

**Niger: 2001 Article IV Consultation, the Second Review and Second Annual Program Under the Poverty Reduction and Growth Facility Arrangement, and Request for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Public Information Notice and News Brief on the Executive Board Discussion**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2001 Article IV consultation with Niger and second review and second annual program under the poverty reduction and growth facility arrangement, and request for additional interim assistance under the enhanced initiative for heavily indebted poor countries, the following documents have been released:

- the staff report for the 2001 Article IV consultation, the second review and second annual program under the poverty reduction and growth facility arrangement, and request for additional interim assistance under the enhanced initiative for heavily indebted poor countries, prepared by a staff team of the IMF, following discussions that ended on **November 26, 2001**, with the officials of Niger on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on January 17, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;
- a Public Information Notice (PIN) and a News Brief summarizing the **views of the Executive Board as expressed during the February 8, 2002 Executive Board discussion** of the staff report that concluded the Article IV consultation;

The document(s) listed below have been or will be separately released

Joint Staff Assessment of the Poverty  
Reduction Strategy Paper Preparation  
Status Report  
Letter of Intent\*

Memorandum of Economic and Financial  
Policies\*  
Poverty Reduction Strategy Paper  
Statistical Annex  
Technical Memorandum of Understanding\*

\*May also be included in Staff Report.

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NIGER

**Staff Report for the 2001 Article IV Consultation,  
the Second Review and Second Annual Program  
Under the Poverty Reduction and Growth Facility Arrangement,  
and Request for Additional Interim Assistance Under the  
Enhanced Initiative for Heavily Indebted Poor Countries**

Prepared by the African Department

(In consultation with the Fiscal, Legal, Monetary and Exchange Affairs,  
Policy Development Review, Statistics, and Treasurer's Departments)

Approved by Donal J. Donovan and Martin J. Fetherston

January 17, 2002

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## EXECUTIVE SUMMARY

### Recent developments

- **The corrective measures taken by the authorities since June 2001 have been successful in bringing the program back on track.** All end-September 2001 quantitative performance criteria and benchmarks were met, except for a small and temporary accumulation of external payments arrears, for which the authorities are requesting a waiver. The two structural benchmarks at-end September 2001 were also observed.
- **Despite delays in foreign aid disbursements, the fiscal stance through end-September 2001 was in line with the revised program.** The basic budget deficit was smaller than programmed, owing to higher budgetary revenue and a containment of current budgetary expenditure. An improved monitoring of the domestic payments arrears strategy allowed for a slightly greater than programmed reduction of domestic payments arrears.
- **Building upon the satisfactory performance at end-September, the authorities have maintained the thrust of their policies in order to achieve the program objectives for 2001.** The economy has benefited in this regard from favorable weather conditions and a satisfactory agricultural production in the second half of 2001. Economic growth is expected to exceed program projections and reach 5.1 percent in 2001. In view of delays in foreign assistance and to prevent any budgetary slippages, the government delayed the release and reduced the amounts of available commitments for the fourth quarter.
- **A full PRSP, prepared through an extensive participatory approach, has been finalized.** It includes a sound analysis of poverty in Niger and presents a clear strategy to alleviate it. The implementation of the presidential program for poverty reduction, financed by resources freed under the HIPC Initiative, has proceeded satisfactorily as a result of strong ownership and close monitoring.

### Policies for 2002

- **Discussions focused on the implementation of the first annual program, the macroeconomic implications of the authorities' poverty reduction strategy, external financing issues, and the reform of the financial sector.** In particular, the authorities stressed their concerns regarding the volatility and uncertainty of aid flows and reiterated their commitment to a prudent external debt policy in light of the high debt burden.
- **The program for 2002 aims at supporting the recovery of economic activity and setting the stage for an effective reduction of poverty through continued fiscal adjustment, a deepening of structural reforms, and the implementation of the**

**PRSP.** Based on conservative assumptions, economic growth should reach 4.1 percent in 2002, leading to a 1 percent increase in per capita income. Inflation is projected at 2.1 percent on an end-of-period basis. The external current account deficit is anticipated to widen slightly. The external financing gap is expected to be filled, based on financing assurances already received from Niger's development partners.

- **The 2002 budget is in line with the objectives of the PRGF-supported program and aims at limiting the financing gap and alleviating cash management pressures.** The program targets a reduction of the basic deficit to 2.1 percent of GDP, through a significant increase in budgetary revenue and a containment of expenditure, and a further reduction of domestic payments arrears.
- **The authorities will continue to implement structural reforms in 2002 in collaboration with the World Bank.** In particular, the momentum of the privatization program will be maintained, and a financial sector reform program will be implemented.
- **The program is subject to two main risks.** The high reliance of the budget on foreign assistance can impede the government from realizing some of its objectives if disbursements do not materialize on time. Also, despite recent improvements, technical capacity to implement the program remains weak.

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**In light of the above-mentioned developments, the staff recommends that the Executive Board approve the requested waiver and complete the second review under the PRGF arrangement.**

## I. INTRODUCTION

1. **Discussions on the 2001 Article IV consultation and the second review and the second annual program under the Poverty Reduction and Growth Facility (PRGF) arrangement** were held in Niamey during November 12-26, 2001.<sup>1</sup> The arrangement, covering the period October 2000-September 2003, was approved by the Executive Board in an amount of SDR 59.2 million (90 percent of quota) on December 14, 2000 (EBS/00/244, 11/29/00; and EBS/00/235, 11/21/00). At the same date, Niger's decision point under the enhanced Heavily Indebted Poor Countries Initiative (HIPC Initiative) was reached, with a common reduction factor for all creditors estimated at 53.5 percent (EBS/00/256, 12/06/00). The first review under the PRGF arrangement was completed on August 3, 2001 (EBS/01/123, 7/20/01), and two disbursements totaling SDR 16.9 million have been made to date.

2. **As of end-November 2001, Niger's outstanding use of Fund resources amounted to the equivalent of SDR 65.2 million or 99.1 percent of quota** (Table 1). Niger has accepted the obligations of Article VIII and maintains an exchange system free of restrictions on payments and transfers for current international transactions. Niger's relations with the Fund are summarized in Appendix I. The World Bank maintains an active portfolio of ten projects in various sectors. A water sector project (US\$48 million) and a public expenditure adjustment credit (US\$70 million) were approved in 2001. Niger's relations with the World Bank are summarized in Appendix II. Niger's economic and financial database remains weak, especially in the areas of national accounts, balance of payments, and external debt. Statistical issues are discussed in Appendix III, and a provisional work program under the Fund-supported program is included in Appendix IV.

3. **In the attached letter, memorandum of economic and financial policies (MEFP), and technical memorandum of understanding, the Minister of Finance and Economy reviews performance under the program at end-September 2001 and presents the authorities' program for 2002**, for which they request Fund support as well as continuing Fund interim assistance under the enhanced HIPC Initiative (Appendix V). The program for 2002 is built upon the **full poverty reduction strategy paper (PRSP; EBD/02/8, 1/17/02)**, which is circulated separately with the joint staff assessment (EBD/02/9, 1/17/02). The PRSP was prepared through an extensive participatory approach and approved by the Cabinet of Ministers after validation in a national workshop held in Niamey in late November. It includes a sound analysis of the current status of poverty in Niger and presents a clear strategy to reduce it over the medium term.

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<sup>1</sup> The Nigerien representatives included Mr. Gamatié, Minister of Finance and Economy; Mr. Soumana, National Director of the Central Bank of West African States (BCEAO); and other senior government officials. President Tandja and Prime Minister Hama Amadou also met with the mission. The staff team comprised Mr. Maret (head), Mr. Caupin, Mr. Wane, Ms. Adenauer, (all AFR), Mr. Gudmundsson (SEC), and Mr. N'guiamba, the Fund Resident Representative.

## II. BACKGROUND AND RECENT ECONOMIC DEVELOPMENTS

4. **In concluding the 2000 Article IV consultation in December 2000, Directors supported the efforts of the new authorities, democratically elected at end-1999, to resume the economic and structural reform program interrupted by the political events of April 1999 (EBS/00/244).** Directors welcomed the authorities' program, to be supported by the PRGF, and noted in particular the authorities' determination to consolidate the fiscal situation and establish a satisfactory track record of performance.

5. **Performance under the program at end-March 2001 was mixed as a result of weaknesses in program implementation and monitoring, but Directors, in completing the first review under the PRGF arrangement in August 2001, welcomed the corrective actions taken to bring the program back on track and endorsed the revised program for 2001.** In this context, they urged the authorities to implement their strategy to reduce domestic payments arrears, strengthen expenditure control, and ensure the flexibility of petroleum product prices in accordance with the new pricing system implemented in August 2001. Directors also stressed the importance of a cautious external borrowing policy consistent with Niger's debt sustainability.

### A. Economic Developments as of End-September 2001

6. **Despite delays in foreign aid disbursements in the second and third quarters of 2001, the corrective measures taken by the authorities have been successful in bringing the program back on track.** All end-September 2001 quantitative performance criteria and benchmarks were met, except for a small accumulation of external payments arrears, which were cleared on December 24, 2001 as a prior action for the completion of the program review (Table 1 of the MEFP).<sup>2</sup> The authorities are requesting a waiver of nonobservance for this continuous performance criterion. Budgetary developments were in line with program targets, and the quantitative benchmarks on budgetary revenue, the wage bill, and the basic budget deficit were observed at end-September 2001, as well as the quantitative performance criterion on the reduction of domestic payments arrears.<sup>3</sup> Delays in the disbursement of external assistance resulted in a level of net bank credit to the government higher than the unadjusted program ceiling, but this ceiling, adjusted for the shortfall in external aid flows, was observed.<sup>4</sup>

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<sup>2</sup> The external payments arrears occurred vis-à-vis two Paris Club members on post-cutoff-debt service while the bilateral agreements were being finalized and vis-à-vis the International Fund for Agricultural Development (IFAD) because of difficulties in reconciling maturity schedules.

<sup>3</sup> The basic budget deficit is defined as budgetary revenue, excluding grants, minus total expenditure, excluding foreign-financed investment projects.

<sup>4</sup> In line with the technical memorandum of understanding and the amount of net foreign assistance for end-September 2001 indicated in Table 1 of the MEFP attached to the previous staff report (EBS/01/123), Fund financing is excluded from exceptional external assistance for the purpose of adjusting the ceiling on net bank credit to the government (NCG) because NCG

In line with their commitments, the authorities did not contract new loans on a nonconcessional basis and did not draw on the loans of the West African Development Bank (BOAD) that were signed in April 2001 but did not meet the program requirement of a 50 percent grant element. Finally, the two structural benchmarks at end-September 2001 on establishing provisional opening balances of the treasury accounts for January 1, 2001 and defining a new budgetary nomenclature were observed (Table 2 of MEFP).

**7. The fiscal stance through end-September 2001 was in line with the revised program.** The basic budget deficit was smaller than programmed by CFAF 8 billion (or 0.5 percent of annual GDP) and was limited to CFAF 35.3 billion (Table 3). Although budgetary revenue, nontax revenue in particular, performed well, this outcome reflects mainly a containment of current budgetary expenditure at CFAF 109 billion, or 90 percent of the program level. The measures to bring the expenditure program back on track in the wake of the excess release of budget allocations in the first quarter of 2001 were effective in achieving this result, which also benefited from smaller-than-envisaged needs in food assistance. Regarding capital outlays, the implementation of the presidential program for poverty reduction, financed by resources freed under the HIPC Initiative, proceeded satisfactorily as a result of strong ownership and close monitoring, while the execution of the regular public investment program was slower than envisaged, particularly for the foreign-financed projects. These developments led to an overall budget deficit equivalent to 5 percent of GDP, some 1½ percentage points of GDP below the program ceiling. Improved monitoring of the domestic payments arrears strategy allowed for a slightly greater than programmed reduction of domestic payments arrears, equivalent to about CFAF 13 billion (or nearly 1 percent of GDP) since the beginning of the year. However, the sizable shortfall of external project financing and budgetary assistance in the second and third quarters of 2001 resulted in severe cash constraints at the level of the treasury.<sup>5</sup> Net bank credit to the government consequently exceeded the unadjusted programmed ceiling by 0.8 percent of GDP but remained within the allowed adjusted ceiling.

**8. Monetary developments as of end-September 2001 were strongly affected by the budgetary outcome.** Broad money grew by 13.9 percent during the first nine months of 2001,

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already includes onlending of Fund financing by the central bank to the government, as usual in CFA franc countries. The observance of the net bank credit to government performance criterion at end-September 2001 is based on this interpretation. Footnote 10 to Table 1 of the previous MEFP was inconsistent with the amount indicated in the body of the table, as it incorrectly included Fund financing within exceptional external assistance for calculating the adjustor. Footnote 10 is corrected prospectively in Table 1 of the attached MEFP.

<sup>5</sup> In particular, the European Commission (EC) decided in June 2001 to freeze its budgetary support while auditing EC-financed expenditure over the period 1996-2001. The audit has estimated an amount of CFAF 14-18 billion (about 1 percent of GDP) of noneligible payments that are subject to a reconciliation process by the government. The EC is expected to resume its budget assistance in 2002. A World Bank disbursement was also delayed until mid-December 2001 because of delays in the privatization of the telecommunications company, SONITEL.



compared with 1.9 percent under the program, because of the significant increase in net credit to the government (Table 4).<sup>6</sup> Credit to the economy remained almost flat, following its considerable increase in 2000. Bank claims on the energy sector continued, in particular, to account for nearly 25 percent of total bank credit to the economy, reflecting financing of the sector's recent financial losses linked to retail prices administratively set below supply cost in 1999-2000—prior to the introduction of the new pricing system of petroleum products in August 2001—and pending understandings on the settlement of these losses by the government.

9. **Niger continued to make significant progress on structural reforms.** The reform of the budgetary expenditure process, including the strengthening of budget execution and monitoring, proceeded sufficiently well to be supported by a new public expenditure adjustment credit of the World Bank (US\$70 million), to be disbursed in 2001-02. Similarly, as mentioned above, a new budgetary nomenclature was prepared, and provisional opening balances were established for the 2001 treasury accounts, while work on the closing of the 2000 accounts continued. Moreover, the unification of the investment and the general budgets was made possible by the merger of the Ministries of Finance and Planning in the context of a cabinet reshuffle in September 2001.

10. **Concurrently with the reforms of budget management, the authorities proceeded in the third quarter of 2001 with the implementation of the new pricing and taxation system for petroleum products adopted in August 2001 and with the privatization of the telecommunications company, SONITEL.** However, the privatization of SONITEL was affected by delays, as a strategic investor for a 51 percent share in the company's capital was selected only in early November, paving the way for the approval of the World Bank public expenditure adjustment credit by end-November 2001. As for the implementation of the automatic, flexible, and transparent pricing system for petroleum products, the authorities suspended its implementation in October 2001, thus preventing the first price variation, a price increase, that would have resulted from the new system. The authorities viewed the price increase implied by the system as temporary in the wake of the September 11 events and were concerned about the social impact—and the public rejection—of such an increase. The authorities have nevertheless remained committed to the new system, and they are conscious of the detrimental impact of stop-and-go policies on the government's credibility. The implementation of the petroleum product pricing system resumed in November 2001, and retail prices of petroleum products had fallen by nearly 10 percent by year's end, thus alleviating the authorities' concern about public acceptance of possible future increases. Therefore, they intend to implement the system as scheduled on a monthly basis; this is a performance criterion under the arrangement.

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<sup>6</sup> Difficulties in estimating cross-border flows of national banknotes within the CFA franc zone of the WAEMU lead to large, unexplained monthly fluctuations in Niger's statistics for money in circulation and net foreign assets, and require caution in assessing monetary developments and the contribution of Niger to the international reserves of the Central Bank of the West African States (BCEAO).

## **B. Objectives for End-2001**

11. **As explained in the attached MEFP, the authorities maintained the thrust of their policies in order to build upon the satisfactory performance at end-September 2001 and achieve the program objectives for 2001 (Table 2 and Figure 2).** The economy benefited in this regard from favorable weather conditions and satisfactory agricultural production in the second half of 2001. Preliminary information based on surveys in the rural areas indicates that cereal production will exceed the country's anticipated requirements for 2002 by more than 200,000 tons. The recovery of overall output in 2001 is thus expected to have exceeded program projections and to have resulted in a rate of economic growth of 5.1 percent, led by a 10 percent increase in agricultural production. This outcome follows a decline in economic activity in 2000 that has been revised to minus 1.4 percent. The decline in food and petroleum product prices in the last quarter of 2001 has also brought the 12-month inflation rate from 4.7 percent at end-September to 3.2 percent at end-2001.

12. **The current account deficit, excluding grants, is expected to have been limited to 8.4 percent of GDP in 2001, less than initially projected under the program (Table 5).** Agricultural exports were sluggish because of the bad harvest in 2000, but strong cattle exports and increased reexport activities resulted in a stabilization of overall export levels, compared with 2000.<sup>7</sup> Although imports of food products grew to offset lower domestic output, petroleum imports were contained in value because of the fall in international oil prices. A slower execution of the public investment program also led to lower-than-expected capital goods imports. The current account deficit was financed, inter alia, by the interim HIPC Initiative assistance and debt relief already obtained or still under discussion. As a result, a net accumulation of CFAF 3.8 billion in net foreign assets of the central bank was expected for end-2001.

13. **The authorities were committed to achieving the budgetary targets at end-2001 but expressed concern about delays in disbursements of sizable external budgetary assistance in the fourth quarter of 2001, particularly by the World Bank (US\$30 million) and the African Development Bank (SDR 6 million).** To prevent any budgetary slippages and large accumulations of domestic payments arrears on 2001 spending, the government delayed the release and reduced the amounts of available commitments for fourth quarter spending by about 0.6 percent of GDP. Based on these measures, the main budgetary objectives for 2001 would have been reached. In particular, the basic budget deficit would have been limited to 2.9 percent of GDP at year's end, compared with a program objective of 3.6 percent of GDP. However, the late disbursements of foreign aid could have affected the programmed reduction of domestic payments arrears in light of the lengthy payment procedures to clear payments arrears. The smaller reduction of domestic payments arrears would have led to an accumulation of government deposits by year's end.

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<sup>7</sup> The real effective exchange rate during the first nine months of 2001 appreciated by about 2 percent over the 2000 average. However, the gains in external competitiveness achieved through the 1994 devaluation remained largely preserved (Figure 1).

### III. POLICY DISCUSSIONS

14. **With a per capita income of about US\$200, Niger is one of the poorest countries in Africa and is ranked very low on all social indicators (Table 6).<sup>8</sup>** Its main economic activities, agriculture and livestock (which represents approximately 40 percent of output), are highly vulnerable to weather-related shocks. The export base is limited to uranium (Box 1), which has suffered from a secular decline over the past 15 years, and a few agricultural products and cattle, destined mainly for Nigeria and the subregion. The formal sector accounts for only 25 percent of economic activity, thus hampering the ability of the government to collect taxes. Efforts to diversify the economy in the years ahead will crucially depend on investment in human capital and physical infrastructure, as well as policies to promote the development of the private sector.

15. **Since the election at end-1999, the authorities have been able to reestablish economic, social, and political stability in the country.** The political situation remains tense; however, with a majority at the National Assembly and broad support from the population, the government has benefited from the social and political support necessary to implement its program of economic reforms.

#### A. Main Issues Discussed

16. Discussions focused on the implementation of the first annual program, the macroeconomic implications of the authorities' poverty reduction strategy, external financing issues, and the reform of the financial sector.

#### Program implementation

17. **In reviewing the implementation of the first annual program and their track record since coming to power in late 1999, the authorities were satisfied with the following achievements:** (i) reinforcing social peace, as well as political and macroeconomic stability; (ii) ensuring the regular payment of civil service salaries and the payment of several months of salary arrears; (iii) restoring the process of fiscal adjustment; (iv) resuming cooperation with the donor community; (v) giving new momentum to the structural reform program, regarding not only budget management, governance, and privatization but also reform of the petroleum product pricing system; and (vi) embarking on the elaboration and implementation of a poverty reduction strategy that benefits from resources freed by debt relief under the HIPC Initiative and that is based on national ownership, as well as on civil society

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<sup>8</sup> Niger ranks 161<sup>st</sup> of the 162 countries listed in the 2001 human development index published by the United Nations Development Program (UNDP).

**Box 1. Niger: Recent Developments and Trends in the Uranium Sector**

Uranium is Niger's main source of exports, accounting for 35 percent of total merchandise exports in 2000. That share was considerably reduced over the past ten years, falling from close to 70 percent in 1991. Uranium production, which generates 4 percent of budgetary revenue, is carried out by two companies, Cominak and Somair. Relations between the two companies and Niger are based on a long-term convention with the authorities that was renewed in November 2001, and which guarantees a satisfactory legal framework until 2013. Since mining operations began in 1971, agreements with the Nigerien authorities have always been respected.

The shareholders of Cominak are Cogema (France, 34 percent), Onarem (Niger, 31 percent), Ourd (Japan, 25 percent), and Elusa (Spain, 10 percent). Cominak's production amounts to 1,960 tons per year, with purchases determined according to the level of ownership of its three foreign shareholders, based on five-year contracts during the period of execution of which purchases are guaranteed. The current multi-annual contract will expire at the end of 2002, and discussions have yet to be held for the period 2003-07.

The two shareholders of Somair are Cogema (63.4 percent) and Onarem (36.6 percent). Somair's production amounts to 1,000 tons per year and is sold exclusively to Cogema. This level of production is low relative to capacity, and an additional 200-300 tons could be produced with no increase in fixed costs if there were to be an increase in demand. The financial health of Cominak and Somair is sound, and both companies have witnessed a turnaround in profitability over the past two years.

Uranium prices are negotiated between the authorities and the foreign shareholders of Somair and Cominak on an annual basis, in CFA francs. Negotiations on the purchase price for 2002 were held in the first week of November 2001 and preliminary negotiations pointed to a slightly reduced price. The negotiated price of uranium for 2001 was estimated at about 25 percent above international spot contract prices, which, because of excess supply, have been on a downward trend since the early 1980s.

In spite of the declining trend in the industry, Cominak and Somair are confident regarding the long-term outlook for their companies. They consider that the search for alternative forms of energy to reduce carbon dioxide emissions is likely to lead to an increase in the demand for uranium, and that the price for uranium will stabilize and increase in the future. Even though new investment projects are unlikely to materialize in the coming five years, both companies are about to undertake exploration to identify new reserves, which are considered by experts to be abundant in Niger.

consultation and participation. They also recognized certain weaknesses observed in program implementation, such as the limited institutional capacity, the delays in some aspects of structural reform, and the stop-and-go policy followed for petroleum product pricing in October 2001, but indicated their willingness to address these aspects decisively. In this context, the authorities were appreciative of the constructive support provided by the donor community for their program and argued for greater coordination among donors. The staff agreed with the thrust of these comments and recognized some of the inherent difficulties faced by Niger in implementing a strong adjustment program.

**18. An important issue in the beginning of 2001 was the persistence of institutional weaknesses that hindered the implementation of the program.** The authorities indicated that they had taken measures to strengthen program monitoring but agreed that further building of institutional capacity was needed. In this regard, they were appreciative of the technical assistance provided by the two Fund resident experts on strengthening the tax and treasury

administration, as well as the budget expenditure process. The staff commended the efforts of the authorities to improve program implementation, in particular through the strengthening of the budgetary process and the recent unification of the current and investment budgets. The staff urged the authorities to pursue these reforms, as well as strengthen external debt management.

### **Poverty reduction strategy and macroeconomic implications**

19. **The major concern of the authorities is to go beyond a stable macroeconomic framework and ensure a sustained revival of economic activity.** Although they felt that the measures already implemented had contributed to this end, they wished to achieve faster results, with a view to effectively reducing poverty. The staff noted the need to stay the course on structural reforms and focus on the implementation of the poverty reduction strategy, particularly the measures related to rural development. The authorities concurred and noted that their current plans to develop irrigation infrastructure for agriculture would reinforce the prospects for rural development.

20. **The authorities indicated that the 2002 budget was consistent with the newly established poverty reduction strategy (PRS)** and their proposed medium-term fiscal policy to implement this strategy which hinges on (i) giving as much priority as possible to social sector expenditure; (ii) improving the efficiency of public expenditure; and (iii) significantly increasing the revenue-to-GDP ratio to augment domestic resources, not only to ensure fiscal sustainability but also to finance poverty reduction programs. In this context, the authorities highlighted the positive impact of the poverty reduction program initiated by the President of Niger in 2001 and financed by the resources freed under the enhanced HIPC Initiative (MEFP, para. 30). The 2002 budget includes an amount equivalent to 0.7 percent of GDP for the continuing implementation of this program, which relies on participatory approaches at the local level to build classrooms, primary health centers and rural water wells. The 2002 budget also includes a set of additional poverty reduction measures illustrating the government's determination to implement the priorities of the PRSP (MEFP, paras. 31 and 32).

21. **Nonetheless, the authorities noted some difficulties in implementing their strategy** because of (i) the rigid structure of expenditure in the short term; (ii) the necessity to maintain a manageable budget deficit in order to avoid unsustainable indebtedness; and (iii) the problems in coordinating with donors, who contribute up to 80 percent of the investment budget. They mentioned that the education program financed by the World Bank had lapsed and that they had to support in 2002 the financing of the locally-hired contractual teachers previously paid under this program (about 0.3 percent of GDP). In the near future, the authorities intend to improve further the quality and structure of expenditure, carry out with the collaboration of donors social impact analyses of policy measures adopted, and improve coordination with donors as a result of the poverty reduction strategy process. In this context, the staff welcomed the government's intent to conduct a comprehensive public expenditure review and supported the organization of a donor forum to discuss issues related to external aid coordination and financing of the poverty reduction strategy. The outcome of these initiatives will be very important for the fine-tuning of the strategy and its implementation.

## External financing issues

22. **The authorities stressed their concerns regarding the volatility and uncertainty of aid flows.** Against a background of a low revenue-to-GDP ratio and limited bank government deposits, the government suffers from severe cash constraints as soon as an expected disbursement is delayed, hampering, inter alia, its ability to reduce domestic payments arrears as intended. The staff concurred on the necessity to improve aid predictability and avoid delays in disbursements but noted also in this respect the need for the authorities to implement programs financed with the help of the donor community on a timely basis. The staff also recommended that the authorities strengthen cash management and budgetary planning, and establish an appropriate level of precautionary cash balances that could be used as bridge financing in case of aid delays. Improving cash management has been set as one of the main objectives of the 2002 program.

23. Aware of the very high level of Niger's external indebtedness, **the authorities remain committed to conducting a very prudent debt policy and to securing only highly concessional loans.** The staff commended the efforts of the authorities to conform the recent lending of the BOAD to the program requirement of a 50 percent grant element. These efforts have resulted in a BOAD Executive Board decision in December 2001 to grant the required additional concessionality on the four remaining loans failing to meet the program requirement. The authorities were concerned, however, about the effective additivity of the enhanced HIPC Initiative assistance in light of the large financing gaps they faced and the difficulties they might encounter in closing these gaps. They also mentioned problems in increasing the share of grant financing and expressed concerns about long-term debt sustainability. The staff noted the authorities' concerns and reiterated the conclusions of the debt sustainability analysis made at the time of Niger's decision point under the enhanced HIPC Initiative. In particular, the staff stressed that Niger's long-term external debt sustainability hinges on good economic performance and the implementation of a prudent external financing policy that relies heavily on grants complemented by limited amounts of very concessional external debt to reduce the debt burden. The staff welcomed the progress of the authorities in resuming relations with the donor community and their intent to review these external financing issues in 2002. The staff commended the high priority given by the authorities to targeting a realistic financing gap and capping it to about 5 percent of GDP, because of the limited availability of grants and highly concessional budgetary loans.

24. **In this context, the authorities have made good progress in negotiating traditional debt relief, reaching final agreements on the clearing of external payments arrears, and eliciting commitments and contributions under the enhanced HIPC Initiative.** In particular, following the debt-relief agreement in January 2001 with the members of the Paris Club,<sup>9</sup> Niger finalized individual agreements with each Paris Club creditor, except for France,

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<sup>9</sup> The agreement includes a flow rescheduling on Cologne terms of debt service due in 2001-03, a rescheduling of external payments arrears on pre-cutoff-date debt on Naples terms, and a rescheduling of post-cutoff-date payments arrears over a period of ten years.

pending French parliamentary approval of external debt cancellation.<sup>10</sup> Niger has also embarked on a wide range of negotiations with non-Paris Club creditors on pre-cutoff-date and post-cutoff-date debt in order to obtain debt relief comparable to the Paris Club agreement and secure these creditors' participation in the enhanced HIPC Initiative.<sup>11</sup> Finally, the settlement of external payments arrears vis-à-vis multilateral creditors was completed in 2001 except for the Economic Community of West African States (ECOWAS), which has not replied to requests of the authorities. Payments arrears to the African Development Bank were paid in early 2001, and rescheduling agreements with the Islamic Development Bank (IsBD), the Arab Bank for Economic Development in Africa (BADEA), and the Organization of the Petroleum Exporting Countries (OPEC) Fund are being implemented. Payments arrears to the International Fund for Agricultural Development (IFAD) will be treated in the context of IFAD assistance and contribution when Niger reaches the completion point under the enhanced HIPC Initiative. Payments arrears to the European Union (EU) and the European Investment Bank will be cleared in early 2002 in the context of new budgetary support of the EU. Finally, the Conseil de l'Entente has agreed to reschedule Niger's external payments arrears, and the authorities intend to negotiate the rescheduling agreement with, and elicit a contribution under the HIPC Initiative from, the Conseil de l'Entente in early 2002. The authorities will also continue to call upon ECOWAS for the settlement of their payments arrears and a commitment under the HIPC Initiative.

### **Health of the banking system**

25. **Niger's financial system remains one of the weakest in the West African Economic and Monetary Union (WAEMU).**<sup>12</sup> The staff encouraged the authorities to embark on the financial sector reform program that they have elaborated in consultation with the World Bank (MEFP, paras. 35-38). At end-September 2001, none of the banks were in compliance with the complete set of prudential ratios of the regional banking commission, and only one of the ten prudential ratios was respected by all the banks and financial institutions, a situation similar to that observed at end-2000. Some banks also faced recurrent problems in complying with the reserve requirements of the Central Bank of the West African States (BCEAO), and bank credit concentration in the energy sector remained a source of vulnerability. Nevertheless, potential macroeconomic consequences resulting from these weaknesses are mitigated by the

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<sup>10</sup> The possibility of canceling external debt was approved by the French National Assembly on December 28, 2001 in the context of a supplementary budget law for 2001. The signing of the bilateral Paris Club agreement between France and Niger is expected in early 2002.

<sup>11</sup> China granted a partial debt cancellation. An agreement is under discussion with Algeria. Discussions are still ongoing with Kuwait, Saudi Arabia, United Arab Emirates, Iraq, Libya, and Taiwan Province of China.

<sup>12</sup> The financial system in Niger consists of seven banks, one financial institution, a number of microfinance institutions, and several institutional savings' collectors (insurance companies, the social security institution, and the postal service).

limited financial depth of the economy (credit to the economy, as well as deposits in the banking system, represent less than 5.5 percent of GDP). The authorities noted that the high concentration of bank credit in the energy sector and the noncompliance with some prudential ratios are also explained by the little scope offered by the economy to the banking system to diversify its portfolio and by the dearth of high quality borrowers. Moreover, the banking system, as in other WAEMU countries, is generally well regulated and supervised by the regional banking commission. In order to strengthen the banking system, the authorities highlighted the measures taken regarding the three institutions placed under temporary administration by the BCEAO: the restructuring of the Banque du Crédit du Niger (BCN) is proceeding satisfactorily, and a decision on the future of the Crédit du Niger (CDN) and the Caisse des Prêts aux Collectivités Locales (CPCT), including their possible merger, will be reached before end-April 2002. Finally, the long-run viability of the microfinance institutions, their high reliance upon external subsidies, and the insufficient qualifications of their employees are also areas of concern. The authorities are, in particular, closely supervising the main microfinance institution that has encountered severe financial problems, linked to financial misconduct by its management, and has been placed under temporary administration since January 2001.<sup>13</sup>

## **B. Program for 2002**

26. **The program for 2002 aims at supporting economic recovery and setting the stage for an effective reduction of poverty through continued fiscal adjustment, a deepening of structural reforms, and the implementation of the PRSP.** The impact of the deterioration in the international economic environment in the wake of the September 11 events is likely to be small, given the structure of the economy and its limited integration into the world economy. In particular, Niger is expected to benefit from the projected decline in oil prices and from a stronger export potential for agricultural products following the good harvest in 2001.<sup>14</sup> Also, uranium exports, which represent approximately one-third of total merchandise exports, are expected to remain stable. However, economic developments in neighboring Nigeria, which accounts for another one-third of Niger's merchandise exports, remain a source of uncertainty.

27. **Based on conservative assumptions, economic growth should reach 4.1 percent in 2002, leading to a 1 percent increase in per capita income.** Inflation is projected at 2.1 percent on an end-of-period basis, in large part because of a reduction in food prices. The

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<sup>13</sup> With CFAF 0.9 billion in loans, CFAF 1.7 billion in deposits, and 16,764 beneficiaries, this institution accounts for 39 percent of credit, 52 percent of deposits and 42 percent of members of the whole microfinance sector.

<sup>14</sup> An alternative scenario assuming a lower world economic growth concluded to a very limited impact on the Nigerien economy, except if Nigeria is seriously affected. Another simulation exercise indicates that, if the petroleum prices exceeded World Economic Outlook (WEO) assumptions by US\$5 per barrel, the current account deficit would deteriorate by 0.8 percent of GDP.



current account deficit (excluding grants) is projected to reach 9.5 percent of GDP, about 1 percentage point above the 2001 level. The policies that will be implemented in the program will support the attainment of these macroeconomic objectives.

28. **With average levels of rainfall, agricultural output is forecast to increase by 2 percent;** this sector will start benefiting from public investments in efficient irrigation techniques and better management of water resources, in particular the rural water projects financed by the poverty reduction program.<sup>15</sup> Investments to improve and expand the country's road infrastructure should also spur increased economic activity, while commerce and transport will also benefit from the marketing of the good crop in 2001. In addition, the economy will be helped by the lower energy prices and the positive impact of privatization in the areas of water and telecommunications.

#### **Fiscal policy**

29. **The 2002 budget adopted by parliament in December 2001 is in line with the objectives of the PRGF-supported program, and aims to limit the financing gap and alleviate cash management pressures.** The program targets a reduction of the basic deficit (on a commitment basis and excluding grants) from a projected 2.9 percent of GDP in 2001 to 2.1 percent of GDP in 2002. It will aim at building about CFAF 5 billion in additional liquid government deposits at year's end in order to weather the effects of fluctuations in revenue and aid disbursements.

30. **On the revenue side, the 2002 program relies on an improvement in tax revenue equal to 0.7 percent of GDP,** resulting from the full-year effect of the new petroleum product taxation (generating additional revenue of about 0.5 percent of GDP), implementation of new tax measures (MEFP, para. 26), and improvements in tax and customs administration. The elimination of government cross debts with several public companies should generate the equivalent of 0.5 percent of GDP in additional revenue.

31. **On the expenditure side, current expenditure in 2002 will increase by 0.4 percent of GDP from 2001,** mainly because of (i) new allocations for the payment of volunteer teachers previously supported by a World Bank project and (ii) a 4 percent increase in the wage bill. This increase is explained by the decision to stop the freeze on the financial impact of the automatic promotions that have occurred since 1998 and to take into account the resulting increase in wage payments. As in the past several years, new hiring of civil servants will be limited to departures. Capital expenditure is expected to reach 7.1 percent of GDP, owing to, inter alia, a higher level of foreign-financed investments, notably in infrastructure projects.

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<sup>15</sup> Only 5 percent of Niger's arable land is presently cultivated, representing a considerable opportunity for further growth.

32. **The 2002 financing gap of CFAF 74 billion (excluding IMF financing) resulting from the program is expected to be filled**, based on financing assurances already received from Niger's development partners, in particular the World Bank, the European Union, the African Development Bank, and key bilateral donors.<sup>16</sup>

### **Regional integration**

33. **Niger's current financial and economic situation makes it difficult for the country to meet all the convergence criteria set in the regional Convergence, Stability, Growth and Solidarity Pact of the WAEMU by the target date of 2002** (for details on the regional Pact, see SM/01/246, 08/06/01, Box 2), but the authorities are committed to implementing the necessary policies to abide by these criteria as soon as possible. In the context of the current program, substantial progress is targeted toward achieving the required convergence. At end-2002, Niger would meet the primary criteria on the average inflation rate (3 percent) and the nonaccumulation of payment arrears, but it would still not respect the primary criteria on the ratio of outstanding nominal debt to GDP and the basic budget balance, as well as all secondary criteria.

### **Monetary policy**

34. **As in other member countries of the WAEMU, monetary and credit policies are conducted at the regional level**, and aims at fostering economic and financial balances and strengthening the external position.<sup>17</sup> In this context, money growth will be limited to 9.6 percent in 2002. Domestic credit would be reduced, owing to a reduction of net claims of the banking sector on the government, which, in turn would reflect a treasury buildup of precautionary deposits. The government intends also to comply with the general guidelines of the monetary authorities aimed at eliminating the statutory advances of the central bank. To this end, it is considering to issue government bonds on the regional financial market. The enforcement of the new pricing system of petroleum products and the possible recourse of large companies to the emerging regional financial market would assist the BCEAO in containing the growth of credit to the economy and reducing the high risk concentration of the banks' credit portfolio.

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<sup>16</sup> Total disbursements of about CFAF 51 billion are expected from the World Bank, the European Union, the African Development Bank and Belgium. Additional donor intentions would cover the remaining gap and should be confirmed by the donor meeting to be organized by the authorities in mid-2002. The financing of the gap will be reviewed at the time of the third review of the program. As a precautionary measure, the government has nonetheless decided to freeze CFAF 8 billion of nonpriority goods and services allocations.

<sup>17</sup> Recent banking and financial sector issues at the regional level, as well as common trade policy in the WAEMU, were reviewed in SM/01/246 (08/06/01).

35. **As indicated above, the authorities will monitor closely developments in the banking sector and start implementing the reform program of the financial sector** elaborated in consultation with the World Bank (see EBS/01/123, sup. 1, para. 28) to improve the environment of the sector, enlarge the access of the poor to financial services, and complete the restructuring of those banking and financial institutions in distress.

36. **Under the Fund's safeguards assessment policy, the BCEAO, of which Niger is a member, is subject to a full Stage One safeguards assessment.** A Stage One safeguards assessment of the BCEAO was completed on July 25, 2001. The assessment concluded that high risks may exist in BCEAO's financial reporting framework, but did not draw conclusions on the bank's internal audit mechanism nor the internal controls structure. An on-site mission was conducted in October 2001, and a report on the findings and recommendations of this mission is being finalized.

#### **External sector**

37. **The deficit of the external trade balance should be limited to 3.6 percent of GDP in 2002.** While the level of uranium exports is expected to remain the same in 2002, reflecting long-term contracts and sluggish world demand, food exports should improve somewhat. Accelerated execution of public investment is expected to lead to substantially higher capital imports, thereby also contributing to a larger deficit in the services balance. The capital and financial accounts should benefit from continuing interim assistance under the enhanced HIPC Initiative and further debt rescheduling, thereby allowing for an accumulation of CFAF 8.4 billion of net foreign assets at the BCEAO. As mentioned above, the remaining financing gap of CFAF 74 billion is expected to be closed based on financing assurances from Niger's development partners.

38. **Creditor participation under the enhanced HIPC Initiative has been secured from the Paris Club creditors and all multilateral creditors, except for the Conseil de l'Entente and the ECOWAS.** Based on proportional burden sharing, multilateral creditors would provide US\$309 million in 1999 net present value (NPV) terms of the total assistance under the enhanced HIPC Initiative, and Paris Club creditors would contribute US\$105 million. The remaining assistance of US\$104 million would be provided by non-Paris Club bilateral creditors. This participation of non-Paris Club bilateral creditors—Algeria, China, Iraq, Kuwait, Libya, Saudi Arabia, Taiwan Province of China, and the United Arab Emirates—is actively being sought by the Nigerien authorities, with the help of Fund staff.<sup>18</sup> Interim assistance in 2002 will be provided by the International Development Association, the African Development Bank, and Paris Club creditors, and the authorities have requested an extension

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<sup>18</sup> Debt relief on post-cutoff-date debt is required from non-Paris Club bilateral creditors in order to achieve the necessary assistance under the enhanced HIPC Initiative.

of Fund interim assistance in the attached MEFP.<sup>19</sup> The World Bank is assisting the authorities in securing all multilateral creditor participation and their full contributions under the enhanced HIPC Initiative.<sup>20</sup>

### **Structural reforms**

39. **The authorities will continue to implement structural reforms in 2002 in collaboration with the World Bank** (Box 2 and MEFP, paras. 41-45). In addition to the ongoing budgetary reforms and the implementation of the financial sector reform, the authorities will maintain the momentum of the privatization program through divestiture from the energy and petroleum companies. A multisectoral regulatory agency will be put in charge of the regulatory environment of the water, electricity, telecommunications, and petroleum sectors. The government will also continue to review the civil service pay system.

## **IV. THE MEDIUM-TERM BALANCE OF PAYMENTS OUTLOOK AND CAPACITY TO REPAY THE FUND**

40. **Niger accepted the obligations of Article VIII, Sections 2, 3, and 4 effective June 1, 1996 and does not engage in multiple currency practices.** Its exchange system, common to all members of the WAEMU, is free of restrictions on making payments or transfers for current international transactions. Niger's trade regime, also common to all members of the WAEMU, is relatively open (see SM/01/246 on WAEMU's Recent Economic Developments and Regional Issues in 2000, Section III.E). The common external tariff (CET) of the WAEMU, adopted in January 2000, consists of four rates (zero, 5, 10, and 20 percent). Niger is broadly compliant with the tariff rate structure of the union,<sup>21</sup> and has implemented the dismantling of the internal tariff barriers within the customs union and the adoption of common rules for customs valuation of goods. Concerning common safeguards measures established by the WAEMU, Niger does not implement the decreasing protection tax to provide temporary

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<sup>19</sup> In line with total Fund assistance (SDR 21.56 million) committed at the decision point, it is estimated that additional Fund interim HIPC assistance for 2002 would amount to SDR 1.079 million, which would cover 37.2 percent of each principal repayment obligation falling due during this period. Financial assurances to participate to the enhanced HIPC Initiative have been provided by creditors representing about 79 percent of Niger's decision point NPV of debt.

<sup>20</sup> Existing proposals of enhanced HIPC Initiative assistance by the Arab Bank for Economic Development in Africa (BADEA), the Islamic Development Bank (IsDB), the WAEMU, and the Organization of the Petroleum Exporting Countries (OPEC) Fund remain below the levels of their expected contributions.

<sup>21</sup> Niger has introduced in 1999 an import verification tax (TVI) that is earmarked to the payment of the preshipment inspection company services. This tax is not in line with the recommended TEC structure and the authorities intend to eliminate it.

## **Box 2. Niger: Structural Conditionality Under the PRGF Arrangement**

### **Coverage of structural conditionality in the current program**

The structural areas covered by conditionality in the 2002 program include (i) the continuous implementation of the petroleum product pricing system adopted in August 2001; (ii) the strengthening of the external debt unit; and (iii) the preparation of progress reports regarding the implementation of the poverty reduction program. The continuous implementation of the petroleum product pricing system will contribute substantially to the attainment of the revenue targets for 2002 and beyond. The strengthening of the external debt unit will allow for improved debt management. The assessment of the presidential program to reduce poverty will provide guidance for the implementation of the full PRSP.

### **Relevant structural conditions measures not included in the current program**

Reforms related to the strengthening of the financial sector and the privatization of public enterprises are covered and conducted under the leadership of the World Bank. They are not included as structural conditions under the current program. The Fund's Executive Board has expressed support for the strengthening of the financial sector.

### **Status of structural conditionality from earlier programs**

Niger's past track record of structural reform implementation in the 1990's was not very satisfactory as a result of weaknesses in implementation capacity and several interruptions caused by two coups d'état since 1995. The main areas of reform in the last program supported by the Enhanced Structural Adjustment Facility (ESAF) arrangement (1996-98) included a civil service reform to control the wage bill, the privatization of public enterprises, a restructuring of the banking sector, and governance actions related to the transparency of budgetary operations and clearing of domestic payments arrears. During the first year of the current PRGF arrangement, structural conditionality focused on strengthening the budgetary process and reporting, as well as improving governance.

### **Structural areas covered by HIPC completion point conditionality**

Key conditions for reaching a floating completion point under the enhanced HIPC Initiative include the following measures regarding governance that are of relevance to the PRGF-supported program: (i) ensuring full budgeting of poverty reduction programs financed by the HIPC Initiative assistance, and publishing semiannual reports of the budget execution of these programs; and (ii) submitting budget review laws to the National Assembly and the corresponding treasury accounts to the Supreme Court's Accounting Office for the fiscal years 1998-2000.

### **Structural areas covered by World Bank lending and conditionality**

Following a single-tranche adjustment credit disbursed in 2000, the World Bank approved on November 20, 2001 a second public expenditure adjustment credit that aims at supporting the government's financial stabilization efforts and the ongoing structural reform program in the following areas: (i) public sector reform, especially with respect to public expenditure management and domestic payments arrears settlement; and (ii) liberalization and privatization in key sectors (telecommunications, water distribution, power distribution, and petroleum product distribution), including the establishment of an adequate regulatory framework. The credit also covers the start of a financial sector reform program aiming at the further restructuring and consolidation of the commercial banking sector, as well as the insurance, pension, and microfinance sectors.

and declining protection for selected products, but it does apply a compensatory import levy of 10 percent on rice. Niger's imports are not subject to quantitative restrictions and exports are not hampered by market access barriers in its major export markets (uranium to the developed world and agricultural products to Nigeria and the WAEMU). Niger is rated 2 under the 10-point scale trade restrictiveness index, denoting a relatively open economy.<sup>22</sup>

41. **The staff projects Niger's balance of payments to remain sustainable over the medium-term, provided adequate support is given by the donor community.** Under WEO assumptions, Niger's terms of trade should remain almost constant and the external current account deficit (excluding grants) should average 9.6 percent over the period 2003-05. The increase in intermediate and capital goods imports linked to additional investments financed through HIPC initiative resources should be mitigated by the expansion of livestock and agricultural products exports—under the assumption of good weather conditions. Benefiting from the prudent monetary policy of the central bank, Niger is expected to preserve the gains in external competitiveness achieved following the 1994 devaluation.

42. **Debt service to the Fund will peak at CFAF 8.9 billion in 2004.** Niger has a good record of servicing its debt to the Fund and should be able to continue to meet its obligations in a timely manner in view of the expected improvements in its balance of payments and fiscal position. Nevertheless, the country is vulnerable to terms of trade and weather related shocks and to shortfalls in foreign assistance.

## V. PROGRAM MONITORING AND RISKS

43. Program implementation will continue to be monitored on the basis of quantitative and structural performance criteria, benchmarks, and indicators as presented in the MEFP (MEFP, Section V, and Tables 3 and 4) and in the technical memorandum of understanding. Progress under the 2002 program at end-March 2002 will be assessed in the context of a third review under the PRGF arrangement, scheduled to be completed no later than end-September 2002, and performance criteria have been set to that effect for end-March 2002. Performance at end-September 2002 will be the subject of the fourth review under the arrangement, with performance criteria for end-September 2002 to be set at the time of the third review.

44. The program is subject to two main risks:

- The high reliance of the budget on foreign assistance can keep the government from realizing some of its objectives if disbursements do not materialize on time. In that regard, the objective of reducing domestic payments arrears would be particularly at risk if the extensive assistance flows expected end up smaller than programmed.

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<sup>22</sup> The trade restrictiveness index is calculated by the Fund. This index combines the main elements of trade protectionism, namely the unweighted average level of statutory tariffs and the coverage of nontariff barriers in relation to trade and production.

- Despite recent improvements, the institutional capacity to implement the program remains limited. Since the beginning of the PRGF-supported program, technical assistance has been useful and will continue to be required over 2002, in particular in the fields of budget execution and accounting, tax administration, treasury operations, and debt management.

## VI. STAFF APPRAISAL

45. **After significant slippages at the beginning of 2001, program implementation is back on track**, due to the corrective measures taken by the authorities in the context of the first review under the arrangement. Performance was satisfactory as of end-September 2001 and reflected the restoration of a sound and prudent fiscal policy stance, as well as improved program monitoring. The staff welcomes the BOAD board's decision to increase the grant element of recent BOAD lending to Niger to 50 percent, in line with the program requirement regarding external debt concessionality. The staff is of the view that the small and temporary accumulation of external arrears in the second half of 2001 does not reflect a lack of commitment on the part of the authorities.

46. **The staff commends the authorities for their commitment to ensure the successful implementation of the first annual program** and to achieve the economic and financial objectives therein. In particular, the staff supports the government's decision to freeze nonessential outlays during the fourth quarter of 2001, pending the receipt of delayed aid disbursements. Despite its negative impact on the functioning of the administration, this decision shows the government's commitment to avoid the further accumulation of domestic arrears and reinforces its credibility vis-à-vis suppliers.

47. **The authorities are to be praised for the finalization of the PRSP** and the broad participatory process on which it has been based, and the staff considers that the full PRSP provides a sound basis for Fund concessional assistance. Further efforts will be required to improve the poverty database and analysis, to strengthen the administrative capacity to track poverty-reducing expenditure, and to ensure the effective coordination of sectoral strategies, especially at the local level. In this context, the staff welcomes the authorities' intent to conduct a comprehensive public expenditure review and organize a donor forum to discuss the financing of the PRSP in 2002.

48. **The authorities' program for 2002 provides for a strengthening of the economic adjustment process and the implementation of the new PRSP.** The staff urges the authorities to remain prudent in their fiscal policy stance and external borrowing policy. The program of structural reforms should be implemented without delay. In particular, the envisaged measures in 2002 regarding a review of public expenditure, the design of a medium-term expenditure framework, and the integration of the current and investment budgets should proceed swiftly to complement the ongoing reforms to strengthen the expenditure process and budget management. These measures will also provide for a refinement of the poverty reduction strategy. The staff also looks forward to the implementation of the financial sector reform program and the authorities' efforts to ensure the financial soundness of the microfinance institutions.

49. **While welcoming the progress made with regard to the reduction of domestic payments arrears, the staff encourages the authorities to remain committed to achieving the program objectives in this regard.** The implementation of the payments arrears reduction strategy will provide the necessary guidelines to clear remaining arrears. The authorities are also encouraged not to incur new domestic payments arrears via a close monitoring of the expenditure process and strict reliance on the established spending procedures. In this connection, ongoing reforms of the expenditure process and the treasury operations should be deepened to improve governance and strengthen management of public finances.

50. **The staff urges the authorities to strictly implement the new petroleum product pricing system adopted in August 2001** and ensure that the system retains its automatic, flexible, and transparent characteristics. The new system will allow consumers to benefit from declines in international petroleum prices; at the same time, it will avoid the recurrence of implicit subsidies on petroleum products and their consequences on the budget and the petroleum sector.

51. **The authorities should remain committed to implementing a very prudent policy regarding external indebtedness,** in line with the conclusion of the debt sustainability analysis conducted in the context of the HIPC Initiative decision point. In addition, in order to achieve the 53.5 percent overall reduction in its debt-service burden envisaged under the enhanced HIPC Initiative decision point, Niger will need to continue its efforts to obtain the necessary concurrence and effective contribution of those bilateral and multilateral creditors that are currently nonparticipating, including regional financial institutions.

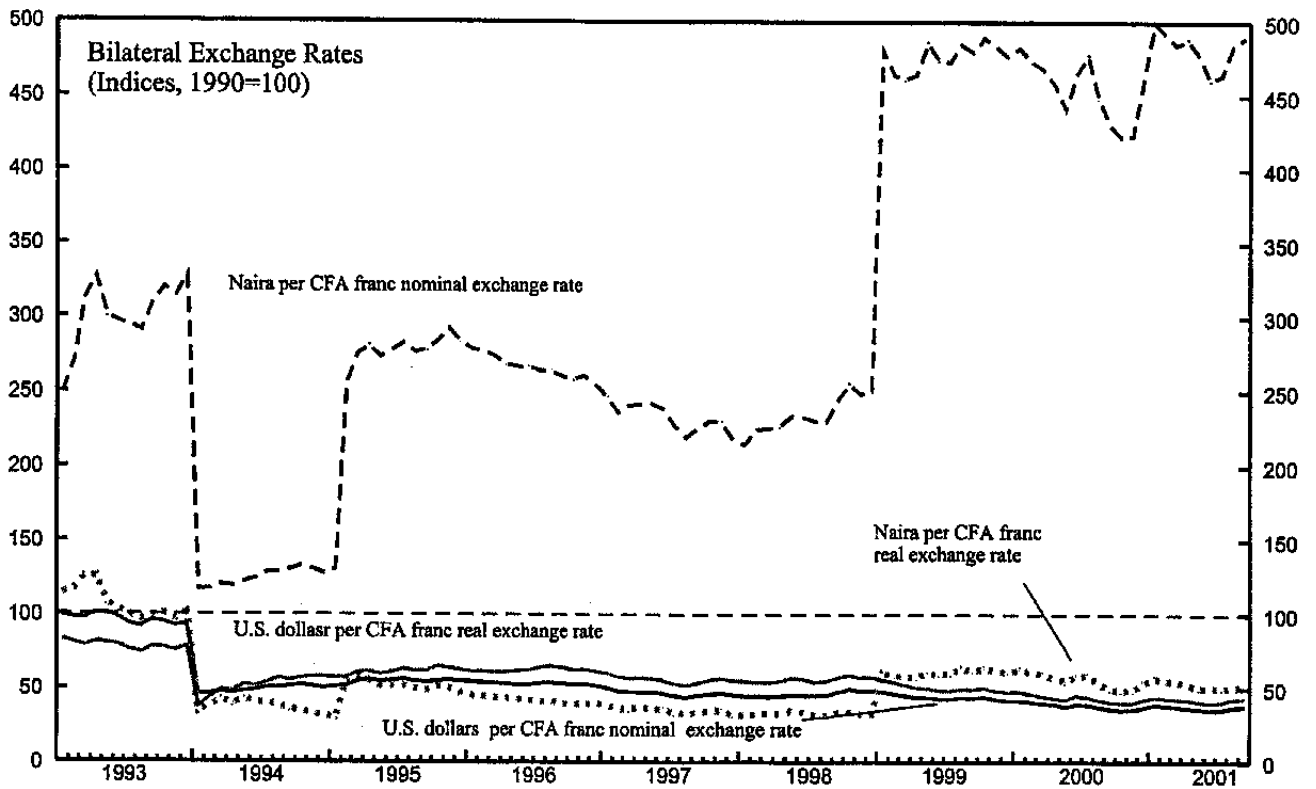
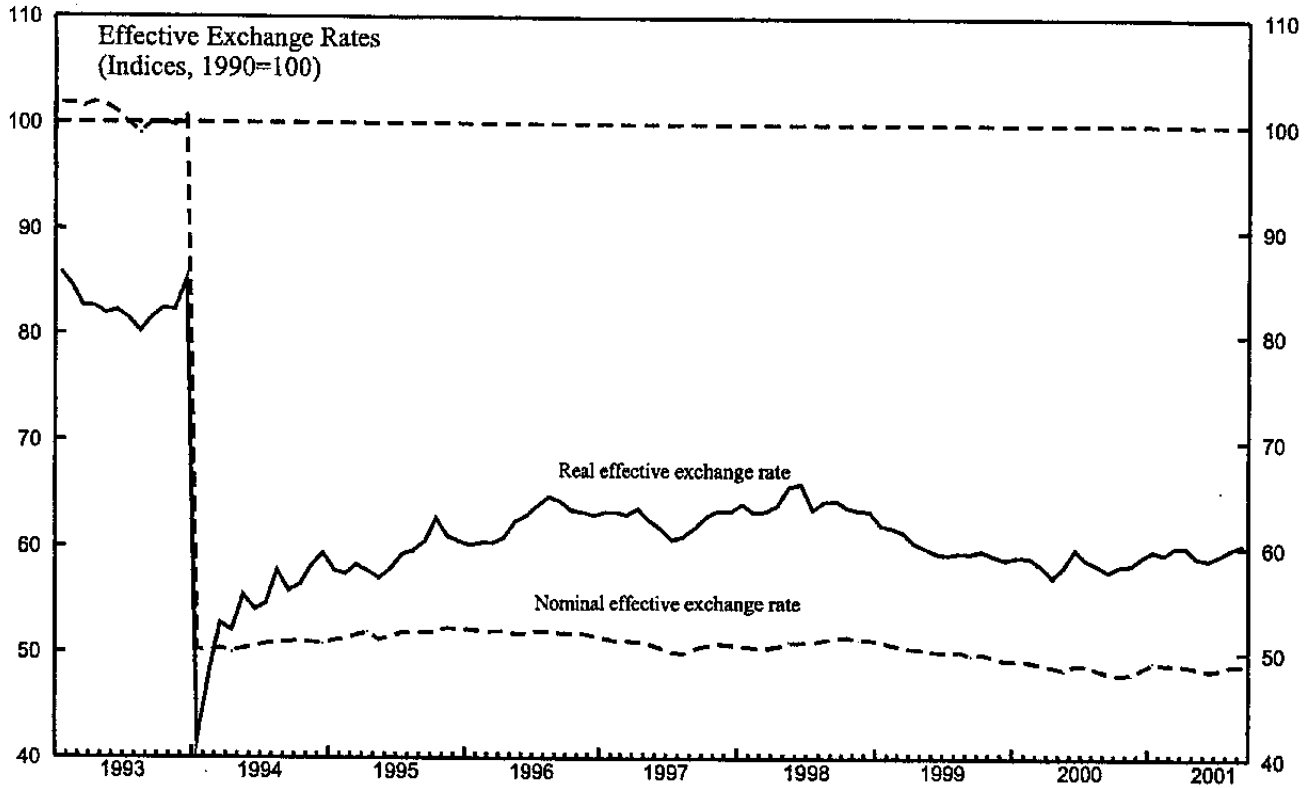
52. **Finally, the staff encourages the authorities to address the serious weaknesses affecting Niger's statistical database,** notably with respect to the national accounts and the balance of payments. The staff commends the decision of the authorities to follow the guidance provided for compiling and disseminating macroeconomic and socio-demographic data under the Fund's General Data Dissemination Standard (GDSS), and urges them to continue the strengthening of fiscal data reporting, as well as improve external debt statistics.

53. **The staff recommends the completion of the second review under the PRGF arrangement** and, in view of the authorities' corrective actions, the granting of a waiver for the nonobservance of the continuous performance criterion on the nonaccumulation of external arrears. The completion of this review will be subjected to the endorsement by the Fund and Bank Boards of the full PRSP prepared by the authorities. The staff also recommends the extension of the delivery period of the Fund's HIPC Initiative interim assistance until end-December 2002. The staff welcomes the consent from the authorities to publish the memorandum of economic and financial policies and the staff report.

54. It is proposed that Niger remain on the standard 12-month cycle for Article IV consultations.

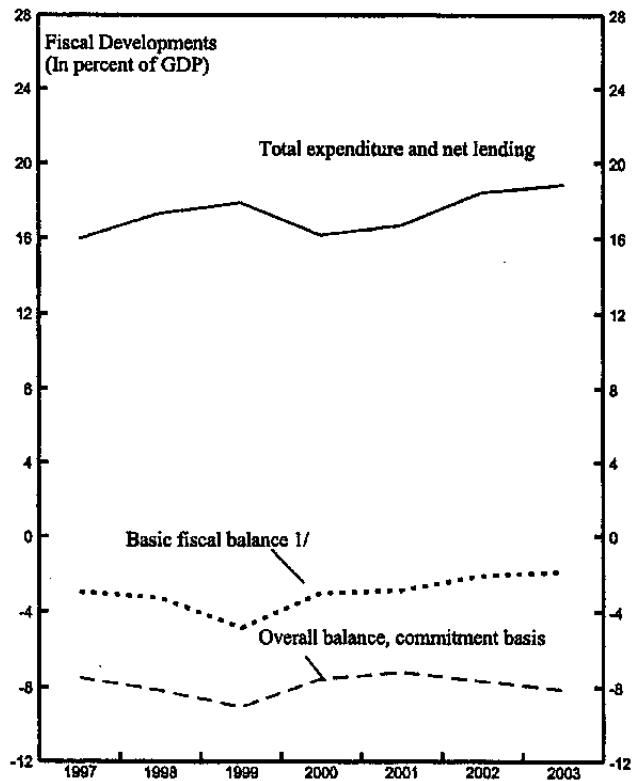
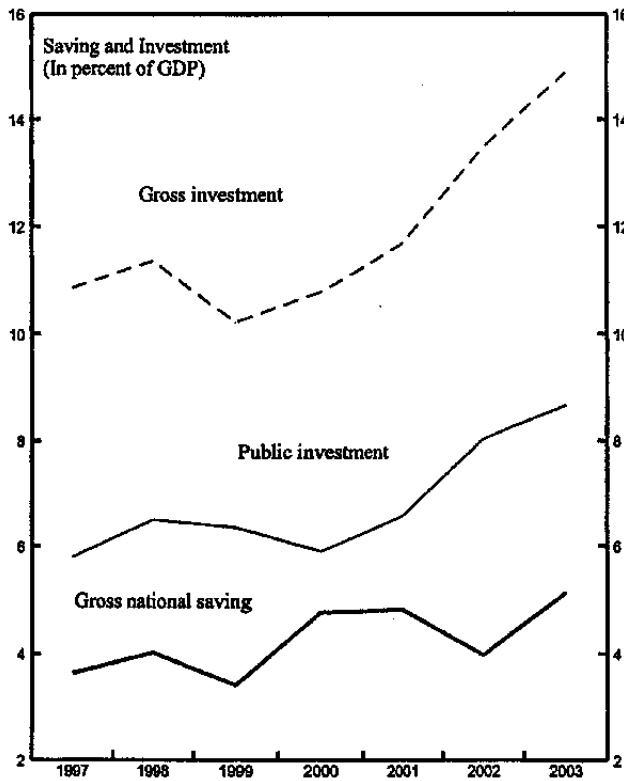
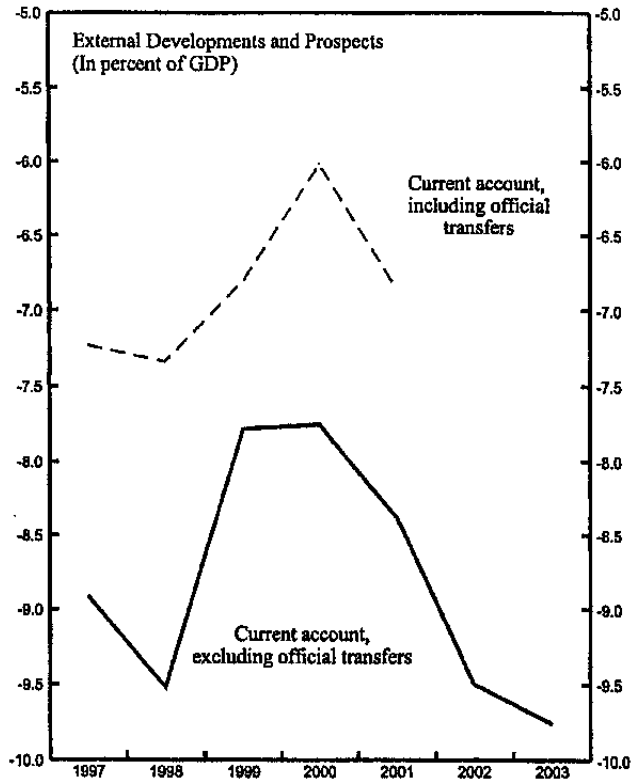
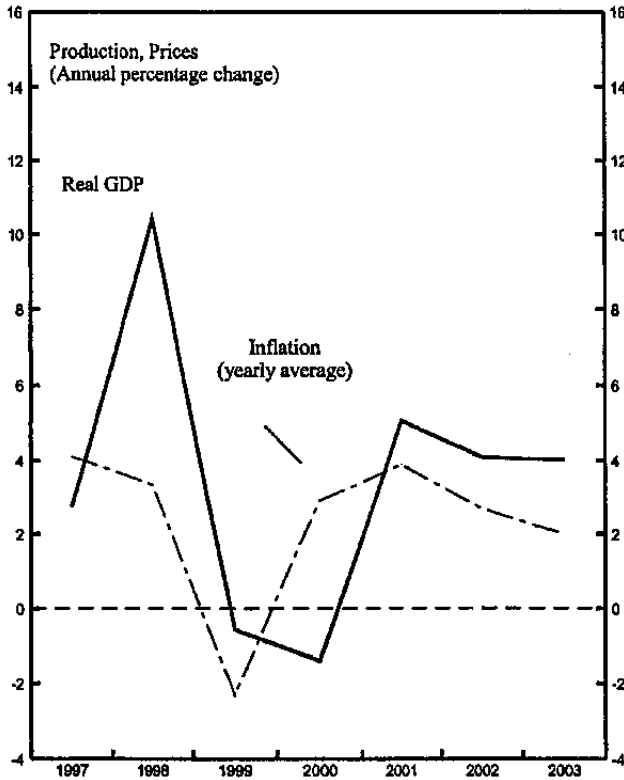


Figure 1. Niger: Exchange Rate Indices, January 1993 - September 2001



Source: IMF, Information Notice System.

Figure 2. Niger: Selected Economic and Financial Indicators, 1997-2003



Source: IMF, Information Notice System.

1/ Budgetary revenue excluding grants, minus total expenditure.

Table 1. Niger: Fund Position During the PRGF Arrangement, September 2000 - March 2004

	Outstanding Sept. 30, 2000	2000			2001			2002			2003			2004	
		Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.
(In millions of SDRs)															
Total transactions (net)		8.34	-0.05	-0.17	8.41	-1.19	8.41	-1.20	7.44	-1.22	6.48	-1.23	6.48	-2.21	5.51
Disbursements		8.46	0.00	0.00	8.46	0.00	8.46	0.00	8.46	0.00	8.46	0.00	8.46	0.00	8.46
Repurchases/repayments															
Repurchases		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ESAF/PRGF repayments		0.00	0.00	0.00	0.00	0.97	0.00	0.97	0.97	0.97	1.93	0.97	1.93	1.93	2.90
Charges and interest		0.12	0.05	0.17	0.05	0.22	0.05	0.23	0.05	0.25	0.05	0.26	0.05	0.28	0.05
Total Fund credit outstanding 1/	48.30	56.76	56.76	56.76	65.22	64.25	71.75	70.78	78.28	77.31	83.84	82.87	89.40	87.47	93.03
Outstanding purchases under ESAF/PRGF	48.30	56.76	56.76	56.76	65.22	64.25	71.75	70.78	78.28	77.31	83.84	82.87	89.40	87.47	93.03
(In percentage of quota, unless otherwise indicated)															
Total Fund credit outstanding 1/	73.40	86.26	86.26	86.26	99.12	97.65	109.04	107.57	118.96	117.49	127.41	125.95	135.87	132.93	141.38
Outstanding purchases Under ESAF/PRGF	73.40	86.26	86.26	86.26	99.12	97.65	109.04	107.57	118.96	117.49	127.41	125.95	135.87	132.93	141.38
Memorandum item:															
Quota (in millions of SDRs)	65.80														

Source: IMF, Treasurer's Department.

1/ End of period.

Table 2. Niger: Selected Economic and Financial Indicators, 1999-2004

	1999	2000 Prel.	2001		2002		2003 Projections	2004
			Rev. Prog.	Proj.	Prog.	Rev. Prog.		
			EBS/01/123		EBS/01/123			
(Percentage change, unless otherwise indicated)								
National income and prices								
GDP at constant prices	-0.6	-1.4	4.1	5.1	4.3	4.1	4.0	4.2
GDP deflator	2.0	4.5	5.0	4.0	3.0	3.0	2.0	2.0
Consumer price index								
Annual average	-2.3	2.9	4.2	3.9	3.0	2.7	2.0	2.0
End of period	-1.9	4.7	3.6	3.2	3.0	2.1	2.0	2.0
External sector								
Exports, f.o.b.	-10.4	13.9	1.8	-0.7	8.9	2.5	4.1	4.2
Imports, f.o.b.	-13.3	11.6	16.0	5.9	4.5	6.2	7.0	5.6
Export volume	-14.5	20.1	3.0	3.8	4.1	3.2	2.9	2.9
Import volume	-3.9	2.3	11.3	8.6	-0.6	7.3	6.9	4.1
Terms of trade (deterioration -)	9.3	-14.8	-5.2	-4.2	-0.5	1.3	-0.3	-0.2
Nominal effective exchange rate (depreciation -) 1/	-1.6	-3.1	0.0	...	...	...	...	...
Real effective exchange rate (depreciation -) 1/	-6.3	-2.6	2.1	...	...	...	...	...
Government finances								
Total revenue	-2.0	0.5	16.0	20.3	13.2	21.5	5.8	9.3
Total expenditure and net lending 2/	4.7	-6.8	22.7	12.8	8.0	18.4	8.5	3.9
Current budgetary expenditure	8.1	-6.7	13.9	6.8	3.8	11.7	4.7	2.9
Capital expenditure	-0.8	-4.4	42.1	21.8	14.9	31.0	14.6	5.3
Money and credit								
Domestic credit 3/	6.3	-8.1	5.7	11.0	3.1	2.8	...	...
Credit to the government (net) 3/	7.8	-30.1	13.5	13.5	-0.1	-2.0	...	...
Credit to the economy	-3.0	43.8	-11.8	-3.8	5.7	8.9	...	...
Net domestic assets 3/	9.1	-5.5	6.2	11.1	3.1	2.8	...	...
Money and quasi money	-5.5	8.9	8.1	18.3	11.1	9.6	...	...
Interest rate (money market, in percent; end of period)	5.0	5.0	...	5.0	...	...	...	...
(In percent of GDP, unless otherwise indicated)								
Government finances								
Budgetary revenue	8.8	8.6	9.0	9.5	9.5	10.7	10.7	11.0
Current expenditure	12.4	11.2	11.3	11.0	10.8	11.4	11.3	10.9
Capital expenditure	5.6	5.2	6.6	5.8	6.9	7.0	7.6	7.5
Total expenditure and net lending	17.9	16.2	17.9	16.7	17.7	18.4	18.8	18.4
Primary budget balance 4/	-7.5	-5.9	-6.9	-5.3	-6.3	-5.9	-6.6	-6.0
Basic balance (excluding grants) 5/	-4.8	-3.0	-3.6	-2.9	-2.7	-2.1	-1.9	-1.2
Overall balance (commitment basis, excluding grants)	-9.0	-7.6	-8.9	-7.2	-8.2	-7.7	-8.1	-7.4
Overall balance (commitment basis, including grants)	-5.2	-3.5	-5.5	-3.4	-3.7	-5.1	-5.5	-4.8
Gross investment	10.2	10.8	12.6	11.7	13.2	13.5	14.9	15.0
Gross domestic savings	2.6	3.2	2.8	3.5	4.1	4.7	5.6	5.8
External current account balance								
Excluding grants	-7.8	-7.8	-10.4	-8.4	-9.7	-9.5	-9.8	-9.8
Including grants	-6.8	-6.0	-10.4	-6.9	-9.7	-9.5	-9.8	-9.8
External public debt (end of period) 6/	83.8	90.3	87.4	86.0	...	86.0	...	...
(In percent)								
Debt-service ratio (before debt relief) in percent of:								
Exports of goods and services	23.3	24.7	34.1	29.0	30.7	26.7	26.6	27.0
Government revenue	42.0	51.1	55.4	49.6	48.3	38.3	37.7	36.5
(In billions of CFA francs)								
GDP at current market prices	1,242.6	1,280.4	1,421.5	1,399.1	1,524.0	1,500.1	1,591.7	1,691.6
Government payments arrears (reduction -)	49.1	-112.0	-34.0	-34.0	-29.2	-28.0	-25.0	-25.0
Domestic	23.6	3.6	-34.0	-34.0	-29.2	-28.0	-25.0	-25.0
External	25.6	-115.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance of payments 7/	-46.6	-21.7	-115.3	-37.8	-97.4	-87.6	-70.9	-72.1

Sources: Nigerien authorities; and staff estimates and projections.

1/ For 2001, as of November 2001.

2/ Commitment basis as per payment orders issued.

3/ In percent of beginning-of-period money stock.

4/ Budget revenue minus expenditure, excluding interest payments.

5/ Budget revenue minus expenditure, excluding foreign-financed investment projects.

6/ Including obligations to IMF.

7/ Before debt relief. For projections, including the financing gap.

Table 3. Niger: Financial Operations of the Central Government, 1999-2004

	1999	2000	September 2001		2001		2002		2003	2004	
			Est.	Rev. Prog	Prel.	Rev. Prog.	Proj.	Prog.			Rev. Prog.
			Inc. HIPC	Inc. HIPC	Inc. HIPC	Inc. HIPC	Inc. HIPC	Inc. HIPC			Inc. HIPC
		EBS/01/123	EBS/01/123	EBS/01/123	EBS/01/123	EBS/01/123	EBS/01/123				
(In billions of CFA francs)											
Budgetary revenue	109.6	110.1	93.7	97.0	127.7	132.5	144.2	160.9	170.3	186.1	
Tax revenue	100.6	102.8	89.8	90.0	122.4	123.6	138.5	143.9	160.8	175.9	
Non-tax revenue	3.9	3.8	1.6	3.2	2.4	4.4	2.6	4.0	4.3	4.6	
Compensation revenue	...	...	...	...	...	...	...	8.0	...	...	
Annexed budget/special accounts	5.1	3.5	2.3	3.8	2.9	4.4	3.1	5.0	5.3	5.6	
Total expenditure and net lending	222.0	206.9	192.8	171.6	253.9	233.3	269.5	276.2	299.6	311.4	
Total current expenditure	154.1	143.8	122.9	115.7	160.7	153.6	164.8	171.5	179.6	184.9	
Current budgetary expenditure	147.1	138.5	119.3	109.3	155.2	145.2	159.0	163.1	170.9	176.0	
Wages and salaries	50.6	51.8	38.6	37.7	50.1	50.1	50.3	52.1	53.1	54.2	
Goods and services	59.6	41.0	35.0	31.7	46.9	41.8	48.2	47.2	52.3	54.4	
Of which: HIPC resources	...	...	0.0	0.0	0.0	0.0	0.0	0.0	3.6	4.3	
Subsidies and transfers	17.1	24.0	24.3	20.8	30.2	27.4	30.4	37.2	41.8	43.6	
Of which: HIPC resources	...	...	1.5	0.2	1.6	1.6	2.6	0.9	3.6	4.3	
Interest, scheduled	19.7	21.6	21.4	19.1	27.9	26.0	30.0	26.6	23.7	23.8	
External debt	18.5	19.6	19.4	18.0	25.9	24.0	28.0	23.9	21.0	21.1	
Domestic debt	1.3	2.0	2.0	1.1	2.0	2.0	2.0	2.7	2.7	2.7	
Annexed budget/special accounts	7.0	5.3	3.6	6.5	5.5	8.4	5.8	8.4	8.7	8.9	
Capital expenditure and net lending	67.9	63.1	70.0	55.9	93.2	79.7	104.7	104.7	120.0	126.5	
Capital expenditure	69.3	66.3	70.8	56.7	94.2	80.7	105.7	105.6	121.0	127.5	
Domestically financed	17.1	8.1	14.7	17.3	19.8	19.9	21.9	22.0	22.0	22.0	
Externally financed	52.2	58.2	56.1	39.4	74.4	60.7	83.8	83.6	99.1	105.5	
Of which: HIPC resources	...	...	5.0	4.9	7.2	7.2	7.4	9.3	29.0	34.4	
Net lending	-1.4	-3.1	-0.8	-0.8	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	
Overall balance (commitment basis excl. grants)	-112.4	-96.8	-99.1	-74.7	-126.2	-100.8	-125.3	-115.3	-129.3	-125.3	
Basic fiscal balance 1/	-60.2	-38.6	-43.0	-35.3	-51.8	-40.1	-41.5	-31.6	-30.2	-19.8	
Change in payments arrears	49.1	-112.0	-10.9	-12.7	-34.0	-34.0	-29.2	-28.0	-25.0	-25.0	
Domestic arrears (net)	23.6	3.6	-10.9	-13.7	-34.0	-34.0	-29.2	-28.0	-25.0	-25.0	
External arrears (net)	25.6	-115.6	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	
Overall balance (cash, excl. grants)	-63.2	-208.8	-110.0	-87.4	-160.2	-134.8	-154.5	-143.3	-154.3	-150.3	
Financing	63.2	208.8	44.6	87.4	66.6	134.8	67.6	69.3	77.6	78.4	
External financing	56.0	229.0	38.6	67.9	52.7	120.0	67.7	71.8	77.5	85.4	
Grants	47.8	52.0	34.1	37.2	47.4	53.2	53.5	38.7	41.4	44.0	
Budget financing	12.1	22.2	0.0	18.3	0.0	21.3	0.0	0.0	0.0	0.0	
Project financing	35.7	29.8	34.1	18.9	47.4	31.9	53.5	38.7	41.4	44.0	
Loans	24.6	54.6	18.4	24.1	19.7	57.2	22.9	35.6	28.7	27.1	
Budget financing	8.1	26.3	0.0	8.6	0.0	35.6	0.0	0.0	0.0	0.0	
Project financing	16.5	28.3	18.4	15.5	19.7	21.6	22.9	35.6	28.7	27.1	
Amortization 2/	-23.8	-35.4	-31.7	-28.5	-43.1	-40.8	-37.4	-34.8	-37.3	-37.1	
Debt relief obtained	7.5	157.7	17.9	21.3	28.6	33.7	28.7	32.3	44.7	51.5	
Current debt	7.5	4.6	11.4	16.2	19.8	25.0	18.7	22.1	8.4	8.4	
Arrears	0.0	133.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
HIPC Initiative assistance 3/	0.0	0.0	6.5	5.1	8.8	8.8	10.0	10.2	36.3	43.1	
Debt under discussion	...	...	0.0	13.7	...	16.6	0.0	0.0	0.0	0.0	
Domestic financing	7.2	-20.2	6.0	19.6	13.9	14.9	-0.1	-2.5	0.1	-7.0	
Banking sector	7.8	-28.6	6.0	18.6	13.9	13.9	-0.1	-2.5	0.1	-7.0	
Of which: IMF (net)	-3.7	6.7	7.9	7.9	14.9	6.9	13.0	12.9	10.1	-1.1	
Nonbanking sector	-0.6	0.0	0.0	1.0	0.0	1.0	0.0	0.0	0.0	0.0	
Privatization receipts (net)	0.0	8.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financing gap (+) 4/	0.0	0.0	65.4	0.0	93.6	0.0	86.9	73.9	76.6	71.9	
(In percent of GDP)											
Total revenue	8.8	8.6	...	...	9.0	9.5	9.5	10.7	10.7	11.0	
Total expenditure	17.9	16.2	...	...	17.9	16.7	17.7	18.4	18.8	18.4	
Of which: current expenditure	12.4	11.2	...	...	11.3	11.0	10.8	11.4	11.3	10.9	
capital expenditure	5.6	5.2	...	...	6.6	5.8	6.9	7.0	7.6	7.5	
Overall balance, commit. basis, excl. grants	-9.0	-7.6	...	...	-8.9	-7.2	-8.2	-7.7	-8.1	-7.4	
Overall balance, cash basis, excl. grants	-5.1	-16.3	...	...	-11.3	-9.6	-10.1	-9.6	-9.7	-8.9	
Basic fiscal balance 1/	-4.8	-3.0	...	...	-3.6	-2.9	-2.7	-2.1	-1.9	-1.2	
Current budget balance 5/	-3.6	-2.6	...	...	-2.3	-1.5	-1.4	-0.7	-0.6	0.1	
(In billions of CFA francs)											
Memorandum items:											
Current and capital social expenditure 6/											
Education	36.3	35.9	...	...	...	38.8	...	52.4	...	...	
Health	27.5	26.5	...	...	...	23.7	...	35.5	...	...	
Stock of external payments arrears	108.1	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	
Stock of domestic payments arrears	128.6	132.2	121.3	118.6	98.2	98.2	78.0	70.2	45.2	20.2	
GDP at market prices	1,243	1,280	...	...	1,421	1,399	1,524	1,500	1,592	1,692	

Sources: Nigerian authorities; and staff estimates and projections.

1/ Budgetary revenue, excluding grants, minus total expenditure, and excluding foreign-financed investment projects.

2/ In 2001, includes repayment of arrears to the African Development Bank and the OPEC Fund as agreed in the rescheduling agreements.

3/ For 2001-02, includes assistance from IMF, IDA, African Development Bank, and Paris Club creditors; for 2003-04 includes full benefits from the enhanced HIPC Initiative.

4/ For 2002, see footnote 16 of the staff report.

5/ Budgetary revenue minus current expenditure.

6/ For 1999, includes several months of wages due but not paid. For 2001, estimates at end-November 2001 for capital expenditure and at end-December 2001 for current expenditure.

For 2002, budgetary allocations.

Table 4. Niger: Monetary Survey, 1999-2002

	1999	2000		2001			2002		
	Dec.	Dec.		Sep.	Dec.		Dec.		
		Prog.	Real.	Rev. Prog. EBS/01/123	Prel.	Rev. Prog. EBS/01/123	Proj.	Prog. EBS/01/123	
(In billions of CFA francs)									
Net foreign assets	-14.9	-18.4	-1.3	-2.7	-8.1	0.7	6.2	9.8	14.5
BCEAO	-18.0	-18.4	2.5	-2.8	-6.7	0.7	6.2	8.7	14.6
Commercial banks	3.1	0.0	-3.7	0.0	-1.3	0.0	0.0	1.0	0.0
Net domestic assets	109.7	117.1	104.4	107.4	125.6	110.7	115.9	114.2	119.2
Domestic credit	119.2	124.8	111.6	114.1	132.6	117.4	122.9	120.8	126.3
Net bank claims on government	71.5	67.1	43.0	49.0	61.6	56.9	56.9	56.8	54.4
BCEAO	65.4	63.2	41.8	47.3	57.2	54.2	53.4	54.6	50.9
Of which: statutory advances	30.4	29.4	25.8	24.0	31.8	15.8	25.8	5.8	15.8
IMF resources	39.0	45.6	45.8	53.3	53.7	60.8	52.8	73.8	65.7
Commercial banks	3.3	2.8	-0.3	0.2	1.9	1.2	1.9	0.7	1.9
Other	2.9	1.2	1.6	1.5	2.5	1.5	1.6	1.5	1.6
Credit to the economy	47.7	57.7	68.6	65.0	71.0	60.6	66.0	64.0	71.9
Of which: revaluation account	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0
Money and quasi money	94.8	98.8	103.2	104.6	117.5	111.5	122.0	123.9	133.8
Currency outside banks	34.1	36.6	32.2	34.1	37.1	42.0	40.1	51.7	44.6
Private deposits with ONPE (postal savings)	2.9	1.2	1.6	1.5	2.5	1.5	1.6	1.5	1.6
Deposits with banks	57.7	60.9	69.5	69.0	77.9	68.0	80.3	70.7	87.6
Private sector	54.4	57.5	65.1	65.6	74.6	64.5	77.3	66.4	84.6
Public institutions	3.4	3.5	4.3	3.5	3.3	3.5	3.0	4.3	3.0
Financial institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Annual change, in percent of beginning-of-period broad money)									
Net foreign assets	-14.6	-3.7	14.4	-1.4	-6.6	2.0	7.2	8.1	6.8
BCEAO	-13.5	-0.4	21.5	-5.1	-8.9	-1.7	3.6	7.2	6.8
Commercial banks	-1.1	-3.2	-7.2	3.7	2.3	3.7	3.6	0.9	0.0
Net domestic assets	9.1	7.9	-5.5	2.9	20.5	6.1	11.1	3.1	2.8
Domestic credit	6.3	5.9	-8.1	2.4	20.3	5.7	11.0	3.1	2.8
Net bank claims on the government	7.8	-4.6	-30.1	5.9	18.0	13.5	13.5	-0.1	-2.0
BCEAO	7.4	-2.3	-24.9	5.4	14.9	12.0	11.3	0.4	-2.0
Of which: statutory advances	-1.3	-1.1	-4.9	-1.7	5.8	-9.7	0.0	-9.0	-8.2
Commercial banks	0.2	-0.5	-3.8	0.5	2.2	1.5	2.2	-0.4	0.0
Other	0.2	-1.8	-1.4	0.0	0.9	0.0	0.0	0.0	0.0
Credit to the economy	-1.5	10.5	22.1	-3.5	2.3	-7.8	-2.6	3.1	4.8
Other items, net	2.8	2.0	2.6	0.5	0.2	0.5	0.1	0.0	0.0
Money and quasi money	-5.5	4.2	8.9	1.4	13.9	8.1	18.3	11.1	9.6
Memorandum items:	(In units indicated)								
Velocity of circulation of money	13.1	13.4	12.6	13.3	11.7	12.7	11.5	12.3	11.2
Credit to the economy (change from beginning of year, in percent)	-3.0	20.9	43.8	-5.2	3.4	-11.8	-3.8	5.7	8.9

Sources: Nigerien authorities; and staff estimates and projections.

Table 5. Niger: Balance of Payments, 1999-2005  
(In billions of CFA francs, unless otherwise indicated)

	1999	2000	2001		2002		2003	2004	2005
	Est.	Est.	Rev. Progr.	Proj.	Progr.	Rev. Progr.	Proj.	Proj.	Proj.
<b>Current account</b>									
Current account balance, including grants	-84.6	-77.1	-147.9	-96.0	-148.4	-142.5	-155.3	-165.8	-168.6
Current account balance, excluding grants	-96.7	-99.3	-147.9	-117.3	-148.4	-142.5	-155.3	-165.8	-168.6
Balance on goods and services	-94.8	-96.4	-158.9	-114.9	-161.0	-132.1	-147.7	-158.9	-160.7
<b>Balance on goods</b>	-29.9	-29.2	-62.7	-44.3	-57.5	-54.6	-64.4	-70.9	-69.9
Exports, f.o.b	176.6	201.2	183.0	199.8	199.3	204.7	213.0	221.8	231.3
Uranium	65.1	64.0	62.2	63.0	60.7	63.0	63.0	63.0	63.0
Cattle	26.4	37.0	...	37.6	...	37.0	40.3	43.9	47.9
Cowpeas	11.9	13.4	...	11.0	...	12.8	13.6	14.4	15.3
Onions	15.3	11.8	...	10.7	...	12.7	13.7	14.9	16.1
Other exports	57.9	74.9	...	77.4	...	79.1	82.3	85.6	89.0
<i>Of which: re-exports</i>	11.6	26.1	...	...	...	...	...	...	...
Imports, f.o.b	206.5	230.4	245.7	244.1	256.8	259.2	277.3	292.8	301.2
Food products	62.0	63.4	...	70.5	...	66.6	69.3	72.1	74.2
Petroleum products	35.8	47.6	...	45.7	...	40.4	40.2	40.2	42.0
Intermediate goods	16.7	17.3	...	18.2	...	19.7	21.2	23.0	24.3
Capital goods	53.5	44.6	...	49.3	...	64.5	73.9	77.9	78.2
Other products	38.5	57.6	...	60.4	...	67.9	72.8	79.6	82.4
<b>Services and income (net)</b>	-76.7	-81.5	-96.2	-83.4	-103.5	-93.4	-97.4	-101.4	-105.5
Services (net)	-64.9	-67.2	-70.3	-70.5	-75.5	-77.5	-83.4	-87.9	-90.8
Income (net)	-11.8	-14.3	...	-12.8	...	-15.8	-14.0	-13.5	-14.7
<i>Of which: interest on external public debt</i>	-18.5	-19.6	-25.9	-24.0	-28.0	-23.9	-21.0	-21.1	-21.1
<b>Unrequited current transfers (net)</b>	22.1	33.7	11.0	31.7	12.6	5.4	6.4	6.6	6.8
Private (net)	2.1	2.7	...	-3.0	...	-3.5	-3.4	-3.2	-3.1
Public (net)	20.0	31.0	...	34.7	...	9.0	9.8	9.8	9.8
<i>Of which: program grants</i>	12.1	22.2	0.0	21.3	0.0	0.0	0.0	0.0	0.0
<b>Capital and financial account</b>	37.9	55.4	32.6	58.2	51.0	54.9	84.4	93.7	93.4
<b>Capital account</b>	38.2	39.4	47.4	33.9	53.5	40.1	42.9	45.6	48.3
Private capital transfers	2.6	1.1	...	2.0	...	1.4	1.5	1.6	1.5
Project grants	35.7	29.8	47.4	31.9	53.5	38.7	41.4	44.0	46.7
Debt cancellation	0.0	0.0	...	0.0	...	0.0	0.0	0.0	0.0
Acquisition/disposal of nonproduced, nonfinancial assets	0.0	8.5	...	0.0	...	0.0	0.0	0.0	0.0
<b>Financial account</b>	-0.3	16.0	-14.8	24.2	-2.5	14.8	41.5	48.1	45.1
Direct investment	0.3	0.9	3.5	4.6	3.0	6.0	6.4	7.1	7.5
Portfolio investment	-0.1	1.9	-3.7	0.5	-1.0	1.0	0.8	1.3	1.8
Other investment	-1.1	16.2	-23.4	14.1	-14.5	-2.4	-2.0	-3.5	-5.1
<i>Of which: public sector (net)</i>	0.8	19.2	-23.4	16.4	-14.5	0.8	-8.6	-10.1	-11.8
Disbursements	24.6	54.6	19.7	57.2	22.9	35.6	28.7	27.1	25.2
Program loans	8.1	26.3	0.0	35.6	0.0	0.0	0.0	0.0	0.0
Project loans	16.5	28.3	19.7	21.6	22.9	35.6	28.7	27.1	25.2
Amortization 1/	23.8	35.4	43.1	40.8	37.4	34.8	37.3	37.1	36.9
Commercial banks' net foreign assets	1.1	6.8	...	-3.7	...	0.0	0.0	0.0	0.0
Errors and omissions	-0.5	-9.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC assistance	0.0	0.0	8.8	8.8	10.0	10.2	36.3	43.1	40.9
<b>Overall balance</b>	-46.6	-21.7	-115.3	-37.8	-97.5	-87.6	-70.9	-72.1	-75.3
<b>Financing</b>	46.6	21.7	21.6	37.8	10.7	13.7	-5.7	0.2	18.2
Net foreign assets (BCEAO)	13.6	-20.4	1.8	-3.8	-8.0	-8.4	-14.1	-8.2	9.9
<i>Of which: IMF (net)</i>	-3.7	6.7	14.9	6.9	13.0	12.9	10.1	-1.1	-8.8
Rescheduling obtained 2/	7.5	157.7	19.8	41.6	18.7	22.1	8.4	8.4	8.4
Change in arrears	25.6	-115.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Residual financing gap</b>	0.0	0.0	93.6	0.0	86.9	73.9	76.6	71.9	57.0
<b>Memorandum items:</b>									
External current account balance									
Including grants (in percent of GDP)	-6.8	-6.0	-10.4	-6.9	-9.7	-9.5	-9.8	-9.8	-9.4
Excluding grants (in percent of GDP)	-7.8	-7.8	-10.4	-8.4	-9.7	-9.5	-9.8	-9.8	-9.4
GDP	1,242.6	1,280.4	1,421.0	1,399.1	1,524.0	1,500.1	1,591.7	1,691.6	1,797.8
Petroleum price (U.S. dollars per barrel)	18.0	28.2	...	25.0	...	21.0	20.0	19.0	19.0
Exchange rate (CFA francs per U.S. dollar)	615.7	712.0	...	729.0	...	...	...	...	...

Sources: Nigerien authorities; and staff estimates and projections.

1/ In 2001, includes repayment of arrears to the African Development Bank and the OPEC Fund as agreed in the rescheduling agreements.

2/ For 2001, figure includes CFAF 16.6 billion of debt under discussion.

Table 6. Niger: Social Indicators

	Latest Single Year			Same Region/Income Group	
	1970-75	1980-85	1993-99	Sub-Saharan Africa	Low-income countries
<b>Population</b>					
Total population, midyear (millions)	4.8	6.6	10.5	642.8	2,417.1
Growth rate (percent; annual average for period)	2.7	3.4	3.4	2.6	1.9
Urban population (percent of population)	10.6	14.3	20.1	33.8	31.4
Total fertility rate (births per woman)	7.3	7.4	7.3	5.3	3.7
<b>Poverty (in percent of population)</b>					
National head count index	...	...	63	...	...
Urban head count index	...	...	52	...	...
Rural head count index	...	...	66	...	...
<b>Income</b>					
GNI per capita (US\$)	250	230	190	490	420
Consumer price index (1995=100)	31	89	111	131	138
Food price index (1995=100)	...	...	...	...	...
<b>Income/consumption/distribution</b>					
Gini index	...	...	50.5	...	...
Lowest quintile (in percent of income or consumption)	...	...	2.6	...	...
Highest quintile (in percent of income or consumption)	...	...	53.3	...	...
<b>Social Indicators</b>					
<b>Public expenditure</b>					
Health (percent of GDP)	...	...	1.2	1.7	1.2
Education (percent of GNI)	2.4	3.2	2.3	4.1	3.3
Social security and welfare (percent of GDP)	...	0.3	...	...	...
<b>Net primary school enrollment rate</b> (percent of age group)					
Total	...	25	25	...	...
Male	...	32	30	...	...
Female	...	17	19	...	...
<b>Access to an improved water source</b> (in percent of population)					
Total	...	37	59	55	76
Urban	...	48	70	82	88
Rural	...	34	56	41	70
<b>Immunization rate</b> (percent under 12 months)					
Measles	...	19	25	57	64
DPT	...	6	21	59	70
Child malnutrition (percent under 5 years)	...	49	50	...	...
<b>Life expectancy at birth (in years)</b>					
Total	40	44	46	47	59
Male	38	42	44	46	58
Female	42	45	48	48	60
<b>Mortality</b>					
Infant (per 1,000 live births)	161	137	116	92	77
Under 5 (per 1,000 live births)	320	322	252	161	116
Adult (15-59)					
Male (per 1,000 population)	611	562	468	499	288
Female (per 1,000 population)	490	453	374	453	258
Maternal (per 100,000 live births)	...	...	590	...	...
Births attended by skilled health staff (in percent)	...	20	18	...	...



**Niger: Relations with the Fund**

(As of November 30, 2001)

**I. Membership Status:** Joined: 04/24/1963; Article VIII

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>%Quota</b>
Quota	65.80	100.0
Fund holdings of currency	57.24	87.0
Reserve position in Fund	8.56	13.0

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Net cumulative allocation	9.41	100.0
Holdings	0.95	10.1

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>%Quota</b>
ESAF arrangements	65.22	99.1

**V. Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	12/14/2000	12/21/2003	59.20	16.92
ESAF	06/12/1996	08/27/1999	57.96	48.30
Stand-by	03/04/1994	03/03/1995	18.60	11.11

**VI. Projected Obligations to Fund (SDR Million; based on existing use of resources and present holdings of SDRs):**

	Overdue	Forthcoming				
	<u>11/30/2001</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Principal	0.0	1.0	2.9	6.8	9.7	9.7
Charges/Interest	<u>0.0</u>	<u>0.2</u>	<u>0.5</u>	<u>0.5</u>	<u>0.4</u>	<u>0.4</u>
Total	0.0	1.2	3.4	7.3	10.1	10.1

**VII. Implementation of HIPC Initiative:**

	<u>Enhanced framework</u>
Commitment of HIPC assistance	
Decision point date <sup>1</sup>	12/14/00
Assistance committed (NPV terms) <sup>2</sup>	
Total assistance (US\$ million)	520.6
Of which: Fund assistance (SDR million)	21.6
Completion point date [indicate actual/expected]	Floating
 Delivery of Fund assistance (SDR million)	
Amount disbursed	
Interim assistance	0.4
Completion point	
Amount applied against member's obligations (cumulative)	...

**VIII. Safeguards Assessments:**

Under the Fund's safeguards assessment policy, the Central Bank of West African States (BCEAO), of which Niger is a member, is subject to a full stage one safeguards assessment. A stage one safeguards assessment of the BCEAO was completed on July 25, 2001. The assessment concluded that high risks may exist in BCEAO's financial reporting framework, but did not draw conclusions on the bank's internal audit mechanism nor on the internal controls structure. An on-site mission was conducted in October 2001, and a report on the findings and recommendations of the mission is being finalized.

**IX. Exchange Arrangements:**

Niger is a member of the West African Economic and Monetary Union (WAEMU). The exchange system, common to all members of the WAEMU, is free of restrictions in the making of payments and transfers for current international transactions. The Union's common

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<sup>1</sup> Decision was approved in principle by the Fund

<sup>2</sup> NPV terms at the decision point under the enhanced framework.

currency, the CFA franc, is pegged to the French franc. On January 12, 1994, the CFA franc was devalued by 50 percent in foreign currency terms, and the exchange rate was adjusted from CFAF 50 = FRF 1 to CFAF 100 = FRF 1. Effective December 31, 1998, the parity was switched to the euro at a rate of CFAF 655.96 = EUR 1. On November 30, 2001, the rate of the CFA franc in SDR terms was SDR 1 = CFAF 933.35.

**X. Article IV Consultation:**

Niger is on the standard 12-month consultation cycle and the last Article IV consultation discussions were held in Niamey during the period August-September 2000. The staff report (EBS/00/244, 11/29/00) was discussed by the Executive Board and the consultation concluded on December 14, 2000.

**XI. Technical Assistance:**

<b>Dept.</b>	<b>Type of Assistance</b>	<b>Time of Delivery</b>	<b>Responsibility</b>
FAD	Staff	October 1998	Mission to review progress on implementation of the tax reform program; evaluate the impact of the TEC and suggest measures to widen the tax base.
FAD	Staff	November-December 1998	Review public expenditure process
FAD	Staff	August-September 1999	Review of implementation of recommendations of 1998 FAD public expenditure review
FAD	Staff	September 1999	Follow-up of FAD mission of October 1998
FAD	Staff	June 2000	Data fiscal review and improvement of budgetary procedure
FAD	Staff	February 2001	Tax and customs administration
FAD	Staff	April 2001	Public accounting, public expenditure process, budget classification
FAD	Resident expert	April 2001 to date	Budget preparation, public

accounting, automation of budget execution.

FAD	Resident expert	June 2001 to date	Assistance to tax and customs administrations
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**XII. Resident Representative:**

The post of Resident Representative was created in 2000 and Mr. Simon N'guiamba took up the post in September 2000.

### Niger: Relations with the World Bank Group

#### 1. Statement of IDA Credits as of December 9, 2001

Credit Number	Calendar Year	Purpose	Amount (Net of cancellations)	
			Total commitments 1/	Of which: undischursed
(In millions of US\$)				
Forty-seven credits closed			654.80	
26180	1994	Education III, SECA	41.40	0.70
27070	1995	Pilot Private Irrigation	6.80	0.50
27960	1996	Natural resources management	26.70	4.00
29150	1997	Health II	40.00	13.70
29570	1997	Urban Infrastructure Rehabilitation	20.00	8.40
30260	1998	Transport Infrastructure Rehabilitation	28.00	9.60
31300	1999	Privatization/Regulatory Reform	18.60	11.80
33630	2000	Agro-Pastoral Export Promotion Project	10.35	9.00
35050	2001	Water Sector Project	48.00	46.40
35760	2001	Public Expenditure Adjustment Credit	70.00	40.00
Total			964.65	
<i>Of which:</i> has been repaid			56.09	
Total outstanding			908.56	

#### 2. Statement of IFC investment as of June 30, 2001

There is no existing portfolio for Niger.

Source: World Bank.

<sup>1</sup>Less cancellations of IDA credit amounts. SDR-denominated credits are expressed in terms of their U.S. dollar equivalents, as established at the time of credit negotiations and as subsequently presented to the Board.

## **Niger: Statistical Issues**

Niger's statistical database suffers serious weaknesses, notably with respect to the national accounts and the balance of payments. The authorities are continuing their efforts to improve the quality, timeliness, and availability of economic and financial data, but are still in need of substantial technical assistance. In this context, the authorities have chosen to follow guidance to compile and disseminate macroeconomic and socio-demographic data provided under the Fund's General Data Dissemination System (GDDS). The socio-demographic data categories covered include population, education, health, as well as poverty. Descriptions of current statistical practices of the agencies disseminating these data and plans to make improvements in these practices are being finalized for posting on the Fund's Dissemination Standards Bulletin Board.

### **Real sector**

Despite past technical assistance provided by donors including the Fund, Niger's national accounts statistics are of poor quality and there are substantial problems with the source of data used. Constant price estimates are also unreliable due to deficiencies in the price indices and deflators used. Annual GDP estimates by expenditure category at current and constant prices are available in *IFS* through 1998. Estimates for the value added in the informal nonagricultural sector, which accounts for more than half of the GDP, are based on a 1987 survey. As for agriculture, there are inconsistencies between national accounts and output data from the Ministry of Agriculture. The reference base of the constant price accounts is obsolete and no longer reflects the current structure of the economy. Additionally, the impact of the 1994 devaluation of the CFA franc impact on the GDP deflator seems underestimated, resulting in a much smaller nominal GDP than the staffs own estimates.

### **Government finance**

In April 1994, a government finance statistics (GFS) technical assistance mission assisted the Ministry of Finance and Planning in establishing a system for compiling the statement on the financial operations of the central government (TOFE). The mission report recommended improvement in the basic sources of data and the institutionalization of a TOFE compilation procedure through the creation of a working group headed by the General Directorate of the Economy. The report also provided classification keys for the reporting of GFS data to STA. The authorities took steps in mid-1995 to implement the mission's recommendations. However, reporting of GFS data for publication by STA has not yet been resumed.

### **Monetary accounts**

Preliminary monetary data for Niger are prepared by the national agency of the Central Bank of West African States (BCEAO) and released officially by the headquarters of the BCEAO with a lag of two to three months. A new accounting system for commercial banks was introduced by the BCEAO on January 1, 1996. Most of the problems that appear in the monetary statistics for Niger are not specific to that country but concern all seven countries of the Western African Economic and Monetary Union (WAEMU). One statistical problem arises from the difficulties the BCEAO has encountered in estimating currency in circulation in each WAEMU member

country because of the large backlog of unsorted banknotes held by the central bank in its various national agencies. The sorting of these banknotes by the country of issue gives rise to significant delays and uncertainties regarding the measurement of currency in circulation in WAEMU member countries and, as a result, on the contribution of each country to the gross foreign reserve position of the common central bank and money supply. In Niger, money in circulation appears severely underestimated, and the velocity of money much higher than in any other WAEMU country. No significant progress has been made in recent years in solving this problem. A monetary and financial statistics mission visited the headquarters of the BCEAO in May 2001. The mission provided technical assistance in addressing the main shortcomings pertaining to coverage, methodology, and timeliness of monetary statistics. The mission discussed and agreed with the authorities an action plan for the implementation of the *Monetary and Financial Statistics Manual* and for the introduction of an area-wide page in *IFS* for the WAEMU. New proposals were discussed with the authorities for re-energizing the work program on the sorting of banknotes and on the provision of future technical assistance in monetary statistics for the region.

### **Balance of payments**

The BCEAO is responsible for compiling the balance of payments statistics that have significantly improved over the past few years. The technical assistance of STA (a Statistical Advisor was posted at the BCEAO headquarters in Dakar from July 1996 through July 1999) contributed to the reporting of improved yearly balance of payments data in line with the framework of the *Balance of Payments Manual, (Fifth Edition (BPM5))* for the period 1996-99. In addition, the BCEAO disseminated the 1988-95 data in the *BPM5* format. Regarding trade data, the customs computer system (SYDONIA) was upgraded in 1999, and its installation in the main border customs houses is being completed; this should allow for a better monitoring of import data and should improve the coverage of informal trade. The further improvement of services and transfers (especially workers' remittances) coverage is clearly linked to the future intensification of the contacts with reporting bodies; this implies that the authorities' commitment to strengthen the human and technical resources should be enhanced.

Concerning the financial account, the foreign assets of the private nonbanking sector are still not well covered, especially assets of WAEMU residents, which are obtained through the Bank for International Settlement (BIS) data. The organization of annual exhaustive surveys for the reporting of foreign direct investment transactions in Niger is still at a very preliminary stage. The BCEAO authorities have indicated that they are looking forward to integrating two additional sources aimed at improving the quality of the balance of payments reports: the regional stock exchange transactions, and the firms' balance sheet database (*centrale des bilans*).

The follow-up mission at the BCEAO headquarters (April 17-28, 2000) highlighted improvements in published data: early in 2000, Niger approved a balance of payments final statement for 1998. However, the mission pointed out serious shortages in the human and technical resources that hampered the implementation of the resident advisor's recommendations.

## Niger: Core Statistical Indicators

(As of December 15, 2001)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP
Date of latest observation	Current	09/01	09/01	09/01	09/01	11/01	10/01	12/00	12/00	09/01	12/00
Date received	Current	11/01	11/01	11/01	11/01	12/01	11/01	11/01	11/01	11/01	11/01
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Variable	Monthly	Annually	Annually	Monthly	Annually
Frequency of reporting	Monthly	Variable	Variable	Variable	Variable	Variable	Monthly	Variable	Variable	Variable	Variable
Source of update	EIS/TRE <sup>1/</sup>	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	Statistics Directorate	BCEAO	BCEAO	Ministry of Finance	Ministry of Finance
Mode of reporting	On-Line	e-mail	e-mail	e-mail	e-mail	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>
Frequency of publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Monthly	Annually

<sup>1/</sup> EIS = Economic Information System (IMF); TRE = Treasurer's Department (IMF).

<sup>2/</sup> Preliminary data for staff use only; actual data unrestricted.



**Niger: Tentative Work Program Under the  
PRGF Arrangement, 2000-03**

Action	Date
2000 Article IV consultations discussions of three year PRGF arrangement (2000-03)	July 2000
Continuation of 2000 Article IV consultations discussions and finalization of three-year PRGF arrangement and preliminary HIPC Initiative decision document	September 2000
Executive Board consideration of 2000 Article IV consultation report, request for PRGF arrangement, preliminary and final HIPC Initiative decision point documents, and interim PRSP	November-December 2000
First review mission under the PRGF arrangement	May 2001
Finalization of the first review under the PRGF arrangement	June 2001
Executive Board consideration of first review under the PRGF arrangement	August 2001
Second review mission under the PRGF arrangement, discussion of second year of PRGF arrangement, and 2001 Article IV consultation discussions	November 2001
Executive Board consideration of second review under the first year of PRGF arrangement, second year of PRGF arrangement, full PRSP, joint staff assessment, and Article IV consultation for 2001	February 2002
Staff visit	March 2002
Third review mission under the PRGF arrangement	May 2002
Executive Board consideration of third review under PRGF arrangement.	August 2002
Fourth review mission under the PRGF arrangement, discussion of third year of PRGF arrangement, and 2002 Article IV consultation discussions	November 2002
Executive Board consideration of fourth review under the PRGF arrangement, third year of PRGF arrangement, and Article IV consultation for 2002	February 2003
Fifth review mission under PRGF arrangement and enhanced HIPC Initiative completion point discussions	May 2003
Executive Board consideration of fifth review under PRGF arrangement and enhanced HIPC Initiative completion point	August 2003
Sixth review mission under the PRGF arrangement and 2003 Article IV consultation discussions	November 2003
Executive Board consideration of sixth review under the PRGF arrangement, and Article IV consultation for 2003	February 2004

Niamey, January 16, 2002

Mr. Horst Köhler  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Mr. Köhler:

1. On behalf of the government of Niger, I am pleased to send you the memorandum of economic and financial policies for 2001-02. This memorandum was prepared in the context of the second review of the government of Niger's three-year program covering 2000-03, which is supported by the International Monetary Fund under the Poverty Reduction and Growth Facility (PRGF). It describes progress made in implementing the 2000-01 program through September 30, 2001, the targets of the 2001-02 program, and the policies to be carried out to achieve these targets.

2. As a result of the measures taken in the context of the first review of the program and the government's determination (see my letter of intent of July 19, 2001), program implementation through September 30, 2001 was satisfactory despite cash-flow difficulties affecting Niger in the third quarter, owing mainly to delays in the disbursement of external financial assistance. All the performance criteria and benchmarks for end-September 2001 were met, with the exception of the continuous quantitative criterion regarding the nonaccumulation of new external payments arrears. The completion of the negotiation of the bilateral agreements from the last Paris Club meeting in January 2001 led to delays in external payments on post-cutoff-date debt to two Paris Club creditors, while problems with the reconciliation of maturity schedules led to payments arrears to the International Fund for Agricultural Development (IFAD). All these external payments arrears were subsequently cleared, and the government has decided to strengthen its external debt service unit. Accordingly, in light of the corrective measures taken, the government requests a waiver for the nonobservance of the continuous performance criterion on the nonaccumulation of new external payments arrears.

3. The economic and financial outlook through the end of 2001 is good. The economic growth rate is estimated to have exceeded the target of 4.1 percent to reach 5.1 percent, and inflation slowed to under 4 percent on average for the year owing to the good agricultural harvest resulting from favorable rainfall conditions. The external current account deficit (excluding official transfers) did not deteriorate as much as anticipated and should stand at around 8.5 percent of GDP. In addition, the government took a series of fiscal measures to ensure that the program targets were met. Nonetheless, the above-mentioned delays in the disbursement of external assistance could affect the reduction of domestic payments arrears.

4. For 2002, the government's efforts are aimed at consolidating progress made during the first year of the program, particularly in improving public finances, boosting the economy, and ensuring implementation of the poverty reduction strategy defined in the full poverty reduction strategy paper (PRSP). The economic and financial program for 2002 supports the following macroeconomic targets: (i) achieving a real GDP growth rate of 4.1 percent in 2002; (ii) keeping the inflation rate below 3 percent in 2002; and (iii) holding the external current account deficit (excluding official transfers) steady at 9.5 percent in 2002. To boost the economy, the government will continue to implement structural reforms, including the restructuring of the financial system.

5. The 2002 budget law is in line with the program objectives and reflects the determination of the authorities to pursue their fiscal adjustment policy and implement their poverty reduction strategy. The basic fiscal deficit (on a payment order basis and excluding grants) is thus limited to CFAF 32 billion, or 2.1 percent of GDP. The reduction of domestic payments arrears continues to be one of the government's priorities for 2002 and the strategy defined in 2001 will continue to be applied.

6. The government, with the involvement of all segments of the population and the active participation of civil society, has just finalized the full PRSP, and its policy directions are reflected in the 2002 budget law, particularly in the special poverty reduction program launched in early 2001 at the initiative of the President of the Republic. The PRSP has been transmitted to you on January 15, 2002 for consideration by the Executive Board of the International Monetary Fund.

7. The government is counting on the continued support of the International Monetary Fund to meet its program objectives, and seeks completion of the second review under the PRGF arrangement and endorsement of its program for the second year. The government is also seeking the extension to 2002 of the International Monetary Fund's interim assistance under the enhanced Heavily Indebted Poor Countries Initiative (HIPC Initiative). The Fund, together with the government of Niger, is expected to complete two program reviews, one at midterm scheduled to be completed by August 15, 2002 and the other one scheduled to be completed by February 15, 2003 at the end of the second year of the program, so as to monitor progress made in the program's implementation. As was the case in the past, the government consents to the Fund's publication of this letter, the memorandum of economic and financial policies for 2002, the technical memorandum of understanding, and the staff report.

8. The government considers that the reforms and measures described in the attached memorandum are such as to permit achievement of the 2002 program objectives. It is prepared to take any additional measures required for this purpose. The government of Niger will, on its own initiative or at the Managing Director's request, consult with the International Monetary Fund on the adoption of any measure deemed necessary.

Sincerely yours,

/s/

Ali Badjo Gamatié  
Minister of Finance and Economy  
Ministry of Finance and Economy  
Niamey, Niger

Attachments: Memorandum of economic and financial policies for 2001-02 and  
technical memorandum of understanding

## NIGER

### Memorandum of Economic and Financial Policies for 2001-02

Niamey, January 16, 2002

#### I. INTRODUCTION

1. Discussions in the context of the second review of Niger's economic and financial program took place in Niamey during November 12-26, 2001. International Monetary Fund (IMF) support for this three-year program in the amount of SDR 59.2 million was approved on December 14, 2000 under the poverty reduction and growth facility (PRGF). The simultaneous approval of the decision point under the enhanced Heavily Indebted Poor Countries Initiative (HIPC Initiative) has enabled Niger to benefit from additional assistance totaling some 0.6 percent of GDP or US\$11.5 million in 2001; this assistance has been allocated in its entirety to implementation of a special poverty reduction program.

2. The first review of the three-year program was completed by the IMF Executive Board in August 2001, and Niger received the second disbursement equivalent of SDR 8.46 million under the PRGF arrangement, bringing to about SDR 17 million the total amount disbursed thus far. This first review led to revisions in the 2001 program to take account of the interim assistance expected in the form of HIPC resources, the proceeds from the sale of two mobile telephony licenses, and economic developments in the first quarter of 2001. The revised program for 2001 fits into the authorities' medium-term strategy, which is described in the interim Poverty Reduction Strategy Paper (I-PRSP) prepared in December 2000. It called for an economic growth rate of approximately 4.1 percent in 2001, an average annual inflation rate of 4.2 percent, and an external current account deficit (excluding official transfers) of 10.4 percent of GDP.

3. This memorandum of economic and financial policies (MEFP), prepared in the context of the second review of the three-year program, presents the satisfactory results obtained in implementing the program through September 30, 2001, and reviews developments during the last quarter of 2001 and the macroeconomic outlook for 2002, as well as related economic and financial policies. This memorandum is accompanied by the full poverty reduction strategy paper (PRSP), which was approved in a national validation workshop held in Niamey in late-November 2001, and which has just been finalized.

#### II. RECENT DEVELOPMENTS

##### A. Performance at End-September 2001

4. **The difficulties encountered in implementing and monitoring the program during the first half of 2001 were described in the MEFP prepared for the first review.** While the performance criterion for net bank credit to the government and the benchmarks for budgetary revenues and the wage bill were met at end-March 2001, the quantitative

benchmark for the basic deficit was not observed owing to the more rapid commitment of budgetary expenditures than anticipated, as a result of sizable external disbursements early in the year (see Table 1). Likewise, the failure to observe the end-March 2001 performance criteria on the reduction in domestic payments arrears, the nonaccumulation of external payments arrears, and the nonrecourse to external borrowing with a grant element of less than 50 percent resulted from some weaknesses in the initial implementation and monitoring of the program. These program implementation problems persisted in the second quarter of 2001, and similarly affected program performance through end-June 2001. Furthermore, compliance with the structural benchmarks on establishing an opening balance for the treasury accounts as at January 1, 2001 and the development of a new budget nomenclature, scheduled for end-March and end-June 2001, respectively, were delayed. The amount of work involved and the assignment of staff to the task of closing the budgetary accounts for 1998 and 1999 were responsible for those delays.

5. **In view of the difficulties in the first half of 2001, the government reaffirmed the objectives of its adjustment program and took the necessary measures to achieve them.** The strategy for the reduction of arrears was revised and clearly defined; the accumulation of external payments arrears to the two Paris Club creditors was eliminated; and the West African Development Bank's (BOAD) Executive Board granted in December 2001 additional concessionality to four old loans, thus bringing the totality of projects financed by the BOAD in 2001 to the required level of concessionality of at least 50 percent. The number of staff assigned to program monitoring was also increased. Moreover, the revision of the program for 2001 led to the implementation of a number of measures in the context of a supplementary budget law approved by the National Assembly in early July. The supplementary budget law thus included a special poverty reduction program that was launched by the President of the Republic as part of the interim poverty reduction strategy, and financed by HIPC Initiative assistance granted for 2001. In addition, the government took additional measures to offset the impact of a food crisis caused by a poor harvest, which led to a cereals deficit of 163,000 metric tons in 2000, as well as a deterioration of domestic security, particularly in border areas. Finally, on August 1, 2001, the government introduced a pricing system for petroleum products that is automatic, flexible and transparent, and which contributed to achieving the budgetary revenue targets for 2001.

6. **The strict implementation of corrective measures made it possible to achieve satisfactory results at September 30, 2001.** All the quantitative performance criteria and benchmarks for end-September 2001 were met, with the exception of the continuous performance criterion on the nonaccumulation of external payments arrears. The completion of negotiations on bilateral agreements following the last Paris Club meeting in January 2001 led to delays in the external payments on the post-cutoff-date debt to two Paris Club creditors, while problems with the reconciliation of maturity schedules led to arrears to the International Fund for Agricultural Development (IFAD). All these external payments arrears were subsequently cleared. The two structural benchmarks for end-September 2001 on the establishment of a provisional opening balance for the treasury accounts as at January 1, 2001 and the development of a new budget nomenclature were also met.

7. **The basic fiscal deficit as at end-September 2001 (i.e., the overall deficit on a commitment basis and excluding grants, minus externally financed capital expenditure) was limited to CFAF 35.3 billion, compared with a ceiling of CFAF 43 billion.** This outcome reflected both the higher-than-expected budgetary revenue (CFAF 97 billion as against a target of CFAF 93.7 billion) and better control of budgetary spending, which stood at CFAF 132.3 billion, compared with a ceiling of CFAF 136.8 billion. The target of CFAF 10.9 billion for the reduction of domestic payments arrears was exceeded by more than CFAF 2 billion. Nevertheless, owing to the shortfall in net external financing, use of bank financing exceeded the ceiling of CFAF 6 billion, to reach CFAF 18.6 billion. This overrun remains within the limits of the adjustment planned in the event of a shortfall in external assistance, and the performance criterion for end-September 2001 concerning net bank credit to the government was met.

8. **This satisfactory performance at end-September 2001 took place in a difficult context as less external assistance was disbursed than anticipated in the second and third quarters of 2001.** The European Commission suspended budgetary support to Niger in June 2001 owing to an audit of budget expenditure it had financed during 1996-2001. The government received the conclusions of the audit report in October 2001 and discussions between the two sides will be held, with a view to having the suspension of budgetary support from the commission lifted in 2002. In addition, World Bank budgetary support linked to the privatization of the national telecommunications company (SONITEL) could not be disbursed until December 5, 2001, following the late selection of SONITEL's strategic partner, in early November 2001.

9. **Monetary developments at end-September 2001 essentially reflect delays in disbursements of external budgetary assistance and the increased government reliance on bank financing.** Credit to the economy remained high owing to the continued heavy indebtedness of the petroleum sector. The decline in net foreign assets did not offset the increase in net domestic assets of CFAF 21.1 billion as at end-September 2001, including CFAF 18.6 billion in net claims on the government. In addition, the money supply rose by almost 14 percent between December 31, 2000 and September 30, 2001 to reach CFAF 117.5 billion at the end of the period.

## **B. Developments Through End-2001**

10. **For 2001, it is estimated that, with a good agricultural harvest following a season of satisfactory rainfall, the growth rate has exceeded its target of 4.1 percent to reach 5.1 percent.** The provisional cereals production balance in 2001 indicates that the rural sector grew by more than 8 percent, compared with an anticipated 4 percent, and that a cereals surplus of approximately 200,000 metric tons over anticipated 2002 requirements has been achieved. This surplus has already led to a significant drop in food prices and a decline in inflation to around 3 percent on an end-of-period basis as at end-December 2001 and to an average of less than 4 percent for the year as a whole.

11. **The external current account deficit (excluding budgetary grants) will not have deteriorated as much as expected and should stand at around 8.5 percent of GDP in**

2001. Import requirements have been contained for food imports, owing to the good harvest in late 2001, and for capital goods imports, owing to the slower execution of the externally financed public investment program. At the same time, the solid performance of livestock exports and reexport operations for the most part offset the decline in exports of agricultural products, with the result that total exports did not deteriorate as much as anticipated. Taking into account capital transactions, financial operations, and debt rescheduling received or under discussion, the net foreign assets of the BCEAO should have improved substantially in the last quarter of 2001, increasing by CFAF 3.8 billion, or close to US\$5 million for the year as a whole.

12. **On the fiscal side, the government took a set of measures to ensure that the program objectives would be met despite the above-mentioned delays in the disbursement of external assistance.** To avoid any budgetary slippage, the government postponed the date for releasing the budget appropriations for the fourth quarter and, following confirmation of the disbursement from the World Bank, decided not to release CFAF 8 billion of the remaining CFAF 16 billion. Given the good results on the budget revenue side, the basic fiscal deficit should have remained below the program ceiling of CFAF 51.8 billion and stand at around 3 percent of GDP, as in 2000. The government has also taken measures to reduce domestic payments arrears, equivalent to more than 2 percent of GDP, and to comply with the ceiling on bank financing of 1 percent of GDP at end-December 2001.

13. **In line with the year-end fiscal policy, net domestic assets of the monetary system should have declined in the last quarter of 2001** to CFAF 115.9 billion at end-December 2001. This projection results from the respect of the targets for net credit to the government and the anticipated decline in credit to the economy owing to disengagement from the petroleum sector and reduction in domestic payments arrears. The substantial anticipated rise in net foreign assets during the same period should have resulted in an increase in the money supply to CFAF 122 billion at year's end, or 18 percent for the year as a whole. This increase would correspond to an annual rate of growth for the money supply of 6.8 percent between end-1998 and end-2001, in line with nominal annual GDP growth during the period.

14. **In the area of structural reform, progress was achieved during the fourth quarter of 2001 with the privatization of the public telecommunications company, SONITEL.** This was accomplished through the acquisition by a private investor of a 51 percent equity interest in the company, and is accompanied by a social plan for the reduction of staff under appropriate conditions and an ambitious investment program that could exceed CFAF 160 billion over a ten-year period. This program is expected to bring down the cost of telecommunications and increase the number of telephone lines from 20,000 to more than 45,000 by 2004. Acquisition of the equity interest by the strategic partner became effective on December 20, 2001, following the signing of legal documents, including the transaction protocol and the direct transfer of the state's 51 percent of shares. The cost of the social plan, estimated at CFAF 3 billion, will be covered by the cash bonus paid by the investor and any surplus will be used by the treasury to cover the costs related to the reform program of other public enterprises in 2002.



15. **An important reform aimed at making the pricing of petroleum products automatic, flexible, and transparent, while increasing government revenues, was achieved with the adoption of a new pricing system in August 2001.** The authorities nonetheless deferred implementation of the system in October 2001 in the light of the exceptional nature of the rise in international oil prices. The system was reintroduced in November 2001 and led to decreases in the prices of petroleum products ranging from 5 percent for diesel fuel to 7 percent for premium gasoline. Following this decrease and a public information campaign, the government made a commitment to automatically apply this transparent and flexible pricing system for petroleum products in the future; a review of the system is planned for March 2002. By then, the government will develop a strategy with stakeholders to resolve the issue of subsidies received by the sector prior to the implementation of the new system, particularly at the time of the international price increases in 1999 and 2000. In that connection, the government had already paid CFAF 2 billion by end-November 2001 to the petroleum product import company (SONIDEP), which enabled it to reduce its debt to the banking system by the same amount.

16. **Structural reforms were supplemented at end-2001 by work on the closing of budgetary accounts for 2000.** The submission of these budgetary accounts to the audit office (*cour des comptes*) and the preparation of a budget review law for 2000 (*loi de règlement*), which will also validate the provisional opening balances of the treasury accounts at January 1, 2001 and discharge the accounts for the preceding fiscal years, will take place in January 2002. Moreover, a program for the implementation of the new budget nomenclature and the new chart of accounts has been established so that they can be introduced in the budget law for 2003. Finally, the merger of the Ministries of Planning and Finance into a single Ministry of Finance and Economy following the cabinet reshuffle on September 17, 2001 has allowed a reorganization that will be followed by the integration of the government's general and capital budgets into a single budget, improved government finance management, and better tracking of the government's financial program.

### III. POLICIES AND MEASURES FOR IMPLEMENTATION IN 2002

17. **The program prepared by the Nigerien authorities for 2002 includes the objectives of the three-year program for 2000-03 and of the regional convergence pact of the West African Economic and Monetary Union (WAEMU).** It also reflects the priorities of the poverty reduction strategy established in the full PRSP that was validated during a national workshop held in Niamey during November 26-27, 2001 and finalized in December 2001. In this context, the efforts of the government are aimed at consolidating the progress made during the first year of the program, particularly in improving the management of government finances. To boost the economy and support implementation of the poverty reduction strategy defined in the full PRSP, the government will continue improving the macroeconomic framework and implementing structural reforms, including the restructuring of the financial system.

### A. Macroeconomic Framework

18. **The following macroeconomic objectives were established for the second year of the three-year program: (i) achieve a real GDP growth rate of 4.1 percent in 2002; (ii) keep the inflation rate below 3 percent in 2002; and (iii) hold the external current account deficit (excluding official transfers) steady at 9.5 percent in 2002.** The achievement of these macroeconomic objectives will depend not only on consolidating sociopolitical stability, but also on implementing economic and financial policies aimed at promoting economic recovery and poverty reduction in a context of stable prices.

19. **The program has taken account of a deteriorating world economic context in 2002,** but Niger's vulnerability to external shocks is limited by the particular structure of its economy and the fact that it is not highly integrated into the global economy. Its uranium exports, which represent almost one-third of its total exports, are subject to long-term contracts at prices negotiated annually in CFA francs. These conditions will barely change in 2002. Moreover, Niger will benefit from the projected decrease in the prices for petroleum products and the good export potential for agricultural products in 2002, especially on the nearby regional markets, which will stimulate trade and transport. These positive factors will be reinforced by the economic recovery measures contained in the government program, including the start-up of large public investment projects in 2002 (in particular, the construction of road infrastructure and rural irrigation projects), the privatization of public enterprises, such as the water and telecommunications companies in 2001, and the reduction of government domestic payments arrears. Nevertheless, the uncertainties regarding economic growth in Nigeria, which has been affected by the decline in oil prices, and regarding the prices for agricultural exports (onions, cowpeas, and livestock), have led to prudent growth and balance of payments projections.

20. **The economic growth target of 4.1 percent in 2002, compared with 5.1 percent in 2001 and an annual population growth rate of more than 3 percent, is based on assumptions that weather conditions will be mild and that the government will implement economic recovery efforts.** The growth of the rural sector will begin to benefit from the projects to harness water resources and land suitable for irrigation and their results. The program for 2002 has thus been based on a 2 percent growth in agricultural production, a recovery of trade and transport owing to the marketing of the good harvest in 2001, continued implementation of the special poverty reduction program, and the start-up of large public investment projects, particularly in the roads sector. The decline in the consumer price index for food products following the 2001 harvest will bring the average annual inflation rate down to close to 2.5 percent at end-December 2002.

21. **The external current account deficit (excluding official transfers) will stand at CFAF 143 billion in 2002, or 9.5 percent of GDP.** The projected deterioration of around 1 percentage point of GDP compared with 2001 primarily reflects an increase in the trade deficit (0.6 percent of GDP) and a decline in current transfers (0.4 percent of GDP, excluding budgetary transfers). Owing to the stagnation of the nominal value of uranium exports and a very modest increase in exports of agricultural products in the subregion, the level of exports will decline by 0.6 percentage point of GDP to 13.7 percent of GDP in 2002. This decrease

will be partially offset by a decline in imports from 17.5 percent of GDP to 17.3 percent of GDP, owing to the smaller oil bill and a reduced need for food imports, despite an increase in imports of capital goods and intermediate goods. With a projected surplus in the capital and financial account of almost CFAF 55 billion, including CFAF 10 billion in assistance under the HIPC Initiative, the overall balance of payments deficit is projected at CFAF 88 billion (6 percent of GDP).

22. **Given the traditional rescheduling of the external debt and a projected accumulation of net foreign assets by the Central Bank of West African States (BCEAO), the financing gap for 2002 is projected at CFAF 74 billion (excluding IMF financing).** This gap should be covered without difficulty given the commitments already made by Niger's development partners, such as the World Bank, the European Union, the African Development Bank, and important bilateral donors. The meeting of a Consultative Group or a forum of donors in mid-2002 under the auspices of the World Bank should confirm the financing of the 2002 gap and review the country's future needs, especially in the context of the poverty reduction strategy. If the gap grows or its financing is reduced as a result of international developments, the authorities will take the necessary measures to bring the gap into line with identified financing. These measures will consist essentially in reducing the accumulation of net foreign assets by the central bank and tightening fiscal policy.

#### **B. Fiscal Policy for 2002**

23. **The fiscal policy for 2002 aims to achieve further fiscal consolidation, particularly by reducing the stock of domestic arrears, and to ensure the implementation of the poverty reduction strategy outlined in the full PRSP. Improving budget balances while increasing the level and quality of government expenditure will (i) strengthen the progress made toward complying with the criteria of the regional convergence pact and the conditions to reach the completion point under the HIPC Initiative; and (ii) contribute to increased debt sustainability.** Attainment of these goals will be accompanied by major structural reform measures that will contribute to ensuring better governance and management of government affairs. The reforms undertaken in 2001 and those planned for 2002 focus not only on strengthening the revenue collection agencies (taxes, customs, and treasury), but also on improving fiscal management, including budget preparation, programming, and execution.

24. **The 2002 budget law, adopted by the National Assembly on November 20, 2001, and additional measures taken in the context of the supplementary budget law presented to the National Assembly for approval in January 2002, reflect the government's determination to continue its fiscal adjustment policy and to implement its poverty reduction strategy.** The basic budget deficit (on a commitment basis and excluding grants), has thus been held to less than CFAF 32 billion, or 2.1 percent of GDP. This improvement, amounting to almost 1 percent of GDP relative to 2001, is attributable to the government's efforts to increase the tax ratio and maintain strict expenditure control. This gradual recovery of public finances is also reflected in the fact that the current budget deficit is projected to decline from 2.1 percent of GDP in 2001 to 1.3 percent of GDP in 2002.

Taking account of the upturn in capital expenditure (owing, in part, to the revitalization of economic and financial cooperation with major development partners and to the resources mobilized under the HIPC Initiative), the overall budget deficit would amount to 7.7 percent of GDP, a level slightly higher to that of 2001.

**25. The reduction in domestic payments arrears continues to be one of the top government priorities for 2002, and the strategy identified in 2001 will continue to be implemented.** For 2002, the government is planning to settle CFAF 28 billion (1.9 percent of GDP), an amount that will reduce the stock of domestic arrears to nearly 5 percent of GDP at end-2002, or almost half its level at end-2000. On the basis of the stock identified at end-2000, this strategy adopted by the government will consist in clearing wage arrears, settling amounts due to public and private enterprises and diplomatic offices, and regularizing payments due under the investment budget. In this context, the methods envisaged include, inter alia, a settlement based on the settlement of eligible cross debts. The fiscal program also makes provision for improving the government's cash flow as well as for partial repayment of the statutory advances from the BCEAO. Elimination of these statutory advances by resorting to national borrowing on the WAEMU regional market is currently under consideration, and a decision will be adopted in this regard at the time of the third program review. In view of debt repayments, external financing for projects, and external debt relief obtained, the financing gap amounts to CFAF 74 billion and should be covered without difficulty, as indicated previously.

**26. Fiscal revenue for 2002 is projected at CFAF 160.9 billion, or 10.7 percent of GDP.** This increase, amounting to over 1 percent of GDP relative to 2001, is attributable to CFAF 8 billion, or 0.5 percent of GDP, in nonrecurrent revenue resulting from the elimination of cross debts between the government and economic actors reflecting efforts to reduce domestic payments arrears. Excluding this nonrecurrent revenue, tax receipts will increase by 16 percent to CFAF 143.9 billion, or 9.6 percent of GDP. About one-third of this increase reflects the full-year impact of the oil tax reform introduced in August 2001, while the remainder stems from the strengthening of the tax and customs directorates as well as to a number of measures introduced in the 2002 budget law to improve tax collection and to broaden the tax base. These measures include (i) the strengthening of provisions with respect to pre-payments on account of the industrial and commercial profits tax; (ii) a review of the small business license taxes (*patentes synthétiques*) to take account of taxpayers' ability to pay and to better distribute the tax burden; (iii) a broadening of the tax base with respect to revenue stamps and a revision of the percentage rates, which have remained unchanged for over a decade; (iv) the reincorporation of press agencies into the ordinary tax law system; and (v) the enhancement of the collection of miscellaneous revenue items, particularly nonfiscal receipts collected by legal clerks and bailiffs, forestry offices, law enforcement agencies, state police, and the mining and geological service.

**27. The pursuit of a cautious policy on budget expenditure has made it possible to limit the level of current expenditure allocations to CFAF 163 billion, or 10.8 percent of GDP.** This level slightly exceeds the amount set at the time of the first program review, as it reflects the government's new responsibility to pay for the national education volunteers (previously funded by a World Bank project), the strengthening of the university system to

accommodate the overenrollment of students caused by university system malfunctions during the 1990s, and a wage bill adjustment, in the context of the above-mentioned supplementary budget, resulting from the government's decision to take into account the financial impact of automatic promotions—frozen since 1998— on the wage bill. The budget also reflects the government's efforts to implement the poverty reduction strategy, strengthen the revenue collection agencies, and ensure a smooth running of the administration and better quality of public services. These increases have been partially offset by the elimination of the domestic fuel oil subsidy and the planned reduction in food aid following the good harvests in 2001. The increase in the wage bill has also been controlled by the implementation of civil service reform measures already in effect. Recruitment will thus be limited to replacing personnel leaving government, and the regulations governing separations will continue to be enforced. Other measures are planned to enhance the caliber of the civil service by increasing the efficiency of existing human resources, particularly through redeployment.

**28. The estimated capital budget outturn for 2002 amounts to approximately CFAF 106 billion, or 7 percent of GDP.** This substantial increase relative to 2001 takes account of the growth and poverty reduction targets and is expected to contribute to the revitalization of the national economy. The implementation of the special poverty reduction program will continue in 2002 and will amount to CFAF 10.2 billion, as a result of the resources to be obtained from interim assistance under the HIPC Initiative. Apart from this special poverty reduction program, 28 percent of the public investment program for 2002 will be devoted to the productive sectors of the economy—almost exclusively to rural development; 32 percent to the social sectors, including one-third for health, one-third for education, and one-fourth for hydraulics; and 22 percent for road infrastructure.

**29. With respect to budget reform, measures to strengthen the treasury and the tax and customs directorates will be actively pursued in 2002, as will be the efforts to upgrade the entities responsible for monitoring the external debt and domestic payments arrears.** Furthermore, a program for implementing the new chart of accounts and budget nomenclature has been prepared with a view to introducing the system at the time of the 2003 budget preparation process. The closure of the fiscal year (FY) 2001 accounts and the presentation of a budget review law for FY 2001 are expected to take place during the budget session convened to discuss the adoption of the initial budget law for 2003. A program to set up a new budget nomenclature and a new chart of accounts has been established for their implementation at the time of the preparation of the 2003 budget law. In addition, in cooperation with the World Bank, the government expects to continue the technical work on establishing the medium-term expenditure framework (MTEF) in 2002, and to lead to an improvement in the definition of sectoral budget envelopes for the medium-term. A public expenditure review will also be conducted to enable the government to improve quality in the area of expenditure. This ongoing work will facilitate the integration of the overall and investment budget in a unified budget, a key tool in the government's efforts to promote development and reduce poverty.

### C. Poverty Reduction Strategy

30. **The 2001 supplementary budget initiated the implementation of the poverty reduction strategy on the basis of the interim paper prepared by the government in December 2000.** In terms of specific measures adopted since February 2001, this interim strategy has led to the implementation of the presidential special program, fully funded with interim assistance under the HIPC Initiative (for almost 0.6 percent of GDP). This program, which relies on the participatory approach at the local level to build 1,000 classrooms, 1,000 primary health care centers, and 1,000 rural water wells resulted in the construction of 244 schools, 241 health centers, 119 rural wells, and 34 mini-dams in 2001. A comprehensive report on the implementation of this program and on the use of the resources freed by the HIPC Initiative will be prepared before end-March 2002.

31. **The 2002 budget reflects the priorities of the full PRSP and will include additional poverty-reducing measures** compatible with the strategy and consistent with the available resources. These measures mainly focus on meeting the conditions for reaching the completion point under the enhanced HIPC Initiative by end-2002. These measures involve the following:

- Recruiting the personnel required to fully staff the primary health care centers with a view to complying with accepted standards in this field, and thereby building upon the results already achieved.
- Financing the measures involved in the program for strengthening basic education, specifically, payment for the education volunteers. Along with the special program, this program constitutes one of the main tools of education policy. Together, they have already raised the enrollment ratio by 3 points in one year.
- Allocating the budgetary funds required to finance a national household consumption and budget survey, with the aim of generating more current data on poverty in Niger and thereby facilitating efforts to enhance the relevance of the poverty reduction strategy.
- Accepting financial responsibility for preparing a strategy and a program for combating the HIV-AIDS pandemic.

32. **The government does also make progress toward compliance with a number of ratios relating to priority sectors under the poverty reduction strategy.** The resources allotted to education thus account for 4.1 percent of GDP, 38 percent of tax revenues, and 17 percent of total expenditure. The funding allocated for health represents 12 percent of total expenditure, compared to a target of 17 percent in the poverty reduction strategy. At 12 percent of total expenditure, allocations for agricultural development are in line with the objectives of the poverty reduction strategy. Appropriations for infrastructure correspond to 12 percent of total revenues, reflecting the commencement of major road and highway projects. The government intends to take advantage of the forthcoming public expenditure

review and increased donor project coordination to enhance the quality of expenditure and undertake a far-reaching restructuring of government expenditure.

#### **D. Monetary Policy and Financial System**

33. **Within the WAEMU, the BCEAO will continue to pursue a cautious monetary policy in keeping with the goals of economic growth, price stability, and the generating of balance of payments surpluses, as approved by the WAEMU Council of Ministers.** The money and credit policy directives approved in September 2001 likewise reflect the outlook for achieving the basic objectives pursued through the Convergence, Stability, Growth, and Solidarity Pact adopted in 1999, as part of efforts to speed up the regional integration process. The monetary authorities have thus decided to maintain a restrictive monetary policy in support of the parity of the CFAF vis-à-vis the euro and to achieve an inflation target of 2 percent, in line with the euro zone target. For this purpose, the BCEAO will use the indirect monetary policy instruments available to it, as necessary—in particular, its key rates and reserve requirements. The completion of the introduction of the euro on January 1, 2002 does not affect the terms of the December 4, 1973 monetary cooperation agreement between France and the WAEMU, which guarantees convertibility of the CFA franc. The arrival of the euro will lead to slight changes in the exchange policy regulations stemming from an increase in the ceiling on some current transfers and the streamlining of some bureaucratic procedures.

34. **In this context, monetary growth should be limited to 9.6 percent in 2002, compare with 18.3 percent in 2001.** Consistent with the fiscal policy for 2002, net bank credit to the government will decline slightly, by CFAF 2.5 billion over the year. In particular, the statutory advances of the BCEAO will be reduced by CFAF 10 billion. In order to meet the treasury's domestic financing needs and to move toward the BCEAO's objective to eliminate the statutory advances, the government is considering issuing bonds on the WAEMU regional financial market. Credit to the economy should increase by 9 percent (CFAF 6 billion), consistent with a moderate expansion in economic activity in 2002. The banking commission's decisions will be rigorously implemented to avoid further weakening the banking system.

#### **E. Financial Sector Reforms**

35. **Strengthening the financial sector is a key element in the poverty reduction and development strategy pursued by the Nigerien authorities.** Major structural reforms have to be implemented to enable the financial sector to play its role fully and efficiently within the Nigerien economy. A specific program has been prepared on this subject, in coordination with the World Bank. In 2002, several measures will be pursued with the aim of (i) improving the environment for the financial sector in general; (ii) accelerating the pace of restructuring in the banking system and the insurance industry; and (iii) reorganizing and promoting decentralized financial intermediation. Furthermore, an actuarial audit of the National Social Security Fund will be conducted in 2002, with a view to restructuring that institution and identifying a strategy for reforming the social security sector.

36. A deepening of the financial sector is also planned, based on studies of current supply and demand conditions, of long-term financing, and of the specifics of small and medium-sized enterprises financing, and on a campaign to inform about, and raise awareness of, the opportunities offered by the WAEMU regional financial market.

37. **With respect to the financial sector environment, the national regulatory framework will be harmonized with the Harmonization of Business Law in Africa (OHADA) Acts** and a study will be carried out with a view to reforming the legislation governing the recovery of claims, the realization of collateral, and procedures with respect to contracts. Regulations will be adopted to disqualify from participation in calls for bids on government contracts any transaction listed in the central registry of past-due claims as approved by the Professional Association of Banks. A study will be conducted in early 2002 with a view to issuing securities to settle the government's arrears vis-à-vis banks and insurance companies.

38. **With respect to the strengthening of the banking sector and especially the restructuring of the three institutions currently on temporary administration, the government will continue restructuring the Banque de Crédit du Niger (BCN), and will reach a decision on the future of the Crédit du Niger (CDN) and the Caisse des Prêts aux Collectivités Territoriales (CPCT) before April 30, 2002.** In that extent, the government will undertake studies on the housing strategy and on its financing, on the financing strategy of local communities and on the financing of small and medium-sized enterprises. Based on these studies, the government will reach a decision on the future of CDN and CPCT and on the opportunity and viability of a project to merge the two institutions in a bank focusing on promoting housing and local development (Banque de l'Habitat et du Développement Local, BHDL). If the outcome is positive, and after consultation with the World Bank, the creation of the BHDL, together with a realistic financial and business plan, will be submitted to the approval of the Banking Commission. A strengthening of the capacity of the money, credit and savings directorate is also planned in the context of the reform of the banking system.

39. **The rehabilitation of the insurance industry will begin in 2002 with the restructuring of one of the three insurance companies, SNAR-Leyma, and capacity building at the Directorate of Insurance Supervision.** The government will design a specific program for reforming the insurance companies, most of which are confronted with structural problems associated with excessive operating costs, inadequate supervision, product pricing, and human resource constraints.

40. **Finally, decentralized financial intermediation will be strengthened** by the restructuring of the National Postal and Savings Office (ONPE); the implementation of the microfinance development strategy, ratified in June 2001 with the support of the rural financial services development program financed by IFAD; and the execution of organizational and financial audits of the major microfinance institutions in the context of efforts to improve internal management practices. The restructuring of the ONPE makes provision for implementing a social plan in connection with staffing reductions, upgrading and modernizing the ONPE's postal operations, conducting an organizational and financial



audit of postal checking accounts (CCP) and the National Savings Fund (CNE), and resolving the issues associated with the postal debt and subsidy. It will also lead to the restoration and merger of the CNE and CCP through the creation of an independent branch of the postal system. This branch will benefit from a new internal organization, its own accounting and information technology systems, and specific management and auditing procedures.

#### **F. Structural Reforms**

41. In addition to the above-mentioned strategy for rehabilitating and deepening the financial sector, **the structural reform program will focus on pursuing privatization and promoting the development of the private sector, strengthening fiscal management and governance, and reforming the civil service.**

42. **Following the privatization of the national water company (SNE) and the national telecommunications company (SONITEL), the program for reforming the public enterprise sector will focus on privatizing the Groundwater Utilization Office (OFEDS), the proprietary corporation operating the Gaweze Hotel (SPEHG), the electricity company (NIGELEC), and SONIDEP.** At the same time, it will aim to withdraw the government from the Niamey slaughterhouse, the Riz du Niger (RINI), and to restructure eight other public enterprises. The program includes the adoption of social plans for the employees of enterprises to be privatized and the settlement of cross debts between the government and these enterprises.

43. **The government will combine the execution of the privatization program in 2002 with the establishment of the Multisectoral Regulation Authority (ARM),** which will be entrusted with enforcing the regulatory framework in the sectors of water, telecommunications, and petroleum products. A provisional structure for the water and electricity sectors is already in place.

44. **In the area of civil service reform, the government will pursue efforts to review civil service regulations,** and will study the implementation of a system for the effective delegation or decentralization of human resources to the local level, particularly through local recruitment of contractual staff. Steps will be taken to strengthen personnel management capacity within the ministries in order to ensure more effective resource allocation. In the context of implementing the poverty reduction strategy, the government will by end-2002 establish a civil service development strategy to take account of the needs identified, while meeting regional convergence criteria with respect to the wage bill.

45. **The strengthening of the statistical database is also a priority for the government, particularly in the context of the implementation of the poverty reduction strategy.** To that effect, the finalization of the population census carried out in 2001 will be supplemented by a number of other measures in 2002, including a household consumption survey and the establishment of a panel for a horizontal study of poverty. Likewise, the reforms linked to the implementation of the new budget nomenclature and the new chart of accounts should lead to a substantial improvement in the quality, coherence, and availability

of budgetary data. The introduction of new software in the tax, customs, and external debt units will also improve the management of those directorates. Finally, the government plans to improve its knowledge of economic developments by updating the national accounts and overhauling the statistical systems on which they are based. In that regard, the government is seeking technical assistance, and is also considering the possibility of creating an independent national institute of statistics.

#### IV. EXTERNAL POLICIES AND FINANCING

46. **The authorities will follow a highly cautious external borrowing policy and seek to avoid external payments arrears.** In that context, the external debt unit will be strengthened in 2002 through an improvement in debt-management capacity and the use of appropriate information technology. With regard to the four BOAD loans that were insufficiently concessional, the BOAD's Board has considered favorably in December 2001 a new request by the authorities and brought those loans to the required level of concessionality. Pending the finalization of discussions with the BOAD, the authorities had continued to refrain from using those loans until external resources to achieve the required level of concessionality were obtained.

47. With regard to the external debt, following the Paris Club Agreed Minute on January 25, 2001 providing for the benefit of Cologne terms, bilateral rescheduling agreements have been signed with all Paris Club creditors (with the exception of France, owing to temporary technical reasons linked to the passage of the 2001 revised budget law in France). Concerning non-Paris Club bilateral creditors, the government has been actively pursuing its contacts and negotiations in order to obtain debt relief under the HIPC Initiative or on terms at least comparable to the last Paris Club. These efforts have led to the cancellation of the pre-cutoff-date debt and part of the post-cutoff-date debt to China, and consultations with Algeria are at an advanced stage. The conclusion of definitive agreements regarding the settlement of external payments arrears accumulated with some multilateral creditors prior to the approval of the PRGF arrangement is also making satisfactory progress. Only the Economic Community of West African States (ECOWAS) has not engaged in negotiations with the authorities. The government has also initiated discussions in order to obtain debt relief under the HIPC Initiative from multilateral creditors who have not yet contributed to the Initiative in the case of Niger.

48. Niger has received firm assurances regarding the provision of interim assistance under the HIPC Initiative from Paris Club creditors, on the bilateral side, and from the International Monetary Fund, the World Bank, and the African Development Bank (AfDB), on the multilateral side. In light of the financing needs associated with the implementation of the poverty reduction strategy, the government will seek to obtain the support of as many donors as possible, and the continuation of their financial support on terms compatible with the requirements of Niger's economic and social development program.

## V. PROGRAM MONITORING

49. The program at end-December 2001 will be monitored in light of the structural and quantitative performance criteria and benchmarks indicated in the July 19, 2001 memorandum on economic and financial policies and the related technical memorandum.

50. The monitoring of the 2002 program will be based on quarterly quantitative performance criteria and benchmarks, as well as structural benchmarks and a structural performance criterion established for the period January 1–December 31, 2002, in addition to two reviews. The quantitative performance criteria and benchmarks are specified in Table 3 and outlined in the attached technical memorandum of understanding. The structural performance criteria and benchmarks are specified in Table 4. The quantitative performance criteria comprise (i) a ceiling on net bank credit to the government (which can be adjusted); (ii) a ceiling on the basic budget deficit (on a commitment basis and excluding grants); (iii) a reduction in the level of existing domestic payments arrears and nonaccumulation of new domestic payments arrears; (iv) nonaccumulation of new external payments arrears; (v) a cap on nonconcessional external debt contracted or guaranteed by the government having a maturity of one year or more; and (vi) nonreliance on short-term external credit with the exception of normal import credits and loans associated with debt relief operations. The above-mentioned variables relating to end-June 2002 and end-December 2002 will constitute benchmarks for the monitoring of the program; those for end-March 2002 and end-September 2002 will be performance criteria. Furthermore, quarterly quantitative benchmarks are being set for tax revenue and the wage bill. The quarterly limits on net bank credit to the government will be adjusted on the basis of the recorded gap between the projected net amounts of special external assistance and the amounts actually received within the limits indicated in attached Table 3.

51. The program for 2002 will also include a structural performance criterion on the continuous implementation of the pricing system for petroleum products, adopted on August 1, 2001, and a number of structural benchmarks as indicated in Table 4. These comprise (i) the preparation of a budget review law for 2001 and the transmittal of the FY 2001 accounts to the audit office; (ii) the introduction of the new budget nomenclature and the new chart of accounts, and their use in preparing the 2003 budget law; (iii) the preparation of a report on the implementation of the special poverty reduction program and the use of resources freed by the HIPC Initiative in 2001; and (iv) the strengthening of the unit responsible for the external debt through the introduction of new debt-management software and the training of human resources in that regard.

52. The authorities will continue to subscribe to the statistical information requirements indicated in the technical memorandum of understanding.

Table 1. Niger: Quantitative Performance Criteria and Benchmarks for the Period December 31, 2000-December 31, 2001.  
(In billions of CFA francs)

	Balance at December 31, 2000	End -March 2001 Performance Criteria 1/			End -June 2001 Benchmarks			End-September 2001 Performance Criteria 1/			End-Dec. 2001
		Program	Adjusted	Real.	Program	Adjusted	Prel.	Revised	Adjusted	Est.	Program
<b>A. Quantitative performance criteria and benchmarks</b>											
(In stock)											
Net bank credit to the government 2/ 3/	43.0	69.8	50.6	38.5	71.3	76.3	51.6	49.0	63.4	61.6	56.9
(Change from January 1, 2001 to the point in time considered)											
Reduction in government domestic payments arrears 4/		3.7	3.7	1.0	10.0	10.0	6.9	10.9	10.9	13.4	34.0
Changes in government external payments arrears 5/		0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.9	0.0
New nonconcessional external debt contracted or guaranteed by the government with maturities of:											
0-1 year 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Over 1 year 7/	0.0	0.0	0.0	15.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>B. Quantitative benchmarks</b>											
Budgetary revenue 4/ 8/	110.1	26.3	26.3	31.4	55.6	55.6	63.4	93.7	93.7	97.0	127.7
Wage bill 3/	51.8	13.0	13.0	12.9	25.7	25.7	25.1	38.6	38.6	37.7	50.1
Basic budget deficit (commitments basis, excl.grants) 3/ 9/	38.6	5.1	5.1	17.8	19.8	19.8	26.5	43.0	43.0	35.3	51.8
Memorandum item:											
Exceptional external assistance (cumulative) 10/	42.3	-1.0	18.2	18.2	17.3	12.3	12.3	25.6	11.2	11.2	43.6

1/ Performance criteria for program indicators under A; benchmarks otherwise.

2/ This ceiling on net bank credit to government will be adjusted if the amount of disbursements of external budgetary assistance, defined in footnote 10, exceeds or falls short of program forecasts. If disbursements are less than the programmed amounts, the ceilings will be raised pro tanto in line with the observed shortfalls up to a maximum of CFAF 7.5 billion at end-December 2000 and end March 2001, and CFAF 15.0 billion at end-June, end-September and end-December 2001. If disbursements of assistance exceed programmed amounts, the ceilings will be lowered pro tanto unless the excess assistance is used for a reduction of domestic payments arrears in excess of the programmed reduction.

3/ Maximum.

4/ Minimum.

5/ Figures for December 2000 correspond to the settlement of all external payments arrears at the time of Executive Board consideration of Niger's request for a PRGF arrangement. New payments arrears are monitored on a continuous basis.

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

7/ Excluding debt relief obtained in the form of rescheduling or refinancing.

8/ Excluding revenue from privatization, which is included in financing.

9/ Total revenue, excluding grants, minus total expenses excluding foreign-financed investment expenditures.

10/ External aid, including traditional debt relief, but excluding IMF financing, HIPC Initiative interim assistance, and net of external debt service and payments of external arrears.

N.B.: 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 to commitments contracted or guaranteed for which value has not been received.

Table 2. Niger: Prior Action, Structural Performance Criterion, and Structural Benchmarks for the the First Year of the Poverty Reduction and Growth Facility-Supported Program  
March 31, 2001—December 31, 2001

	Revised program	Status December 17, 2001
<b>Prior action for completion of first review</b>		
Clearing of external payments arrears accumulated at end-June 2001 vis-à-vis Paris Club creditors	Cleared on July 12, 2001	
<b>Structural performance criterion</b>		
Implementation of an automatic, transparent, and flexible pricing system for petroleum products	August 1, 2001	Done Freeze of the pricing system for one month (October 2001)
<b>Structural benchmarks</b>		
Establishment of the opening balances for the 2001 accounts on the treasury books	End-September 2001	Done
Preparation of a new budget and public accounting nomenclature that would improve the recording of government operations and ensure consistency between the budget law and public accounting	End-September 2001	Done
Computerization of the budgetary expenditure processes of the government at the central level	End-December 2001	Pending
Preparation of a final budget law ( <i>Loi de règlement</i> ) for 2000 to be submitted to the National Assembly and transmittal of the 2000 budgetary accounts to the Audit Court	End-December 2001	Pending

Table 3. Niger: Quantitative Performance Criteria and Benchmarks for the Period December 31, 2001-December 31, 2002  
(In billions of CFA francs)

	Stock at-end September 2001	End-March 2002 Perf. Criteria 1/	End-June 2002 Benchmarks	End-Sep. 2002 Perf. Criteria 1/	End-Dec. 2002 Benchmarks
<b>A. Quantitative performance criteria and benchmarks</b>					
Based on changes from September 30, 2001					
Variation of net bank credit to the government 2/ 3/	61.6	0.1	-17.5	-11.1	-7.2
Basic budget deficit (commitments basis, excl.grants) 3/ 4/		9.2	18.6	24.9	36.5
Reduction in government domestic payments arrears 5/		24.4	34.4	41.4	48.4
Memorandum item:					
Exceptional external assistance (cumulative) 6/		19.6	50.4	51.0	59.6
<b>B. Continuous quantitative performance criteria</b>					
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 1 year 8/		0.0	0.0	0.0	0.0
<b>C. Quantitative benchmarks</b>					
From December 31, 2001					
Budgetary revenue 5/ 9/		37.1	79.7	122.7	160.9
Wage bill 3/		13.0	26.0	39.0	52.1

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

2/ This ceiling on net bank credit to government 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 ceilings will be raised pro tanto in line with the observed shortfalls up to a maximum of CFAF 7.5 billion at end-March 2002, and CFAF 15.0 billion at end-June, end-September and end-December 2002.

If disbursements of assistance exceed programmed amounts, the ceilings will be lowered pro tanto unless the excess assistance is used for a reduction of domestic payments arrears in excess of the programmed reduction.

3/ Maximum.

4/ Total revenue, excluding grants, minus total expenses excluding foreign-financed investment expenditures.

5/ Minimum.

6/ External aid, including traditional debt relief, but excluding IMF financing, HIPC Initiative interim assistance, and net of external debt service 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.

9/ Excluding revenue from privatization, which is included in financing.

N.B.: 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 to commitments contracted or guaranteed for which value has not been received.

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Table 4. Niger: Structural Performance Criterion, and Structural Benchmarks for the  
the Second Year of the Poverty Reduction and Growth Facility-Supported Program  
January 1, 2002—December 31, 2002

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**Prior action for completion of the second review**

Clearing of external payments arrears accumulated at end-September 2001 vis-à-vis Paris Club creditors Cleared on December 24, 2001

**Continuous structural performance criterion**

Continuous implementation of the pricing system for petroleum products adopted on August 1, 2001. 2002

**Structural benchmarks**

Submission of a report on (i) the execution of the Presidential program to reduce poverty and (ii) the use of resources freed by the HIPC Initiative in 2001. End-March 2002

Strengthening of the external debt unit through the introduction of a new debt management software and training of staff. End-June 2002

Introduction of the new budget nomenclature and the new chart of accounts, and their use in preparing the 2003 budget law End-September 2002

Preparation of a budget review law for 2001 and the transmittal of the FY 2001 accounts to the audit office End-December 2002

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INTERNATIONAL MONETARY FUND

NIGER

**Technical Memorandum of Understanding**

Niamey, January 16, 2002

1. This technical memorandum of understanding provides the definitions of the quantitative performance criteria and quantitative benchmarks for the second year of Niger's program supported under the Poverty Reduction and Growth Facility (PRGF). The targets for these quantitative performance criteria and benchmarks are set out in Table 3 attached to the government's memorandum of economic and financial policies (MEFP) dated [January ... 2002]. 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," "payment 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, i.e., 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, i.e., advances of money to 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, i.e., 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, i.e., arrangements under which property is provided which 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 separate legal personality.

(c) **Payment arrears** are payments due (following the expiration of a 60 days grace period) but unpaid.

(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 Bank Credit to Government

#### Definition of the performance criterion

3. **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.

4. Government securities held outside the Nigerien banking system are not included in the net bank credit to government.

5. The net bank credit to government is calculated by the Central Bank of West African States (BCEAO), whose figures are those deemed valid within the context of the program. The scope of the net bank credit to government as defined by the BCEAO includes all central government administrations. The performance criterion is based on the variation of stock in net bank credit to the government from September 30, 2001 to the date considered for the performance criterion.

#### Adjustment

6. The **ceiling on net bank credit to the government** will be subject to adjustment if disbursements of external budgetary assistance (excluding IMF financing), including traditional debt relief—but excluding the interim assistance to be provided under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative)—net of debt-service

obligations (excluding IMF obligations) and payments of external arrears, exceed or fall short of program forecasts. In the event of excess disbursements at the end of each quarter (end-March 2002, end-June 2002, end-September 2002, and end-December 2002), the ceiling will be adjusted downward pro tanto by the amount of the excess disbursements, 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 2002, and CFAF 15 billion at end-June 2002, end-September and end-December 2002. If HIPC Initiative assistance is granted to Niger, the debt-service savings will 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**

7. Detailed data on net bank credit to government will be provided monthly within six weeks following the end of each month.

### **B. Basic Budget Balance**

8. The basic budget balance is defined as the difference between total budgetary revenue, excluding grants, and total expenditure excluding externally financed capital expenditures (including investment expenditures financed under the HIPC Initiative). In the program, the performance criterion is based on the cumulative basic budget balance since end-September 2001.

### **Reporting requirement**

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

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

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

10. **Domestic payments arrears** on government obligations are reduced through the payment of these obligations as defined under 2c and 2d above. The government undertakes not to accumulate any new domestic payments arrears on government obligations, except for arrears on obligations other than government debt, in which case, the government undertakes not to accumulate beyond six months. The Centre d'Amortissement de la Dette Intérieure de l'Etat (government domestic debt amortization center) (CADIE) keeps and updates the inventory of domestic payments arrears on government obligations and maintains records of their repayments.

### **Reporting requirement**

11. 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**

12. **Government debt** is outstanding debt owned or guaranteed by the government. It excludes treasury bills and bonds issued in CFA francs on the WAEMU regional financial market. Under the program, the government undertakes not to accumulate external payments arrears on government debt, with the exception of external payments arrears arising from government debt in the process of being renegotiated with creditors, including Paris Club creditors. In addition, the government undertakes to attempt in good faith and without delay to sign agreements that would confirm the preliminary understandings reached on the settlement of its external payments arrears before the Fund Board consideration, on December 14, 2000 of the authorities' requests for a new 3-year arrangement under the Poverty Reduction and Growth Facility.

#### **Reporting requirement**

13. Data on the outstanding balance, the accumulation, and the 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**

14. The government will not contract or guarantee external debt with original maturity of one year or more with a grant element of less than 50 percent. Nonconcessional external debt is defined as all debt with a concessionality level of less than 50 percent. To calculate the level of concessionality for loans with a maturity of at least 15 years, the discount rate to be used is the 10-year average "Commercial Interest Reference Rate" (CIRR) calculated by the IMF, based on the rates published by the OECD; for loans of less than 15 years, the 6-month average CIRR is to be used.

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

### **Reporting requirement**

16. 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**

17. 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**

18. 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. QUANTITATIVE BENCHMARKS**

### **A. Definitions**

19. Budgetary revenue are a quantitative benchmark for the program. It includes tax, non tax and special accounts revenue.

20. The civil service wage bill is another benchmark of the program. It is calculated by excluding the teaching volunteers' salary and the salaries paid in the process of reinstatement of former rebellion members.

### **B. Reporting Requirement**

21. 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**

22. The government will report to IMF staff:

- 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**

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

- 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**

24. 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**

25. The government will provide the following information:

- disaggregated monthly consumer price indexes, 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**

26. 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	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 financial operations (TOFE)	Monthly	End of month + six weeks
	Investment budget execution	Quarterly	End of quarter + eight weeks
	Petroleum products 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 (provisional) End of month + ten weeks (final)
	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



INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Public Information Notice (PIN) No. 02/19  
FOR IMMEDIATE RELEASE  
March 1, 2002

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Concludes 2001 Article IV Consultation with Niger**

On February 8, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Niger.<sup>1</sup>

### **Background**

With a per capita income of about US\$200, Niger is one of the poorest countries in Africa and is ranked very low on all social indicators. It is highly vulnerable to external and weather-related shocks. Its main economic activities, agriculture and livestock, account approximately for 40 percent of output, while the export base is limited to uranium, cattle and a few agricultural products. Furthermore, Niger has suffered a series of social and political upheavals over the last decade that hindered the implementation of reforms and economic recovery measures. Since their election at end-1999, the authorities have been able to reestablish economic, social, and political stability in the country. From negative 1.4 percent in 2000, the real GDP growth is estimated to reach 5.1 percent in 2001 as a result of good climatic conditions. Inflation slowed to under 4 percent on average, and the external current account deficit (excluding official transfers) is estimated to have widened slightly to around 8.5 percent of GDP due to deterioration in the terms of trade. The basic fiscal deficit (i.e., the budget revenue minus expenditure, excluding foreign financed investment projects) narrowed from 4.8 percent in 1999 to 2.9 percent in 2000, and is expected to have improved slightly in 2001 because of a better control of budgetary spending and an improved revenue collection.

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Niger also made progress in implementing structural reforms. Progress in the reform of the budgetary expenditure process, including the strengthening of budget execution and monitoring, was supported by a new public expenditure credit of the World Bank. Concurrently with the budgetary reforms, the authorities implemented in August 2001 a new pricing system for petroleum products that is transparent, automatic, and flexible, and privatized in November 2001 the communications company, SONITEL. The authorities are committed to strengthening external debt management and to keeping the momentum of the privatization program, in particular, through divestiture from the energy and petroleum companies.

Niger is eligible for assistance under the enhanced HIPC Initiative and reached the decision point in December 2000. Although the bulk of the debt relief will be delivered after reaching the completion point under the Initiative, creditors (including Paris Club creditors, the World Bank, and the International Monetary Fund, and the African Development Bank) provided interim assistance under the HIPC Initiative of CFAF 8.8 billion in 2001 (SDR 9.5 million, or 0.6 percent of GDP). The resources freed under the HIPC Initiative were fully used for the financing of a poverty reduction program that was launched at the initiative of the President of Niger in 2001. The government has also prepared, through a large participatory process, a full poverty reduction strategy paper (PRSP) approved by a national workshop held in Niamey on November 26-27, 2001.

### **Executive Board Assessment**

Executive Directors welcomed the satisfactory macroeconomic outcome for 2001, including a rebound of economic growth to about 5 percent, and a reduction of year-on-year inflation to less than 4 percent. Program slippages identified in early 2001 had been rectified and the program had been brought back on track at end-September 2001. Directors were encouraged by the additional measures taken to ensure the achievement of the program objectives at end-2001, despite delays in budgetary assistance disbursements.

Directors regretted the temporary resurgence of external payment arrears at end-September 2001 and the suspension of the petroleum product pricing system in October 2001. They welcomed the authorities' commitments to reinforce debt management and ensure the continuous implementation of the petroleum product pricing system, which resumed in November 2001. They urged the authorities to avoid stop-and-go policies, stay the course on structural reforms, and strengthen Niger's institutional capacity.

Directors endorsed the authorities's economic and financial program for 2002, which aims to consolidate further the fiscal stance through higher revenue, while stepping up implementation of the poverty reduction strategy. They urged the authorities to reduce domestic payments arrears in 2002 with a view to revitalizing the private sector and strengthening confidence in the public sector. They welcomed the authorities' intention to strengthen treasury management further and to establish an appropriate level of precautionary cash balances, in order to limit the vulnerability of government spending to the timing of foreign aid disbursements. At the same time, Directors urged Niger's development partners to make timely, better coordinated, and full delivery of external project and budgetary assistance pledges, to avoid treasury cash-flow problems and program curtailments.



Directors observed that Niger's balance of payments should remain sustainable over the medium term if adequate international support were provided. They urged the authorities to implement a prudent external debt management policy and to continue seeking the participation and contribution of non-Paris Club bilateral creditors under the enhanced HIPC Initiative.

Directors noted that Niger's competitiveness has been maintained in the context of the institutional arrangement of the Franc zone. They welcomed the prudent monetary policy conducted at the regional level by the Central Bank of the West African States. Directors encouraged the authorities to continue their efforts to comply with the convergence criteria set under the pact of the West African Economic and Monetary Union.

Directors urged the authorities to maintain their structural reform agenda, particularly the privatization program, and to implement without delay the reforms to strengthen the financial system, in collaboration with the World Bank. The ongoing reforms of the budgetary expenditure process and the treasury operations should be deepened to improve governance and strengthen management of public finances, and to ensure satisfactory expenditure monitoring and tracking in the context of the poverty reduction strategy. The authorities are encouraged to enhance their efforts to combat money laundering and the financing of terrorism.

Directors welcomed the finalization of the PRSP, which has been based on an intensive participatory process, and agreed with the thrust of the joint staff assessment of the PRSP. The strategy provided a credible framework for poverty reduction.

Directors stressed the need to address the serious weaknesses in Niger's statistical database, notably with respect to national accounts, balance of payments and external debt statistics. They welcomed the authorities' decision to follow the guidance provided for compiling and disseminating macroeconomic and socio-demographic data under the Fund's General Data Dissemination Standard.

Directors commended the authorities for the vigorous measures taken to bring the Poverty Reduction and Growth Facility-supported program back on track during the second half of 2001. All of the program targets were met at end-September 2001, except for a small accumulation of external payments arrears that was corrected by end-2001. Directors also welcomed the measures taken by the authorities to ensure satisfactory program implementation at end-2001, despite delays in budgetary aid disbursements.

Directors endorsed the economic and financial program for 2002, and noted that the 2002 budget is consistent with the newly established poverty reduction strategy. They encouraged the authorities to focus on improving the business environment and private sector development. Progress in these areas, as well as the reform of the financial sector, would complement sound financial and external debt policies, and help to create the necessary conditions for achieving higher levels of economic growth and an effective reduction of poverty in Niger.

**Public Information Notices (PINs)** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2001 Article IV Consultation with Niger is also available.

**Niger: Selected Economic and Financial Indicators, 1998-2001**

	1998	1999	2000	2001 Est.
<b>Domestic economy</b>	(Annual Percentage change)			
Real GDP	10.4	-0.6	-1.4	5.1
GDP deflator	3.0	2.0	4.5	4.0
Consumer prices (annual average)	4.5	-2.3	2.9	3.9
Gross investment	11.4	10.2	10.8	11.7
Gross domestic savings	2.4	2.6	3.2	3.5
<b>External economy</b>	(In millions of U.S. unless otherwise specified)			
Exports of goods, f.o.b.	333.9	287.2	283.3	274.0
Imports of goods, f.o.b.	403.8	335.8	324.5	334.9
Current account balance (excl. current official transfers)	-197.7	-157.3	-139.8	-160.9
Overall balance	-70.9	-75.9	-30.6	-51.9
Current account deficit (excl. current official transfers, in percent of GDP)	-9.5	-7.8	-7.8	-8.4
External debt (in percent of GDP) <sup>1/</sup>	76.2	83.8	90.3	86.0
Real effective exchange rate (percent change)	2.4	-6.3	-2.6	2.1
<b>Financial variables</b>	(In percent of GDP)			
Government revenue (excl. grants)	9.1	8.8	8.6	9.5
Total expenditure	17.3	17.9	16.2	16.7
Overall fiscal balance (on a commitment basis and excl. grants)	-8.2	-9.0	-7.6	-7.2
Basic fiscal balance	-3.3	-4.8	-3.0	-2.9
Change in broad money (in percent)	0.7	-5.5	8.9	...
Change in credit to the economy (in percent)	28.5	-3.0	43.8	...

<sup>1/</sup> Before debt relief



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International Monetary Fund  
700 19th Street, NW  
Washington, D. C. 20431 USA

**IMF Completes Review Under Niger's PRGF Arrangement and Approves US\$11 Million Disbursement for Niger**

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Niger's performance under the three-year Poverty Reduction and Growth Facility (PRGF)<sup>1</sup> arrangement. As a result, Niger will be able to draw up to SDR 8.46 million (about US\$11 million) immediately.

Niger's three-year PRGF arrangement was approved on December 14, 2000 (see Press Release No. 00/69), for SDR 59.2 million (about US\$74 million). So far, Niger has drawn SDR 16.92 million (about US\$21 million) under the arrangement.

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<sup>1</sup> It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. In the case of Niger, a full PRSP, prepared through an extensive participatory approach, has been finalized. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½ year grace period on principal payments.

After the Executive Board's discussion on Niger, Mr. Aninat, Deputy Managing Director and Acting Chairman, stated:

"Niger's economic activity recovered in 2001 after two years of decline. The economic growth rate, estimated at 5 percent, benefited from a turnaround of agricultural production, fostered by good climatic conditions, and the efforts of the authorities to improve the economic environment, preserve political stability in the country, and restore full relations with the donor community. Year-on-year inflation was brought under 4 percent, preserving Niger's external competitiveness, and the current account deficit was lower than expected in the program.

"The corrective measures taken by the authorities to compensate for some fiscal slippages in the first half of 2001 were successful in bringing the government's program back on track. All the program targets at end-September 2001 were achieved, except for a small accumulation of external payments arrears, that was corrected before end-December 2001. The basic fiscal deficit was lower than programmed as a result of a satisfactory revenue performance and appropriate expenditure reductions in light of delays in disbursements of budgetary assistance. The government also continued its policy of reducing domestic payments arrears. The Fund welcomes the authorities' success in bringing the program back on track, and Directors were encouraged that the Fund's assistance, with its catalytic role, has helped Niger during this difficult time.

"The Fund endorses Niger's economic and financial program for 2002, which aims at further economic adjustment and reflects the authorities' poverty reduction strategy. The program provides for higher spending on poverty related programs, continued sound fiscal policy, a further reduction in domestic payments arrears in 2002, and measures to strengthen cash and debt management.

"The Fund welcomes the new momentum given to the government's structural reform program in 2001, with the petroleum product pricing and taxation mechanism that was introduced in August 2001, and the privatization of the telecommunications company. In the months ahead, the government will implement reforms to strengthen the soundness of the financial system, continue its divestment from large public enterprises, and deepen the reforms of the expenditure process and treasury operations. Directors called upon Niger's development partners to coordinate their efforts, and to make timely and full delivery of external project and budgetary assistance pledges.

"The Fund welcomes the completion of the poverty reduction strategy paper (PRSP) and the intensive participatory process on which it has been based. With the finalization of the full PRSP and the start of its implementation in 2002, Niger has made good progress toward reaching the completion point under the enhanced Initiative for Heavily Indebted Poor Countries in early 2003," Mr. Aninat said.