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

January 21, 2010

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, January 21, 2010

Mr. Dominique Strauss-Kahn  
Managing Director  
IMF  
Washington, D.C.

Dear Mr. Strauss-Kahn:

1. The second review of our economic and financial program supported by the Extended Credit Facility (ECF) arrangement was concluded on May 13, 2009. The attached Memorandum of Economic and Financial Policies (MEFP) describes recent economic developments, the economic outlook for 2009 and 2010, and the progress achieved in implementing structural reforms. It also sets out the main objectives for our program through 2010.
2. Niger's economy was largely spared the direct effects of the global economic upheaval. However, preliminary indications suggest that tourism activity has slowed to some extent and that migrant remittances are falling. We are continuing to pay particularly close attention to possible channels through which the global crisis might be transmitted. Furthermore, the changes in Niger's economic environment have prompted us to review our macroeconomic framework.
3. In the first nine months of 2009 implementation of our ECF-supported program was generally satisfactory. All quantitative performance criteria for end-June and all indicative targets at end-September 2009 were met. In spite of the non-disbursement of some of the budget support expected in the finance law, the objectives related to repaying domestic arrears at end-June and end-September were surpassed, and government domestic financing stayed below its ceiling, thanks to the combined effect of the favorable performance of the revenue-collecting agencies and a slower rate of expenditure than was anticipated. Five of the seven structural benchmarks have been implemented. The two measures pertaining to the completion of the medium-term expenditure framework for the infrastructure and transport sector and the inclusion in the 2010 finance law of a projection of the main revenue and expenditure aggregates for 2010-12 have not been implemented because of the difficulties encountered in integrating the sectoral frameworks prepared by line ministries into the global medium term budgetary framework.

4. To support implementation of the economic and financial program described in the attached MEFP, the government of Niger is requesting completion of the third review of the ECF-supported program and the fourth disbursement, in the amount equivalent to SDR 3.29 million.

5. The government believes that the policies set out in the attached MEFP are adequate to achieve the objectives of our program, and we will take any additional measures that may be necessary to do so. Niger will consult with the IMF on the adoption of such measures and before any change to the policies specified in the MEFP, consistent with the policies of the IMF.

6. As in the past, the government authorizes the IMF to publish this Letter of Intent, the MEFP, the TMU, and the IMF Staff Report.

Sincerely yours,

/s/

Ali Mahaman Lamine Zeine  
Minister of Economy and Finance

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

**ATTACHMENT I—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES OF  
THE GOVERNMENT OF NIGER**

Niamey, January 21, 2010

1. This Memorandum of Economic and Financial Policies describes progress achieved in implementing the macroeconomic and structural policies supported by the arrangement under the IMF Extended Credit Facility (ECF). It also presents our main policy objectives for 2009 and for 2010. The goal of our reform program is to promote strong and sustainable growth and to expedite poverty reduction.

**I. ECONOMIC FRAMEWORK IN 2009**

2. The global economic crisis has so far had no significant impact on Niger's economic performance. Although tourism has slowed to some extent and migrant remittances have fallen, Niger's economy has been largely spared upheaval from the global economic crisis. The anticipated slowdown in overall growth to 1 percent in 2009 reflects disparate trends in the agriculture sector, which is heavily dependent on rainfall, and the non-agriculture sector, where the rate of expansion is expected to reach 5.3 percent in 2009. Mining, telecommunications, and construction remain the principal engines of growth.

3. The balance of payments current account deficit is expected to worsen under the impact of rising imports connected with petroleum and mining projects. Such imports have increased since 2007 and are expected to reach 11 percent of GDP in 2009, largely financed by the growth in foreign direct investment. The worsening current account deficit fails to give an adequate picture of the resiliency of exports, particularly uranium and agricultural products, or to reflect the decline in oil and food imports connected with the decline in world prices. The overall deficit of the balance-of-payments is expected to widen only slightly, even though a large portion of the signing bonus received in 2008 was used to finance public investment.

4. The increase in domestic credit continues to drive growth in the money supply. The anticipated acceleration in credit to the government during the second half of 2009 is expected to promote this trend. The strong growth in credit to the economy is primarily benefiting mining, oil, transport, telecommunications, construction and public works, and commerce.

5. After peaking in 2008, inflation has been trending down in 2009. The slowdown in price increases reflects the adjustment of international food and oil prices since 2008 as well as excellent harvests in the 2008/09 agricultural year.

## II. 2009 BUDGET OUTLOOK

### **Budget outturn at end-June and end-September 2009**

6. The budget outturn at the end of June recorded a deficit well within program objectives, reflecting both the resiliency of revenues and a slower than anticipated rate of capital expenditure. The favorable performance of revenues results from the combined effect of broadening the revenue base and making tax administration more efficient. Prudent management of public expenditure ensured that current expenditures were kept within program objectives.

7. All the quantitative performance criteria through June 2009 were observed. The improvement in the budget balance relative to projections helped to keep domestic financing within the ceiling set for the program, despite the non-disbursement of some of the budgetary assistance anticipated in the finance law. The government has also made a substantial effort to reduce domestic arrears, surpassing program objectives by about 0.1 percent of GDP.

8. Budgetary outturn at end-September further validates these trends. In light of the uncertain external financing environment, the government has used budgetary regulation to ensure that budget execution remains in line with program objectives. Through this mechanism, the pace of budget execution is adjusted on a quarterly basis to align it with available resources. Budgetary regulation excludes priority sector spending in the health, education and infrastructure sectors. Together with buoyant tax revenue, this mechanism has allowed domestic financing of the deficit to remain below the program's indicative target. All other quantitative targets at end-September were also met.

### **Outlook for 2009**

9. Revenue and expenditure trends since the beginning of the year have made it necessary to revise the public deficit objective for 2009 downward. Financing projections have also been revised to take account, on the one hand, of the non-disbursement of some of the budgetary assistance anticipated in the finance law, and, on the other, of the on-lending of the CFA F counterpart of the general SDR allocation as well as of the sovereign bond issue that took place in the fourth quarter. The government intends to use a portion of the CFA F counterpart of the general SDR allocation to partially clear its arrears of consolidated statutory advances on the books of the BCEAO. The government plans to continue adapting the pace of budget execution to available resources.

### III. MACROECONOMIC FRAMEWORK IN 2010 AND BUDGET PROJECTIONS

#### Macroeconomic framework

10. With agricultural growth returning to trend, continued dynamism in the telecommunications and transport sectors and the anticipated increase in uranium production are expected to allow the Nigerien economy to grow by about 5 percent in 2010. The balance of payments current account is forecast to stay at about 22 percent of GDP, reflecting the combination of projected increase in uranium exports and the sustained pace of imports connected with mining and petroleum projects. After several years of strong expansion, credit to the economy is expected to grow in line with economic activity, which would entail a slight slowdown in the growth of the money supply. Assuming an average agricultural year and if there are no further increases in international oil and food prices, price increases should be limited to 2 percent.

#### The 2010 Budget Law

11. The expenditure side of the 2010 budget law focuses on integration into the civil service of 8,000 contractual employees in the education and health sectors, further social and infrastructure investments, the financing of activities to support the private sector, and the State's involvement in the exploitation of the Agadem oil field (completing construction of the Zinder refinery and building a pipeline connecting the oil field to the refinery) and in banking system restructuring. The anticipated increase in tax revenues, reflecting efforts to enhance the efficiency of the tax and customs administrations and buoyancy in the non-agricultural sectors, is expected to allow the basic budget balance to improve by approximately 1.3 point of GDP.

12. Financing for the 2010 budget is based on the resumption of external budget support. However, in light of the uncertain external financing outlook, the government will close the financing gap that may arise (CFA F 35 billion) by (i) freezing CFAF 20 billion in expenditure, the bulk of which would come from domestically-financed investment spending, through the budgetary regulation mechanism; and (ii) increasing recourse to domestic financing. External financing assumptions will be reviewed during the fourth review of the ECF-supported program, scheduled for March 2010.

### IV. STRUCTURAL REFORMS

#### A. Reforms of Public Financial Management

13. Our public financial management reform agenda focuses on strengthening the budget process, further reforming revenue-collecting agencies, and improving the management of public debt and of mining and petroleum resources. These reforms aim to ensure that our key policy priorities can be financed in an efficient, transparent and sustainable manner.

### **Budget preparation**

14. Major progress has been made in preparing a comprehensive medium-term expenditure framework. This effort, supported by IMF technical assistance, made it possible to prepare a fiscal strategy paper for the next three years that served as a basis for discussions of the 2010 budget law. The methodology for preparing harmonized sectoral expenditure frameworks is also being prepared. More generally, the legislation governing budget preparation will be revised in accordance with the deadlines established in order to ensure that the legislation is consistent with the new WAEMU community directives.

### **Budget execution**

15. Rigorous management of expenditure commitments has made it possible to align the pace of budget execution with the non-disbursement of some of the budgetary assistance anticipated in the finance law. Budget execution nonetheless has been affected by overlapping fiscal periods. Significant efforts have been made to catch up on delays in preparing the budget review laws since 1997—delays that have now been almost completely overcome, since the latest draft settlement law sent to Parliament pertained to 2007 budget execution. An additional problem for expeditious closeout of the year-end budget and treasury accounts has been the slow pace of reporting information on the execution of expenditure pursuant to appropriations. This problem is caused by manual processing of the information pending computerization of the decentralized budget offices (*centres des sous-ordonnements—CSO*) and the belated clearance of Treasury suspense accounts. Although computerization of the CSO offices is a government priority for strengthening public financial management, the technical difficulties inherent in completing this process and the procurement times involved mean that this cannot realistically be done before year-end. In line with its objective to improve budget execution in the short term, the government is committed to strictly limiting use of fast-track expenditure procedures to those cases envisaged in the regulations, and to clearing suspense accounts at least at the end of each quarter starting in end-December 2009.

### **Monitoring and supervision of expenditure**

16. The budget nomenclature allows for satisfactory monitoring of poverty-reducing expenditure commitments and payment authorizations. The budget/treasury interface is nearing completion with respect to expenditures executed by the central government; completing computerization of the CSO offices should make it possible to broaden the monitoring of expenditures to appropriations. To ensure proper monitoring of poverty-reducing expenditures, the government is reaffirming its commitment to ensuring broad-based dissemination of quarterly execution of these expenditures when they are committed and to including the phases of coverage (*prise en charge*) and payment once the CSO computerization is complete.

17. The role of financial controls in budget supervision has been strengthened to enhance the effectiveness of internal controls.

### **Reforms of revenue-collecting agencies**

18. The General Directorate of Taxes is currently engaged in a major reform process designed to improve its control over the tax base, reduce taxpayer noncompliance, strengthen and modernize the tax system, and enhance its efficiency. These efforts have led to a significant increase in tax returns filed voluntarily, an improvement in tax supervision, and finally a clear increase in revenue. The action plan for the next three years, currently being approved, identifies the investments required to deepen the reforms.

19. The General Customs Directorate (DGD) has updated its action plan for 2009–11 in collaboration with the World Customs Organization. This plan focuses on, among other things, facilitating trade by modernizing customs controls, use of scanners and risk analysis, and more effective control of flows of merchandise. Accordingly, the DGD plans to finalize by year-end the interconnection of the main customs offices in Niger with headquarters and with Benin's customs services. Use of the full range of ASYCUDA++ functionalities will also allow for more effective control of risky operations, and by extension more effective targeting of customs controls. Exemptions for imports related to petroleum and mining projects, as well as those granted under the investment code and other conventions, will continue to be scrutinized. Last but not least, closer collaboration with the preshipment inspection company and the system's migration to inspection at destination are expected to help enhance the quality of the data in the customs valuation database.

20. Because of their crucial role in improving the efficiency of the tax and customs system, securing financing for these action plans will lay a solid foundation for public financial management reform.

### **Public debt management**

21. Better public debt management is essential if Niger is to make the investments needed to expedite the country's development while keeping its fiscal and public debt sustainable. Preparation of a debt sustainability analysis and of a borrowing strategy for the next three years is a major stride toward the implementation of the new WAEMU provisions on budget laws.

22. So that it can play its role fully, the public debt management system will be strengthened in three key areas: First, the government intends to enforce the provision making the Minister of Economy and Finance the only party authorized to sign agreements obligating the government financially. Second, to ensure that the impact of any new borrowing on public debt sustainability is taken into consideration, the National Public Debt Management Committee (CNGDP) will be consulted on every domestic or foreign borrowing project or request for public guarantees. Under current rules, the CNGDP will



issue a substantiated opinion on any borrowing project, taking account among other things of the loan's importance for Niger, the impact of new borrowing on public debt service and sustainability, and whether the project is compatible with the public borrowing strategy. Third, in line with the recent change in IMF policy on public debt limits, the CNGDP's prerogatives will be broadened to cover the full range of public enterprises, public entities, and public offices. The government of Niger is requesting IMF technical assistance to support this reform.

### **Management of mining and petroleum resources**

23. The government reaffirms its commitment to ensuring transparent management of its mining and petroleum resources—a prerequisite if such resources are to be used optimally. Significant progress has been made in the process of having Niger's membership in the Extractive Industries Transparency Initiative (EITI) approved. The report reconciling mining and petroleum revenues for 2005 and 2006 has been completed, and revenues paid by the mining and oil companies and revenues declared by the government have been found to be generally consistent. The report was validated by the Committee for Dialogue in October 2009 and published in a major local newspaper. This vital step paves the way for Niger's candidacy for the EITI Initiative to be approved in the first quarter of 2010. At the same time, preparations for reconciling revenues paid and received in 2007 and 2008 have begun, and that report is expected to be approved at the national level by the end of March 2010. Furthermore, to ensure comprehensive monitoring of the revenues generated by State involvement in the mining and petroleum sectors, the certified accounts of *Société du Patrimoine des Mines du Niger* and *Nigerpétrole* will be annexed each year to the draft budget law forwarded to the National Assembly.

24. The development of the petroleum and mining sectors requires a major financial effort by the State. Reflecting its commitment to transparency in financial management, the government undertakes to continuously monitor the full range of financial commitments deriving from the government's commitments in these sectors in its medium-term budget programming activities. To strengthen strategic planning, a report presenting the government's plan for investment in these sectors and the relevant financing arrangements will be prepared by the end of the first half of 2010.

### **B. Financial Sector Reform**

25. The reform of the financial sector needs to be accelerated to ensure that it can fully support growth. In the short run, a key objective is to ensure that banks can meet the expected increase in the demand for credit associated with mining and oil activities without detrimental effects on asset quality.

### **Strengthening the balance sheets of banks**

26. Three of the ten commercial banks in Niger already meet the regional banking commission requirement for minimum capital of CFAF 5 billion. Most of the other seven banks have made provision for raising their capital to achieve the new minimum by the end of 2009—one year before the deadline of December 31, 2010. After the decline recorded since 2007, the net rate of impairment of doubtful claims has stopped decreasing, reflecting the difficulties banks are facing in recovering nonperforming loans that are still in their portfolios. The strong expansion of credit to the economy—in an environment in which the terms for obtaining credit facilities from foreign correspondents have been tightening—has had an impact on bank liquidity, as evidenced by the deterioration in the liquidity ratio. BCEAO continues to scrutinize trends in this indicator. The new credit facilities currently being negotiated with multilateral institutions should help banks to accommodate the rising demand for medium-term and long-term credits. In the medium term some banks are also planning bond issues so as to lengthen the maturity of their resources.

### **Restructuring of the banking system**

27. Efforts to restructure the financial sector continue. In accordance with the commitments made to set up *Finaposte*, the repayment of accounts (frozen since 1992) of CNE depositors began in July 2009, and the government has converted half of its deposits with the CCP into time deposits. The government intends to allocate a portion of the proceeds from the sovereign bond issued in the fourth quarter 2009 to meet the minimum capital requirement of CFAF 5 billion and to issue nonnegotiable debt instruments to balance the opening balance sheet of *Finaposte*. The government is also determined to press ahead with finalizing the agreement on the interest applicable to the frozen deposits and with implementing the remaining measures needed for *Finaposte* to begin operating effectively.

28. Agreement had been reached on the new capital structure for *Crédit du Niger*. This agreement provided for raising the government's share in the capital of the new institution to 44 percent, including 10 percent on the basis of an on-selling arrangement. For this purpose the government has appropriated CFAF 2.2 billion in the 2010 budget, and it will be reviewing the terms on which the new institution may make subsidized loans to facilitate access to housing, particularly low-cost housing. A study of the strategy for financing social housing is currently in progress. However, the banking commission has made its preliminary authorization conditional on the provision of additional information by the potential new investor. The deadline for the latter to provide the requested information is January 15, 2010.

29. The government is determined to create an agricultural bank to facilitate access to financial services for agricultural producers who lack the collateral required by traditional banks. The feasibility study for creation of this bank is now being finalized. The government is committed to consulting with IMF staff on its operating arrangements.

30. A strategic partner has been found to buy the stake in the capital of the BIA—the second largest domestic bank in terms of deposits—that is now held by a major European bank. The government is confirming its commitment to ensuring that the BIA is restructured in accordance with regional banking commission rules.

### **C. Business Climate**

31. Improving Niger’s business environment is crucial to attracting investment beyond the mining sector and fostering economic diversification.

32. Key measures to simplify and modernize the tax system have come into force with the 2010 budget law. These include a reduction in the corporate income tax rate from 35 to 30 percent, a decrease in the marginal rate on the single tax on wages and salaries and reform of its scale, a reduction in stamp duty on enrollment in the Register of Commerce and the abolition of signing fees, and elimination of the ceiling on VAT credit repayment for all exporters. The General Tax Code, which incorporates all the laws governing the tax system, is now being completed; it is expected that the government will adopt it during the first half of 2010.

### **V. PROGRAM MONITORING**

33. Quantitative performance criteria and indicative targets for 2009 and 2010 are presented in Table 1a and Table 1b, respectively. Table 2 presents the structural benchmarks for 2010. The government is proposing to add an indicative target related to quarterly execution of poverty-reducing expenditures. The fifth and sixth program reviews are scheduled to take place by end-November 2010 and May 15, 2011 respectively.

Table 1.a. Niger: Quantitative Performance Criteria and Indicative Targets, January 1, 2009-December 31, 2009

(Billions of CFA francs)

	End-March Indicative Targets		End-June Performance Criteria		End-September Indicative targets		End-December Performance criteria
	Prog.	Est.	Prog.	Est.	Prog.	Est.	Prog.
<b>A. Quantitative performance criteria and indicative targets</b>							
(cumulative from December 31, 2008)							
Domestic financing of the budget <sup>1,2</sup>	12.1	20.5	54.8	41.6	83.4	74.5	74.5
Reduction in domestic payment arrears on government obligations <sup>3</sup>	-2.0	-0.6	-6.0	-10.7	-8.0	-12.8	-15.0
Memorandum item:							
Exceptional external budgetary assistance <sup>4</sup>	20.6	0.0	29.7	-0.4	34.0	-1.9	82.3
Gross budget support	23.0	1.3	34.4	5.2	41.0	5.9	91.6
Debt service	2.4	1.3	4.7	5.6	7.0	7.8	9.3
<b>B. Continuous quantitative performance criteria</b>							
Accumulation of external payments arrears	0.0	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 <sup>5</sup>	0.0	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 <sup>6</sup> : grant element lower than 35 percent	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>C. Indicative Targets</b>							
(cumulative from December 31, 2008)							
Basic budget balance (commitment basis, excl. grants) <sup>7</sup>	-30.3	-21.9	-83.3	-39.7	-115.3	-66.9	-148.5
Total revenue <sup>8</sup>	79.3	76.8	147.1	177.1	230.3	269.4	312.3

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

<sup>1</sup>Performance criteria for program indicators under A and B; indicative targets otherwise. Domestic financing in this table excludes IMF financing (TMU).<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, 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 35 billion at the end of each quarter of 2009.

<sup>3</sup>Minimum.<sup>4</sup>External budgetary assistance (including traditional debt relief, HIPC Initiative assistance, but excluding net financing from the IMF) less external debt service 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.<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.<sup>8</sup>Minimum. Excluding (i) revenue from the settlement of reciprocal debts between the government and Nigerien enterprises; and (ii) revenue from the privatization of public enterprises that is included in financing.

Table 1b. Niger: Quantitative Performance Criteria and Indicative Targets, January 1, 2010–December 31, 2010

(Billions of CFA francs)

	End-March	End-June	End-September	End-December
	Indicative Targets	Performance Criteria	Indicative Targets	Performance Criteria
	Prog.	Prog.	Prog.	Prog.
<b>A. Quantitative performance criteria and indicative targets</b>				
(cumulative from December 31, 2009)				
Domestic financing of the budget <sup>1,2</sup>	16.7	41.8	48.3	38.8
Reduction in domestic payment arrears on government obligations <sup>3</sup>	-2.0	-8.0	-12.0	-15.0
Memorandum item:				
Exceptional external budgetary assistance <sup>4</sup>	-1.1	-4.1	-5.7	25.7
Gross budget support	0.0	0.0	0.0	35.0
Debt service	1.1	4.1	5.7	9.3
<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> : grant element lower than 35 percent	0.0	0.0	0.0	0.0
<b>C. Indicative Targets</b>				
(cumulative from December 31, 2009)				
Basic budget balance (commitment basis, excl. grants) <sup>7</sup>	-16.4	-29.7	-38.1	-60.7
Total revenue <sup>8</sup>	77.1	162.4	269.2	378.6
Spending on poverty reduction <sup>9</sup>	45.5	94.2	151.2	211.1

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

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

<sup>2</sup>The ceiling on domestic financing of the budget will be adjusted if the amount of disbursements of external budgetary assistance, as defined in footnote 4, falls short of program forecast. If disbursements are less than the programmed amounts, the ceiling will be raised pro tanto, up to a maximum of CFAF 15 billion at the end of each quarter of 2010.

<sup>3</sup>Minimum.

<sup>4</sup>External budgetary assistance (including traditional debt relief, HIPC Initiative assistance, but excluding net financing from the IMF) less external debt service 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.

<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.

<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.

<sup>9</sup>Minimum.

Table 2. Structural Benchmarks for Program Monitoring

Measures	Macroeconomic Rationale	Date	Status
<b>Existing Structural benchmarks (Country Report No. 09/172)</b>			
1. Presentation in the budget law for 2009 of the investment programs for the priority sectors of the PRSP for 2009-2012.	Improve alignment of the budget and the PRSP	End-December 2008	Not met
2. Production by the Ministry of Finance of semiannual reports on the foreign debt contracted and its terms, and on the borrowing program for the next six months and the terms specified.	Strengthen external debt management	End-December 2008 and the end of each successive half-year period	Met
3. Issue data on budget outturn for 2008, and for 2009 on a quarterly basis, including for the unified list of priority expenditures and the President's Special Program.	Improve monitoring of budget execution, in particular priority spending	End-March 2009 for end 2008 budgetary outturn, and end of each 2009 quarter for quarterly 2009 data	Budgetary execution data for end-September 2009 issued
4. Adoption by the Council of Ministers of the MTEF for the infrastructure and transport sectors	Improve strategic budget planning	End- June 2009	Not Met
5. Reduction of the fees for registering a new business in the Register of Commerce at the courts.	Improve business environment	End-June 2009	Met
6. The Budget Law for 2010 will include a production of the main budget aggregates (revenue and expenditure) for the period 2010-12.	Strengthen strategic budget planning	End-December 2009	Not met
7. Elimination of the ceiling for reimbursement of VAT credits to all exporters (originally set as performance criterion).	Improve business environment	End-December 2009	Met
8. Reduction of the rate of profit tax from 35 to 30 percent, applicable to profits reported for FY 2009 and for following years (originally set as performance criterion).	Improve business environment	End-December 2009	Met

Table 2. Structural Benchmarks for Program Monitoring (concluded)

Measures	Macroeconomic Rationale	Date
<b>New Structural benchmarks</b>		
9. Quarterly clearing of Treasury suspense accounts	Improve treasury operations and transparency of budget execution	At the end of each quarter, starting at end-December 2009
10. Publication of the Certified accounts of the Société du Patrimoine des Mines du Niger (SOPAMIN) for FY 2008 in the Official Journal.	Increase transparency in the management of oil and mining revenue	January 15, 2010
11. Preparation by the National Public Debt Management Committee of a report on the sustainability of public debt, including debt contracted or guaranteed by the State and debt contracted by public enterprises, public entities, and public offices.	Improve debt management	End-March 2010
12. Completion of a report presenting the plan for government investment in the petroleum and mining sectors and related financing arrangements	Strengthen public financial management and strategic budget planning	End- June 2010
13. Publication of the report on the implementation of the Extractive Industries Transparency Initiative reconciling mining and petroleum revenues for 2007—08, after approval by the Committee for Dialogue (Comité de Concertation)	Increase transparency in the management of oil and mining revenue	End-June 2010
14. The Budget Law for 2011 will include a production of the main budget aggregates (revenue and expenditure) for the period 2011-13.	Strengthen strategic budget planning	End-December 2010

## ATTACHMENT II—TECHNICAL MEMORANDUM OF UNDERSTANDING

Niamey, January 21, 2010

1. This technical memorandum of understanding defines the performance criteria and indicative targets for Niger's program under the Extended Credit Facility (ECF) for the period 2008-11. The performance criteria and indicative targets for 2009 and 2010 are set out in Table 1.a and Table 1.b, respectively, of the government's Memorandum of Economic and Financial Policies (MEFP) dated January 21, 2010 and attached hereto. This technical memorandum of understanding also sets out 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 External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF, as amended effective December 1, 2009, **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, according to a specific schedule; these payments will discharge the obligor of 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 lease holder 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 lease grantor retains the title to the property. For the purpose of this 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 necessary for 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 (for example, payment on delivery) will not give rise to debt.



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

(c) **External payment arrears** are external payments due but not paid. **Domestic payment arrears** are domestic payments due but not paid. For 2009, they include (i) arrears outstanding at end-1999 identified by the audit conducted by the Ministry of Finance in 2005; (ii) the *restes à payer* at the Treasury related to the budgetary years 2004, 2005, 2006, and 2007 remaining due at December 31, 2008. For 2010, they include (i) arrears outstanding at end-1999 identified by the audit conducted by the Ministry of Finance in 2005; (ii) the *restes à payer* at the Treasury related to the budgetary years 2004, 2005, 2006, 2007, and 2008 remaining due at December 31, 2009.

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

## II. QUANTITATIVE PERFORMANCE CRITERIA

### A. Net Domestic Financing of the Government

#### Definition

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, privatization receipts net of the cost of structural reforms to which these proceeds are earmarked, and forgiven private sector claims on the government.

4. **Net bank credit to the government** is equal to the balance of the government's claims and debts vis-à-vis national banking institutions. Government claims include cash holdings by the Nigerien Treasury, secured obligations, and deposits with the central bank. Government deposits in commercial banks are excluded from government claims insofar as they only finance externally-financed investments. Government debt to the banking system includes debt vis-à-vis the central bank (excluding net financing from the IMF's Extended Credit Facility (ECF), but including the CFAF counterpart of the 2009 General SDR allocation and government securities) and the commercial banks (including government securities held by commercial banks), 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. Net bank credit to the government and the 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 the net nonbank financing of the government is calculated by the Nigerien Treasury.

6. **Nonbank net domestic financing** includes (i) the change in the stock of government treasury bonds and bills held by WAEMU banks outside of Niger and by the non bank private sector (iii) the change in the stock of the consignment accounts at the Treasury (iv) the change in the stock of forgiven private sector claims on the government (*abandon de créances sur l'Etat du secteur privé*).

7. The 2009 quarterly targets are based on the change in stock between end-December 2008 and the date considered for the performance criterion or the indicative target. The 2010 targets are based on the change in stock between end-December 2009 and the date considered for the performance criterion or the indicative target.

### **Adjustment**

8. The **ceiling on net domestic financing** will be subject to adjustments if disbursements of external budgetary support less external debt service and arrears payments, including disbursements under the ECF, fall short of projected amounts. For 2009, external budget support is calculated from end-December 2008, and for 2010, from end-December 2009.

9. If disbursements fall short of projected external budgetary assistance for each quarter in 2009, the corresponding quarterly ceilings on net domestic financing will be raised pro tanto, up to a maximum of CFAF 35 billion. If disbursements fall short of projected external budgetary assistance for each quarter in 2010, the corresponding quarterly ceilings on net domestic financing will be raised pro tanto, up to a maximum of CFAF 15 billion

### **Reporting requirement**

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

## **B. Reduction of Domestic Payments Arrears**

### **Definition**

10. **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 (RAP)* at the Treasury for budget years 2004, 2005, 2006 and 2007 outstanding at end-2008. The stock of arrears will be reduced by the minimum amounts indicated in Table 1.a annexed to the MEFP. The quarterly objectives for 2009 are based on the change in the stock of arrears from end-December 2008, and the date selected for the performance criterion or indicative target. The stock of RAP at end-2009 for the 2009 budget year will not exceed the stock of RAP outstanding at end-2008 for the 2008 budget year; any excess will be considered an increase in arrears that will be deducted from the reduction of arrears as defined in the beginning of this paragraph.

11. Domestic arrears, for 2010, 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 (RAP)* at the Treasury for budget years 2004, 2005, 2006, 2007, 2008 outstanding at end-2009. The stock of arrears will be reduced by the minimum amounts indicated in Table 1.b annexed to the MEFP. The quarterly objectives for 2010 are based on the change in the stock of arrears from end-December 2009, and the date selected for the performance criterion or indicative target. The stock of RAP at end-2010 for the 2010 budget year will not exceed the stock of RAP

outstanding at end-2009 for the 2009 budget year; any excess will be considered an increase in arrears that will be deducted from the reduction of arrears as defined in the beginning of this paragraph.

12. 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**

13. Monthly data on the outstanding balance, accumulation (including changes in the *restes 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. Reduction of External Payments Arrears**

### **Definition**

14. **Government debt** is outstanding debt owed or guaranteed by the government. For the program, the government undertakes not to accumulate external 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 external creditors, including Paris Club creditors.

### **Reporting requirement**

15. 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**

16. The government will not contract or guarantee external debt with original maturity of one year or more with a grant element of less than 35 percent. Nonconcessional external debt is defined as all debt with a concessionality level of less than 35 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 10-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. The Ministry of Finance will communicate regularly to Fund staff the list of loans under negotiations, and, in case of objections, the Fund staff will have to express any objections within two weeks.

17. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF, as amended

effective December 1, 2009, 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**

18. Details on any external government debt will be provided monthly within six weeks after 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**

19. The government will not accumulate or guarantee new 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 External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF, as amended effective December 1, 2009, 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**

20. 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.

## **III. QUANTITATIVE TARGETS**

### **A. Definitions**

21. 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.

22. The basic fiscal deficit is defined as the difference between: (i) total fiscal revenue as defined in paragraph 23; and (ii) total fiscal expenditure excluding foreign financed investment (but including HIPC-financed investment).

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

24. The floor on poverty-reducing expenditure is an indicative target for the program. Poverty-reducing expenditure comprises all budget lines included in the government's Unified Priority List (UPL), which includes spending under the Special Program of the President, and spending on HIPC resources.

25. This information will be provided to the IMF quarterly within six weeks after the end of each quarter.

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

##### **A. Public Finances**

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

- detailed monthly estimates of revenue and expenditure, including priority expenditure, the payment of domestic and external arrears, and a breakdown of customs, DGI, and Treasury revenue;
- the table of government financial operations with comprehensive monthly data on domestic and external financing, and the changes in arrears (arrears outstanding at end-1999) and *restes à payer (RAP)* at the Treasury. These data are to be provided monthly within six weeks following the end of each month;
- comprehensive data on monthly non-bank financing items: (i) the change in the stock of government treasury bonds and bills held by WAEMU banks outside of Niger and the non bank private sector; (ii) the change in the deposits of Treasury correspondents; (iii) the change in the stock of the consignment accounts at the Treasury (iv) the change in the stock of forgiven private sector claims on the government (*abandon de créances sur l'Etat du secteur privé*).
- quarterly data expenditures of the Unified Priority List;
- 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;
- monthly data on the balances of the accounts of the Treasury and of other public accounting officers at the BCEAO;
- monthly data on the *restes à payer* at the Treasury, by reference fiscal year with an itemization of maturities of more than, and less than, 120 days;
- monthly data on effective debt service (principal and interest) compared with the planned schedules. These data are to be provided within four weeks after the end of each month.

### **B. Monetary Sector**

27. 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 within eight weeks after the end of the month (provisional data);
- borrowing and lending interest rates; and
- customary banking supervision indicators for bank and nonbank financial institutions (if necessary, the same indicators for individual institutions may also be provided).

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

28. The government will provide IMF staff with 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 after the end of the year concerned.

### **D. Real Sector**

29. The government will provide IMF staff with the following information:

- disaggregated monthly consumer price indices, monthly within two weeks following the end of each month;
- national accounts, within six months after the end of the year; and
- any revision in the national accounts.

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

30. The government will provide the following information:

- any study or official report on Niger's economy, within two weeks after 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 Requirement
Real sector	National accounts	Annual	End of year + 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
	Non bank financing position: (i) the change in the stock of government treasury bonds and bills held by WAEMU banks outside of Niger and by the non bank private sector; (ii) the change in the deposits of Treasury correspondents; (iii) the change in the stock of the consignment accounts at the Treasury (iv) the change in the stock of forgiven private sector claims on the government ( <i>abandon de créances sur l'Etat du secteur privé</i> )	Monthly	End of month + six weeks
	Provisional table of government financial operations, including breakdown of revenue (DGI, DGD, and Treasury) and expenditure, including repayments of domestic wage and non-wage 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>reste à payer</i> at the Treasury, by reference fiscal year (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 of 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 weeks
	Monthly data on Treasury account balances and other public entities at the BCEAO.	Monthly	End of month + two weeks
	Petroleum product pricing formula, tax receipts, and pricing differentials	Monthly	End of month + four weeks
Monetary and financial data	Monetary survey	Monthly	End of month + six weeks (for provisional data) End of month + ten weeks (for final data)
	Consolidated balance sheet of monetary institutions and, as appropriate, balance sheets of selected 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	End of year + six months
	Revised balance of payments data	Irregular	Following the revision
External debt	Outstanding external payments arrears and repayments	Monthly	End of month + six weeks
	Terms of new external loans		End of month + six weeks
	Table of effective monthly external debt service (principal and interest) compared with planned schedule	Monthly	End of month + four weeks

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