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March 28, 2013

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

February 28, 2013

LETTER OF INTENT

February 28, 2013

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington DC, 20431

Madame Managing Director,

1. **Despite a challenging environment, the government of Niger made progress in implementing its program supported by the Extended Credit Facility arrangement (ECF). Economic developments were positive with a good harvest, the start of oil production, and substantial investments in uranium extraction**. However, the country faced a serious food crisis in the first part of the year due to the poor 2011 harvest, followed by devastating floods in 2012 and the effects of the deteriorating regional security situation.

2. **Program implementation was mixed**. Delays in customs administration reforms and lower oil exports than projected are expected to result in a revenue shortfall of roughly 2 percent of GDP in 2012. However, the performance criteria at end-June relating to domestic financing and the reduction of domestic arrears were met. Pro-poor spending was also impacted by delays in budget execution. The implementation of the structural reform agenda also met with delays, and the quantitative performance criterion relating to non-concessional financing was not met in light of a non-concessional budgetary loan of CFAF 50 billion contracted from the Republic of Congo but not disbursed.

3. **The government of Niger has taken firm corrective action to ensure that the program remains on track.** In particular, we began implementation of an action plan to increase customs revenue collection by resolving the key problems identified; we substantially expedited the implementation of the structural reform program, and we forwent the bilateral loan contemplated with the Republic of Congo.

4. **The main components of the program for 2013 are described in the attached Memorandum of Economic and Financial Policies (MEFP).** The authorities believe that the measures and policies set forth in the MEFP will serve to achieve the established objectives of their program. We stand ready to take any additional measures that may prove necessary. We will consult with the IMF on the adoption of such measures and before making changes to the policies set out in the MEFP, in accordance with the Fund's policies on consultations. We will provide timely

information needed to monitor the economic situation and implementation of policies relevant to the program, as agreed under the accompanying Technical Memorandum of Understanding, or at the Fund's request.

5. In light of the progress achieved, the measures envisioned, and its resolve to implement the program, the Nigerien government requests (i) the completion of the first review, (ii) a waiver of nonobservance of the criterion relating to non-concessional borrowing, and (iii) the disbursement of the second tranche of SDR 11.28 million under the arrangement. The prior actions, performance criteria, and structural benchmarks for 2013 are included in Tables 1 and 2 of the MEFP.

6. In keeping with our longstanding commitment to transparency, we agree to the publication of the staff report, this letter of intent, and the MEFP and TMU on the IMF website.

Sincerely yours,

/s/

Gilles Baillet
Minister of Finance

Attachments: I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

ATTACHMENT I—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES OF THE GOVERNMENT OF NIGER

INTRODUCTION

1. **This memorandum of economic and financial policies (MEFP) supplements and updates the MEFP signed by the authorities on February 28, 2012.** It describes recent economic developments, program implementation, the macroeconomic outlook, and the policies to be conducted in 2013. The program supported by the Extended Credit Facility arrangement (ECF) remains focused on the same core elements: maintaining macroeconomic stability, increasing resilience to shocks, redoubling tax collection efforts, improving budget execution, enhancing transparency in the mining and petroleum sectors, improving debt management, and increasing support for development of the private and financial sectors. These objectives are consistent with the recently adopted 2012–2015 Economic and Social Development Plan (PDES) and based on the progress achieved under the 2008–2012 Accelerated Growth and Poverty Reduction Strategy, the Program of the President of the Republic, and the Statement of General Government Policy.

RECENT DEVELOPMENTS AND OUTLOOK

2. **Economic trends were positive as a whole in 2012**. According to projections, the economy is expected to grow by about 11¼ percent, buoyed by the start of oil production and a good harvest. Although the food shortages following the 2011 drought drove up food prices, headline inflation remained low in 2012. Our food support programs continued to contain food prices, and their impact on inflation remained limited.

3. **Fiscal policy has remained broadly on track.** During the first six months of the year, the overall fiscal balance (commitment basis, including grants) reached a surplus equivalent to ½ percent of annual GDP, against a deficit of 1½ percent of annual GDP projected under the program. Revenue, however, was 1 percent of annual GDP below target, mainly reflecting lower-than-projected oil revenue and weak customs revenue due to delays in customs administration reforms. The lower revenue was more than offset by reduced expenditures on projects. Fiscal performance deteriorated during the third quarter, reflecting, inter alia, higher outlays for education and the military. We have taken measures to limit spending in the fourth quarter of the year.

4. The balance of payments position in 2012 was marked by a significant improvement in the current account balance, associated with rising natural resource exports. As a result, net foreign assets are expected to increase by roughly CFAF 99 billion.

5. Growth of broad money accelerated to 33½ percent in November 2012 (12-month basis) and credit growth stood at 24 percent in November 2012, driven by high credit demand from firms in the petroleum and trade sectors. The velocity of circulation has been on a downward trend in recent years, reflecting the deepening of the financial sector.

6. The short- and medium-term macroeconomic outlook is positive, albeit subject to various risks. Economic growth in 2013 will be supported by the continued expansion of the natural resource sector. The fruits of investment activities are expected to contribute to real GDP growth of around 6¼ percent in 2013. With lower food prices following the arrival of new harvests on the market, inflation is expected to remain low in 2013. The fragile security situation in the region and Niger's vulnerability to natural disasters, as demonstrated by the recent floods, represent risks for the macroeconomic outlook.

A. Program Performance in 2012

7. Implementation of the program was mixed. Delays in customs administration reforms and low oil exports relative to projections are expected to produce a revenue shortfall of about 2 percent of GDP in 2012. However, delays in executing the investment budget enabled us to meet the end-June performance criteria relating to domestic financing and the reduction of domestic arrears. Poverty-reducing expenditures was also affected by delays in budget execution and the priority given to security expenditure. The implementation of the structural reform program also met with delays, and the quantitative performance criterion relating to non-concessional financing was not observed because of the contracting of a CFAF 50 billion non-concessional budget loan with the Republic of Congo, although it was not disbursed.

8. Measures were taken to speed the implementation of the structural reform program. Following certain delays, we prepared quarterly budget execution reports for the first three quarters of the year; work is under way to limit expenditure committed without payment order (DENO) to a maximum of 5 percent of spending commitments; and a set of short- and medium-term anti-fraud measures, described in Paragraph 19 below, are expected to improve performance at the customs administration. Known importers are issued tax identification numbers in 2013 (prior action). A timetable was established for the closing of irregular and inactive bank accounts, which will take place by end-March 2013. We also had agreed to revise the Investment Code to eliminate the possibility of established telecommunications companies being granted exemptions when they introduce new technologies (benchmark for 30 September). However, there is no need to revise the Investment Code to achieve this aim; the current exemptions are due to expire in 2012–13 and will not be renewed.

9. **Regarding the non-concessional budget loan from the Republic of Congo** in the amount of CFAF 50 billion (1.5 percent of GDP), we devoted significant efforts to renegotiating the financial terms of the loan to satisfy the program concessionality requirements. In light of delays in concluding the negotiations, the government decided to forgo the loan contemplated with the Republic of Congo.

ECONOMIC OBJECTIVES AND POLICIES FOR 2013

A. Fiscal Policy and External Financing

10. **The 2013 budget proposal was recently adopted by the National Assembly.** The overall balance (excluding refinancing of the SORAZ[1] refinery) is expected to represent roughly 4 percent of GDP, a slightly lower percentage than the original program, with cash reserves on the order of CFAF 15 billion (roughly one week of domestically financed government expenditures) accumulated at the central bank to increase Niger's resilience to shocks.

11. **With lower revenue than anticipated in 2012, budgeted revenue for 2013 is expected to total about 17.1 percent of GDP** rather than the 19 percent projected under the initial program. Customs duties are expected to increase by 19 percent with the adoption of the new action plan to strengthen customs administration capacities. The petroleum sector is expected to produce at 80 percent of capacity, or 16,000 barrels a day, resulting in projected government revenue of CFAF 61 billion.

12. **The 2013 budget continues to be driven by the government's goal of devoting substantial resources to capital investment.** At 16.3 percent of GDP, more than half of total spending in 2013 will be allocated to investment projects—of which 6.8 percent of GDP will be domestically financed. These projects are expected to pave the way for the medium-term growth essential to poverty reduction.

[1] We expect to sign a new project loan equivalent to CFAF 435 billion in 2013 to refinance the existing loan for construction of the refinery. The existing loan was contracted by the refinery with a partial guarantee provided directly by the government. The government will onlend the loan to the refinery.

13. We expect to mobilize roughly CFAF 110 billion in external budget financing in the form of grants and concessional loans, of which CFAF 26 billion will be from the World Bank, CFAF 37 billion from the European Union, and CFAF 47 billion from other multilateral and bilateral donors. We have identified about CFAF 345 billion in project financing.

Public Financial Management

14. In December 2011, the government began implementing its program of medium-term public financial management reforms for the period 2012–2014. In this context, a new framework law governing budget laws was adopted that provides enhanced transparency and disclosure requirements. In accordance with the new framework law, the government published the 2013 budget documents on the website of the National Statistics Institute (INS). The current procurement code served to increase transparency and oversight of contract awards, consistent with WAEMU directives. The 2013 budget was based on the three-year global medium-term expenditure framework (MTEF).

15. In the interest of improved budget execution, we prepared comprehensive quarterly budget reports and submitted them to the IMF. It was initially difficult to present the reports on a commitment category, payment order, and payment basis, and production of the reports was delayed. Once finalized, however, the reports served to improve transparency and expenditure monitoring. In accordance with the new framework law, budget execution reports will be published and submitted to the National Assembly. An initial simplified report is currently available to the public on the INS website. In 2013, we will continue to prepare quarterly budget execution reports on a commitment, payment order, and payment basis (quarterly structural benchmark) and submit them to the IMF within six weeks after the end of the quarter.

16. We are determined to redouble efforts to limit expenditure executed through exceptional procedures to 5 percent of total spending commitments (structural benchmark for each quarter). We established a committee, which includes the Directorate General of the Budget, the Directorate General of the Treasury and Public Accounting, and the Directorate General of Financial Control, to improve the monitoring of expenditure executed under exceptional procedures. Moreover, the Prime Minister sent all the ministers a letter reminding them of the need to adhere to standard procedures and avoid the use of exceptional procedures, which should be used only for expenditure associated with medical evacuations, mission expenditure, external debt, and urgent, essential expenditure, as provided by Article 61 of the General Public Accounting Regulations.

17. We made tangible progress in implementing a Treasury single account (TSA). An inventory of the 1,954 bank accounts held by public entities (structural benchmark for end-June 2012) indicates a total balance of roughly CFAF 55 billion (1.5 percent of GDP). To implement the TSA, we plan to close (i) all the commercial bank accounts of administrative public entities that have already established accounts at the Treasury; and (ii) all the accounts of ministries and central government institutions, the balances of which will be transferred to the TSA at the BCEAO. Based on the proposed program, consultation is under way with the units owning 397 accounts already identified for closing.

18. We are committed to increasing the pace of budget execution. Budget execution reports indicate that expenditure execution, particularly for the investment budget, is slowed by delays in releasing appropriations. In 2013, we will expedite budget execution by releasing quarterly appropriations no more than four weeks after January 1 for the first quarter and within two weeks after the start of the other quarters.

19. We will continue our efforts to improve cash flow management. In particular, we intend to develop quarterly cash and commitment plans that take account of spending ministries' plans for contract awards; the cash plans and commitment plans will be aligned with one another and updated monthly (structural benchmarks for each quarter except first quarter).

B. Tax and Customs Administration

20. We prepared a comprehensive action plan to correct problems at the customs administration. The main causes of the problems include weaknesses in ex post inspections, the irregular use of exemptions, and other administrative and technical irregularities. The action plan includes measures to monitor exempt transactions, ensure that documents cannot be falsified, strengthen the units responsible for ex post inspections, and in general intensify anticorruption efforts and strengthen the operational capacities of the customs administration. As of January 1, 2013, all known importers are assigned a tax identification number to reduce fraud and increase tax revenue (report on implementation of this measure to be submitted as a prior action). Additional measures that will support the achievement of customs revenue objectives for 2013 include: (i) the implementation of scanners; (ii) the establishment of customs offices at mining and petroleum production sites (the refinery SORAZ, the Agadem oil field, and the Azelik and Imouraren uranium mines); and (iii) the automation of customs procedures (warehouse and exemption management).

C. Tax Policy

21. The 2013 budget law includes certain tax-related changes. In particular, certain exceptions will be introduced to the highest rate of 2 percent for the minimum flat tax introduced in January 2012; the compensations paid to workers laid off for economic reasons, and voluntary departures proposed by employers will be exempt from the unified tax on wages and salaries (IUTS). The domestic fuel tax (TIPP) will be reduced from 15 percent to 12 percent in response to citizen demands.

D. Debt-Related Issues

22. We remain committed to strengthening public debt management to ensure that the financing of our investment plans does not compromise long-term debt sustainability. Staff of the Directorate of Debt of the Ministry of Finance received training, including from AFRITAC West. We will continue to submit semiannual reports to the IMF staff on existing debt, new debt contracted, and new loans under negotiation. We recently enhanced the status and role of the National Public Debt Management Committee (CNGDP) within the administration. We will submit any new loan or government guarantee, including financing in the natural resource sector, for its review. Also, the CNGDP produced its first report on debt sustainability in October 2012 without assistance from external experts.

23. Progress is under way to consolidate the Ministry of Finance debt management authority. Responsibility for the management of domestic and external debt and arrears is currently divided between the Directorate of Debt and the Autonomous Center for Repayment of Domestic Public Debt (CAADIE). A proposed order to dissolve the CAADIE is pending adoption by the government. Meanwhile, we are determined to resolve the problem of arrears and the debt owed by public enterprises. We intend to prepare an inventory of arrears associated with public enterprises and develop a plan to clear them before the end of first quarter 2013, while also ensuring that no new arrears are accumulated.

24. We intend to continue conducting a prudent debt policy. We will continue to limit government guarantees and carefully assess the impact of any new borrowing on debt sustainability. Non-concessional borrowing will continue to be limited to high-yield, properly evaluated commercial and infrastructure projects that will generate sufficient revenue for the government to cover the associated debt service. We will advise the IMF staff at the start of negotiation of any proposed non-concessional loan and provide the relevant feasibility and profitability evaluations.

25. We negotiated a loan in the amount of US$880 million (13 percent of GDP) with the Exim Bank of China to replace the current oil refinery (SORAZ) financing. Our aim is to ensure that the loan terms are concessional and that the government's financial guarantees for the refinery are limited to 40 percent.

E. Reforms in Natural Resource Management

26. In November 2011, the Zinder refinery started operations, and Niger became an oil-producing country. During the first year in operation, production from the refinery was below forecasts, at roughly 66 percent of its 20,000-barrels-per-day capacity. Exports of refined products were limited due to the lack of clients during the initial months of the year and other technical and administrative difficulties. As a result, the refinery could accumulate a substantial financial deficit in 2012.

27. We are aware of the critical importance of measures to ensure the refinery's short- and medium-term profitability. A technical committee was established with responsibility for the refinery's performance. In addition, two audits (upstream and downstream processes) are under way. The provisional results of the audit of upstream costs are already available, and the final report is scheduled to be submitted in mid-February 2013. For the refinery audit, an international firm was selected on December 19, 2012 and is now conducting its work. In addition, the committee completed a revaluation of SORAZ expenses, certain of which were determined to be unjustified and were disallowed. Simulations conducted on that basis indicate the possibility of significantly reduced production costs. Accordingly, the action plan proposed by the committee overseeing the refinery's performance will be enhanced by the results of the audit in progress and additional measures, including (i) refinancing of the SORAZ loan, (ii) harmonizing the terms of supplier credits between SORAZ and the national petroleum distribution company SONIDEP, (iii) clearing the SONIDEP arrears vis-à-vis SORAZ, for which the final payment will be made on February 19, 2013, and (iv) the implementing effectively a customs bureau to verify SORAZ inputs and outputs.

28. While awaiting completion of the refinery audit, it will be important to ensure that petroleum sector revenue collection remains compatible with the 2013 budget and to prevent further losses at the refinery. To achieve these aims, the selling price of crude oil and the ex-refinery prices of petroleum products destined for the local market will be set to allow the refinery to at least balance its own accounts during the first half of 2013.

29. Prospecting is under way to identify a sufficient level of reserves for a crude export project. Negotiations are currently ongoing with Chad and Cameroon to use the pipeline running through the two countries.

30. The government will continue to expand government oversight of the natural resource sector. This will facilitate the flow of information and adequate coordination between government representatives at each natural resource development enterprise. In addition, the state-owned mining company SOPAMIN recently dispatched engineers to mining companies to supervise the sector.

31. Reflection on SOPAMIN's strategic focus is continuing, and a report will be produced to that effect. We will ensure that the full amount of all dividends is remitted to the Treasury. SOPAMIN will retain its role as the government's portfolio manager for mining projects.

32. The government is determined to continue ensuring transparency in the extractive industries. Niger remains a member of the Extractive Industries Transparency Initiative (EITI), and petroleum receipts for 2012 and thereafter will be included in the EITI reporting process. We plan to enhance the transparency of refinery operations and exports through the publication of monthly statistics for the petroleum sector.

F. Financial Sector

33. We remain intent on improving financial intermediation. Financial sector development has progressed well; but because it started from a low baseline, access to credit remains limited to certain key sectors. The financial sector development strategy, prepared with assistance from the World Bank and other donors, provides the key framework for reforms in this area. We intend to adopt the relevant orders to implement the financial sector reform program without delay. We are convinced that the implementation of the reform program will ensure that financial deepening benefits all sectors.

34. Prudential indicators for the sector showed mixed progress. The transition to the new minimum capital standard was completed, with all but one bank—which is currently being restructured—meeting the requirement. However, not all prudential ratios have been met; for example, several banks' liquidity ratios are below the current minimum. Two banks are currently being restructured: one bank and one financial institution in liquidation. We will continue to monitor closely the banking sector, take the measures needed to ensure the sector's viability, and strengthen supervision in cooperation with the BCEAO.

35. The government recently acquired a 43.2 percent interest in Niger's Banque Internationale pour l'Afrique (BIA) from Coris Bank of Burkina Faso, and made a commitment to the Banking Commission to sell all the shares acquired to substantial shareholders within a maximum of one year.

G. Business Climate

36. **We remain committed to improving the business climate to allow the private sector to fulfill its key role of ensuring sustained, job-creating growth and medium-term diversification**. A special ministry was created with responsibility for private sector promotion. In the context of the action plan prepared to that end, the government issued an order instituting a charter for small and medium-size enterprises (order 2010-88 of December 16, 2010). We also began implementation of the following measures: (i) the simplification of procedures for starting a business; (ii) revision of the activities of the National Private Investors Board (CNIP), which provides opinions to the authorities on approaches to private sector promotion; (iii) the institution of ongoing dialogue and a framework for cooperation between the private sector (represented by the Chamber of Commerce) and the ministry; (iv) the establishment of a new entity (the Maison de l'Entreprise) to support the business formality center (CFE) and the investment promotion center (CPI); (v) the implementation of an institutional structure to improve business climate indicators; (vi) the launch of a program to integrate trade in development strategies (Integrated Framework), together with the implementation of a management unit; (vii) the adoption of a law on public-private partnerships and the implementation of a technical coordination unit; and (viii) consultation on access to financing for enterprises. Also, regarding the activities of the Multisector Regulatory Authority and efforts to contain the rising cost of living, we plan to revise order 92-02 of July 7, 1992, the pricing and competition regulations, notably by drafting a law on competition and the protection of consumer rights. Also planned for the beginning of 2013 is the development of a commercial policy based on the strategic objectives of the 2012–2015 Economic and Social Development Plan, national sector strategies, and the WAEMU Common Commercial Policy.

37. **Niger joined the Multilateral Investment Guarantee Agency (MIGA), the political risk insurance arm of the World Bank Group.** Foreign direct investment in the country is now eligible for the agency's political risk insurance. MIGA guarantees are expected to help attract private sector investors and lenders and assist investors in obtaining access to sources of financing under more favorable financial terms.

PROGRAM MONITORING

38. **Program monitoring will be based on performance criteria (Table 1) and structural benchmarks and prior actions (Table 2).** The authorities will provide IMF staff with the statistical data and information identified in the attached Technical Memorandum of Understanding, and any other information they deem necessary or that IMF staff may request for monitoring purposes.

During the program period, the government will refrain from introducing or tightening restrictions on payments and transfers pertaining to current international transactions without prior approval from the IMF; introducing or modifying any multiple exchange rate practices; concluding bilateral agreements not in compliance with Article VIII of the IMF Articles of Agreement; and introducing or tightening import restrictions for balance of payments purposes.

39. The 2013 program will be monitored through semiannual reviews. The second, third, and fourth program reviews are expected to take place in May and November 2013, and May 2014, respectively.

Table 1. Niger: Quantitative Performance Criteria and Indicative Targets, January 1, 2013–December 31, 2013

(Billions of CFA francs)

	End-March Indicative Targets	End-June Performance Criteria	End-September Indicative Targets	End-December Performance Criteria
		Prog.		
A. Quantitative performance criteria and indicative targets				
(cumulative from December 31, 2012)				
Net Domestic Financing of the Government[1, 2]	0.0	-19.0	-24.7	-25.4
Reduction in domestic payment arrears of government obligations[3]	-1.3	-2.5	-3.8	-5.0
Memorandum item:				
External budgetary assistance [4]	9.9	66.2	86.9	110.1
B. Continuous quantitative performance criteria				
Accumulation of external payments arrears	0.0	0.0	0.0	0.0
New external debt contracted or guaranteed by the government with maturities of less than 1 year[5]	0.0	0.0	0.0	0.0
New nonconcessional external debt contracted or guaranteed by the government and public enterprises with maturities over 1 year [6]:	0.0	0.0	0.0	0.0
C. Indicative Targets				
(cumulative from December 31, 2012)				
Basic budget balance (commitment basis, excl. grants)[7]	-12.1	-44.5	-54.7	-522.1
Total revenue[8]	125.7	280.5	439.7	617.8
Spending on poverty reduction[9]	72.0	170.3	259.2	366.7

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, falls short of or exceeds program forecasts. If disbursements are less (higher) than the programmed amounts, the ceiling will be raised (reduced) pro tanto, up to a maximum of CFAF 15 billion at the end of each quarter of 2013.

[3] Minimum.

[4] External budgetary assistance (excluding net financing from the IMF).

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

[6] Excluding debt relief obtained in the form of rescheduling or refinancing.

[7] Minimum. The indicative target assumes that a new project loan of 435bn CFAF (to refinance the loan for the construction of the refinery Soraz) will be disbursed in the fourth quarter.

[8] Minimum.

[9] Minimum.

Table 2. Niger: Prior Actions and Structural Benchmarks, 2013

Measure	Timetable	Macroeconomic Rationale	Progress
Adoption by the Council of Ministers of an action plan discussed with IMF staff to provide a sound financial footing for the refinery, including a decision to set ex-refinery prices of petroleum products and crude oil input prices at levels that ensure the profitability of the refinery and the petroleum sector.	Prior action	Increase revenues from petroleum production; reduce risks for the government budget	Met
Adopt a decision to issue a tax identification number to all known commercial importers in order to reduce fraud and increase tax revenue (submission of a report on implementation of this measure).	Prior action	Increase tax revenue	Met
Prepare comprehensive quarterly budget reports on a commitment, payment order, and payment basis, to be submitted to IMF staff within six weeks.	Quarterly	Improve budget and cash flow management	
Limit unauthorized expenditures to a maximum of 5 percent of spending commitments, with the exception of debt service payments and budget expenditure associated with exemptions.	Quarterly	Improve budget and cash flow management	
Establish a Treasury single account.	End-December 2013	Improve cash flow management	
Quarterly budget allocations will be released no later than four weeks after January 1, 2013 for the first quarter and within two weeks after the start of other quarters.	Quarterly	Improve budget execution	
Prepare quarterly cash management and commitment plans that take account of spending ministries' plans for contract awards; the plans will be aligned with one another and updated monthly.	Quarterly (Q2-Q4)	Improve cash flow management	

ATTACHMENT II—TECHNICAL MEMORANDUM OF UNDERSTANDING

Niamey, February 28, 2013

1. **This technical memorandum of understanding defines the performance criteria and indicative targets of Niger's program under the Extended Credit Facility arrangement (ECF) for the period 2012–Q1 2015.** The performance criteria and indicative targets for end-June and end-December 2013 are set out in Table 1 of the attached Memorandum of Economic and Financial Policies (MEFP) dated February 28, 2013. This technical memorandum of understanding also sets out data-reporting requirements for program monitoring.

DEFINITIONS

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

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

b) As specified in point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF, as amended effective December 1, 2009, **debt** will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, 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 are as follows: (i) loans, i.e., 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, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided 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 (e.g., payment on delivery) will not give rise to debt.

c) **External payments arrears are payments due but not paid. Domestic payments arrears** are domestic payments owed by the government but not paid. They include authorized fiscal year expenditure that is not paid within 90 days.

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

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;** (ii) **net nonbank domestic financing of the government**, including government securities issued in CFAF on the WAEMU regional financial market and not held by resident commercial banks, proceeds from the sale of government assets, and privatization receipts.

4. Net bank credit to the government is equal to the balance of government claims and debts vis-à-vis national banking institutions. Government claims include cash holdings of the Nigerien Treasury, secured obligations, deposits with the central bank, and deposits of the Treasury (including regional offices) with commercial banks. Government deposits with commercial banks are excluded from government claims insofar as they are used solely to finance externally financed capital expenditure.

5. Government debt to the banking system includes assistance from the central bank (excluding net IMF financing under the ECF and the CFAF counterpart of the 2009 General SDR Allocation), assistance from commercial banks (including government securities held by the central bank and commercial banks), and deposits with the CCP (postal checking system).

6. The scope of net bank credit to the government as defined by the BCEAO includes all central government administrations. Net bank credit to the government and the amount of Treasury bills and bonds issued in CFAF on the WAEMU regional financial market are calculated by the BCEAO.

7. Net nonbank domestic financing includes (i) the change in the stock of government securities (Treasury bills and bonds) issued in CFAF on the WAEMU regional financial market and not held by resident commercial banks; (ii) the change in the balance of Treasury correspondents' deposit accounts; (iii) the change in the balance of various deposit accounts at the Treasury; and

(iv) the change in the stock of claims on the government forgiven by the private sector. Net nonbank financing of the government is calculated by the Nigerien Treasury.

8. The 2013 quarterly targets are based on the change between the end-December 2012 level and the date selected for the performance criterion or indicative target.

Adjustment

9. The **ceiling on net domestic financing of the government** will be subject to adjustment if disbursements of external budgetary support net of external debt service and external arrears payments, including disbursements under the ECF, fall short of program projections.

10. If, at the end of each quarter of 2013, disbursements of external budgetary support fall short of the projected amounts at the end of each quarter, the corresponding quarterly ceilings will be raised pro tanto, up to a maximum of CFAF 15 billion.

Reporting requirement

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

B. Reduction of Domestic Payments Arrears

Definition

12. The reduction of domestic payments arrears is equal to the difference between the stock of arrears at end-2012 and the stock of arrears on the reference date.

13. The *Centre d'amortissement de la dette intérieure de l'État* (CAADIE) and the Treasury are responsible for calculating the stock of domestic payments arrears on government obligations and recording their repayment.

Reporting requirement

14. Data on the stock, accumulation (including the change in Treasury balances outstanding), and repayment of domestic arrears on government obligations will be provided monthly, within six weeks following the end of each month.

C. External Payments Arrears

Definition

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

Reporting requirement

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

D. External Non-concessional Loans Contracted or Guaranteed by the Public Sector

Definition

17. The government and the public enterprises listed in ¶21 will not contract or guarantee external debt with an original maturity of one year or more and having a grant element of less than 35 percent. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[1] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD).[2] For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 years to 19 years, 1.15 percent for 20 years to 29 years, and 1.25 percent for 30 years or more).

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[1] The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

[2] For debts in foreign currencies for which the OECD does not calculate a CIRR, calculation of the grant element should be based on the composite CIRR (weigthed average) of the currencies in the SDR basket.

18. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by Decision No. 6230-(79/140) of the Executive Board of the IMF, as amended effective December 1, 2009, but also to any obligation contracted or guaranteed for which no value has been received. However, this performance criterion does not apply to financing provided by the IMF and to debt rescheduling in the form of new loans.

19. For the purposes of the relevant assessment criteria, the guarantee of a debt arises from any explicit legal obligation of the government to service a debt in the event of nonpayment by the debtor (involving payments in cash or kind).

20. For the purposes of the relevant performance criterion, external debt is defined as debt borrowed or serviced, or requiring repayment, in a currency other than the CFA franc. This definition also applies to debt among WAEMU countries.

21. For the purposes of this performance criterion, the public sector includes the government, as defined in ¶2 above, and the following public enterprises: (i) Société Nigérienne d'Electricité (Nigelec); (ii) Société de Construction et de Gestion des Marchés (Socogem); (iii) Société de Patrimoine des Eaux du Niger (SPEN), (iv) Société Nigérienne de Charbon (Sonichar), (v) Société Nigérienne des Produits Pétroliers (Sonidep), (vi) Société Nigérienne des Télécommunications (Sonitel), (vii) Société de Patrimoine des Mines du Niger (Sopamin); and (viii) Société Hôtel Gaweye (SPEG).

Reporting Requirement

22. Details on all external public sector debt will be provided monthly, within six weeks after the end of each month. The same requirement applies to guarantees granted by the central government. The Ministry of Finance will regularly forward to Fund staff a list of loans in process of negotiation. It will also prepare semiannual reports on any external debt contracted or in process of negotiation and the terms thereof, as well as on the borrowing program for the next six months, including the terms thereof, and will forward them to Fund staff.

E. Short-Term External Debt of the Central Government

Definition

23. The government will not accumulate or guarantee new external debt with an 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 External Debt in Fund Arrangements adopted by Decision No. 6230-(79/140) of the Executive Board of the IMF, as amended effective December 1, 2009, but also to any obligation contracted or guaranteed for which no value has been received. Short-term loans related to imports are excluded from this performance criterion, as are short-term securities issued in CFAF on the regional financial market.

Reporting requirement

24. Details on all external government debt will be provided monthly, within six weeks following the end of each month. The same requirement applies to guarantees granted by the government.

QUANTITATIVE TARGETS

F. Definitions

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

26. The basic fiscal deficit is defined as the difference between: (i) total tax revenue as defined in ¶22; and (ii) total fiscal expenditure excluding externally financed investment expenditure but including HIPC-financed expenditure.

27. The floor on poverty-reducing expenditure is an indicative target for the program. This expenditure comprises all budget lines included in the Unified Priority List (UPL) of poverty-reducing and HIPC-financed expenditure.

G. Reporting Requirement

28. Information on revenue and expenditure will be provided to the IMF monthly, within six weeks after the end of each month.

29. Information on UPL expenditure will be provided to the IMF monthly, within six weeks after the end of each quarter.

ADDITIONAL INFORMATION FOR PROGRAM MONITORING

H. Government finance

30. The government will forward the following to IMF staff:

- Detailed monthly estimates of revenue and expenditure, including priority expenditure, 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 of the budget, and changes in arrears and Treasury balances outstanding. These data are to be provided monthly, within six weeks following the end of each month;

- Comprehensive monthly data on net nonbank domestic financing: (i) the change in the stock of government securities (Treasury bills and bonds) issued in CFAF on the WAEMU regional financial market and not held by resident commercial banks; (ii) the change in the balance of Treasury correspondents' deposit accounts; (iii) the change in the balance of various deposit accounts at the Treasury (iv) the change in the stock of claims on the government forgiven by the private sector;
- Quarterly data on expenditure for UPL lines (statement of appropriations approved, disbursed, and used);
- Quarterly reports on budget execution, including the rate of execution of poverty-reducing expenditure and, in particular, the use of appropriations by the line ministries concerned (National Education, Public Health, Equipment, Agriculture, Livestock);
- Monthly data on the balances of accounts of the Treasury (Treasury trial balance) and of other public accounts at the BCEAO;
- Monthly data on Treasury balances outstanding, by reference fiscal year, with a breakdown of maturities of more than and less than 90 days;
- Monthly data on effective debt service (principal and interest) compared with the programmed maturities provided within four weeks after the end of each month; and
- List of external loans contracted or in process of negotiation and projected borrowing in the next six months, including the financial terms and conditions.

I. Monetary Sector

31. The authorities will provide the following information each month, within eight weeks following the end of each month:

- Consolidated balance sheet of monetary institutions and, in applicable cases, the balance sheets of individual banks;
- Monetary survey, within eight weeks after the end of the month (provisional data);
- Borrowing and lending interest rates; and
- Customary banking supervision indicators for banks and nonbank financial institutions (if necessary, these same indicators for individual institutions may also be provided).

J. Balance of Payments

32. The government will give IMF staff the following information:

- Any revision of 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 after the end of the reference year.

K. Real Sector

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

- Disaggregated monthly consumer price indexes, within two weeks following the end of each month;
- The national accounts, within six months after the end of the year; and
- Any revision of the national accounts.

L. Structural Reforms and Other Data

34. The government will provide the following information:

- Any study or official report on Niger's economy, within two weeks after its publication;
- 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;
- Any draft contract in the mining and petroleum sectors involving the direct financial participation or guarantee of the government;
- Any new information on the mining and petroleum sectors, including production and sales volumes, prices, and foreign investment; and
- Any agreement with private sector stakeholders having economic or financial repercussions for the government, including in the natural resources sector.

Summary of Data to be Reported

Type of Data	Tables	Frequency	Reporting Requirement
Real sector	National accounts.	Annual	End-year + 6 months
	Revisions of the national accounts.	Variable	8 weeks after the revision
	Disaggregated consumer price indexes.	Monthly	End-month + 2 weeks
Government finance	Net government position vis-à-vis the banking system.	Monthly	End-month + 6 weeks
	Complete monthly data on net nonbank domestic financing: (i) change in the stock of government securities (Treasury bills and bonds) issued in CFAF on the WAEMU regional financial market and not held by resident commercial banks; (ii) change in the balance of Treasury correspondents' deposit accounts; (iii) change in the balance of various deposit accounts at the Treasury; and (iv) change in the stock of claims on the government forgiven by the private sector.	Monthly	End-month + 6 weeks
	Provisional TOFE, including a breakdown of revenue (DGI, DGD, and Treasury) and expenditure, including the repayment of domestic wage and nonwage arrears as at end-1999, and the change in Treasury balances outstanding.	Monthly	End-month + 6 weeks
	Data on Treasury balances outstanding (RAP), by reference fiscal year (total and RAP at more than 90 days).	Monthly	End-month + 6 weeks
	Monthly statement of Treasury correspondents' deposit accounts.	Monthly	End-month + 6 weeks
	Execution of the investment budget.	Quarterly	End-quarter + 8 weeks
	Table of fiscal expenditure execution, unified list expenditure, and HIPC-financed	Quarterly	End-quarter + 6 weeks

Type of Data	Tables	Frequency	Reporting Requirement
	expenditure.		
	Treasury accounts trial balance.	Monthly	End-month plus 6 weeks
	Monthly statement of the balances of accounts of the Treasury and of other public accounts at the BCEAO.	Monthly	End-month plus 2 weeks
	Petroleum products pricing formula, petroleum products tax receipts, and pricing differentials.	Monthly	End-month + 4 weeks
Monetary and financial data	Monetary survey.	Monthly	End-month + 6 weeks (provisional) End-month + 10 weeks (final)
	Consolidated balance sheet of monetary institutions and, in applicable cases, balance sheets of individual banks.	Monthly	End-month + 8 weeks
	Borrowing and lending interest rates.	Monthly	End-month + 8 weeks
	Banking supervision prudential indicators.	Quarterly	End-quarter + 8 weeks
Balance of payments	Balance of payments.	Annual	End-year + 6 months
	Balance of payments revisions.	Variable	At the time of the revision.
External debt	Stock and repayment of external arrears.	Monthly	End-month + 6 weeks
	Breakdown of all new external loans contracted and projected borrowing, including financial terms and conditions.		End-month + 6 weeks
	Table on the monthly effective service of external debt (principal and interest) compared with programmed maturities.	Monthly	End-month + 4 weeks