

## International Monetary Fund

[Niger](#) and the IMF

**Press Release:**

[IMF Executive Board  
Completes the Fourth  
Review Under Niger's  
PRGF Arrangement  
and Approves US\\$  
1.4 Million  
Disbursement](#)  
June 8, 2007

[Country's Policy  
Intentions Documents](#)

**E-Mail Notification**

[Subscribe](#) or [Modify](#)  
your subscription

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

May 16, 2007

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, May 16, 2007

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

Dear Mr. de Rato

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

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

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

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

reforms to strengthen revenue mobilization, improve expenditure management, and strengthen the banking and financial system. The new Poverty Reduction Strategy Paper (PRSP) for 2008-12 is being finalized, and a donor meeting to identify needed financial support to implement the strategy is scheduled for June 2007.

5. The government requests the completion of the fourth review of the PRGF-supported program and waivers for the nonobservance of two performance criteria, one quantitative and one structural. It also requests modifications of the two quantitative performance criteria for the remainder of 2007. It consents to the publication by the Fund of this letter of intent, the MEFP, the technical memorandum of understanding, and the staff report. The government considers that the policies presented in the MEFP are adequate to attain the objectives of the program. It will take any further measures that may become appropriate for this purpose. Niger will consult with the Fund on the adoption of any policy measures in advance of any revisions to the policies contained in the MEFP, in conformity with the rules of the IMF policies on such consultation.

Sincerely yours,

/s/

Ali Lamine Zeine  
Minister of Finance and Economy

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

## NIGER—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2007

### I. RECENT DEVELOPMENTS AND PROGRAM IMPLEMENTATION

#### Macroeconomic developments

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

## **Fiscal policy**

5. During 2006, the government maintained prudent macroeconomic policies and advanced reforms critical for strengthening growth and reducing poverty. The basic fiscal deficit, which excludes foreign financed investment, recorded a surplus of CFAF 5.8 billion (0.3 percent of estimated GDP), compared with a programmed deficit of CFAF 49.7 billion (2.7 percent of GDP), because of exceptional receipts related to the uranium sector that were collected at end-year (30.4 billion of CFAF or 1.6 percent of GDP), and lower than programmed outlays for subsidies and transfers (CFAF 16 billion or 0.8 percent of GDP) notably for food emergency programs, contractual teachers, and the budgetary contingency reserve. The lower spending was necessitated by shortfalls in external budget support during 2006, which was some CFAF 17 billion less than programmed. Domestic revenue, excluding exceptional mining related receipts, were CFAF 6.5 billion higher than envisaged, mainly because of strengthened collection of nontax revenue. Tax revenue remained in line with the program as a result of improvements in tax and customs administration—tightened control of import valuation and of transit operations, and reinforced auditing of domestic tax obligations of large and medium-sized enterprises—yielding positive results.

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

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

## **Public expenditure management**

8. The government continued executing the recommendations of the Public Expenditure Management and Financial Accountability Review (PEMFAR). Specifically, the government has: (i) finalized and adopted the medium-term expenditure framework for the rural sector for 2007-09; (ii) prepared an action plan to strengthen the financial control function, including the preparation of a manual of procedures; (iii) adopted a new organizational structure for the Treasury so as to enhance its effectiveness; (iv) improved the classification and monitoring of priority programs; (v) established a new department of public procurement to ensure conformity with rules and regulations and a regulatory agency under the Prime Minister with the role of issuing regulations and settle disputes; and (vi) established an Audit Court (*Cour des Comptes*) as an independent entity. In addition the government is finalizing the computerization of expenditure management. To that end it is putting into operation a pilot unit to allow spending ministries to initiate expenditure commitments, obtain the necessary approvals from the budget directorate, and information on treasury payments; the unit will be fully operational in January 2008.

## **Other structural reforms**

9. The government has advanced financial sector reforms. Regarding *Credit du Niger* (CDN), the privatization process is well advanced. The government has identified five potential investors and plans to launch the offer for sale in June 2007. The restructuring of the National Postal Office (ONPE) has been completed, with the establishment of two separate postal (NigerPoste) and financial branches (FinaPoste). To allow FinaPoste to meet its capital requirement and apply for a license from the central bank, the government has provided CFAF 1.0 billion as planned.

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

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

### **A. Macroeconomic Framework**

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

the ongoing preparation of the revised PRSP for 2008-12, and a revised outlook will be ready by mid-2007.

## **B. Fiscal Policy**

12. The 2007 fiscal policy will be geared toward providing more resources to priority programs—consistent with the recently prepared medium term expenditure frameworks for education, health and the rural sectors—while safeguarding debt sustainability. In this context, the fiscal program contained in our December 2006 MEFP has been revised to take into account a higher-than-programmed external budget support.

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

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

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

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

17. The proposed revised fiscal program is fully financed. Given the planned reduction in domestic arrears, the overall cash deficit (excluding foreign-financed investment) is projected at CFAF 99 billion (4.8 percent of GDP). Taking into account identified external budget support of CFAF 93 billion (mainly from the World Bank, European Union, African Development Bank, France, and Belgium), net domestic financing (excluding financing by the Fund) is targeted at CFAF 1.6 billion. The revised quantitative performance criteria for end-June 2007 and end-December 2007 on domestic arrears reduction and domestic financing, and the quantitative indicative targets, are presented in Table 1b.

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

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

19. Regarding the Tax Department, key measures are: (i) strengthening tax audits including the full use of the analysis carried out by the research and investigation unit on the suppliers and clients of taxpaying enterprises; (ii) replacing cumbersome monthly declarations with a simplified tax regime with quarterly tax declarations for the small enterprises (performance criterion for end-December 2007); (iii) strengthening joint controls by customs and tax departments on companies benefiting from exemptions, and the follow-up of the use of exempted products; (v) continuation of on-site controls by the unit of small and medium-sized enterprises in order to ensure the timely filing of tax declarations; and (vi) recovery of tax arrears, including through cross-settlements. The implementation of these measures requires a strengthening of the structures of the tax department, through recruitment, training, and more space and equipment so as to increase its effectiveness. In

2007, recruitment of qualified personnel will be carried out through a competitive process for the customs and the tax directorates.

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

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

21. In 2007, monetary policy will continue to be conducted at the regional level with the objective of containing inflation and maintaining adequate level of reserves. Credit to the economy is expected to grow at some 19 percent because of sustained expansion in mining and telecommunications, while credit to government will remain limited. Net foreign assets of the banking system would rise by less than those of the central bank, as banks envisage increasing their medium and long term external borrowing, drawing on credit lines of the European Investment Bank and other development institutions in order to provide investment financing. Accordingly, broad money growth is projected at about 11.5 percent.

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

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

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

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

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

25. Revised mining and petroleum codes were adopted by Parliament in August 2006 and January 2007 respectively. These are based on international best practices and have tax provisions consistent with the WAEMU norms. Implementing decrees will be adopted soon, as well as model contracts. Three petroleum research permits were granted in 2003-05 and the related conventions were published on the official gazette. Since the adoption of the new mining code in August 2006, the government has issued a significant number of new mining exploration permits. The government expects also to grant more petroleum research permits in 2007-08, given the large number of requests received for the available areas. Under the Extractive Industry Energy Initiative (EITI), which the government joined in 2005, the government has appointed in late 2006 the national consultative committee including representatives of the civil society. A first audit report reconciling revenue paid by mining companies with government receipts is planned to be issued in late 2007. In view of the outlook for growth in the mining sector, the role of the Centre for Geological and Mining Research (ex-ONAREM) in the management of the government's shares in the mining companies will be clarified.

26. In the agricultural sector, the rural development strategy assigns priority to the increase of production and yields especially on irrigated land. However, the cooperatives that farm the irrigated land along the Niger River face significant difficulties, despite the support from the Niger Food Security Agency (OPVN), which since 2005 has contracted to purchase important rice quantities for the national security stock. The situation of the cooperatives is now being reviewed by a World Bank study to be concluded in few months. Appropriate corrective actions will be adopted on the basis of the study's recommendations. The difficulty in selling rice is also due to the low quality of the processed rice as a result of the deteriorated ginning equipment used by the existing ginneries, and in particular by the *Riz du Niger* company that is under majority government ownership. Their rehabilitation is a key

priority, and is expected to benefit from donor support. Taking into account domestic purchases and the planned support by development partners, the national security stock should exceed 110,000 metric tons by end-2007. On other rural strategy issues, the authorities plan to review with FAO assistance the strategy to give farm concessions to investors, to take into account the possible negative impact on local small farmers who currently occupy the land.

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

28. The government reaffirms its commitment to adopting the PRSP as the unique framework for mobilizing donor support to assist us in achieving the MDGs. A revised PRSP for 2008-12 is being finalized, with participation by a cross section of Nigerien society and development partners. The revised PRSP takes into account, *inter alia*, the results of recently completed surveys to update Niger's poverty indicators. Further, the relationship between the sectoral strategies, the medium-term expenditure frameworks, and economic growth is being analyzed with assistance of technical partners, notably the World Bank and the UNDP. The revised PRSP is expected to be finalized in May, and a roundtable conference is scheduled for June 2007, at which the government will seek commitment of financial and technical assistance from the development partners.

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

### III. PROGRAM MONITORING

30. Program monitoring will be based on quantitative performance criteria and benchmarks and quarterly structural performance criteria and benchmarks (Tables 1b and 2). They are the same as in the December 2006 MEFP, except for the change in the structural performance criterion on the treasury balances, referred to in paragraph 20, for the change in the threshold for petroleum price changes, referred to in paragraph 27, and the benchmark on the wage bill. Regarding the latter we are requesting its elimination, in view of Niger's

significant progress reducing the fiscal burden of the wage bill over past several years, and continued adherence to relevant WAEMU convergence criterion. The definitions of performance criteria and benchmarks are provided in the attached Technical Memorandum of Understanding.

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

**Table 1a. Niger: Quantitative Performance Criteria and Indicative Targets, January 01–December 31, 2006**  
(Billions of CFA francs)

	End-March		End-June		End-September		End-December	
	Prog.	Est.	Prog.	Est.	Prog.	Est.	Prog.	Est.
<b>A. Quantitative performance criteria and indicative targets</b> (cumulative from December 31, 2005)								
Domestic financing of the budget <sup>1,2</sup>	27.8	27.8	44.2	46.4	-9.1	-1.6	-4.2	-29.8
Reduction in government domestic payments arrears (accumulated through end-year 2005) <sup>3</sup>	2.0	2.0	2.8	2.8	4.2	4.2	-2.4	14.0
<i>Memorandum item:</i>								
Exceptional external budgetary assistance <sup>4</sup>	5.2	...	7.0	...	55.1	...	26.6	32.6
<b>B. Continuous quantitative performance criteria</b>								
Accumulation of external payments arrears	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 <sup>5</sup>	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 <sup>6</sup>	0.0	...	0.0	...	0.0	...	0.0	0.0
<b>C. Indicative Targets</b> (cumulative from December 31, 2005)								
Basic budget balance (commitment basis, excluding HIPC initiative-financed investment)	-21.8	...	-23.3	-35.6	-17.0	-31.7	-13.0	...
Basic budget balance (commitment basis) <sup>7</sup>	...	...	...	...	...	...	...	...
Total revenue <sup>8</sup>	50.1	...	51.1	92.7	106.2	154.0	162.0	247.2
Wage bill <sup>9</sup>	17.2	...	17.2	34.5	34.2	51.9	51.8	68.8
Accumulation of domestic payment arrears	...	...	...	...	...	...	...	3.7

Note: The terms in this table are defined in the Technical Memorandum of Understanding.

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

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

<sup>3</sup>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.

<sup>4</sup>Minimum.

<sup>5</sup>External budgetary assistance (including traditional debt relief, HIPC initiative assistance and resources freed up under the MDR), but excluding net financing from the IMF less external debt service and payments of external arrears.

<sup>6</sup>Excluding ordinary credit for imports or debt relief.

<sup>7</sup>Excluding debt relief obtained in the form of rescheduling or refinancing; 50 percent minimum concessionality for new loans from 2006.

<sup>8</sup>Minimum, defined as the difference between total revenue, excluding grants and revenue from the settlement of reciprocal debts between the government and enterprises, and total expenditures, excluding externally financed capital expenditures. If external budgetary assistance (defined in footnote 4) exceeds the amounts programmed by up to CFAF 5.0 billion, the basic budget balance will be decreased by only that amount.

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

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

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

	End-March		End-June		End-September		End-December	
	Indicative Targets	Performance Criteria						
	Rev. prog.	Rev. prog.						
<b>A. Quantitative performance criteria and indicative targets</b> (cumulative from December 31, 2006)								
Domestic financing of the budget <sup>1,2</sup>	-7.0	7.9	6.4	1.6				
Reduction in government domestic payments arrears <sup>3</sup>	1.0	5.0	6.0	15.8				
<i>Memorandum item:</i>								
Exceptional external budgetary assistance <sup>4</sup>	15.8	30.8	51.9	87.8				
Gross budget support	17.1	33.5	56.0	93.0				
Debt service	1.4	2.7	4.2	5.2				
<b>B. Continuous quantitative performance criteria</b>								
Accumulation of external payments arrears	0.0	0.0	0.0	0.0				
New external debt contracted or guaranteed by the government with maturities of 0–1 year <sup>5</sup>	0.0	0.0	0.0	0.0				
New nonconcessional external debt contracted or guaranteed by the government with maturities over 1 year <sup>6</sup>	0.0	8.5	8.5	8.5				
<b>C. Indicative Targets</b> (cumulative from December 31, 2006)								
Basic budget balance (commitment basis, excluding grants) <sup>7</sup>	-14.0	-42.6	-62.6	-83.2				
Total revenue <sup>8</sup>	56.2	112.7	170.2	236.2				
Accumulation of domestic payment arrears	0.0	0.0	0.0	0.0				

Note: The terms in this table are defined in the Technical Memorandum of Understanding.

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

<sup>2</sup>The ceiling on domestic financing of the budget will be adjusted if the amount of disbursements of external budgetary assistance, as defined in footnote 4, exceeds or falls short of program forecasts. If disbursements are less than the programmed amounts, the ceiling will be raised pro tanto, up to a maximum of CFAF 20.0 billion at the end of each quarter of 2007. If disbursement exceeds programmed amounts by more than CFAF 5.0 billion, the ceilings will not be adjusted downwards for the first CFAF 5.0 billion.

<sup>3</sup>Minimum.

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

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

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

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

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

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

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

**NIGER—TECHNICAL MEMORANDUM OF UNDERSTANDING**

Niamey, May 16, 2007

1. This technical memorandum of understanding updates the definitions of the quantitative performance criteria and indicative targets for Niger's program under the Poverty Reduction and Growth Facility (PRGF) arrangement approved by the Executive Board in January 2005 Country Report 05/79. The quantitative performance criteria and indicative targets for end-June, September and December 2007 are set out in Table 1 attached to the government's Memorandum of Economic and Financial Policies for 2007 (MEFP) dated May 16, 2007. The memorandum also sets out the data-reporting requirements for monitoring the program.

**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 (that is, 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 2007 quarterly targets are based on the variation of stock in net bank credit to the government from December 31, 2006 to the date considered for the performance criterion or the indicative target.

### **Adjustment**

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

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

10. In the event disbursements fall short of projected external budgetary assistance, the quarterly ceilings on net domestic financing for each end of quarter in 2007 will be raised by a maximum of CFAF 20 billion.

### **Reporting requirement**

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

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

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

12. **Domestic payments arrears** comprise: (i) arrears identified at end-1999 on the basis of the audit conducted by the Ministry of Finance in 2005; (ii) the *restes à payer* at the Treasury (Treasury float) exceeding 120 days outstanding at end-2006. The stock of arrears will be reduced by the amounts indicated in Table 1 annexed to the MEFP. The quarterly objectives for 2007 are expressed in terms of changes of the stock of arrears from end-December 2006 to the end of each quarter in 2007.

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

#### **Reporting requirement**

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

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

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

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

#### **Reporting requirement**

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

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

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

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

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

**Reporting requirement**

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

**E. Short-Term External Debt of the Central Government****Definition of the performance criterion**

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

**Reporting requirement**

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

**F. Pricing of Petroleum Products****Definition of the performance criterion**

22. The government will continuously implement the monthly pricing mechanism for retail petroleum products in accordance with the decree of August 2001, with no tax changes and/or tax deferments, with the only modification that if the formula indicates a price adjustment smaller than CFAF 15, no price change will be introduced. In case of an emergency situation that would require the review of this policy, the government will consult with the Fund concerning the adoption of appropriate measures.

**III. INDICATIVE TARGETS****A. Definitions**

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

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

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

### **B. Reporting Requirement**

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

## **IV. ADDITIONAL INFORMATION FOR PROGRAM-MONITORING PURPOSES**

### **A. Public Finances**

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

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

### **B. Monetary Sector**

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

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

### **C. Balance of Payments**

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

### **D. Real Sector**

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

### **E. Structural Reforms and Other Data**

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

### Summary of Main Data Requirements

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

Type of Data	Tables	Frequency	Reporting Lag
	Lending and deposit interest rates	Monthly	End of month + eight weeks
	Banking prudential ratios	Quarterly	End of quarter + eight weeks
Balance of payments	Balance of payments	Annual	Six months
	Revised balance of payments data	Irregular	When revisions occur
External debt	Outstanding external payments arrears and repayments	Monthly	End of month + six weeks
	Terms of new external loans		End of month + six weeks