 2007.

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

Reporting requirement

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

B. Nonaccumulation of External Payments Arrears

Definition of the performance criterion

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

Reporting requirement

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

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

Definition of the performance criterion

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

19. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. However, this performance criterion does not apply to financing provided by the

Fund, to debt rescheduling in the form of new loans, and to treasury notes and bonds issued in CFA francs on the WAEMU regional financial market.

Reporting requirement

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

D. Short-Term External Debt of the Central Government

Definition of the performance criterion

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

Reporting requirement

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

E. Pricing of Petroleum Products

Definition of the performance criterion

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

III. INDICATIVE TARGETS

A. Definitions

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

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

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

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

B. Reporting Requirement

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

IV. ADDITIONAL INFORMATION FOR PROGRAM-MONITORING PURPOSES

A. Public Finances

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

B. Monetary Sector

30. The government will provide the following information within eight weeks following the end of each month:
- the consolidated balance sheet of monetary institutions and, as appropriate, the balance sheets of selected individual banks;

- the monetary survey (provisional data);
- borrowing and lending interest rates; and
- customary banking supervision indicators for bank and nonbank financial institutions (as needed, indicators for individual institutions may also be provided).

C. Balance of Payments

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

D. Real Sector

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

E. Structural Reforms and Other Data

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

Summary of Main Data Requirements

Type of Data	Tables	Frequency	Reporting Lag
Real sector	National accounts	Annual	Six months
	Revisions of national accounts	Irregular	Eight weeks following revision
	Consumer price indexes, disaggregated	Monthly	End of month + two weeks
Public finances	Net government position in the banking sector	Monthly	End of month + six weeks
	Table of the government financial operations, including breakdown of revenue and expenditure, the repayments of arrears outstanding at end-1999 and the change in the <i>restes à payer</i> (RAP) at the Treasury.	Monthly	End of month + six weeks
	Data on the stock of <i>restes à payer</i> at the Treasury (total and RAP older than 120 days)	Monthly	End of month + six weeks
	Monthly data on the deposits of the correspondents with the Treasury	Monthly	End of month + six weeks
	Investment expenditure execution	Quarterly	End of quarter + eight weeks
	Table on the execution of budgetary expenditures, of the expenditures in the priority unified list, and of expenditures on HIPC resources	Quarterly	End of quarter + six weeks
	General balance of Treasury accounts	Monthly	End of month + six quarters
	Petroleum product pricing formula, tax receipts, and pricing differentials	Monthly	End of month + two weeks
Monetary and financial data	Monetary survey	Monthly	End of month + six weeks for provisional data, and + ten weeks for final data
	Consolidated balance sheet of monetary institutions and, as appropriate, balance sheets of certain individual banks	Monthly	End of month + eight weeks
	Lending and deposit interest rates	Monthly	End of month + eight weeks
	Banking prudential ratios	Quarterly	End of quarter + eight weeks
Balance of payments	Balance of payments	Annual	Six months
	Revised balance of payments data	Irregular	When revisions occur
External debt	Outstanding external payments arrears and repayments	Monthly	End of month + six weeks
	Terms of new external loans.		End of month + six weeks