International Monetary Fund

Niger and the IMF

Press Release:
IMF Executive Board Approves US$10 Million PRGF Arrangement for Niger
February 2, 2005

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

January 10, 2005

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 10, 2005

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

Mr. de Rato:

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

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

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

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

Yours sincerely,
/s/

Ali Lamine Zeine
Minister of Economy and Finance

NIGER

Memorandum of Economic and Financial Policies for 2005

Niamey, January 10, 2005

I. INTRODUCTION

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

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

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

II. PERFORMANCE DURING THE 2000–03 PROGRAM

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

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

5. **Improvements in fiscal management in 2001–03 helped contain the basic fiscal deficit[1] to an annual average of 2.4 percent of GDP, against 3.4 percent over the preceding five years.** Nonetheless, revenue levels have remained low (annual average of approximately 10 percent of GDP) because of customs revenue shortfalls related, in part, to repeated closings of the border with Nigeria and poor VAT collection. In view of improved expenditure control, overall government spending was limited to about 17.5 percent of GDP, with the wage bill representing the equivalent of 3.6 percent of GDP. Nevertheless, social spending (health and education) rose slightly, from 5 percent of GDP in 2001 to 5.2 percent in 2003. At the same time, the government reduced its stock of domestic arrears from 10.6 percent of GDP at end-2000 to 3.1 percent of GDP at end-2004.

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

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

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

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

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

III. Economic Performance in 2004

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

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

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

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

between the poverty reduction strategy (PRS) and the budget law. In this context, the government prepared program budgets for basic education and, in general, began to allocate HIPC resources to activities included in the sector strategies.

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

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

IV. Macroeconomic Framework for the Medium Term

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

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

17. **Within the general framework of the policies specified above, the macroeconomic goals for 2005–07 are to** (i) achieve average annual real GDP growth of at

least 4 percent, with a view to increasing per capita income by more than 1 percent a year; (ii) keep the annual rate of inflation below 3 percent, the WAEMU threshold; and (iii) reduce the external current account deficit (excluding official transfers) to 6.3 of GDP by 2007 (from 7.3 percent in 2004).

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

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

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

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

22. **In the external sector,** the volume of exports is projected to increase by an annual average of about 5 percent during 2005–07, owing mainly to an increase in exports of gold,

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

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

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

V. The Program for 2005

A. Macroeconomic Policies

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

Fiscal policy

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

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

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

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

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

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

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

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

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

Monetary and credit policy, and financial sector reforms

33. **The BCEAO will continue to conduct monetary policy at the regional level, with the goal of preserving the parity of the CFA franc with the euro.** Consistent with this objective, the zone's international reserves will be maintained at an adequate level, and the inflation target will be compatible with that in the euro area. In this context, broad money in Niger is expected to increase by 10.6 percent in 2005, a growth rate somewhat higher than that of nominal GDP. While net bank credit to the government is expected to remain roughly unchanged, credit to the economy should rise by about 7 percent. The government will begin repaying the statutory advances from the central bank.[3] To that effect, the authorities will issue treasury bills on the regional financial market.

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

B. Other Structural Reforms

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

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

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

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

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

VI. PRSP Implementation

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

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

VII. Prior Actions and Program Monitoring

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

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

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

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

Attachments

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

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

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

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

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

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

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

5/ Minimum.

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

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

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

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

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

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

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

(Translated from French)

INTERNATIONAL MONETARY FUND

NIGER

Technical Memorandum of Understanding

Niamey, January 10, 2005

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

I. DEFINITION OF TERMS

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

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

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

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

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

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

II. Quantitative Performance Criteria

A. Net Domestic Financing of the Government

Definition of the performance criterion

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

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

5. The scope of the net bank credit to the government as defined by the BCEAO includes all central government administrations. The targets are based on the variation of stock in net bank credit to the government from December 31, 2004 to the date considered for the performance criterion or indicative target.

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

Adjustment

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

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

Reporting requirement

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

B. Basic Budget Balance

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

Reporting requirement

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

Adjustment

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

C. Reduction of Domestic Payments Arrears on Government Obligations

Definition of the performance criterion

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

Reporting requirement

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

D. Nonaccumulation of External Payments Arrears

Definition of the performance criterion

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

Reporting requirement

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

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

Definition of the performance criterion

17. The government will not contract or guarantee external debt with original maturity of one year or more with a grant element of less than 60 percent. Nonconcessional external debt is defined as all debt with a concessionality level of less than 60 percent. To calculate the level of concessionality for loans with a maturity of at least 15 years, the discount rate to be used is the ten-year average commercial interest reference rate (CIRR), calculated by the IMF on the basis of the rates published by the OECD; for loans of less than 15 years, the six-month average CIRR is to be used.

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

Reporting requirement

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

F. Short-Term External Debt of the Central Government

Definition of the performance criterion

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

Reporting requirement

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

III. Indicative Targets

A. Definitions

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

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

B. Reporting Requirement

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

IV. Additional Information for Program-Monitoring Purposes

A. Public Finances

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

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

B. Monetary Sector

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

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

C. Balance of Payments

27. The government will provide the following information:

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

D. Real Sector

28. The government will provide the following information:

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

E. Structural Reforms and Other Data

29. The government will provide the following information:

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

F. Summary of Main Data Requirements

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