December 2011
IMF Country Report No. 11/358

Niger: Ex Post Assessment of Longer-Term Program Engagement

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NIGER

Ex Post Assessment of Longer-Term Program Engagement

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Approved for Distribution by the African and Strategy, Policy and Review Departments

November 11, 2011

Key Issues

- Macroeconomic performance during 2005–10 was satisfactory, although conditions deteriorated in 2009-10 following political instability and drought.

- IMF engagement since 2005 has been constructive; Fund-supported programs contributed to the authorities' goals of macro stability, growth, and human development progress.

- Niger still faces formidable development challenges. Growth needs to accelerate in order to achieve further inroads in poverty reduction and boost income levels significantly. Risks to achieving development objectives include: a) the potential for resumed political instability; b) difficult climatic conditions; and c) significant technical and human capacity constraints.

- Development of Niger's uranium and petroleum resources provides an important opportunity to raise the living standards of Niger's citizens. Institutional reforms aimed at enhancing the efficient use of resource revenues and transparency of public finances will remain critical to maximize benefits and avoid distortions associated with the "resource curse."

- Priorities for future Fund engagement are (i) to help strengthen public finance management, revenue mobilization and Treasury functions, including building technical capacities; (ii) to help ensure maximum returns to the economy from development of the extractive industries; (iii) to help accelerate financial sector development in line with FSAP recommendations; and (iv) to improve the climate for private investment and business activity.

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I. Introduction

1. **This Ex Post Assessment (EPA) reviews Niger's performance under two Fund-supported programs**: the 2005–08 Poverty Reduction and Growth Facility (PRGF) arrangement and the 2008–11 Extended Credit Facility (ECF) arrangement, which expired in June 2011. The first three reviews under the 2008–11 ECF arrangement were completed, but a military coup in early-2010 led to a period of political instability that disrupted program implementation. This EPA covers the period 2005–10.

2. **Economic conditions in Niger are similar to those in many "fragile states"** (www.imf.org/external/pp/longres.aspx?id=4580). The country is still catching up from the devastation of the 1990s, when years of socio-political upheaval and armed conflict caused a contraction in output, a drop in already low per capita GDP, and a severe deterioration in both the public finances and poverty levels. Subsistence agriculture is the source of income for 80 percent of the population and agricultural productivity is about half the West African average, reflecting frequent drought, inadequate irrigation, and the limited use of modern inputs. Economic diversification in this landlocked country is hampered by poor road and transport networks and the high cost of doing business related to weak financing systems, shortcomings in judiciary and legal practices, and a low-skilled workforce.

3. **Starting from weak initial conditions, Niger nonetheless has made steady progress since 2000, including from 2005–10**. The Fund's engagement over the period contributed to economic stability while facilitating Niger's efforts to improve public service delivery and reduce poverty. While real per capita income has risen by 15 percent since 2004—exceeding that of sub-Saharan Africa (SSA, excluding Nigeria and South Africa) and the WAEMU region—the country still faces formidable development challenges. Dependence on domestic agriculture and mining leaves the economy exposed to weather and price shocks, with often catastrophic welfare losses for rural and urban households. Recent political instability also dealt Niger another setback.

4. **The new government has expressed a strong interest in a new ECF-supported arrangement**. For members under long-term program engagement, or for which an EPA has not been done in the last five years, an EPA should be prepared in advance of a request for a new program (http://www.imf.org/external/np/pp/eng/2010/022510a.pdf), and it should be a full EPA report if a program has been interrupted for more than six months during the period under review. In line with the Guidance Note, this report assesses: (i) to what extent the lessons from the 2004 EPA were reflected in subsequent Fund-supported programs; (ii) overall macro performance over the period and under the programs; and (iii) priority areas for future Fund involvement.

5. **This EPA is organized as follows:** Section II presents a summary of economic and political developments from 2005-10; Section III sets out the objectives and design of the two programs; Section IV analyzes the key elements of Fund engagement over this period,

looking at program achievements and shortcomings, and drawing on key lessons for future engagement; and Section V presents recommendations based on these lessons.

II. Economic and Political Developments: 2005–10

6. **Overall performance and human development improved over the past decade.** The adoption of a broad-based poverty reduction strategy was accompanied by a period of political stability, renewed external financial assistance, and extensive debt relief. In addition, the country demonstrated a willingness and ability to pursue effective policy reforms, despite difficult circumstances. Growth rates picked up, social indicators improved, and Niger is a bit closer to meeting WAEMU convergence criteria. Indicators for education, health and poverty incidence improved, though Niger is unlikely to meet the MDGs (except for one on child mortality— Section V).

Performance on WAEMU Convergence Criteria, 2005–10[1]

(Percent, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010
Basic fiscal balance/GDP (≥ 0 %)	-2.8	**0.3**	-0.9	**1.3**	-4.1	-3.0
Average consumer price inflation (≤ 3 %)	7.8	**0.1**	**0.1**	10.5	**1.1**	**0.9**
Total debt/GDP (≤ 70 %)	**68.7**	**26.2**	**24.8**	**20.9**	**23.8**	**22.9**
Change in domestic arrears in CFAF bn (≤ 0)	**-12.4**	**-14.0**	**-14.8**	**-15.7**	**-13.9**	**-12.4**
Change in external arrears in CFAF bn (≤ 0)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Wages and salaries/tax revenue (≤ 35 %)	**34.8**	**33.4**	**31.0**	**29.8**	**27.3**	**28.5**
Capital expenditure domestically financed/tax revenue (≥ 20 %)	**28.1**	**25.3**	**31.6**	**34.4**	**44.1**	**27.6**
External current account balance, excluding grants/GDP (≥ - 5 %)	-12.2	-10.9	-10.4	-15.2	-25.7	-26.9
Tax revenue/GDP (≥ 17 %)	10.2	10.7	11.3	11.7	13.8	13.3

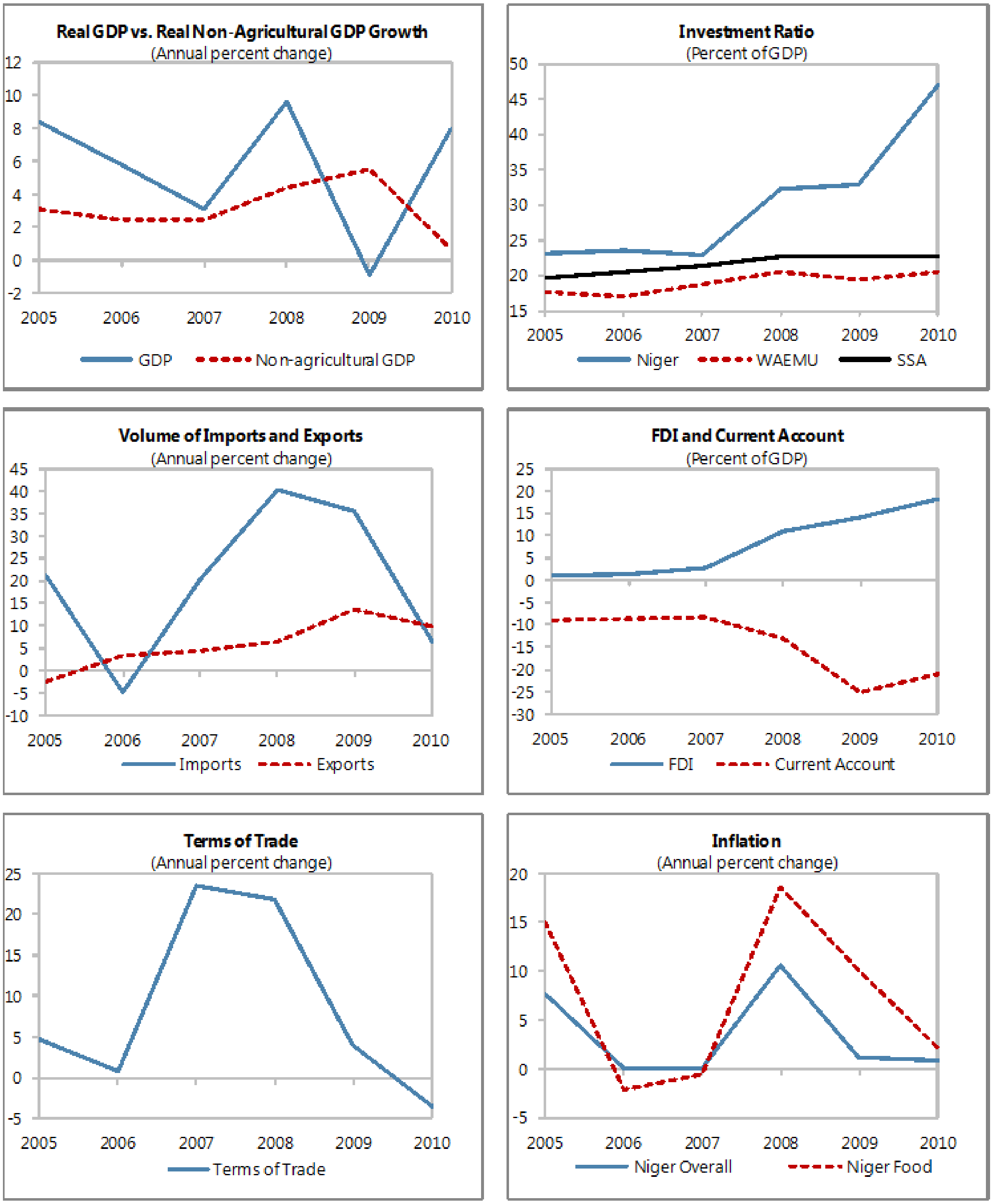
Source: Sub-Saharan Africa Regional Studies Group

[1] Bold numbers = criteria met; red = not met. 2010 estimates.

7. **This occurred during a period when Niger experienced several high impact shocks.** First, climate shocks led to extreme volatility in output. A drought, then a locust invasion in late-2004 triggered a serious food crisis in 2005. The economy recovered in 2005–08 as the rains returned, but the drought came back in 2009, causing a collapse in output after growth of almost 10 percent in 2008 (Figure 1). This created another food crisis that affected over half of the population. Second, higher world prices for food and fuel, exacerbated by domestic food shortages, lowered agricultural exports and budget revenues, and pushed inflation up sharply in 2005 and 2008. The pass-through of food prices has been fairly high in Niger: a one percent increase in international food leads to an increase of about 0.6 in domestic food prices (SSA REO, April 2011, Figure 1.15). Niger's strong harvest in 2010 though helped keep prices stable in 2010–11.

8. **Third, the economy was affected by political instability in 2009–10**. Starting with a constitutional crisis in 2009, ECOWAS suspended Niger's membership and development partners began withdrawing financial support. In February 2010, immediately following the conclusion of the third ECF program review, a bloodless military coup took

Figure 1. Niger: Macroeconomic Volatility, 2005–10



Source: IMF staff, WEO, REO.

place. While this led to a process to restore democracy, it interrupted relations with the Fund pending international recognition of the transitional government (September 2010). The subsequent six-month election period complicated efforts to resolve program issues related to the petroleum pricing subsidy and thus complete the remaining reviews. A democratically-elected government took office in April 2011.

9. **Fourth, and related to the political crisis, external assistance declined markedly.** Niger is highly dependent on donor assistance, which is used mostly to fund public capital spending. External assistance averaged about 34 percent of total government spending during 2005–07, but this fell to 23 percent on average from 2008–10 (a drop from 10 percent of GDP in 2005 to 5.8 percent in 2010).

10. **On the bright side, Niger was intensifying development of its oil and mineral sector.** With new projects coming on stream from 2011–14, oil and mining exports are projected to triple by 2016 and annual fiscal revenues to rise by 3.4percent of GDP (2011 Article IV report, Boxes 2 and 3). Based on current projections, Niger is poised to become the world's second largest uranium producer and uranium and oil combined will represent about 60 percent of total goods exports. This will transform the macroeconomic picture, but international experience has shown that translating these resource gains into broad based economic growth can be very challenging.

III. DESIGN AND OUTCOMES OF IMF-SUPPORTED PROGRAMS

11. **Fund-supported programs were framed by the government's poverty reduction strategy (PRS).** The 2002 PRS Report laid out the pillars of this strategy: (i) stronger sustainable growth (founded on macroeconomic stability and low inflation); (ii) development of the productive sectors; (iii) strengthening of social services; and (iv) promotion of good governance and capacity building. The revised report (DPRS) in 2008 defined a new development vision that added also: (v) control of population growth; (vi) infrastructure development; and (vii) effective implementation of the strategy.

12. **Niger's macro policies were also shaped by WAEMU institutional arrangement**s. Monetary operations of the central bank (BCEAO) limit exposure to member governments to 35 percent of fiscal revenues and there is no direct BCEAO financing. The BCEAO is responsible for banking supervision and regulations within the region. Fund program conditions were thus designed within these parameters, with emphasis on fiscal and structural policies aimed at restraining inflation and raising competitiveness.

13. **Program expectations sought to be realistic**. In light of limited capacity and susceptibility to shocks, a gradualist approach was adopted. This also mirrored lessons from the 2004 EPA (Box 1) to incorporate more realism into the projected impact of planned reforms on growth and revenues.

Box 1. Conclusions from the 2004 EPA Report

The 2004 EPA (Country Report No. 04/275) identified a need for political stability, broad-based consensus in support of reform, and perseverance. It recommended:

- Increasing revenues by strengthening the tax and custom agencies, and reforming the tax system by widening the tax base and reducing exemptions.
- Reorienting expenditure toward social services and infrastructure investment.
- Creating the conditions that would promote private investment by strengthening the financial sector and the judiciary system, and increasing the accountability of public resource management.
- Reducing the direct involvement of the state in the productive sectors, including first privatizing the electricity and petroleum importing companies.
- Streamlining structural conditionality given Niger's limited administrative capacities.
- Making reforms more front-loaded, including with prior actions, to galvanize efforts.
- Incorporating more realism into the projected impact of planned reforms on growth and revenues.

A. Program Design

14. **Program objectives were based on the PRS goals and were guided by the 2004 EPA.** Macroeconomic stability would be supported with investment strategies in the social sectors, agriculture, mining, and tourism. The macro framework at first aimed to reduce the current account deficit, but the 2008 Fund-supported program permit it to rise to accommodate substantial import needs related to investments in mining and infrastructure. Maintaining donor confidence with steadfast reform efforts was a priority to ensure timely disbursement of external aid, projected at about 10 percent of GDP annually.

15. **Measures to boost revenue collection and strengthen public finance management were considered essential**. Niger's low tax-to-GDP ratio would be raised with reforms aimed at widening the tax base, strengthening the efficiency of tax and customs administration and improving tax collection. Public finance management (PFM) reform was at the core of both programs. Two Public Expenditure Management and Financial Accountability Reviews (PEMFARs) prepared since 2004 jointly with the World Bank (and other partners) served as the framework under which all donors were to provide budget support. The PEMFARs had identified weaknesses in (i) budget planning and execution, (ii) public accounting and Treasury Management, (iii) internal and external controls, and (iv) technical and logistical capacity.

16. **Expenditure management focused on prioritizing public spending**. Spending was to be directed toward priority sectors identified in the PRSPs and the sectoral Medium-Term Expenditure Frameworks (MTEFs), and would be monitored and tracked more closely. The 2008 program proposed a boost in public investment, which involved finalizing infrastructure MTEFs and formulating the annual state budget with a three-year horizon that was integrated with the MTEFs and the DPRS.

17. **Addressing key financial sector weaknesses and improving competitiveness were structural reform priorities.** These reforms were aimed at strengthening economic governance and the supply response of the economy by improving resource allocation. For this reason, automatic adjustment of the price of (imported) petroleum products needed to remain in line with the pass-through rule established in 2001, but also to avoid unsustainable fiscal costs. Niger's financial system was characterized by large exposure to the government and very low levels of intermediation. To deepen financial intermediation, the program first focused on divestment and/or restructuring of financial institutions both to reduce government exposure, and to improve credit conditions. The 2008 program placed greater attention on reforms to stimulate private investment by reducing the cost of doing business**.**

18. **The programs involved a prudent external debt policy.** Following the positive outcome of the HIPC/MDRI exercise, Niger's nominal external debt fell from over 90 percent of GDP to about 15 percent at end-2009.[2] To preserve these gains and manage the liabilities associated with developing the resource sector, the 2008 program also sought to strengthen the debt management capacity of the finance ministry.

19. **Most of the risks were recognized *ex ante*.** Chief among them were droughts, terms of trade shocks, and domestic sociopolitical tensions. The program made an explicit reference to risks related to technical and institutional weaknesses, including delays in the preparation and implementation of sectoral strategies to support the PRSP. The second program did not explicitly anticipate the consequences of lower aid disbursements or how elections scheduled for 2009 might affect fiscal discipline or program commitment.

B. Outcomes

20. **Quantitative program conditions and most benchmarks were appropriately tailored to Niger's fragile context.** Assessment of program reviews suggests that quantitative performance criteria (PCs) helped to guide the economy through the storm of shocks (table below). In line with the 2004 EPA recommendations, the number of structural benchmarks was relatively streamlined.[3] Reliance on prior actions was not heavy, but both programs involved a reasonable sequence of steps to keep the momentum of reform in train. Fund-supported programs were also flexible in terms of adapting conditions as necessary to reflect exogenous circumstances or adding measures as needed to realign policy reforms to meet intended outcomes. As examples, a revenue measure with negative social consequences

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[2] Niger moved from "moderate" to "low" risk of debt distress in the 2010 Debt Sustainability Analysis (Country Report No. 10/146) though it rose back to "moderate" risk in 2011.

[3] The number of structural PCs and benchmarks under the 2005-07 PRGF arrangement and 2008–10 ECF arrangement averaged 7.7 and 5 per review respectively, below the averages of 8.8 and 8.4 for other PRGF/ECF arrangements (www.imf.org/external/np/pp/eng/2010/030910.pdf; Table 1.b).

(paragraph 25) was removed in 2005, while financial sector benchmarks were added to beef up efforts to strengthen financial intermediation.

21. **Fund technical assistance was well tailored to program objectives**. From 2005 through 2008, technical assistance (TA) was devoted to tax and customs reforms, public expenditure management, macro statistics, and micro finance. After a pause during the political transition, TA resumed with an intense focus on budget and expenditure management and tax reform, including in the natural resource sector. Fund TA was indeed instrumental to the fiscal progress achieved.

Quantitative Program Objectives, Measures and Outcomes, 2005–10
(Percent of GDP, unless otherwise noted)

Objective	Measure [1] (percent of GDP, unless noted otherwise)	Outcomes [2] 2005	2006	2007	2008	2009	2010
Deficit financed by external assistance, maintain budget discipline	Domestic Financing of the budget, quarterly ceiling — PC	0.1	-4.8	-1.1	-1.9	4.6	2.0
Budget discipline, resource allocation, financial intermediation	Reduction in government domestic payment arrears — PC	-0.7	-0.7	-0.7	-0.7	-0.6	-0.5
creditworthiness	Accumulation of external payment arrears (CFAF bn) — PC	0.0	0.0	0.0	0.0	0.0	0.0
preserve debt sustainability	New external debt, maturities 0-1 year (CFAF bn) — PC	0.0	0.0	0.0	0.0	0.0	0.0
preserve debt sustainability	New non-concessional external debt, maturities over 1 yr (CFAF bn) — PC	0.0	0.0	0.0	0.0	0.0	0.0
Raise public savings	Basic Budget Balance —PC '05-06, IT after	-2.8	0.3	-0.9	1.3	-4.1	-3.0
Raise resources to expand priority spending	Total revenue (IT)	10.6	13.0	15.0	18.4	14.7	14.2
Create fiscal space for more productive and high priority spending	Wage bill — IT 2005-08 only	3.5	3.6	3.5	3.5	…	…
Memo items (macro framework):							
Minimum needed to raise GDP per cap	Real GDP growth over 4%, 5% from 2008-11	8.4	5.8	3.1	9.6	-0.9	8.0
Macro stability, efficiency, equity	Inflation below 3% (average annual)	7.8	0.1	0.1	10.5	1.1	0.9
macro stability	Current account balance (excluding grants)	-12.2	-10.9	-10.4	…	…	…

1/ PC = performance criteria; IT = indicative target
2/ bold = met; red = not met (dates approximated to match program reviews)

IV. Assessment of Fund Involvement 2005-10

A. Macroeconomic Performance

22. **Macroeconomic performance was satisfactory over the period.** The authorities maintained macro stability and average annual real GDP grew by 5.7 percent, above program projections, though annual variations were substantial (Figure 1, Table 1). Growth was driven mainly by agriculture, accounting for 40 percent of GDP, and mining. While exports grew strongly, the external current account deficit widened during the second arrangement owing mostly to a surge in FDI-financed capital imports related to mining. The overall fiscal balance showed steady improvement until 2009: tax revenues rose by 3.6 percentage points of GDP from 2005–09, facilitating a notable increase in priority spending by 8.9 percentage points of GDP over the same period. Conditions deteriorated in 2009 as the country

experienced the impact of the drought, floods, drop in external financing, and the destabilizing political crisis. Agricultural production declined and the food crisis resulted in a slowdown in related nonagricultural activities, while the shortfall in budget support led to a contraction in public spending.

B. Fiscal Policies and Outcomes

23. **Program targets for revenues were met.** Both tax and non-tax revenues exceeded projections over the period. Tax revenue rose steadily and total revenues increased from 10.6 percent of GDP in 2005 to 14.2 percent of GDP in 2010, a year without any exceptional mining receipts.

Revenue Performance, 2005–10
(Percent of GDP)

	2005	2006	2007	2008	2009	2010
Total revenue	10.6	13.0	15.0	18.4	14.7	14.2
Tax revenue	10.2	10.7	11.3	11.7	13.8	13.3
International trade	5.2	5.0	4.9	4.6	4.7	5.0
Goods and services	2.6	3.0	3.6	3.3	4.0	4.0
Income	1.7	2.1	2.4	2.8	4.1	3.2
Other budgetary fiscal revenue	0.7	0.6	0.5	0.7	0.7	0.7
Tax revenue "*pour comptes des tiers/collectivités*"	…	…	…	0.3	0.3	0.4
Nontax revenue	0.3	2.0	3.5	6.6	0.7	0.7
Of which: exceptional uranium/oil receipts	…	1.6	1.3	5.1	0.0	0.0
Special accounts revenue	0.2	0.3	0.2	0.1	0.2	0.1

Source: Nigerien authorities.

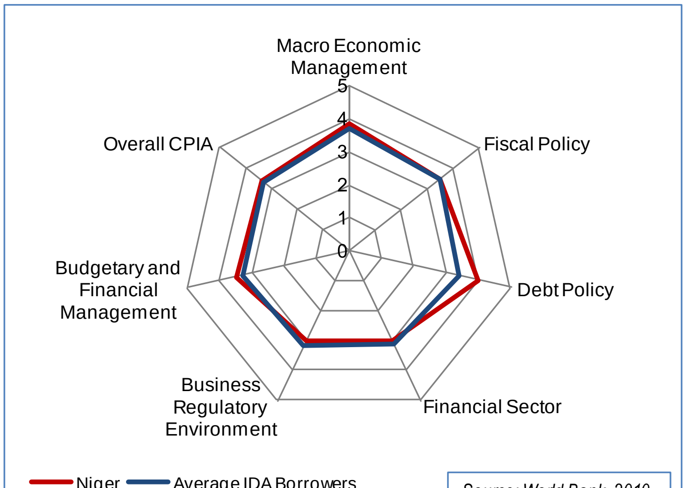
24. **About two thirds of the revenue increase was the result of improvements in customs and revenue administration**. Most importantly, a central file of taxpayers was created, the tax registration system was improved, collection efforts were focused on the largest taxpayers, and the number of delinquent taxpayers was reduced. The monitoring of imports improved, thanks mainly to the establishment of a computer network linking offices in border areas and in Niamey, thereby increasing the effectiveness of oversight. The government also amended the oil and mining laws and renegotiated contracts with uranium mining companies in 2007. By 2009, the reform process had resulted in a significant increase in tax returns filed voluntarily, an improvement in tax supervision, and a clear increase in revenue.

25. **Tax policy reforms were successful but had less revenue impact**.[4] The VAT base was widened by reducing exemptions, applying the VAT to sales of secondhand goods,

[4] A new Tax Code comprising significant improvements was recently submitted to parliament.

imposing an excise tax on soft drinks, introducing an environmental tax, and placing a presumptive tax of 0.25 percent on re-export of tobacco products. Extension of the VAT in January 2005 to basic food items—in retrospect a measure seen as poorly suited to Niger's circumstances—was reversed in April 2005 amid drought-induced price increases and public outcry. Later on, the corporate income tax rate was lowered from 35 to 30 percent and the ceiling on VAT refunds to exporters was eliminated in an effort to align tax policies with the region. In all, these contributed about one third of the total revenue increase.

26. **The authorities made progress improving public finance management.** This was reflected in the 2010 Country Policy and Institutional Assessment (CPIA) rating of 3.4 that exceeded the average for SSA and IDA borrowers. Among the most notable achievements, they adopted a new budget nomenclature and chart of accounts; established a unified list of priority expenditures; started publishing results of public tenders; adopted several Budget Execution Laws; and created both a Court of Accounts and autonomous Directorate General of Financial Control. Nearly all of the PFM program benchmarks were met. Expenditure on wages and goods and services was restrained to make room for higher spending on health, education and social protection, which rose from 25 percent to 33 percent of total spending. Fiscal discipline also allowed the authorities to gradually reduce old domestic arrears: the overall balance (cash basis) was reduced by about 4 percent of GDP by 2008, although the pace of repayment slowed slightly in 2009–10.



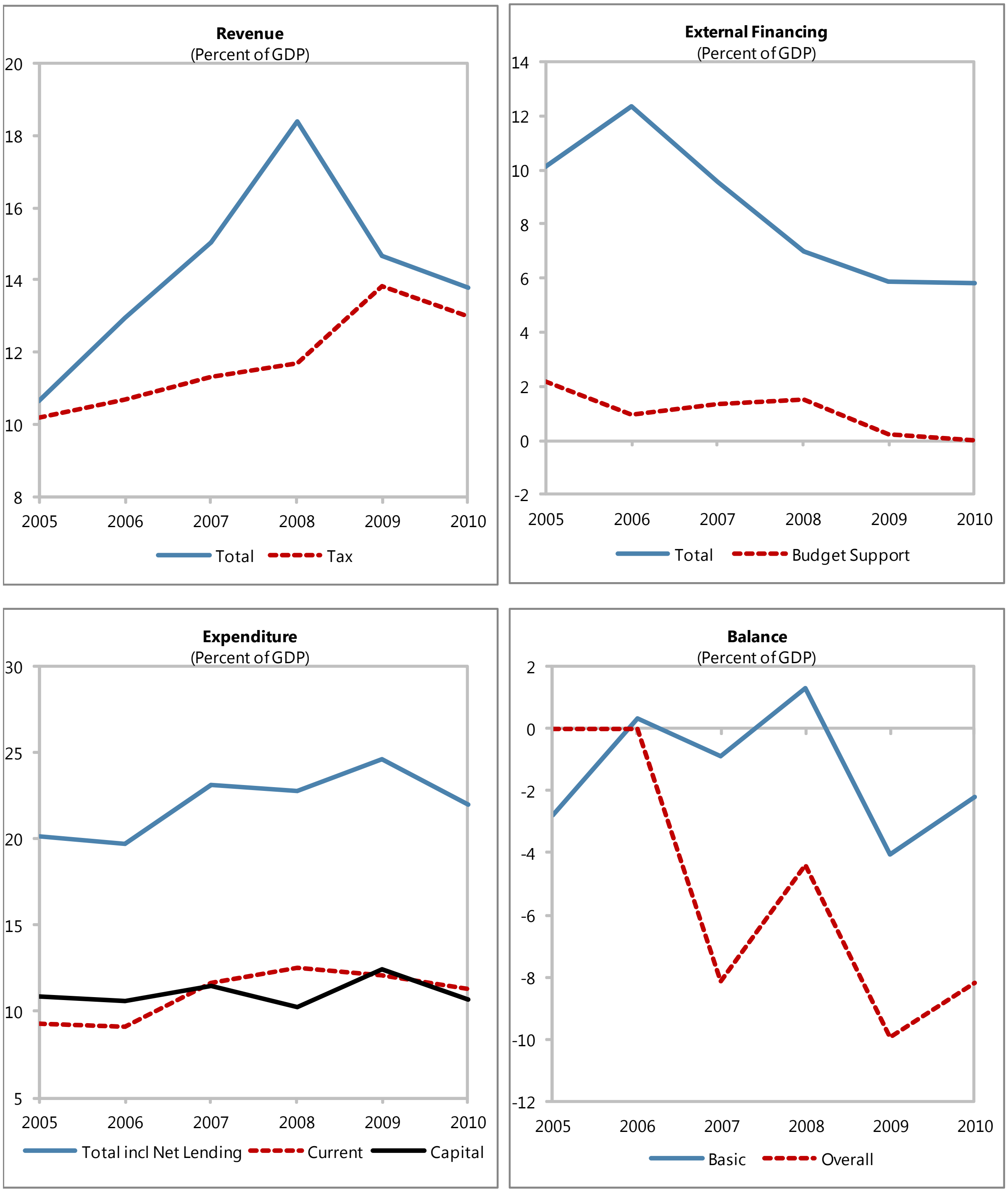
Source: World Bank, 2010

Government Budget Allocation, 2004–09
(Percent of total expenditure)

	2004	2005	2006	2007	2008	2009
Crop production	8.8	7.8	8.4	5.4	6.9	1.6
Livestock	0.6	0.4	0.6	1.4	2.8	1.1
Health	6.4	6.8	8.2	9.2	11.3	8.5
Education	17.6	17.3	18.6	17.8	20.6	24.1
Social protection	0.5	0.4	0.5	0.6	0.7	0.3
Other	66.2	67.2	63.7	65.7	57.6	64.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Health+Education+Social	24.5	24.5	27.3	27.6	32.6	32.9

Source: World Bank 2011.

Figure 2. Niger: Fiscal Developments, 2005–10



Source: IMF staff.

27. **Following comprehensive debt relief, debt management was strengthened.** The Public Debt Directorate was revamped and its coverage expanded to include debt contracted or guaranteed by systemically important public entities as well as by the central government (in line with changes in Fund policy). The Public Debt Directorate experienced some delays in the production of reports on new debt contracted and debt sustainability, but the benchmarks on preparing semi-annual reports on debt contracted and the forward-looking borrowing programs were met.

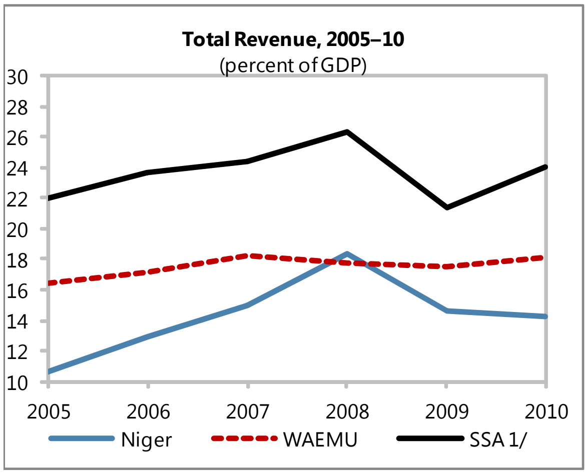
Fiscal Performance, 2005–10
(Percent of GDP)

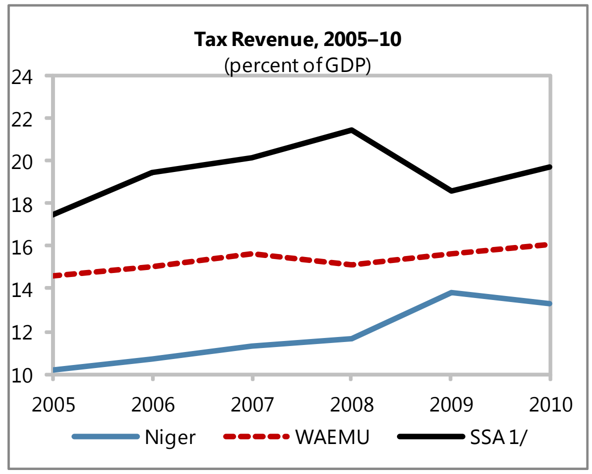
	2005	2006	2007	2008	2009	2010
Revenue	10.6	13.0	15.0	18.4	14.7	14.2
Total expenditure	20.2	19.8	23.1	22.8	24.6	21.5
Of which: domestically financed	*13.4*	*12.7*	*15.9*	*17.1*	*18.7*	*17.2*
Current expenditures	9.3	9.1	11.6	12.5	12.1	13.5
Of which: fuel subsidies	0.0	0.0	0.0	0.0	0.5	1.1
Capital expenditures	10.9	10.6	11.5	10.3	0.5	8.0
Of which: domestically financed	*2.9*	*2.7*	*3.6*	*4.0*	*6.6*	*3.7*
Overall balance	-9.5	-6.8	-8.1	-4.4	-9.9	-7.3
Basic balance	-2.8	0.3	-0.9	1.3	-4.1	-3.0

Source: Nigerien authorities.

28. **Some PFM benchmarks were missed and weaknesses remained in the system of expenditure management.** These included delays in developing a global medium-term expenditure framework and closing budget execution at the end of the complementary period. In particular, delays in completing the reorganization of the old National Treasury into a Treasury and Public Accounting Directorate hindered the efficient separation of different tasks, such as budget execution, cash management, and public accounting. Together with an excessive use of "provisional" accounts, this made it difficult to obtain complete and reliable information on fiscal expenditure. While the authorities have made considerable progress in 2011 to monitor the expenditure chain and avoid the use of provisional accounts, further work to address these weaknesses would permit better execution and tracking of expenditure on priority social items.

29. **Despite progress, revenue mobilization remains low compared to SSA peers and WAEMU targets.** More progress might have been possible by enhancing the collaboration between the tax and customs administrations, including systematic exchanges of data and more joint controls. Looking ahead, efforts should focus most on measures that will deliver the biggest revenue impact. In particular, improvements are needed in monitoring large taxpayers and the operations of medium-sized enterprises; improving the quality and scope of the audit program; and reducing exemptions. In terms of monitoring, it will be important to track and sustain underlying revenue performance excluding the mining and petroleum sector in line with long-run fiscal sustainability (Figure 2).





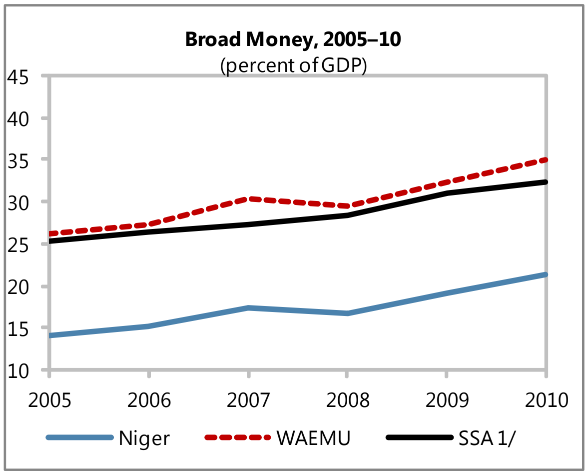
1/ SSA excluding South Africa and Nigeria

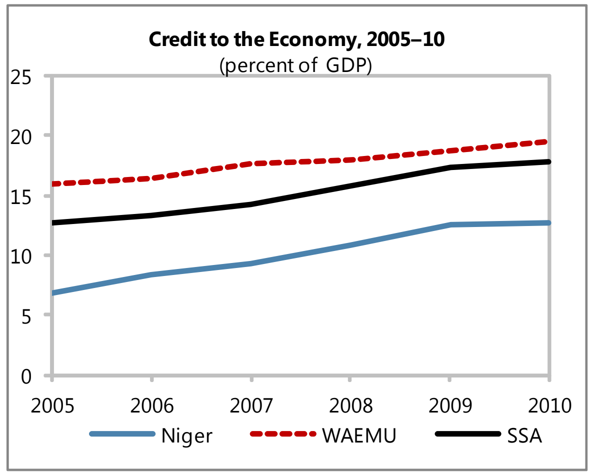
30. **Key actions are necessary to safeguard revenue prospects in the petroleum sector**. Recent TA from FAD noted that the various fiscal agreements along the production chain require that a consistent set of agreements be in place to meet fiscal objectives. However, the current state and content of such agreements are not yet finalized. The capacity to export refined oil products and appropriately price the outputs of the refinery are crucial conditions for the success of the sector. Since the refinery plays a pivotal role between the oil sector and the retail market, FAD staff recently made recommendations to ensure its profitability, with the aim of maximizing revenues for the budget.

C. Financial Sector Reforms

31. **Most financial sector targets were met, but their longer term impact is unclear.** Program plans involved selling the government stake in *Crédit du Niger* (CDN) and the *Banque Commerciale du Niger*; restructuring the *Caisse des Prêts aux Collectivités Territoriales* and the postal and savings institution; and reimbursing frozen postal deposits to help spur credit growth. The latter was met with delay, as was the privatization of CDN. The creation of a new postal bank, *Finaposte*, was underway by the end of the first program, but has since been abandoned. The micro-lending sector was reorganized with the creation of a regulatory authority and recapitalization of key institutions. The authorities expressed interest in establishing new dedicated financial lending institutions (e.g., housing, agriculture) with the view that these were essential for Niger's economic development, though this was discouraged by the Fund.

32. **Financial intermediation did improve somewhat.** Broad money rose from 14 percent of GDP in 2005 to 19 percent by 2010. Domestic credit to the private sector expanded by an average of 24 percent per year from 2005–2010, taking credit to the economy as a share of GDP from 7 percent in 2005 to 13 percent in 2010. That said, the financial system remains undeveloped compared with other SSA countries. Broad money represents about 19 percent of GDP compared to an average of 32 percent for SSA.





1/ SSA excluding South Africa and Nigeria

33. **With the benefit of hindsight, financial sector reforms might have been broader and better adapted to Niger's circumstances**. Measures to improve the supporting environment and strengthen banking supervision were sparse and came well into the second arrangement. Some of the priority recommendations from the 2008 FSAP may have been more productive at advancing private sector development (Box 2). In particular, the FSAP highlighted the need to improve access to finance by strengthening legislation to facilitate the use of collateral, upgrading the capacities of the land registry, and introducing reforms to encourage the development of private credit rating bureaus. In addition, a more timely collection of financial soundness indicators and compliance with the new regulatory minimum capital were important steps toward improving banking supervision. In general, the program could have included some of these priorities as benchmarks (in coordination with the regional central bank).

Box 2. Summary of Main FSAP Recommendations

A Financial Sector Assessment Program (FSAP) for Niger was prepared in 2008. The FSAP stressed that reform of the financial sector needed to be accelerated to help support growth and intermediate more effectively the expected increase in savings arising from resource revenues.

Priority near-term recommendations included: (i) developing a new financial sector strategy focused on improving the supporting business environment and banking supervision rather than public ownership; (ii) developing a debt management strategy to make better use of Treasury deposits at the central bank (to avoid payment delays); (iii) settling the last government arrears to banks; (iv) establishing the regulatory and supervisory agency with sufficient funding; (v) adopting the new microfinance law; (vi) upgrading the capacities of the land registry; (vii) strengthening capacity to process loan applications in rural banks; and (viii) promoting regional mechanisms for the refinancing of housing loans.

By 2009, all eleven banks had committed to complying with the regional Banking Commission's minimum capital requirement of CFAF 5 billion; nine had succeeded by the end-2010 deadline.

D. Structural Reforms

34. **Measures to ensure the pass-through of international prices of petroleum imports proved challenging**. Waivers were granted on this continuous PC in the PRGF at every review except the first. While the PC aimed to improve resource allocation and the equity of public expenditure, the program documents did not provide a thorough discussion of the distributional efficiency of this ill-targeted subsidy. The PC was removed under the 2008 ECF arrangement, but the authorities committed to maintaining the monthly pricing mechanism for retail products "in accordance with the decree of August 2001, with a modification" (Country Report No. 08/211). The rationale for the change between programs, the design of this second mechanism, and the related fiscal costs are not well explained.[5] The issue of petroleum subsidies remains a problem in most WAEMU countries, with attendant fiscal risks where uncoordinated subsidy arrangements have created informal cross-border trade and led to revenue losses (Country Report No. 11/98, Appendix II).

35. **Program targets to strengthen competitiveness and governance were met.** The authorities met the following PCs and benchmarks, developed in consultation with the World Bank (Box 4): reducing the number and complexity of procedures required to set up a business, lowering the new business license tax and registration fees, eliminating the ceiling for reimbursement of VAT credits to exporters, and reducing the profit tax rate from 35 percent to 30 percent.

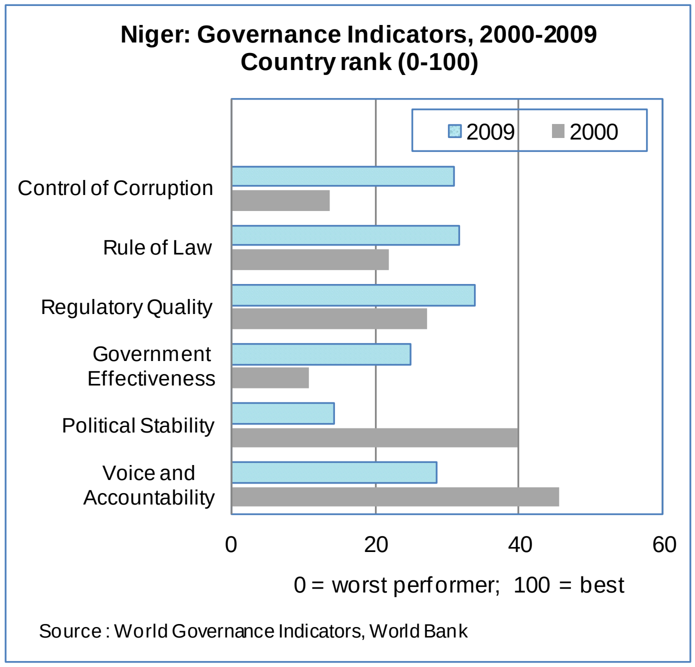
Box 3. Collaboration with the World Bank and Other Donors

Collaboration with the World Bank and other donors was satisfactory. The Fund led the dialogue on revenue-enhancing measures and shared responsibilities with the World Bank in the areas of public expenditure, debt management, budget reforms, and the business environment. Reform measures were discussed and agreed between both teams, and Bank staff participated in Fund review missions. Coordination was reflected in the annual Progress Reports and updated Joint Staff Assessments. The Fund provided macro inputs and an assessment letter in 2010 at the request of the EU and the AfDB that was instrumental in allowing these institutions to disburse budgetary support linked to the food crisis. The Fund provided another assessment letter in 2011 for the Bank and the EU. Consultations with staff from the World Bank and AfDB for this EPA confirmed their satisfaction with the level of cooperation. Officials from the AfDB, however, expressed interest in more formal modes of cooperation.

36. **The standard of transparency and accountability in extractive industries improved.** Under the new Constitution (ratified in 2010), all new mining exploration and exploitation contracts are expected to be published in the Official Journal. Niger was

[5] Recently the authorities agreed on a strategy to gradually phase out the subsidy and started in June 2011 to adjust retail prices in line with international prices. The government committed to keeping expenditure on the fuel subsidy in 2011 below the 2010 level (maximum of 1.1 percent of GDP).

declared compliant with the Extractive Industries Transparency Initiative (EITI) in March 2011. In accordance with the mining code, the government published all exploration permits and several reports reconciling amounts paid by mining and oil companies with those received by the Treasury. A Permanent Secretariat at the EITI and a national consultative committee on natural resources that includes representatives of civil society have also been established. These reforms are reflected in the World Bank's governance indicators, most of which improved.



37. **Structural reforms appear to have contributed to growth, but what might have been done differently?** With the benefit of hindsight, the emphasis on the transportation MTEF may have been misplaced given the greater need for an overall medium-term budget framework focusing on the entire envelope, from which PRS priority spending (including infrastructure) would be derived. The program could have confronted more explicitly the costs and benefits of the petroleum price subsidy to provide a better rationale for the design of the benchmark and as a means to increase ownership and commitment to the measure. Offsetting measures to compensate the poor for eliminating petroleum subsidies may have helped to raise the political appetite for this notoriously difficult reform.[6]

38. **More emphasis could have been placed sooner on improving the business climate.** While benchmarks were met and conditions improved in absolute terms—lower corporate tax rates and fewer procedures to set up businesses—Niger's relative ranking in the World Bank's "Doing Business Survey" fell by two notches from 171 to 173 (out of 183) in 2010. The World Bank has highlighted the following key issues as impediments to private investment: corruption, the inconsistent application of regulations, low efficiency of the judiciary, a heavy tax burden, difficulties in getting financing, competition from the informal sector, and weak infrastructure services.[7]

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[6] See for example "Petroleum Product Subsidies: Costly, Inequitable, and Rising", SPN No. 2010/05.

[7] "Country Assistance Strategy" (2008), and "Second Growth Policy Reform Credit" (2011).

V. POVERTY AND HUMAN DEVELOPMENT

39. **Social indicators and poverty incidence have improved from their low base**. The biggest achievement over the last decade has been a substantive improvement in education and health, or "opportunities to acquire human capital."[8] The share of the poor below the poverty line and the gap between the top and bottom deciles have also declined. The World Bank found that these improvements owe to both expansion of coverage to all groups, and improved targeting to differentiated groups. These are noteworthy achievements that reflect positively on efforts under both Fund-supported programs to allocate more resources to priority social spending. The authorities also improved services during the food crises. The government set up a comprehensive support system to protect vulnerable groups (partly funded by donors) that included nutritional programs, food/cash-for-work programs, cheap or free food distribution as needed, and support for cereal banks.

Select Social Indicators, 1990–2009

	2000	2005	2009
GDP per person employed (constant 1990 PPP $)	979	1,084	1,170
Poverty gap at $1.25 a day (PPP) (%)	..	28	12
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	66	43
Primary completion rate, total (% of relevant age group)	18	29	40
Total enrollment, primary (% net)	27	42	54
Ratio of female to male primary enrollment (%)	69	72	80
Ratio of female to male secondary enrollment (%)	60	62	60
Immunization, measles (% of children ages 12-23 months)	37	47	73
Mortality rate, infant (per 1,000 live births)	107	88	76
Mortality rate, under-5 (per 1,000)	227	187	160
Maternal mortality ratio per 100,000 live births)	1,100	910	820
Improved water source (% of population with access)	42	45	48
Life expectancy at birth, total (years)	46	50	52

Source: World Bank, WDI, Nigerien authorities.

40. **More ambitious gains are needed.** Despite this progress, Niger's rank in the United Nations Human Development Index is near the bottom at 174 out of 177. Continued efforts to raise revenues and invest more in human capital will be needed to realize more ambitious gains and catch up with improvements in SSA. Mechanisms to prepare for future food shortages should remain in place to help reduce vulnerability. More fundamentally, the World Bank has identified the need to expand irrigation infrastructure as a top priority in a strategy to raise incomes by transforming and modernizing agriculture.

[8] "Niger: Investing for Prosperity: A Poverty Assessment," Report No. 61393-NE, May 2011.

VI. CONCLUSIONS AND PRIORITIES FOR FUTURE FUND ENGAGEMENT

41. **Underlying progress was steady until late-2009**. Until the political crisis in 2009–10, Niger's performance under Fund-supported programs had been quite good, particularly given the significant capacity constraints. It performed well on quantitative PCs and met most structural benchmarks, though some with delay. Despite recurrent shocks, Niger was able to maintain prudent fiscal policies while steadily improving priority spending. It is also instructive that reform implementation and fiscal performance deteriorated (along with the levels of donor support) when Fund relations were on hold.

42. **Niger is at a critical turning point**: exploiting the uranium and oil wealth presents a unique opportunity to accelerate growth and raise the living standards of Niger's citizens on a sustained basis. Even without possible "Dutch Disease" pressures from resource extraction, recent Fund analysis on the WAEMU region (Country Report No. 11/98) concluded that, in order to raise growth in WAEMU countries and catch up with SSA, the most important factor would be improving non-price competitiveness, including infrastructure, the quality of institutions, and trade integration.

43. **There is a strong case for continued Fund engagement under an ECF arrangement.** Given Niger's low starting point, external financing requirements and extensive structural challenges, medium-term Fund support will help consolidate progress achieved thus far in the areas of macro stability, fiscal consolidation, and the ongoing management of natural resources; it will help to catalyze donor support; and it could help Niger to safeguard debt sustainability. Fund TA will remain instrumental in strengthening institutions and capacities, and in guiding and pacing reform momentum.

44. **How to leverage the scaling-up of natural resource exploitation in favor of stronger, broad-based growth**? Niger will need to: (a) safeguard macroeconomic stability; (b) continue developing a comprehensive strategy for the efficient management of natural resource production; (c) continue strengthening the oversight of oil and mining projects with the objective of maximizing the government's revenue intake; and (d) formulate a financial sector development strategy in line with the FSAP recommendations. Future Fund support should help the authorities to more effectively manage commodity price volatility, continue to smooth public consumption in the event of large price-driven swings in revenues, and raise accountability. Recent reforms by other countries, including Zambia, Ghana, and Liberia, could usefully be drawn upon.

45. **An updated PRS (now being reviewed) with broad based national participation in policy formulation will be critical**. The last two PRS frameworks, which involved national workshops to encourage broader ownership and donor forums to secure international coordination, have been instrumental in guiding progress with public finances and raising spending on priorities. The strategy for scaling up social expenditures should build on this approach and, to strengthen accountability for Niger and all development partners, be based

on well-costed sectoral programs whose deliverables can be clearly tracked. These should be tightly linked to the medium-term budget. Niger will also need to continue paying close attention to debt and fiscal sustainability, particularly given the more recent deterioration in the level of debt distress.

46. **Against this backdrop, the main priorities for future Fund engagement are:**

i) **Continuing to strengthen revenue mobilization and public finance management** (including with extension outside Niamey and emphasis on computerization).[9] More specifically, and based on recent Fund TA:

  a. Revenue mobilization should focus on improving administration of the VAT, tightening control of exemptions, filling the gaps of customs clearance procedures, strengthening audit capacities, and streamlining taxpayer segmentation. The latter can be achieved by increasing turnover thresholds, separating medium and small-sized taxpayers, and transferring the administration of micro-businesses to local authorities.
  b. Further work is needed to establish an effective global medium-term budget framework.
  c. On expenditure, it will be important to simplify the expenditure chain, continue reducing the use of exceptional procedures, and strengthen expenditure tracking.[10]
  d. Treasury reforms should include preparing an annual cash plan with quarterly, monthly, and weekly updates, and launching the process to establish a Treasury Single Account.

ii) **Supporting continued transparency and accountability in extractive industries**. In particular, Fund support should work to deepen fiscal transparency under the framework of the EITI and ensure that the tax regime captures an appropriate share of natural resource rents; complements the general provisions of the tax regime; is under the authority of the Ministry of finance; and considers improvements to the tax stability clause with multinational companies operating in the sector (to ensure predictability). Appropriate pricing of outputs from the oil refinery will determine the success of the sector.

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[9] World Bank and AfDB staffs emphasized the importance of Fund support in PFM, revenue mobilization, and natural resource management as the platform underpinning their engagement and reform support in Niger.

[10] In May 2008, the government and donors signed a protocol agreement on PEMFAR aimed at coordinating support and establishing a set of indicators. The agreement could not be fully implemented because of the political environment but the authorities are committed to developing a new action plan.

iii) **Accelerating financial sector reforms**. Policies should be formulated in line with FSAP recommendations (as noted earlier) and ongoing World Bank advice, working together with the regional banking supervisor to ensure compliance with prudential requirements.[11]

iv) **Improving incentives for private investment and business activity**. The Fund should consult closely with the World Bank to include selected measures (paragraph 38) that are complementary to efforts under the World Bank's Growth Policy Reform Credit.

[11] The Bank is currently working with the authorities to develop a financial sector strategy.

Table 1. Niger: Observance of Program Conditionality, 2005–10

			Reviews 1/								
			2005-08 PRGF						2008-10 ECF		
			First	Second	Third	Fourth	Fifth	Sixth	First	Second	Third
Quantitative Performance Criteria	Fiscal	Domestic financing of the government	✓	✓	✓	✓	✓	✓	✓	✓	✓
		Basic budget balance 2/	×	✓	...	...	...	...	...	...	...
		Reduction in government payments arrears	×	✓	×	✓	✓	✓	×	✓	✓
	Debt Sustainability	Accumulation of external payments arrears	✓	✓	✓	✓	✓	✓	✓	✓	✓
		External debt contracted or guaranteed with maturities of 0-1 year	✓	✓	✓	✓	✓	✓	✓	✓	✓
		Nonconcessional external debt contracted or guaranteed over one year	✓	✓	✓	×	✓	✓	✓	✓	✓
Indicative Targets	Fiscal	Total revenue	×	✓	✓	✓	✓	✓	✓	✓	✓
		Wage bill	✓	✓	✓	✓	✓	✓	...	...	...
		Basic budget balance (commitment basis, excl. grants)	...	...	...	✓	✓	✓	✓	✓	✓
		Accumulation of domestic payment arrears	...	...	...	×	n.a.	✓	...	...	...
Structural Performance Criteria and Structural Benchmarks	Fiscal Rev.	Adopt monthly performance indicators for main custom offices	✓								
	Fiscal Rev.	Prepare list of custom exemptions and plan to reduce them	✓								
	Fiscal Expend.	Prepare report on status of govt domestic arrears and adopt timetable for elimination	MD								
	PFM	Computerize financial operatons of five provincial pay offices	✓								
	PFM	Implement bi-directional Treasury-Budget computer link	✓								
	Fiscal Expend.	Establish master list of pro-poor expenditure and mechanism to track execution	✓								
	Fiscal Rev.	Prepare and adopt operating strategy to enhance mobilization of tax revenues	✓								
	Fiscal Expend.	Apply pricing system for petroleum products adopted in August 2001		✓							
	Fiscal Rev.	Adopt monthly performance indicators for main custom offices		✓							
	Fiscal Rev.	Institution of joint pre-shipment cutoms imports verification teams		✓							
	Fiscal Rev.	Set up audit unit in DPME and audit 30 percent taxpayers		×							
	Fiscal Rev.	Raise turnover treshold to focus LTO at DGI		×							
	Fiscal Rev.	Use pre-shipment inspection of company import valuation lists		DR							
	Fiscal Expend.	Apply pricing system for petroleum products adopted in August 2001.			×						
	Fiscal Rev.	Adopt monthly performance indicators for main custom offices			✓						
	Fiscal Rev.	Reduce number of VAT non-filers at LTO to max 5 percent			✓						
	Fiscal Rev.	Audit a minimum of 60 large enterprises by LTO			✓						
	Fiscal Rev.	Design schedule of audits of entities that benefit from tax and custom duty exemtions			✓						
	Fiscal Rev.	Reduce number of non-filers at medium sized taxpayer office to max 10 percent			M						
	Fiscal Expend.	Apply pricing system for petroleum products adopted in August 2001				×					
	Fiscal Rev.	Adopt monthly performance indicators for main custom offices				✓					
	Fiscal Rev.	Set up units for controls of valuation-exemptions in three largest regional custom offices				✓					
	Structural/Fin.	Payment by government of capital contribution to Finaposte				✓					
	Fiscal Expend.	Establishment of action plan to settle domestic arrears at end-1999				MD					
	Structural/Fin.	Adoption of decree estabishing supervisory agency for microfinance				MD					
	Fiscal Rev.	Reduce number of non-filers at MTO to max 25 percent				✓					
	Fiscal Rev.	Computerize management of custom transit between Torodi and Niamey				✓					
	Structural/Fin.	Payment of annual government subsidy to NigerPoste				MD					
	Structural/Fin.	Launch tender for privatization of Crédit du Niger				MD					
	Fiscal Rev.	Fully update list of companies obligated to file with the LTO				✓					
	PFM	Publish data on 2006 execution of state budget and pro-poor expenditure				PM					
	PFM	Regularize Treasury depositors accounts in overdraft				DR					
	Fiscal Expend.	Apply pricing system for petroleum products adopted in August 2001					×				
	Fiscal Rev.	Adopt monthly performance indicators for main custom offices					✓				
	PFM	Establishment of consolidated treasury balance for end-2002					✓				
	Structural/Fin.	Adoption of decree defining modalities for reimbursing frozen postal savings					DR				
	Fiscal Expend.	Apply pricing system for petroleum products adopted in August 2001						×			
	Fiscal Rev.	Adopt monthly performance indicators for main custom offices						✓			
	PFM	Establishment of consolidated treasury balance for end-2002						✓			
	Fiscal Rev.	Introduction of simplified tax regime with quarterly filing for small and medium enterprises						✓			
	Structural/Fin.	Launch tender for privatization of Crédit to Niger						✓			
	PFM	Regularize Treasury depositors accounts in overdraft						MD			
	PFM	Adoption of decree for Control of Public Procurement (DGCPP) by Council of Ministers						✓			
	PFM	Finalize compensation between treasury, NIGELEC, and SONATEL						×			
	PFM	Finalize settlement agreement on Treasury arrears with banks						×			
	Fiscal Rev.	Reduce threshold for contracts requiring approval by DGCPP						×			
	Structural/Fin.	Adopt decree for repayment of frozen saving deposits at formed National Savings Bank							×		
	Fiscal Rev.	Adopt law/decree for modalities for full reimbursement of VAT credits							M		
	PFM	Adoption by CM of MTEF for Equipment and Transportation							×		
	Fiscal / Debt	Preparation of semi-annual reports on debt contracted and forthcoming borrowing								✓	
	PFM	Presentation in 2009 Budget Law of investment programs for priority sectors in PRSP								×	
	PFM	Publish data on budget outturn for 2008								✓	
	Sturctural	Reduction of fees for registering a new business								✓	
	Fiscal / Debt	Preparation of semi-annual reports on debt contracted and forthcoming borrowing								✓	
	PFM	Publish data on budget outturn for 2009 on quarterly basis								✓	
	Fiscal / Debt	Preparation of semi-annual reports on debt contracted and forthcoming borrowing									✓
	Fiscal Rev.	Reduction of the rate of profit tax from 35 to 30 percent									✓
	PFM	Issue data on budget outturn for 2009 on quarterly basis									✓
	PFM	Adoption by CM of MTEF for Equipment and Transportation									×
	PFM	2010 Budget Law to include presentation of main budget aggregates for 2010-12									×
	Fiscal Rev.	Elimination of ceiling for reimbursement of VAT credits to all exporters									✓

1/ √ = met; x = not met; n.a. = not applicable; MD = met with delay; D/R = Dropped or Rescheduled; PM = Partially Met; M = Modified

2/ Was made an indicative target at the third review of the 2005-08 PRGF

Table 2. Niger: Selected Economic and Financial Indicators, 2005-10

	2005	2006	2007	2008	2009	2010
	(Annual percentage change, unless otherwise indicated)					
National income and prices						
GDP at constant prices	8.4	5.8	3.1	9.6	-0.9	8.0
Non-agricultural GDP at constant prices	3.1	2.4	2.5	4.4	5.5	0.7
GDP deflator	8.1	1.4	4.6	6.7	4.1	1.5
Consumer price index						
Annual average	7.8	0.1	0.1	10.5	1.1	0.9
End of period	4.2	0.4	4.7	9.4	-0.6	2.7
External sector						
Exports, f.o.b. (CFA francs)	9.2	5.4	19.7	28.5	15.2	8.1
Of which: non-uranium exports	8.0	7.3	-6.0	20.3	31.0	-3.3
Imports, f.o.b (CFA francs)	30.3	-3.6	12.0	37.9	40.2	4.7
Export volume	-2.4	3.2	4.3	6.3	13.6	0.0
Import volume	21.1	-4.7	20.1	40.2	35.3	-10.3
Terms of trade (deterioration -)	4.7	0.8	23.6	21.8	3.9	-3.6
Government finances						
Total revenue	8.8	30.8	25.0	43.0	-17.7	6.1
Total expenditure and net lending	12.9	5.0	26.4	15.1	11.3	-4.2
Of which: current expenditure	-4.2	5.3	37.4	25.7	0.0	21.8
Of which: capital expenditure	34.2	4.7	16.9	4.4	25.1	-29.5
	(Annual change as percent of beginning-of-period broad money)					
Money and credit						
Domestic credit	2.4	-16.1	-3.6	1.8	41.0	9.1
Credit to the government (net)	-6.3	-31.6	-14.7	-18.1	28.9	1.4
Credit to the economy	8.6	15.4	11.2	19.9	12.1	7.7
Net domestic assets	1.8	-17.1	-1.1	-2.7	41.2	1.6
Broad Money	6.6	16.2	23.0	12.2	18.3	22.6
Velocity of broad money (in percent)	7.1	6.6	5.8	6.0	5.3	4.7
Government finances						
Total revenue	10.6	13.0	15.0	18.4	14.7	14.2
Total expenditure and net lending	17.4	18.3	23.1	22.8	24.6	21.5
Current expenditure	9.3	9.1	11.6	12.5	12.1	13.5
Capital expenditure	10.9	10.6	11.5	10.3	12.5	8.0
Basic balance (excluding grants)	-2.8	0.3	-0.9	1.3	-4.1	-3.0
Overall balance (commitment basis, excluding grants)	0.0	0.0	-8.1	-4.4	-9.9	-7.3
Overall balance (commitment basis, including grants)	0.0	0.0	-1.0	1.5	-5.5	-2.5
Gross investment	23.1	23.6	22.8	32.3	33.0	45.9
Of which: non-government investment	16.1	16.8	16.5	25.6	25.2	41.1
government	7.0	6.7	6.3	6.7	7.8	4.8
Change in stocks	1.4	1.0	0.1	1.2	-0.3	0.5
Gross national savings	14.2	15.0	14.6	19.3	7.9	24.9
Of which: non-government	10.8	11.6	11.3	13.5	1.6	19.4
Domestic savings	8.7	10.5	10.3	15.4	5.7	17.4
External current account balance						
Excluding official grants	-12.2	-10.9	-10.4	-15.2	-25.7	-26.9
Including official grants	-8.9	-8.6	-8.2	-13.0	-25.0	-21.0
Debt-service ratio as percent of:						
Exports of goods and services	0.0	0.0	2.9	2.7	2.5	2.6
Government revenue	0.0	0.0	3.4	2.8	3.5	3.9
NPV of external debt	21.8	9.5	10.5	9.2	10.9	11.8
Foreign Aid	…	0.0	9.7	7.2	6.1	6.1
	(CFA francs billions)					
GDP at current market prices	1,808	1,907	2,057	2,405	2,481	2,722
Overall balance of payments	15.7	16.0	68.3	72.7	-89.8	99.1

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

Table 3. Niger: Financial Operations of the Central Government, 2005–10

	2005	2006	2007	2008	2009	2010
	(In percent of GDP)					
Total revenue	10.6	13.0	15.0	18.4	14.7	14.2
Tax revenue	10.2	10.7	11.3	11.7	13.8	13.3
Nontax revenue	0.3	2.0	3.7	6.7	0.8	0.9
Total expenditure and net lending	20.2	19.8	23.1	22.8	24.6	21.5
Of which: domestically financed	13.4	12.7	15.9	17.1	18.7	17.1
Total current expenditure	9.3	9.1	11.6	12.5	12.1	13.5
Budgetary expenditure	8.4	8.6	9.7	11.0	11.1	12.7
Wages and salaries	3.5	3.6	3.5	3.5	3.8	3.8
Materials and supplies	2.5	2.5	3.0	2.6	3.4	3.5
Subsidies and transfers	1.8	2.3	2.8	4.2	3.9	5.0
Of which: fuel subsidies	…	…	…	…	0.5	1.1
Interest, scheduled	0.6	0.3	0.3	0.2	0.2	0.2
Of which: External debt	0.5	0.2	0.2	0.2	0.2	0.1
Special accounts expenditure	1.5	0.5	1.9	1.5	1.0	0.7
Capital expenditure and net lending	10.9	10.6	11.5	10.3	12.5	8.0
Capital expenditure	10.9	10.6	11.5	10.3	12.5	8.0
Domestically financed	2.9	2.7	3.6	4.0	6.6	3.7
Externally financed	6.8	7.1	7.3	5.7	5.9	4.3
Of which: grants	4.3	5.0	5.8	4.4	4.2	3.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment)	-9.5	-6.8	-8.1	-4.4	-9.9	-7.3
Basic balance	-2.8	0.3	-0.9	1.3	-4.1	-3.0
Change in payments arrears and float	-0.7	-0.7	-0.4	-0.7	-0.6	-0.5
Of which: domestic arrears	-0.7	-0.7	-0.7	-0.7	-0.6	-0.5
Overall balance (cash)	-10.2	-7.5	-8.5	-5.1	-10.5	-7.8
Financing	10.2	7.5	8.5	5.1	10.5	7.7
External financing	10.1	12.3	9.6	7.0	5.9	5.8
Grants	7.5	47.1	7.1	5.9	4.5	4.8
Budget financing	2.2	1.0	1.3	1.5	0.2	1.7
Project financing	4.3	5.0	5.8	4.4	4.2	3.0
Loans	3.2	3.1	2.6	1.3	1.6	1.3
Of which: budget financing	0.8	1.0	1.1	0.0	0.0	0.0
Amortization	-0.8	-38.1	-0.3	-0.4	-0.3	-0.4
Debt relief (incl. debt under discussion)	0.2	0.2	0.2	0.2	0.1	0.1
Domestic financing	0.1	-4.8	-1.1	-1.9	4.6	2.0
Banking sector	-0.8	-4.3	-1.5	-2.4	4.6	0.9
IMF	0.1	-3.2	0.3	0.2	0.1	0.1
Avances statutaires	0.0	-0.1	-0.1	0.0	0.0	-0.2
Deposits with BCEAO	-0.9	-1.1	-1.7	-2.6	4.6	0.7
Government securities net						0.3
Nonbanking sector	0.9	-0.4	0.5	0.4	-0.1	1.1
Memorandum items:						
Gross deposits with BCEAO (balance)	1.2	1.7	2.4	6.4	3.0	2.0
Gross deposits with BCEAO	1.1	1.6	1.8	4.5	1.9	1.4
(In months of domestically-financed expenditure)						

Sources: Nigerien authorities; and staff estimates.

ANNEX I—THE AUTHORITIES' VIEWS

The government of the Republic of Niger would like to thank the IMF for its ongoing support, including during many years of crisis. That support allowed Niger to contain the impact of several crises, maintain macroeconomic stability, and ensure the viability of its public finances. The Government also thanks the teams responsible for the *Ex-post* Assessment and the Article IV Consultation for their courage and patience working in a sometimes difficult environment where information can be hard to obtain and the climate is not always favorable.

The government of Niger views the assessments by the IMF teams positively and, on the whole, finds them fair and relevant. The government would nevertheless like to offer several comments and supplemental remarks with the aim of enriching the reports.

The subsidy (*différé*) associated with the price of hydrocarbons

It was initially agreed between the government of Niger and the Bretton Woods institutions to establish a flexible, transparent, and automatic mechanism to set hydrocarbon prices. The government worked closely with private sector operators and civil society members to persuade them to accept this mechanism. The mechanism was designed to provide flexibility in the pricing of hydrocarbons considering the fluctuations in international petroleum prices and the U.S. dollar. Lower hydrocarbon prices were to be offset later by higher prices, up to a certain level, and excess savings were to be set aside in a reserve that could be drawn down in the event of sharp negative price swings.

Initially, the mechanism performed well, as long as increases offset decreases. For several years, however, prices have only risen, and declines were rare and far smaller in magnitude than the increases. The government attempted to maintain the retail price below the price determined by the system in the hope that the situation would reverse and prices would decline, but this did not occur. The decision to delay for a certain time the price increase stipulated under the mechanism amounted to a budget subsidy for hydrocarbon products. This subsidy represented tens of billions of CFA francs.

As this was unsustainable, the government decided to gradually increase the price to reduce the subsidy, if not, eventually, to fully eliminate it. As low prices were considered an entitlement in the eyes of civil society and private sector operators, the government had to negotiate with all parties concerned to persuade them to accept the increases in exchange for a common direct subsidy to the transport sector (*tickets modérateurs*). Thus the government was able to reduce the cost of the subsidy by 95 percent. For example, the subsidy represented CFAF 17.2 billion in the first half of 2011; it would have increased to 23.6 billion if no absorption measure had been adopted.

The government is grateful to the IMF staff for their contribution in the assessment and analysis of petroleum price mechanism and subsidy and for helping to seek a budget solution. In addition, the government has already begun to consider how the price of hydrocarbons to be produced by the new domestic refinery should be determined. Whatever the outcome, that price should not deviate too far from the international market price, nor from the prices in neighboring countries.

The proposed new tax code for Niger

With the aim of further modernizing the tax system and raising fiscal revenues, the government has adopted a new General Tax Code and has submitted it to the National Assembly. The new tax code addresses three objectives: harmonizing tax laws in line with the regional integration objectives within the WAEMU; expanding the tax base; and adapting the tax system to Niger's circumstances and context. The government intends to continue its efforts to diversify sources of revenue in spite of the increase in revenues expected from the mining sector. All sectors of the economy should directly or indirectly contribute to the fiscal effort. Moreover, the imperatives of mobilizing tax revenue should in no way eclipse the objective of improving the business climate to encourage private investment through benefits under the investment code, tax relief, and special tax arrangements.

The mobilization of resources to finance the public investment program

During the past two decades, Niger has lived through a period of political and institutional instability, armed rebellions, droughts leading to recurrent food insecurity, and international economic crises. This has prevented the country from making the investments necessary to integrate isolated areas and build productive institutions and infrastructure capable of creating the jobs and income that are critical to reducing poverty. The country has succeeded in establishing democracy, containing the impact of the food crises, and creating a climate of peace, but the economy still needs to be built and the majority of the population (59.9 percent) continue to live in poverty. Accordingly, the new authorities intend to undertake a very significant investment program (energy, transportation infrastructure, agriculture, etc.) that alone cannot be financed by Niger's own budget resources or available concessional aid.

Technical assistance

In the context of implementing the IMF-supported economic and financial programs, Niger has received technical assistance from the Fund in a number of areas and this has had a very positive impact. However, Niger still has significant technical assistance needs in the following areas:

i) revision of the mining code;
ii) fiscal policy (*macro fiscalité*) and taxation of the mining sector;
iii) strengthening audit, negotiation, and legal capacities in the mining sector;
iv) macroeconomic management of mining revenues;
v) statistical data underlying the calculation of mining revenues; and
vi) support for the implementation of public financial management reforms.

The measurement of fiscal revenues and the tax burden

The food crisis following the 2009 drought adversely affected agricultural export receipts and tax revenue. It also contributed to the increased current account deficit resulting from higher imports of foodstuffs. However, it should be noted that the decrease in the tax-to-GDP ratio from 14.7 percent to 14.2 percent between 2009 and 2010 could be misleading. In fact, revenue increased in absolute terms during this period. However, the lower revenue-to-GDP ratio is explained by the fact that agricultural output, which represents some 40 percent of total GDP, increased at a faster pace than tax revenue, but revenues did not grow at the same rate because agriculture GDP makes no contribution to fiscal revenues. This should be taken into consideration when analyzing the tax burden in Niger.

The government of Niger would like to reiterate its satisfaction with the execution of previous programs with the IMF, and hopes to conclude a new program for the 2012–2015 period in the coming weeks.