International Monetary Fund

Niger and the IMF

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November 21, 2007

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Niger: Letter of Intent, Memorandum of Economic and Financial Policies of the Government of Niger for 2007, and Technical Memorandum of Understanding for 2007

November 8, 2007

LETTER OF INTENT

Niamey, November 8, 2007

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States

Dear Mr. Strauss-Kahn:

1. The government continues to implement the policies and reforms envisaged under the PRGF-supported program. Through end-September 2007, all the performance criteria had been met, except for the criterion on the automatic flexible pricing system for petroleum products, since the tax deferral was not eliminated in July 2007, as indicated in the Memorandum of Economic and Financial Policies (MEFP) of May 16, 2007. We have eliminated the deferral on November 1.

2. Moreover, all the structural measures representing benchmarks through end-September 2007 were observed, with the exception of one.

3. Economic activity in 2007 was favorable, and GDP growth should benefit from a good year for farming, thanks to favorable rainfall; growth is also supported by activity in the mining, telecommunications, and construction sectors. Consumer prices have shown a downward trend so far through the year.

4. In the first half of the year, basic budgetary expenditure, excluding externally financed investment, remained below the program estimates, while revenue exceeded forecasts. Accordingly, the budget deficit and domestic financing were lower than envisaged in the program. These trends have continued in the third quarter.

5. The 2008 Budget Law is consistent with our poverty reduction strategy, containing larger budget appropriations for health, education, and rural development. The government is continuing to pursue reforms to strengthen revenue mobilization and introduce more rigorous management of expenditure, as well as to improve the banking and financial system, as indicated in the attached updated MEFP. The new Poverty Reduction Strategy Paper (PRSP) for 2008-12 has been finalized, and a donor meeting to mobilize funds in support of the PRSP convened in Brussels in late October.

6. The government of Niger requests the completion of the fifth review of the PRGF-supported program and a waiver for the above-mentioned structural performance criterion. It also requests modification of the quantitative criterion for end-2007 on domestic government

financing (MEFP, paragraph 17), modification of the structural performance criterion on petroleum pricing (MEFP, paragraph 32), as well as elimination of the structural criterion for end-December 2007 regarding frozen postal deposits (MEFP, paragraph 22). As in the past, the government consents to the IMF's publication of this letter of intent, the MEFP, the technical memorandum of understanding, and the IMF staff report. The government considers that the policies set out in the attached MEFP are adequate to attain the objectives of the program. It will take any further measures that may become appropriate for this purpose. Niger will consult with the Fund on the adoption of such measures and in advance of revisions of the policies contained in the MEFP, in accordance with IMF policies on such consultation.

7. To allow for the completion of the sixth review, the government of Niger requests that the PRGF arrangement, which expires on January 30, 2008, be extended through end-May 2008.

Very truly yours,

/s/

Ali Lamine Zeine

Minister of Economy and Finance

Attachments: Memorandum on Economic and Financial Policies

Technical Memorandum of Understanding

ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES OF THE GOVERNMENT OF NIGER 2007–2008

I. RECENT DEVELOPMENTS AND PROGRAM IMPLEMENTATION

Context and macroeconomic framework

1. The economic and financial situation progressed favorably in the first part of 2007 and a good agricultural harvest is expected owing to favorable rainfall. According to the latest estimates, the growth in GDP may attain 5.6 percent in 2007, following a 5.2 percent growth in 2006. The increase in value-added in agriculture may reach 9 percent. Strong growth is expected in electricity, housing and public works, transport and telecommunication, supported by public and private investment. In mining, gold production has recorded an upturn with the reopening of the principal mine. As for uranium, a major investment program is in progress, in order to develop new deposits, replace depleted deposits, and upgrade equipment. On the basis of data for the first seven months of the year, inflation in 2007 (annual average) is expected to be close to zero.

2. Trends in the balance of payments in 2007 showed a strong increase in the value of uranium exports, reflecting the 58 percent revaluation of the export price. This has been accompanied by a strong increase in imports of capital goods, both for the mining sector and for infrastructure projects, in addition to the replenishment of the stocks of petroleum and grain products. Thus, the current account deficit is projected to rise from 8.6 percent of GDP in 2006 to 11 percent of GDP in 2007. External financing for projects is anticipated to rise appreciably, particularly in the grant component. The BCEAO's net foreign assets allocated to Niger may increase by about CFAF 19 billion.

3. The growth in bank credit in the first six months of the year has been substantial (10.5 percent) reflecting support for investments and coming in the aftermath of a 32 percent growth in 2006. These sustained rates of growth also reflect the recent opening of new banks. The money supply grew by 3.8 percent in the first six months of the year. In the second half of the year, credit to the economy is expected to expand further, and may attain 11 percent over the year, with growth in the money supply amounting to 14 percent. Non performing loans as a share of credit, net of provisions, increased to 11 percent at end-June 2007, but additional provisions are expected to be made.

Fiscal policy

4. In the first half of 2007, the government has pursued cautious macroeconomic policies and implemented key reforms to strengthen growth and reduce poverty. During this period, the basic fiscal deficit—which excludes externally financed capital expenditure—was

limited to CFAF 11.7 billion (0.5 percent of the GDP forecast for 2007), much lower than the programmed CFAF 42.6 billion, on account of higher-than-anticipated revenues and weaker expenditure execution. On the revenue side, the profit tax and VAT yield surpassed expectations, while customs revenues were in line with forecasts. Nontax receipts were greater than anticipated, reflecting sizable revenue from the granting of a new mining concession (CFAF 9.8 billion, or 0.5 percent of GDP). With regard to expenditure, payment authorizations for goods and services and transfers and subsidies were well below forecasts.

5. All quantitative performance criteria under the program and the benchmarks for end-June 2007 under the PRGF have been observed, (Table 1). With the basic deficit far lower than programmed (quantitative indicator under the program), domestic financing (performance criterion) was well below programmed levels. Budget revenue, a quantitative indicator, substantially exceeded the objective.

6. All structural performance criteria and benchmarks through end-September were also met, except for the one pertaining to the petroleum product pricing mechanism (Table 2). The call for bids for the privatization of Crédit du Niger, scheduled for June 2007, was launched in September 2007. With respect to the petroleum product pricing mechanism, the tax deferment introduced in April 2007 was reduced in July and will be eliminated as soon as circumstances allow. As the deferment has been offset by the increase in the ad valorem component of petroleum taxation, the government is requesting a waiver for the nonobservance of this criterion.

7. The government's efforts, with donor support, strengthened the national grain security stock, which by end-August attained 65,000 tons, and grain banks were created. With the financial assistance anticipated for September and October, the security mechanism envisages grain purchases on local markets, which are well stocked, in order to raise the national security stock to its programmed level of 80,000 tons. Consideration is being given to increase the level of the security reserve to 110,000 tons.

Reforms in public expenditure management and other sectors

8. The government has continued to implement the recommendations of the PEMFAR (Public Expenditure Management and Fiscal Accountability Review) Program, which is supported by a number of technical and financial partners. In particular, with respect to expenditure management, the government has: (i) reorganized the structures of the Treasury with the separation of regulatory and accounting functions; (ii) strengthened the control system, through the adoption of texts reorganizing financial control and redefining its functions and the preparation of a manual of procedures; (iii) converted the accounts chamber of the Supreme Court into an independent Audit Court (*Cour des Comptes*), which is currently receiving technical assistance to define its procedures and train its staff; and (iv) made operational the new General Directorate for Control of Public Procurement, with the aim of strengthening mechanisms for the control and internal audit of government

expenditure. However, as noted below, further efforts are still required in all these areas in order to make the supervisory mechanisms fully effective.

9. Concerning the regularization of the Treasury accounts, the opening balances for the fiscal years 1997-2005 were incorporated into the accounts of the Treasury's general balance sheet. The balances for 2006 are currently being prepared. For fiscal years prior to 1996, a draft law granting amnesty is being prepared. The budget review law (*loi de règlement*) for 2006 with the end-year Treasury accounts (*comptes de gestion*) will be submitted to the Audit Court and the National Assembly by end-2007.

10. The tax and customs administration is currently being strengthened, in accordance with the guidelines envisaged in the program. The Customs Evasion Enforcement Directorate has stepped up its controls over products benefiting from exemptions and temporary warehouses; the units carrying out the ex post verification of import valuations and exemptions at the major customs offices have been strengthened. The interconnection between the Torodi and Gaya border offices and the Niamey offices allows for more rigorous monitoring of customs clearance operations. The next step is to interconnect the main border offices with the regional customs offices; assistance from the EU has been requested for this purpose. The flow of information with the ports has been improved. At the General Directorate of Taxes (DGI), priority has been given to reducing the number of defaulting taxpayers, simplifying the procedures for the handling of disputed claims, improving tax controls through increased manpower and training, improving collection, and drafting procedure manuals.

11. Since the adoption of the new mining code in August 2006, over one hundred new research permits have been granted. The mining license agreements (*conventions*) follow the model agreement, which is annexed to the law. The decrees adopting the agreements are all published in the Official Journal. The National Mine Research Office (ONAREM) whose responsibilities include organizing mining exploration programs, has been replaced by two newly established entities, namely, the Geological and Mining Research Center and SOPAMIN; SOPAMIN holds the state's shares in the existing uranium companies previously held by the former ONAREM, and is intended to engage in commercial transactions such as uranium sales.

12. The new Petroleum Code was adopted in March 2007 and the implementing decree as well as the standard contracts were adopted in May 2007. The code envisages two types of regimes, concession and production-sharing agreements. No new permit has thus far been granted under the new code.

13. To improve the business climate, progress has been made in simplifying procedures and reducing the costs associated with the establishment of new businesses. Thus, since end-2006, the procedures for registration with the CNSS (National Social Security Fund) and the employment promotion agency have been unified, the payment of the global

business license tax (*patente synthétique*) at the time of starting up a business is now deferred, the registration fee has been reduced by 5 points for certain sale contracts, and mandatory payment for enrollment in the Chamber of Commerce has been abolished.

II. Economic and Financial Policies for the Remainder of 2007

Fiscal policy

14. The budget program for the year 2007 has been revised to take account of (i) the updated forecast for external budget assistance; and (ii) the utilization of proceeds from the new mining permits, which have been allocated to the Priority Investment Fund (FIP). The FIP was created in May 2007 to carry out priority investment in the fields of security, rural development, infrastructure, and development support. Forecasts for external budget assistance have been revised downward, because disbursements related to assistance for the 10-Year Program of Development for Education have been delayed, given the need to define new procedures for monitoring the allocation of these resources. Furthermore, the African Development Bank assistance under a new structural adjustment loan is now expected for 2008. Thus, total external budgetary assistance is expected to amount to CFAF 77.1 billion in 2007 (3.8 percent of GDP), compared with the initial projection of CFAF 93 billion (4.5 percent of GDP).

15. Tax receipts are expected to turn out slightly below program projections; i.e., CFAF 222 billion for the year (10.8 percent of GDP), against an initial objective of CFAF 224.3 billion (10.9 percent of GDP). This shortfall reflects a decline in taxed imports, on account of increased trade flows with ECOWAS countries, which benefit from duty-free arrangements. Conversely, domestic tax receipts may surpass initial expectations (notwithstanding shortfalls in excise duties), in view of the favorable performance of the VAT and the increase in mining royalties. Nontax receipts (CFAF 33.9 billion, equivalent to 1.7 percent of GDP) should largely exceed initial projections, because of the new receipts linked to mining permits and of the exceptional dividends expected from mining companies (CFAF 15 billion).

16. On the expenditure side, we expect that current expenditures will be in line with original projections, while non FIP domestically financed investment are expected to stay below projections. FIP expenditures may attain CFAF 25 billion, mainly for security-related outlays. All in all, expenditures excluding externally funded investments should amount to CFAF 333.4 billion (16.3 percent of GDP), against the initial projection of CFAF 319.4 billion.

17. The basic fiscal deficit for 2007 is projected at CFAF 74.8 billion (3.6 percent of GDP), compared with the initially programmed figure of CFAF 83.2 billion (4.1 percent of GDP). Taking account of the anticipated reduction in domestic arrears of CFAF 15.1 billion, the basic fiscal deficit on a cash basis is expected to amount to CFAF 89.9 billion. Bank financing should exceed modestly initial program projections and

reach CFAF 17.2 billion, or 0.8 percent of GDP (against CFAF 7.4 billion in the original program), because of the shortfall in external budget support.

18. Major progress is being made in the planned reduction of government domestic arrears, which have been identified by the working group in charge of evaluating domestic debt and arrears. In August 2005, the working group had prepared a preliminary report on changes over the period 1999-2004 in the arrears identified at end-1999. The data have been updated to end-December 2006. The action plan to reduce arrears has also been updated. Accordingly (i) cross-settlements with public utility companies (NIGELEC and SONITEL) for offsetting government debts and claims are close to be finalized; (ii) the settlement of arrears owed to private suppliers has begun; and (iii) frozen deposits of the former National Saving Bank (Caisse Nationale d'Épargne) will be paid back in the context of the entry into operation of the new postal bank (FINAPOSTE) scheduled for mid-2008.

Structural reforms and financial sector reforms

19. The revenue-collecting agencies (*régies financières*) will continue their efforts to control exemptions and combat fraud. A recruiting drive is in progress for both tax and customs directorates. The simplified taxation regime for taxpayers with turnover in the range of CFAF 30-100 million—which makes provision for quarterly rather than monthly tax returns—will be established in the Budget Law for 2008 (performance criterion). A new version of the General Tax Code is undergoing preparation, and will benefit from IMF advice.

20. With respect to mining taxation, the procedures for assessing the mining royalty will be strengthened, with a greater role to be given to Customs. DGI staff will be strengthened to monitor more precisely taxable profits of mining companies.

21. Ongoing efforts to strengthen financial supervision mechanisms will be vigorously pursued. Accordingly (i) the role of the General Directorate for Control of Government Procurement will be expanded, lowering the current threshold for which its approval for government contracts is required from CFAF 300 million to CFAF 100 million; its staff complement will be boosted to allow the entity to discharge its responsibilities effectively; (ii) training of financial controllers will be intensified with the finalization of the manual of procedures; (iii) government procurement divisions established at each ministry will have their staffing and quality standards enhanced; (iv) the public procurement code will be revised to allow full alignment with WAEMU rules; and (v) the management of delegated appropriations to regional units will be strengthened, through the upgrading of the IT system, with a view to improve monitoring of these appropriations and better verify compliance with the requisite procedures.

22. Reforms in the area of financial system restructuring will progress rapidly. Thus, with respect to FINAPOSTE, the licensing application is being finalized; it will be submitted to the BCEAO in the coming months. To restore the liquidity of the frozen saving

deposits with the former National Saving Bank, the government transferred to FINAPOSTE CFAF 1 billion in February 2007; a further CFAF 1.4 billion will be disbursed before end-2007; the residual, amounting to CFAF 2.5 billion, will be settled in 2008 (CFAF 1.2 billion) and 2009 (CFAF 1.3 billion). To equilibrate the opening balance sheet of FINAPOSTE, the government is considering issuing non-tradable securities covering the gap between assets and liabilities. In addition, to provide FINAPOSTE with stable resources and allow it to meet prudential ratios, the government envisages depositing funds in a special capital account. The modalities for reimbursing the depositors of the former National Saving Bank will be defined after the license for FINAPOSTE has been issued. Therefore, the government requests the deletion of the performance criterion regarding the adoption before end-2007 of modalities for reimbursing these deposits.

23. In the microfinance sector, which faces numerous constraints, the microfinance regulation agency will commence operations shortly, and the government has made the planned contributions to two entities, Taimako and MCPEC (Mouvement des Caisses Populaires d'Epargne et de Crédit), while another entity, ADDACHE, has been put into liquidation.

III. The Macroeconomic Framework for 2008 and the 2008 Budget

The macroeconomic framework in the context of the 2008-12 strategy for accelerated development and poverty reduction

24. The intermediate scenario of the new strategy for accelerated development and poverty reduction for the period 2008-12 envisages achieving an annual rate of growth of about 5.7 percent. A higher rate of growth—averaging 7 percent per year—is considered necessary in order to achieve the MDGs by 2015, but achieving it will require a very substantial increase in foreign aid. The strategy is predicated upon a diversified and sustainable growth, equitable access to social services, controlled population growth, strengthened social protection for vulnerable groups, development of infrastructure, and good governance. On October 25-26, a conference of technical and financial partners convened in Brussels to mobilize support for the new strategy.

25. For 2008, a cautious estimate of current trends indicates that the rate of growth in GDP in 2008 could reach about 5.4 percent, assuming normal rainfall. This growth would be attributable to a substantial increase in investment in mining and infrastructure. In the mining sector, uranium output could increase by about 3 ½ percent in response to current investment. The projected inflation rate is 2 percent. The external current account deficit is expected to hold steady at 11 percent of GDP; exports in value terms are projected to rise by 5.7 percent while imports could increase by around 3 percent, with a downturn in petroleum imports following the reconstitution of stocks in 2007; imports of capital goods and intermediate goods could increase by 9 percent. Net foreign assets of the BCEAO are

projected to increase by about CFAF 18 billion, and the money supply is expected to increase by about 13 percent.

Fiscal policy and public finance reforms

26. Fiscal policy will be focused on making additional resources available to the priority sectors, in accordance with the medium-term expenditure frameworks for education, health, and rural development, while preserving debt sustainability. Thus, the basic fiscal deficit is expected to fall from CFAF 74.8 billion (3.6 percent of GDP) to CFAF 61 billion (2.8 percent of GDP). Budget revenues are anticipated to reach CFAF 275 billion or 12.5 percent of GDP, reflecting an upturn in the profit taxes paid by mining companies, and an increase in nontax receipts (particularly dividends of mining companies).

27. Total expenditures excluding externally financed projects is projected to decline from 16.3 percent of GDP in 2007 to 15.3 percent of GDP in 2008, with more sizable allocations for the social and rural development sectors. This amount takes into account the expenditures in the Budget Law for 2008, recently presented to the National Assembly, as well as additional expenditures that could be authorized in 2008 to use the exceptional dividends to be received before the end of 2007. Externally financed capital expenditures—especially grant-funded expenditures—will continue to increase, owing to efforts to expedite the implementation of such projects and improved monitoring.

28. On the revenue side, efforts to curb exemptions and to combat evasion will be continued. In customs, priority will be given to achieving electronic interconnection between the main border offices and regional customs offices, to allow for more rigorous monitoring of merchandise undergoing customs clearance. On-site customs controls will be better targeted. Supervision over the on-site use of exempt goods will be further strengthened. At the DGI, efforts will focus on: (i) simplifying VAT payment procedures for small and medium-sized enterprises; (ii) stepping up the surveys for taxpayers and enhancing tax supervision; (iii) integrating the tax assessment and tax collection functions inter alia through the adoption of a new software program; (iv) implementing an effective system for the refunding of VAT credits, particularly for exporters; and (v) establishing an improved information base for real estate and taxation, accompanied by a reduction in the real estate tax levied on formal sector economic agents.

29. Financing for the budget program for 2008 requires substantial donor support, not yet fully confirmed. With a programmed reduction in domestic arrears in the amount of CFAF 15.2 billion (0.8 percent of GDP), the basic deficit on a cash basis—excluding externally funded projects—is expected to amount to CFAF 51.9 billion (2.4 percent of GDP). External budget assistance is projected to amount to CFAF 70 billion on the basis of current estimates (particularly from the World Bank, the AfDB, the EU, France, and other bilateral partners). Domestic financing including IMF drawings is projected at CFAF 11.1 billion.

External debt management

30. The government will pursue a cautious external debt management policy, following the substantial debt relief obtained under the Multilateral Debt Relief Initiative (MDRI). To ensure that this policy is implemented, the Public Debt Directorate of the Ministry of Economy and Finance has been strengthened. The Directorate's capacity to perform debt sustainability analysis has been enhanced through external technical assistance.

31. We will continue our efforts to reach debt relief agreements with non Paris Club members on comparable terms.

Other structural measures

32. With respect to retail prices of petroleum products, the government will continue to apply the monthly pricing mechanism in accordance with the provisions set forth in the August 2001 decree. The tax deferment was eliminated on November 1, 2007. In the period ahead the overall tax per liter in CFA francs will not decline from the level of March 2007. In the event of an emergency situation necessitating a review of this policy, the government will consult the Fund concerning the adoption of appropriate measures.

IV. MONITORING PROGRAM EXECUTION

33. Program monitoring will be based on continuous and semiannual quantitative performance criteria, structural performance criteria (including some continuous criteria), and quantitative and structural benchmarks (Tables 1 and 2). The performance criteria and benchmarks are defined in the Technical Memorandum of Understandings. Ceilings on domestic financing—net of the position with the IMF—will be adjusted to reflect the amounts by which external budgetary assistance (net of external debt service) has deviated from program projections. This should allow for the execution of the program of priority expenditures for poverty reduction and—in the event of a shortfall—to facilitate more rapid execution of this program (Table 1). In the event that external budgetary assistance falls short of program projections, the quarterly ceilings on domestic financing will be adjusted upward, to a maximum of CFAF 20 billion. In the event of an overrun, the ceiling on domestic financing will not be adjusted downward for the first CFAF 10 billion. The sixth program review will be completed before the expiration of the PRGF arrangement.

Table 1. Niger: Quantitative Performance Criteria and Indicative Targets, January 1, 2007-December 31, 2007

(Billions of CFA francs)

	End-March Indicative Targets			End-June Performance Criteria			End-September Indicative Targets			End-December Performance Criteria	
	Prog.	Prog. Adj.	Est.	Prog.	Prog. Adj.	Est.	Prog.	Prog. Adj.	Est.	Prog.	Rev. prog.
A. Quantitative performance criteria and indicative targets											
(cumulative from December 31, 2006)											
Domestic financing of the budget[1, 2]	-7.0	-10.8	-21.2	7.9	20.9	-19.4	6.4	27.2	-27.7	1.6	11.4
Reduction in government domestic payments arrears [3]	1.0	1.0	6.6	5.0	5.0	8.6	6.0	6.0	8.3	15.8	15.8
Memorandum item:											
Exceptional external budgetary assistance [4]	15.8	…	19.6	30.8	...	17.8	51.9	...	31.1	87.8	70.1
Gross budget support	17.1	…	20.0	33.5	...	20.0	56.0	...	34.1	93.0	77.1
Debt service	1.4	…	0.4	2.7	...	2.2	4.2	...	3.0	5.2	6.9
B. Continuous quantitative performance criteria											
Accumulation of external payments arrears	0.0	...	…	0.0	...	0.0	0.0	...	0.0	0.0	0.0
New external debt contracted or guaranteed by the government with maturities of 0-1 year[5]	0.0	…	0.0	0.0	...	0.0	0.0	...	0.0	0.0	0.0
New nonconcessional external debt contracted or guaranteed by the government with maturities over 1 year[6]	0.0	…	0.0	8.5	...	0.0	8.5	...	0.0	8.5	8.5
C. Indicative Targets											
(cumulative from December 31, 2006)											
Basic budget balance (commitment basis, excl. grants)[7]	-14.0	…	3.3	-42.6	...	0.8	-62.6	...	-12.9	-83.2	-74.8
Total revenue[8]	56.2	…	59.8	112.7	...	128.3	170.2	...	190.7	236.2	258.7
Accumulation of domestic payment arrears	…	…	…	…	...	...	…	...	...	0.0	0.0

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

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

[2]The ceiling on domestic financing of the budget will be adjusted if the amount of disbursements of external budgetary assistance, as defined in footnote 4, exceeds or falls short of program forecasts. If disbursements are less than the programmed amounts, the ceiling will be raised pro tanto, up to a maximum of CFAF 20 billion at the end of each quarter of 2007. If disbursement exceeds programmed amounts by more than CFAF 5.0 billion, the ceilings will not be adjusted downwards for the first CFAF 5.0 billion.

[3]Minimum.

[4]External budgetary assistance (including traditional debt relief, HIPC Initiative assistance, but excluding net financing from the IMF) less external debt service and payments of external arrears.

[5]Excluding ordinary credit for imports or debt relief.

[6]Excluding debt relief obtained in the form of rescheduling or refinancing; 50 percent minimum concessionality for new loans from 2006.

[7]Minimum, defined as the difference between total revenue, excluding grants and revenue from the settlement of reciprocal debts between the government and enterprises, and total expenditures, excluding externally financed capital expenditures. If external budgetary assistance (defined in footnote 4) exceeds the amounts programmed by up to CFAF 5.0 billion, the basic budget balance will be decreased by only that amount.

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

Table 2 . Structural Performance Criteria and Benchmarks under the January 2007–January 2008 Program

Measures	**Date**	**Status**
Structural performance criteria		
Apply the pricing system for petroleum products, adopted on August 1, 2001, with no tax deferment after July 1, 2007 (modified wording is included in paragraph 22 of the Technical Memorandum of Understanding).	Continuous	Not met in April-October 2007
Adopt new 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	Met
Establish the overall balance of the consolidated government accounts including the interim balances from 1997 to December 31, 2002.	End-June 2007	Met
Adopt a regulatory text establishing the modalities for repayment of frozen savings deposits at the former National Savings Bank (Caisse Nationale d'Epargne) over a two-year period (criterion dropped, see MEFP, paragraph 22).	End-December 2007	Criterion dropped
Introduce a simplified tax regime with quarterly tax declarations for small- and medium-sized enterprises to replace monthly declarations	End-December 2007	
Structural benchmarks		
Adopt the decree on the establishment of a regulatory agency for the microfinance sector.	End-December 2006	Met in April 2007
Establish an action plan for the clearance of domestic arrears inventoried at end-1999	End-December 2006	Met in April 2007
Disburse the annual universal service subsidy of CFAF 380 million to Niger Poste for 2006 and 2007	End-December 2006 and end-December 2007	Met in March 2007
Issue a call for bids for the privatization of Crédit du Niger to investors selected following the call for expressions of interest.	End-February 2007	Met in September 2007
Update the file of the large taxpayers unit (DGE) consistent with the turnover threshold of CFAF 100 million	End-March 2007	Met
Publish 2006 data on national budget execution and on expenditure execution under the unified list of priority expenditures on a payment order basis.	End-March 2007	Partially met; data available but not published
Regularize Treasury depositors accounts that are in overdraft and close inactive deposits accounts.	End-June 2007	Rescheduled for end-December 2007
Provide for the adoption of the decree on the organization and mandate of the Directorate General for Control of Public Procurement by the Council of Ministers	End-December 2007	
Finalize compensation arrangements between the Treasury, NIGELEC, and SONATEL	End-December 2007	
Finalize agreements for the settlement of Treasury arrears with banks	End-December 2007	
Reduce the threshold for contracts requiring approval by the General Directorate for Control of Public Procurement from CFAF 300 to CFAF 100 million	End-December 2007	

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

Niamey, November 8, 2007

1. This technical memorandum of understanding defines the performance criteria and indicative targets for Niger's program under the Poverty Reduction and Growth Facility (PRGF) arrangement approved by the Executive Board on January 31, 2005 (EBS/05/08). The performance criteria and indicative targets for end-December 2007 are set out in Table 1 of the government's Memorandum of Economic and Financial Policies (MEFP) dated November 8, 2007 and attached hereto. This technical memorandum of understanding also sets out the data-reporting requirements for monitoring the program.

I. DEFINITION OF TERMS

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

(a) As specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 24, 2000, **debt** will be understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, according to a specific schedule; these payments will discharge the obligor of the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the 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 this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments necessary for the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (for example, payment on delivery) will not give rise to debt.

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

(c) **External payments arrears** are external payments due but not paid. **Domestic payments arrears** are domestic payments due but not paid, **including *reste a payer* at the Treasury that are over 120 days overdue**.

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

II. Quantitative Performance Criteria

A. Net Domestic Financing of the Government

Definition

3. Net domestic financing of the government is defined as the sum of (i) net bank credit to the government, as defined below; (ii) net nonbank domestic financing of the

Government, including government securities issued in CFA francs on the WAEMU regional financial market and not held by resident commercial banks, proceeds from the sale of government assets, and privatization receipts net of the cost of structural reforms to which these proceeds are earmarked.

4. **Net bank credit to the government** is equal to the balance of the government's claims and debts vis-à-vis national banking institutions. Government claims include cash holdings by the Nigerien Treasury, deposits with the central bank and commercial banks, and secured obligations. Government debt to the banking system includes debt vis-à-vis the central bank (excluding net financing from the IMF's Poverty Reduction and Growth Facility (PRGF), but including government securities) and to commercial banks (including government securities held by commercial banks), and deposits with the postal checking system.

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

6. **Nonbank net domestic financing** includes: (i) the change in the amount of government bonds issued in the regional WAEMU market and not held by Niger's commercial banks; (ii) the change in the deposits of Treasury correspondents; (iii) the change in *"comptes de consignations"* at the Treasury.

7. The 2007 quarterly targets are based on the change in the level of stock between end-December 2006 and the date considered for the performance criterion or the indicative target.

Adjustment

8. The **ceiling on net domestic financing** will be subject to adjustments if disbursements of external budgetary support less external debt service and arrears payments, including disbursements under the PRGF, exceed or fall short of projected amounts. External budgetary support includes debt relief under the MDRI. For 2007, external budget support is calculated from end-December 2006.

9. In the event disbursements exceed projected budgetary assistance by up to a limit of CFAF 10 billion, the quarterly ceilings on net domestic financing will not be adjusted downward. If disbursements exceed programmed budgetary assistance by more than CFAF 10 billion, the ceilings on net domestic financing will be adjusted downward pro tanto by the amount of the excess disbursements beyond the CFAF 10 billion.

10. Conversely, in the event disbursements fall short of projected external budgetary assistance for each end of quarter in 2007, the corresponding quarterly ceilings on net domestic financing will be raised pro tanto, up to a maximum of CFAF 20 billion.

Reporting requirement

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

B. Reduction of Domestic Payments Arrears

Definition

12. **Domestic payments arrears** comprise: (i) arrears identified at end-1999 on the basis of the audit conducted by the Ministry of Finance in 2005; (ii) the *restes à payer* at the Treasury exceeding 120 days outstanding at end-2006. The stock of arrears will be reduced to the minimum of the amounts indicated in Table 1 annexed to the MEFP. The quarterly objectives for 2007 are based on the changes in the stock of arrears at end-December 2006 and the date selected for the performance criterion or indicative target.

13. The *Centre d 'Amortissement de la Dette Intérieure de l 'Etat* (CADDIE) and the Treasury are responsible for calculating the stock of domestic arrears, and recording their repayments.

Reporting requirement

14. Monthly data on the outstanding balance, accumulation (including changes in the *restes à payer* at the Treasury), and repayment of domestic payments arrears on government obligations will be provided monthly within six weeks following the end of each month.

C. Reduction of External Payments Arrears

Definition

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

Reporting requirement

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

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

Definition

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

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

Reporting requirement

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

E. Short-Term External Debt of the Central Government

Definition of the performance criterion

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

Reporting requirement

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

F. Pricing of Petroleum Products

Definition of the performance criterion

22. The government will continuously implement the monthly pricing mechanism for retail petroleum products in accordance with the decree of August 2001, with the modification that if the formula indicates a price adjustment smaller than CFAF 15, no price change will be introduced. The overall tax per liter will not fall below the level of March 2007 (CFAF 180.1 per liter of gasoline and CFAF 132.2 per liter of diesel). In case of an emergency situation that would require the review of this policy, the government will consult with the Fund concerning the adoption of appropriate measures.

III. Quantitative Targets

A. Definitions

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

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

25. The government undertakes not to accumulate any new domestic payments arrears on government debt as defined in paragraph 2c above. Thus the amount of the *restes à payer* at the Treasury with maturities of more than 120 days will not increase in the period from end-December 2006 to end-June, end-September and end-December 2007.

B. Reporting Requirement

26. 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

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

- detailed monthly estimates of revenue and expenditure, including priority expenditure and the payment of domestic and external arrears, and a breakdown of customs, DGI, and Treasury revenue;
- the table of government financial operations with comprehensive monthly data on domestic and external financing, and the changes in arrears (arrears outstanding at end-1999) and *restes à payer* at the Treasury. These data are to be provided monthly within six weeks following the end of each month;
- quarterly data on the expenditures of the unified priority list, and the data on expenditures on HIPC resources and the President's Special Program, on a payment order basis;
- quarterly data on implementation of the Public Investment Program, including details on financing sources, to be provided quarterly within eight weeks following the end of each quarter;
- monthly data on the balances of the accounts of the Treasury and of other public accounting officers at the BCEAO;
- monthly data on the *restes à payer* at the Treasury, by reference fiscal year with an itemization of maturities of more than, and less than, 120 days;
- monthly data on effective debt service (principal and interest) compared with the planned schedules. These data are to be provided within four weeks following the end of each month.

B. Monetary Sector

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

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

C. Balance of Payments

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

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

D. Real Sector

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

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

E. Structural Reforms and Other Data

31. 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.

Summary of Main Data Requirements

Type of Data	Tables	Frequency	Reporting Requirement
Real sector	National accounts	Annual	End of year + six months
	Revisions of national accounts	Irregular	Eight weeks following revision
	Consumer price indexes, disaggregated	Monthly	End of month + two weeks
Public finances	Net government position in the banking sector	Monthly	End of month + six weeks
	Provisional table of government financial operations, including breakdown of revenue (DGI, DGD, and Treasury) and expenditure, including repayments of domestic wage and non-wage arrears outstanding at end-1999 and the change in the *restes à payer* (RAP) at the Treasury.	Monthly	End of month + six weeks
	Data on the stock of *restes à payer* at the Treasury, by reference fiscal year (total and RAP older than 120 days)	Monthly	End of month + six weeks
	Monthly data on the deposits of the correspondents with the Treasury	Monthly	End of month + six weeks
	Investment expenditure execution	Quarterly	End of quarter + eight weeks
	Table of execution of budgetary expenditures, of the expenditures in the priority unified list, and of expenditures on HIPC resources	Quarterly	End of quarter + six weeks
	General balance of Treasury accounts	Monthly	End of month + six weeks

	Monthly data on Treasury account balances and other public entities at the BCEAO.	Monthly	End of month + two weeks
	Petroleum product pricing formula, tax receipts, and pricing differentials	Monthly	End of month + four weeks
Monetary and financial data	Monetary survey	Monthly	End of month + six weeks (for provisional data) End of month + ten weeks (for final data)
	Consolidated balance sheet of monetary institutions and, as appropriate, balance sheets of selected individual banks	Monthly	End of month + eight weeks
	Lending and deposit interest rates	Monthly	End of month + eight weeks
	Banking prudential ratios	Quarterly	End of quarter + eight weeks
Balance of payments	Balance of payments	Annual	End of year + six months
	Revised balance of payments data	Irregular	Following the revision
External debt	Outstanding external payments arrears and repayments	Monthly	End of month + six weeks
	Terms of new external loans		End of month + six weeks
	Table of effective monthly external debt service (principal and interest) compared with planned schedule	Monthly	End of month + four weeks