International Monetary Fund

Niger and the IMF

Press Release:
IMF Executive Board Completes the First Review of Niger's PRGF Arrangement and Approves US$15.4 Million Disbursement Along With a US$28.1 Million Augmentation
November 14, 2005

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

October 28, 2005

Niamey, October 28, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato

1. On behalf of the government of Niger, I am pleased to send you the memorandum of economic and financial policies (MEFP) prepared in the context of the first review of the government of Niger's three-year program, which is supported by the IMF under the Poverty Reduction and Growth Facility (PRGF). The intense drought and locust attacks of 2004 have had a severe socio-economic impact on our country. In addition, the rise in food imports and deterioration in Niger's terms of trade caused by higher world oil prices have considerably weakened government finances and our external position in 2005 and beyond. The Government of Niger is determined to forcefully address these challenges and requests waivers for the nonobservance of performance criteria for end-June 2005 on the basic budget balance and reduction of government domestic payments arrears, amendments to the quantitative performance criteria and benchmarks of the program for end-December 2005, and augmentation of access under the PRGF arrangement in an amount equivalent to SDR 19.74 million (30 percent of quota).

2. Program implementation through end-June 2005 was adversely affected by the economic shocks. Although the government removed the VAT exemptions on food in January, in line with program commitments, it had to reinstate them in April following social unrest, given that food prices were already rising due to the drought. This, together with sluggish economic activity and increased exemptions on customs duties on food imports in response to the food shortage, caused revenue to be weaker than programmed in 2005. With the additional difficulties in reducing expenditure in the face of spending pressures, the performance criteria relating to the basic budget deficit and the reduction in domestic payments arrears could not be met All structural performance criteria and benchmarks were observed except for the June benchmark on the evaluation of the status of domestic payments arrears, which was finalized in August.

3. The medium-term fiscal framework has been revised to take into account the effects of the drought. In 2005, the revised program accommodates additional expenditure for the replenishment of grain reserves and shortfalls in revenue, noted above. It also ensures spending cuts—a prior action for this review—that fully offset the costs of the Francophonie Games, which will be higher than budgeted because the financing contributions from other participating countries were not as high as the government had originally expected. The resulting additional financing gap in 2005 is expected to be covered in part by a smaller-than-programmed reduction in domestic payment arrears, and the issue of treasury bills in the latter part of the year. However, a financing gap equivalent to 0.4 percent of GDP remains. For 2006, revenues are projected to turn out lower than programmed mainly because it will not be possible to remove VAT exemptions on food in the foreseeable future, given the continuing concerns about food security. The government would also like to undertake

additional capital spending on projects aimed at enhancing Niger's food security so as to prevent the recurrence of the difficult conditions experienced in 2004 and 2005. However, given the tight budgetary situation, the government has agreed to make expenditure equivalent to 1.3 percent of GDP contingent on obtaining additional donor support. We intend to organize, with the assistance of the staffs of the Fund and the Bank, a donors' conference in 2006 to obtain the financing for these projects as well as for the programs supporting our Poverty Reduction Strategy. The government will pursue a prudent debt management policy, and is requesting the lowering of the grant element for new loans from 60 percent to 50 percent. We will review with World Bank assistance all projects funded with resources bearing a grant element of between 50 percent to 60 percent. The remaining financing requirement for 2006 would be met mainly by existing financing assurances and a further slowing in the reduction of domestic arrears, with the residual financing gap limited to 0.4 percent of GDP. The requested augmentation of access to Fund resources of 30 percent of quota (0.8 percent of GDP) would be sufficient to close the remaining financing gaps in 2005 and 2006.

4. The government is determined to minimize deviations from the original program and is pressing ahead with efforts to reduce vulnerabilities and strengthen growth. In this context, we have introduced revenue-enhancing measures to reverse the fall in revenues and regain the trend envisaged under the program by 2007–08. Also, we have completed the costing of key sectoral strategies for education, health, and the road and transport sectors, and plan to finalize in 2006 the costing of the programs for the rural sector strategy. On this basis, we plan to revise the 2002 PRSP and medium term expenditure frameworks for the above-noted sectors. The government also plans to continue restructuring the financial sector and disengaging from public utilities.

5. The second review of the program, which will be based on performance under the end-December 2005 performance criteria and relevant structural performance criteria, is expected to be completed no later than January 15, 2006. As in the past, the government consents to the Fund's publication of this letter of intent, the MEFP, the technical memorandum of understanding, and the staff report. The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, and it will take any further measures required for this purpose. Niger will consult with the Fund on the adoption of these measures in advance of revisions to the policies contained in the MEFP and in conformity with the rules of the Fund's policies on such consultation.

Sincerely yours,

/s/

Ali Lamine Zeine
Minister of Finance and Economy

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

Memorandum of Economic and Financial Policies of the Government of Niger for 2005

I. Introduction

1. **Notwithstanding a severe drought in 2004 as well as a subsequent deterioration in the terms of trade, Niger's reform program—supported by the Poverty Reduction and Growth Facility (PRGF)—made some headway in 2005**. Given the prospect of a normal harvest, economic growth is expected to recover, and inflation should begin slowing down by the final quarter of 2005. With support from the international community, the government has mobilized to contain the socio-economic damage of the food crisis, which affected some 3 million Nigeriens. The economic shocks have weakened the government's finances and the fiscal targets for 2005 are unlikely to be achieved. However, some progress has been made in the implementation of structural reforms. Looking ahead, the government is committed to prudent macroeconomic policies and pressing ahead with its structural reform agenda, which are critical for the success of Niger's poverty reduction strategy.

2. **The drought experienced in 2004 has had severe socioeconomic repercussions**. Food shortages caused malnutrition, especially among vulnerable groups such as children and the elderly, and exacerbated health problems. In addition, there have been significant losses in animal stock such as cattle and small ruminants that will take several years to rebuild. Accordingly, the effects of the drought will be felt over several years.

3. **Despite the temporary setback caused by the drought, the government is pressing ahead with its reform program, and this memorandum describes the economic and financial** policies **for the remainder of 2005 and the medium term**. The government is aware that macroeconomic stability must be strengthened and structural reforms pursued to bolster economic growth and reduce poverty. In the near future, we will expedite the preparation of programs to boost economic growth, strengthen human capital formation, and expand access by the poor to social services.

II. Recent Economic Developments and Performance under the Program

4. **In 2004, macroeconomic performance weakened**. Economic activity stagnated as agricultural output shrank by 15 percent. Accordingly, per capita income declined for the first time in several years. Inflation ticked upward during the final quarter and by year end reached nearly 4 percent on a year-on-year basis. The external current account deficit (excluding official transfers) widened to 8.1 percent of GDP, from 7.6 percent in 2003, as higher food imports and oil prices more than offset lower interest payments on the external debt and new gold exports. Unanticipated expenditures on the 2004 elections—an important element of Niger's democratization process—pushed the fiscal deficit to 8.9 percent of GDP, relative to 7.6 percent of GDP in 2003. Over the same period, government net borrowing from the banking sector rose to 5.3 percent of GDP from 3.5 percent of GDP; the bulk of which from the Central Bank of West African States (BCEAO). This increase contributed to a significant expansion of monetary aggregates and a reduction in international gross reserves.

5. **During the first six months of 2005, inflation accelerated, and the fiscal outturn fell short of program objectives**. At end-June, the inflation rate reached 10 percent on a year-on-year basis, with significant increases in food prices. The basic budget deficit (a performance criterion) stood at CFAF 15.1 billion (0.8 percent of GDP for 2005), compared to the program objective of CFAF 5.8 billion (0.3 percent of GDP). The higher deficit reflected mainly the impact of lower revenue collection, which stood at CFAF 87 billion at end June, CFAF 6.7 billion lower than targeted. The weak revenue performance, which was more pronounced in the first quarter of the year, was due to (i) the reinstatement in April of the VAT measures adopted in January 2005 owing to the social unrest triggered by their adoption in an environment of rising food prices; (ii) a sluggish economic activity attributable to the effects of the drought; (iii) a significant increase in duty-free food imports to combat the food crisis; and (iv) frequent border closings with Nigeria and other neighboring countries, which negatively affected customs revenue performance. However, revenue collection improved modestly during the second quarter owing to stepped-up efforts to improve tax and customs administration, including mainly through a better assessment of VAT obligations and enhanced collection efforts.

6. **On the expenditure side, the government endeavored to contain the spending increases, despite pressures**. Domestically financed expenditure reached CFAF 102.3 billion, CFAF 2.8 billion higher than budgeted, partly due to higher-than-expected spending on the preparation for the Francophonie Games, which became necessary as financing contributions from other participating countries turned out lower than originally anticipated. Nevertheless, the government continued to adhere to a prudent wage policy and implemented expenditure programs for certain priority sectors such as education and health, albeit at a very low execution rate in the case of education.

7. **A shortfall in external financing and the higher fiscal deficit led to the accumulation of domestic arrears**. At end-June, exceptional external budgetary assistance was CFAF 15 billion lower than programmed. With domestic financing of the budget nearly at the programmed level of about CFAF 13 billion, this resulted in the accumulation of domestic arrears of CFAF 2.3 billion. The main source of domestic financing was the issuance of six-month treasury bills equivalent to CFAF 15 billion on the West African Economic and Monetary Union (WAEMU) regional market.

8. **Five of the eight quantitative benchmarks of the program through end-March 2005 have been observed (Table 1)**. Missed targets include the basic fiscal balance, net reduction of domestic payment arrears, and the domestic revenue target. However, all the structural performance criteria and benchmarks were observed (Table 2).

9. **Through June 2005, five out of the eight quantitative performance criteria and benchmarks have been met, and all but one structural performance criteria and benchmarks were observed**. The objectives that have not been met pertain to the basic budget deficit and the reduction in government domestic payments arrears (both performance criteria), as well as the revenue target (a benchmark). All structural performance criteria and benchmarks have been observed, except for the one relating to the evaluation of domestic

payment arrears. A status report on domestic arrears was completed in August 2005, instead of June 2005, because of delays in the delivery of technical assistance.

10. **Regarding structural reforms more generally, the government continues to strengthen revenue mobilization and expenditure management**. The Customs Department established performance indicators for its main offices, and intensified monthly monitoring of revenue collection. These efforts are being deepened with an expansion of the range of monitorable performance indicators (Annex 1). Further, a revenue mobilization strategy and an associated action plan are currently being prepared (structural benchmark for end-September), and the slippage is due to delayed technical assistance delivery. On expenditure management, the government has initiated, with technical and financial assistance from the World Bank,[1] the implementation of the recommendations of the Public Expenditure Management and Financial Accountability Review (PEMFAR). The programmed computerization of five treasury offices was completed as planned. A Treasury-Budget computer interface (*liaison retour*) was established last May, and this is expected to further improve the monitoring of government expenditures. However, the interface needs improvements, especially regarding the production of user friendly summary statistics; there is also a need to provide training and additional staff to the Treasury and Budget Departments. These shortcomings will be addressed in the near future.

11. **The government initiated an in-depth examination of the status of domestic payments arrears.** At end 2004 the stock of domestic arrears is estimated at CFAF 208 billion (12.6 percent of GDP) down from CFAF 296 billion (23.6 percent of GDP) at end 1999.[2] The assessment identifies constraints in the management and monitoring of domestic payments arrears, recommends further verification of certain alleged arrears to ensure their legitimacy, and the development of an arrears reduction strategy. The report also proposes the strengthening of the Unit at the Ministry of Finance responsible for domestic debt management, including through the recruitment and training of staff. The government intends to prepare a final report by end-December 2005 that addresses the concerns raised by the preliminary report. Further, on the basis of the recommendations of the report, the government will develop an arrears reduction strategy by end-March 2006, with technical assistance from development partners if needed. In the meantime, repayment of arrears will be limited to those related to salaries.

12. **The restructuring of the financial sector has advanced.** In early June, Parliament approved a restructuring plan prepared with assistance from the World Bank. Under the plan, the National Postal and Savings Office will be split into two entities. NigerPoste will be

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[1] In May 2005, the World Bank Executive Board approved a public expenditure reform credit of SDR 29 million.

[2] Except for those attributable to the financial and banking sectors, the government has not contracted new domestic debt during the period under consideration, except for CFAF 15 billion new six-month treasury bills, which were issued in April 2005.

responsible for the management of postal activities, and FinaPoste will provide financial services. Preparations for the privatization of Crédit du Niger, in which the government holds a 53 percent equity stake, have advanced with the recruitment, in August 2005, of a consultant responsible for assessing the bank's financial situation.

13. **Progress has been made in implementing sectoral strategies for the poverty reduction strategy (PRS).** Strategies consistent with the PRS have been prepared for the education and health sectors and associated medium-term expenditure frameworks (MTEFs) will be fully incorporated into the 2006 budget. Further, work to operationalize the rural sector development strategy has been advanced. Fourteen priority programs have been proposed for the rural sector, and these are being finalized in consultation with concerned technical ministries.

III. ECONOMIC AND FINANCIAL POLICIES FOR THE SECOND HALF OF 2005

A. Macroeconomic framework

14. **Macroeconomic performance is expected to improve in 2005 and medium term prospects remain broadly unchanged relative to those contained in our original MEFP**. In 2005, economic growth is expected to reach about 5 percent, as agriculture output rebounds in the latter part of the year. Year-on-year inflation is expected to decline from 13 percent in August to 5 percent in December, reflecting the improvement in food supply. The external current account deficit (excluding official transfers) is projected at 8.5 percent of GDP, some 1.3 percent of GDP higher than the original program projection, largely as a result of higher food imports and world oil prices. In 2006–07, economic growth is expected to average some 4 percent per annum. Beyond 2007, economic growth would strengthen with the implementation of strategies to promote development of the rural sector—the mainstay of the economy—as well as other sectors with strong growth potential, such as tourism. Average inflation is targeted to be in line with the WAEMU convergence criterion (3 percent) over the medium term.

B. Fiscal policies

15. **The budget outlook for 2005 is less favorable than initially anticipated**. The basic and overall budget deficits (commitment basis, excluding grants) are estimated, respectively, at CFAF 46 billion (2.6 percent of GDP) and CFAF 165 billion (9.2 percent of GDP), respectively 1.8 percent of GDP and 1.5 percent of GDP higher than initially targeted. With net reduction of domestic payments arrears reduced to CFAF 10 billion (compared to an initial target of CFAF 18.4 billion) and taking into account identified net domestic and external financing, the residual financing gap is CFAF 22.7 billion (1.2 percent of GDP). The gap will be partially covered by a rollover of treasury bills equivalent to CFAF 15 billion (0.8 percent of GDP); the government is requesting additional Fund resources to cover the remaining gap of about CFAF 7 billion (0.4 percent of GDP).

16. **Domestic revenue mobilization is likely to fall short of target reflecting drought-related factors**. Revenue is expected to reach CFAF 187 billion, (10.4 of GDP), or 0.7 percent of GDP below the initial target. This shortfall is due mainly to the reinstatement of VAT exemptions (on wheat, milk, electricity and water consumption) in April 2005, following the social unrest that ensued after their elimination in January 2005, amidst rising food prices.

17. **On the expenditure side, some outlays will be cut to meet the envisaged fiscal targets.** Excluding expenditure on the grain reserves building[3] and food relief (just over 1 percent of GDP), and the estimated revenue shortfall, the government is determined to meet its initial fiscal targets for 2005. Accordingly, as a prior action for this review, the government has identified expenditure cuts equivalent to CFAF 7 billion, and issued a ministerial order for this purpose. Further, the government will continue with its prudent wage bill policy, as specified in the 2005 budget.

18. **The government plans to recover the real estate investments made in the context of the Francophonie Games.** In particular, it will sell physical assets such as houses after the conclusion of the games. The government plans to finalize preparations for the sale of assets and include potential receipts under the 2006 budget. However, given the uncertainty at this point in time regarding the size of these potential receipts, they are not included in the revised fiscal program for 2006.

19. **The government has initiated the preparation of the 2006 budget.** The proposed budget is consistent with the objectives of Niger's poverty reduction strategy. The revenue/GDP ratio is targeted at 10.8 percent, and expenditure at 21.7 percent of GDP, with continued focus on education, health, and other key priority areas that would facilitate a move to a higher economic growth path and the reduction of poverty. However, in view of the lower revenue levels and limited external financing assurances so far, expenditure equivalent to 1.3 percent of GDP will be made contingent on obtaining additional donor assistance. Accordingly, the basic and overall fiscal deficits will be limited, respectively to 1.5 percent of GDP (excluding contingent expenditure) and 2.8 percent of GDP (including contingent expenditure). In this regard, efforts will be made to organize, with the assistance from the Fund and World Bank, a donors' conference during 2006 when the costing of key sectoral strategies is completed. After taking into account a slower reduction of domestic payments arrears (0.5 percent of GDP), the remaining financing gap for 2006, estimated at 3.9 percent of GDP, is expected to be mainly covered by identified financing assurances from development partners (3.5 percent of GDP). The government is requesting additional Fund resources to recover the remaining gap (0.4 percent of GDP).

[3] The financing for rebuilding strategic food reserves in 2005 amounts to CFAF 18 billion (100,000 tons of grain).

20. **To ensure that revenue objectives for 2007-08 are met, the government plans to implement, in the months ahead, key revenue measures to expand the tax base and strengthen collection efforts.** Accordingly, the government will put in place by January 1, 2006 (i) a presumptive tax of 0.25 percent on transit/reexport of tobacco products; and (ii) a property tax on land. Most importantly, it will focus on strengthening tax and customs administration by implementing the recommendations of a recent technical assistance mission from the Fund. Key actions are in the areas of streamlining customs clearance procedures, strengthening customs valuations, enhancing audits for major taxes and duties and closely monitoring the use of exemptions. Measures serving as performance criteria under the program have been identified (Table 2). In addition, in 2006, the government is committed to:

- Automation of information flow between customs offices and immediate collection of suspended duties if transit is not effected;
- Strengthening, through training, of personnel involved in customs declaration inspection and strict monitoring of the use of duty-exempted imports;
- Strengthening internal inspection offices (in terms of staffing and material resources) at the central and regional levels;
- Recruitment of new staff for the tax intelligence unit in order to identify important non-compliant tax payers;
- Setting quantitative objectives for reducing the number of non-filers (5 percent at the large taxpayer unit and 15 percent at the medium-size taxpayer unit as a first step) and increasing the number of desk audits;
- Instituting systematic procedures to monitor tax arrears and strengthen collection enforcement; and
- Strengthening the audit of tax and customs exemptions with an objective of auditing 30 percent of granted exemptions.

21. **In addition, the government is preparing, in consultation with the Fund, a revenue mobilization strategy to further strengthen revenue over the medium term**. The adoption of this strategy and associated action plan will be a prior action for completing the second review under the PRGF arrangement. We are confident that this overall approach will minimize any sustained deviation of revenue from the original program objectives.

22. **Government expenditure, while prudent, will be further geared toward addressing Niger's vulnerability to external shocks, especially droughts, and more generally supporting ongoing poverty reduction efforts**. To improve the delivery of social services and enhance the efficiency of the fiscal agencies, the wage bill will increase by 10 percent in 2006, to about CFAF 69 billion (3.6 percent of GDP). This will help accommodate new recruitments in critical areas, such as customs and tax administration, and enhance the civil service incentive structure. The proposed new wage bill is in line with the

relevant WAEMU convergence criteria. Provided that additional support (in relation to the original program) is mobilized as noted above, capital expenditure will be significantly boosted in 2006 to advance key projects aimed at reducing vulnerability to droughts and improving food security, and to strengthen economic growth more generally in the context of our Poverty Reduction Strategy (see below). To raise needed resources, we are requesting that the minimum grant element of new loans under the PRGF-supported program be lowered from 60 percent to 50 percent. To minimize the risks to debt sustainability, the government will review all projects funded with the resources bearing a grant element between 50 percent to 60 percent with World Bank assistance.

C. Money and credit

23. **The BCEAO will continue to conduct monetary policy at the regional level.** The April 2005 increase in the required reserve ratio from 5 to 9 percent, combined with prudent government borrowing policy, would slow down the expansion of net domestic assets of the banking system; in 2005, net credit to the government and private sector is expected to increase by 3.8 and 10 percent, respectively. Broad money growth is expected to decelerate from 20.3 percent in 2004 to 10 percent in 2005. The proposed monetary program is consistent with Niger contributing modestly to the strengthening of the BCEAO’s external position.

24. **Recent efforts to improve monetary statistics are bearing fruit.** BCEAO has revised currency holdings and net foreign assets of member countries’ on the basis of updated coefficients for estimating banknotes circulating in individual WAEMU members. Initially, the exercise focused on the period 2003–2004. This exercise is expected to improve monetary policy design and implementation within the WAEMU countries.

D. Balance of payments and external debt

25. **Niger's external position weakened in 2005, but the balance of payments situation is expected to improve over the medium term**. The external current account deficit (excluding grants) is expected to widen, mainly reflecting higher food and energy imports. Medium-term prospects in the external sector would be affected by government plans to invest in export-supporting activities, such as irrigation, that would facilitate the emergence of marketable new and higher-volume agricultural products. Further emphasis is being placed on minerals and oil exploration, as well as on developing tourism. On this basis, the external current account deficit would narrow to 6 percent of GDP by 2008.

26. **The government is committed to prudent external debt management**. The net present value of foreign debt is estimated at around US $670 million and represents 133 percent of exports at end-2004. Given the importance of external debt management for debt sustainability, the government plans to strengthen its external debt management unit at the Ministry Finance, including through increased training to relevant personnel, and to ensure that debt management policy remains geared towards avoiding deterioration of debt sustainability.

27. **The government plans to improve Niger's balance of payments statistics**. As part of the process of enhancing the reliability of foreign trade data, the government is determined to improve the collection and analysis of customs data and to use such data more systematically in the design and implementation of policies for promoting exports and foreign trade in general.

E. Structural policies

28. **Structural reforms are critical for enhancing economic efficiency, and strengthening the** transparency **of, and accountability for, government operations**. The focus of our agenda is financial sector reform, privatization, and reforms to strengthen revenue mobilization and expenditure management.

Financial sector

29. **The financial sector reform program has received a fresh impetus.** Preparations are continuing for the government's divestiture from Crédit du Niger (CDN). The bank's financial situation is being assessed, and a privatization consultant has been appointed with effect from November 2005. The government plans to offer the bank for sale during the first half of 2006. Concerning the restructuring of the National Post and Saving Institution (ONPE), the government intends to set up the management of NigerPoste, which will be responsible for postal services. An independent financial branch of the postal system (FinaPoste) has been established and a license application for this institution is expected to be filed with the Banking Commission.

Privatization

30. **The government is continuing to reassess its privatization strategy for NIGELEC and SONIDEP.** The government is receiving financial and technical support from the World Bank, and plans to organize in the coming months a technical seminar on divesture options for the two companies.

Fiscal management

31. **The government plans to strengthen tax and customs administration.** In addition to those outlined in paragraph 20, other important measures currently in progress are: (i) the evaluation of tax arrears and preparation of a timetable for eliminating them; and (ii) the establishment of quarterly verification of the use of granted exemptions to minimize fraud. The results of these audits will be reported to Fund staff on a quarterly basis.

32. **Measures to improve budget preparation and execution will continue.** The government plans to complete by March 2006 the current assessment of the opening statements for the various Treasury accounts for the period 1997–2003, with the aim of restoring stock-flow consistency for the period concerned. Further efforts will be made to ensure medium-term expenditure frameworks are consistent with the poverty reduction strategy. The MTEFs for health and education—which have been revised and substantially

improved—will be incorporated into the 2006 budget. With regard to rural sector development, proposed action plans and their costing will be finalized in the first half of 2006. Subsequently, prioritized MTEFs will be prepared and included in budgets starting in 2007. Efforts will also be made to continue strengthening internal and external controls of government financial operations, including a reactivation of the "Cours des comptes" and parliament oversight of government finances.

33. **On other reforms, the government, with UNDP support, is preparing a public sector modernization project**, focusing on the sector's size and incentive structures, as well as the efficiency of public service delivery. The government also plans to detach the Fonds National de Retraite (FNR) from the Treasury and organize it as an independent entity. The recommendations arising from this work will be discussed with Niger's development partners prior to their implementation.

34. **We plan to further strengthen expenditure tracking.** With technical support from the World Bank (and financial assistance from Japan), the government has prepared a list of poverty-reducing expenditures, which will be monitored closely. This will improve monitoring of the poverty reduction strategy.

F. Poverty Reduction Strategy Paper (PRSP)

35. **The government is reviewing the implementation of its poverty reduction strategy.** It plans to update the strategy, which was adopted in 2002. This will require completion of ongoing analysis of the poverty profile and sources of growth that is critical for strengthening and/or preparing development strategies for priority sectors. The completion of above-noted work will form the basis for revising the medium expenditure frameworks for priority sectors, and the preparation of a donor conference during 2006 to mobilize the required additional resources to advance the PRS. In the meantime, the government is committed to advancing ongoing work in the following areas:

- updating poverty analysis by completing the planned surveys (including the household expenditure survey) and conducting a qualitative assessment of socioeconomic vulnerabilities;
- costing the programs accompanying the rural sector strategy, and the development of strategies for other key areas such as tourism development;
- strengthening the MTEFs, especially those for priority sectors, and ensuring their use in annual budget preparation, starting with the 2006 fiscal year;
- adopting a strong population policy;
- strengthening further the management of HIPC resources; and
- mobilizing additional resources for supporting the PRS.

Pending completion of this work, in November 2005 the government will issue its third annual status report on the poverty reduction strategy.

IV. Monitoring Program Implementation

36. **Completion of the first review of the PRGF arrangement for Niger depends on the following prior action**: adoption of a ministerial order outlining cuts of expenditures as specified in paragraph 17 above. This prior action was completed on October 27, 2005.

37. **The monitoring of the revised program will be based on quantitative performance criteria and benchmarks and quarterly structural performance criteria and benchmarks (Tables 1 and 2)**. The authorities will provide the IMF with the information required to monitor the program in accordance with the Technical Memorandum of Understanding (attachment under reference EBS/05/8). During the program period, the authorities will not introduce or strengthen without consultation with the Fund, introduce or modify any multiple currency practices, conclude any bilateral payment agreements that are incompatible with Article VIII of the Fund's Articles of Agreement, or introduce import restrictions for balance of payments reasons.

38. **The second review of the PRGF arrangement is expected to be completed by mid-January 2006**.

General Directorate of Customs—Performance Indicators

Indicator	**Comments**
Average duration of customs clearance for imports and/or number of import declarations not cleared within 48 hours	Indicator of progress achieved in: (i) facilitating foreign trade; and (ii) improving the general efficiency of customs services.
Number of customs violations/number of customs inspections	The proportion should increase so as to bring out the improvement in risk analysis.
Value of goods seized	This indicator may be used (preferably quarterly) to evaluate the success of operations to combat fraud.
Number of customs transit declarations not settled one month after the goods have left	Transit is a major problem as Niger is a landlocked country.
Value of exempted goods whose final use has been verified/total value of exempted goods	Exemptions are generally granted on condition that they are put to a specific use. We may reasonably expect that customs check 30 percent of exempted goods declared during the preceding year.

Table 1. Niger: Quantitative Performance Criteria and Indicative Targets for the Period January 01, 2005-June 30, 2006
(In billions of CFA francs)

	End-March 2005 Indicative targets			End-June 2005 Performance criteria			End-September 2005 Indicative targets		End-December 2005 Performance criteria		End-March 2006 1/ Indicative targets	End-June 2006 1/ 2/ Indicative targets
	Program	Est.	Status	Program	Est.	Status	Program	Rev. Prog.	Program	Rev. Prog.		
A. Quantitative performance criteria and indicative targets (cumulative from December 31, 2004)												
Domestic financing of the budget 3/ 4/	5.3	-0.7	√	12.6	11.6	√	13.4	13.7	3.2	18.5	-1.9	-12.9
Basic budget balance (commitment basis, excl.grants) 5/ 6/	0.2	0.1	X	-5.8	-15.1	X	-12.6	-36.1	-14.6	-46.1	2.3	0.5
Reduction in government domestic payments arrears 7/	4.2	-1.2	X	8.4	-2.3	X	13.4	5.1	18.4	10.1	-0.4	-0.8
Memorandum item:												
Exceptional external budgetary assistance 8/	1.4	-6.8		7.2	-7.8		20.9	35.9	41.9	49.8	0.2	13.6
B. Continuous quantitative performance criteria												
Accumulation of external payments arrears	0.0	0.0	√	0.0	0.0	√	0.0	0.0	0.0	0.0	0.0	0.0
External debt contracted or guaranteed by the government with maturities of 0-1 year 9/	0.0	0.0	√	0.0	0.0	√	0.0	0.0	0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government with maturities over 1 year 10/	0.0	0.0	√	0.0	0.0	√	0.0	0.0	0.0	0.0	0.0	0.0
C. Inidicative targets (cumulative from December 31, 2004)												
Total revenue 7/ 11/	45.8	41.5	X	93.7	87.0	X	142.1	136.5	193.8	186.9	45.2	94.2
Wage bill 5/ 12/	15.7	15.1	√	31.5	31.2	√	47.3	47.3	63.1	63.1	17.3	34.7

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

1/ Cumulative, starting January 1, 2006

2/ Will be converted to performance criteria at the time of the second PRGF Review discussions.

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

4/ The ceiling on domestic financing of the budget will be adjusted if the amount of disbursements of external budgetary assistance, as defined in footnote 8, exceeds or falls short of program forecasts. If disbursements are less than the programmed amounts, the ceiling will be raised in line with the observed shortfalls, up to a maximum of CFAF 7.5 billion at end-March 2005, CFAF 7.5 billion at end-June 2005, CFAF 7.5 billion at end- September 2005, and CFAF 7.0 billion at end-December 2005. If disbursements of assistance exceed programmed amounts by more than CFAF 3.0 billion, the ceilings will be lowered by any additional amount beyond this CFAF 3.0 billion unless the excess assistance is used for a reduction of domestic payments arrears in excess of the programmed reduction.

5/ Maximum. If external budgetary assistance defined in footnote 8 exceeds the amounts programmed by up to CFAF 3.0 billion, the basic budget balance will be decreased only by that amount.

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

7/ Accumulation of arrears (-)/Minimum.

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

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

10/ Excluding debt relief obtained in the form of rescheduling or refinancing; 50 percent minimum concessionality for new loans.

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

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

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

Measures	Date	Status
Prior action		
Present revenue mobilization measures to parliament, including (i) extension of the VAT to processed food products (milk, sugar, wheat flour); (ii) reduction of VAT exemptions on water and electricity consumption; and (iii) application of the excise tax to soft drinks and sodas.		Executed in January, but VAT measures repealed in April
Structural performance criteria		
Apply the pricing system for petroleum products adopted on August 1, 2001.	Continuous	Executed
Adopt monthly performance indicators for the main customs offices and consistently track compliance with these indicators by producing monthly implementation reports for submission to the IMF.	Continuous starting March 1, 2005	Executed
Institution of joint pre-shipment company-customs imports verification teams at the following border offices: Dan Issa, Gaya, Konni, Maradi, Matamey, Torodi, and Zinder.	End-January 2006	New
Set up the issue-oriented audit unit (brigade de controle pronctuel) in the medium-size taxpayer office (DPME) and audit 30 percent taxpayer of the concerned taxpayers.	End-January 2006	New
Raising the turnover threshold from CFAF 50 million to CFAF 100 million so that the large taxpayer unit (LTU)'s activities are refocused on the 300-400 largest taxpayers.	End-January 2006	New
Use of a pre-shipment inspection company's imports valuation lists for imports taxation purposes.	End-September 2006	New
Structural benchmarks		
Prepare a list of customs exemptions and a credible plan to reduce them.	End-March 2005	Executed
Prepare a report clarifying the status of the government's domestic arrears and adopt a timetable for their elimination.	End-June 2005	In progress
Computerize the financial operations of five provincial pay offices.	End-June 2005	Executed
Implement the bidirectional treasury-budget computer link.	End-June 2005	
Establish a master list of expenditures directly related to poverty reduction and a monthly mechanism to track their execution.	By end-September 2005	Executed
Prepare and adopt an operating strategy and detailed plan of action (based on the recommendations of the 2003 IMF technical assistance mission) to enhance the mobilization of tax revenues.	By end-September 2005	Revised to a prior action for completion of second PRGF review

Amendments to the Technical Memorandum of Understanding (ATMU)

(October 28, 2005)

1. This memorandum contains amendments to the definitions and adjustments of the quantitative performance criteria and benchmarks in the original TMU (EBS/05/08). The new definitions and adjustments provided below supersede those contained in the original TMU. Except for the amendments described below, definitions and adjustments of the quantitative performance criteria and benchmarks of the TMU annexed to EBS/05/8 remain unchanged.

QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS

A. Basic Budget Balance

2. The basic budget balance is defined as the difference between total revenue, excluding grants and revenue from the settlement of reciprocal debts between the government and enterprises, and total expenditure, excluding externally financed capital expenditures (including investment expenditures financed by resources freed up as a result of the HIPC Initiative assistance). The performance criterion and indicative targets are based on the cumulative basic budget balance from end-December 2004 for the 2005 program and from end-December 2005 for the 2006 program.

Reporting requirement

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

Adjustment

4. If external assistance is larger than programmed in the revised program, the performance criterion and indicative targets will be adjusted pro tanto up to CFAF 3 billion for 2005 and up to CFAF 25 billion for 2006.

External Nonconcessional Loans Contracted or Guaranteed by the Government of Niger

5. 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 grant element of less than 50 percent, excluding IMF loans. To calculate the grant element for loans with a maturity of at least 15 years, the discount rate to be used is the ten-year average commercial interest rate reference (CIRR), calculated by the IMF on the basis of the rates published by the OECD; for loans of less than 15 years, the six-month average CIRR is to be used.