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INTERNATI ONAL MONETARY FUND

Minutes of Executive Board Meeting 08/47-2

3:35 p.m., May 28, 2008

2. Niger—Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Nonobservance of Performance Criteria, and Request for New Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Documents: BUFF/08/65; BUFF/08/71; EBS/08/56 and Correction 1 and Supplement 1

Staff: Sacerdoti, AFR; Boote, PDR

Length: 48 minutes

Executive Board Attendance

M. Portugal, Acting Chair

Executive Directors	Alternate Executive Directors
	A. Ndyeshobola (AE), Temporary
L. Rutayisire (AF)	K. Assimaidou (AF)
	V. De la Barra (AG), Temporary
	R. Moveni (AU), Temporary
W. Kiekens (BE)	
	A. Joseph (BR), Temporary
H. Ge (CC)	
J. Rojas(CE)	
	J. Perrault (CO), Temporary
	B. Claveranne (FF)
	C. Denk (GR), Temporary
	P. Ray (IN), Temporary
	G. Cipollone (IT), Temporary
	N. Imamura (JA), Temporary
	S. Maherzi (MD), Temporary
	A. El-Ganainy (MI), Temporary
	T. Rookmaaker (NE), Temporary
	J. Bergo (NO)
	L. Palei (RU), Temporary
	N. Alotaibi (SA), Temporary
	C. Sucharitakul (ST)
	D. Muradnazarov (SZ), Temporary
	M. Kaplan (UA), Temporary
	V. Pillai (UK), Temporary

L. Hubloue, Acting Secretary
R. Mowatt, Assistant

Also Present

IBRD: A. Bassani, O. Diagana. MESSAGE: A. Matoto (ST), D. Mevis (BE), P. Musinguzi (AE). African Department: M. Atingi-Ego, P. Callier, W. Camard, J. Clement, C. Gueye, E. Sacerdoti, G. Salinas. External Relations Department: L. Mboto-Fouda. Finance Department: R. Basu. Legal Department: C. Ogada. Office of the Managing Director: G. Schwartz. Policy Development and Review Department: A. Boote. Secretary's Department: P. Martin, M. Miller. Senior Advisors to Executive Directors: S. Bah (AF), G. Collange (FF), R. N'Sonde (AF), Y. Tok (ST). Advisors to Executive Directors: M. Leemets (NO), J. Yang (CC).

2. NIGER—SIXTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE POVERTY REDUCTION AND GROWTH FACILITY, REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND REQUEST FOR NEW THREE-YEAR ARRANGEMENT UNDER THE POVERTY REDUCTION AND GROWTH FACILITY

The staff representative from the African Department (Mr. Sacerdoti) submitted the following statement:

> The following information has become available since the staff report (EBS/08/56) was issued. It does not alter the thrust of the staff appraisal.
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> The Council of Ministers approved the supplementary budget in mid-May, and National Assembly approval is expected by the end of May. In addition to the CFAF 70 billion in spending shown in the staff report, the supplementary budget includes additional foreign-financed spending of CFAF 8 billion (0.4 percent of GDP) linked to Islamic Conference project aid for the agricultural sector, US Millennium Challenge grants for education and governance, and emergency budgetary support from the West African Economic and Monetary Union (WAEMU).
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> On the revenue side, new measures include (i) extension for the full year of the suspension of taxes on imported rice, which had been initially envisaged only for three months starting in March 2008; (ii) suspension for the full year of the VAT on domestically produced rice; (iii) suspension for the year of the excise tax on vegetable oils and the import tax on milk, and (iv) small reduction of the taxable base for sugar and flour for customs purposes. The cost of these measures is estimated at 0.6 percent of GDP, the bulk of which is generated by the measures on rice; the initial estimate given in the staff report was 0.2 percent of GDP for the three-month suspension of tax on imported rice. The revenue shortfall is offset by higher projected revenue from the re-export tax on transit trade to Nigeria and the profit tax on mining companies, and by refunds from the WAEMU of taxes on border trade. Corrections of the paragraphs of the MEFP related to the supplementary budget (¶¶ 37 and 38) have been issued (EBS/08/56, Correction 1).
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> The authorities have indicated (EBS/08/56, Correction 1, ¶ 5) that they may request an augmentation of the arrangement should

additional resources be needed to deal with the increase in international hydrocarbon and food prices.

The CPI fell by 0.2 percent in April, reflecting a welcome small decline in the price of rice and millet, which had increased significantly over the last six months. The suspension of taxes on rice in March 2008 presumably contributed to the decline.

The balance of payments projection for 2008 given in the staff report, indicating a current account deficit including grants of 9.6 percent of GDP, was calculated on the basis of recent price projections for refined petroleum products for 2008. Although the Research Department's latest oil price projections for 2008 indicate a further price increase of 17 percent, staff estimates that the impact of recent oil trends on the balance of payments of Niger in 2008 will be modest, on the order of 0.1 percent, for two reasons: First, the petroleum price most relevant to Niger's imports is that of refined products, Mediterranean origin, for which the increase from the average 2007 level has been lower than for the three main petroleum crudes. Second, the CFA franc has appreciated by another 5 percent against the US dollar from the level used in the staff report projections for 2008.

While the security stock of cereals is relatively high (68,000 tons), there are concerns that it would be inadequate for interventions for vulnerable populations should the September–October harvest be lower than expected. Donors are therefore seeking to accelerate imports of cereal for the reserve (120,000 tons), which should take place in the next few months. However, tensions in world cereal markets are making this more difficult.

Mr. Rutayisire submitted the following statement:

I would like to convey my Nigerien authorities' deep appreciation of the strong relationship and constructive dialogue that Niger maintains with the Fund. In particular, they thank staff for their collaborative engagement. The valuable policy advice of staff has been critical in contributing to maintain the PRGF program on track, particularly in a context of security concerns in the northern part of the country, which is compounded by the high—and still rising—oil and food prices, as well as cereal security concerns. My authorities appreciate staff's analysis on the key challenges facing the country over the medium term, and they look forward to continued dialogue on the policy priorities for the period ahead.

The successful implementation of the two consecutive PRGF arrangements over 2000-2004 and 2005-2008, as well as the lessons drawn from the satisfactory execution of the 2002-2005 PRSP, has enhanced my Nigerien authorities' program ownership. Such a positive development has contributed to improving their ability to manage Fund-supported programs, while enhancing the credibility of their commitment to future reforms. As many challenges still lie ahead, and given the remaining institutional and human capacity gaps, continuous Fund engagement in Niger is of critical importance. In this regard, in implementing a new Fund-supported program, my authorities intend to build upon the positive outcomes obtained during the current program, in particular by further improving the country's financial position through the strengthening of existing revenue mobilization measures and a better control of quality expenditures, while taking advantage of lessons drawn from weaknesses experienced throughout these years.

Based on their policy and reform track record since the last review, my authorities request waivers for the two missed performance criteria and the completion of the sixth review under the current PRGF program. They also request Board's approval of a successor PRGF program to enable them to tackle the remaining macroeconomic and structural reform challenges the country still faces.

Recent Economic Developments and Performance under the PRGF Program

Niger has made significant strides towards macroeconomic stabilization. GDP per capita has grown throughout the two PRGF-supported programs, with the exception of 2004 where drought shocks hit the economy with a significant adverse impact on agricultural production. Many social indicators, notably in the education and health areas have improved, enabling Niger to make progress among member countries in the UNDP Human Development ranking. Political stability, reflecting a good functioning of democratic institutions, and exceptional weather conditions are among the key reasons of these welcome developments.

Annual growth reached an average rate of 5.3 percent between 2005 and 2007 against 4.1 percent in 2002-2004. This reflects broad-based economic activities, stemming not only from the agriculture sector but also from construction, transport, and telecommunications sectors. However, facing the high political and social risks (including risk of riots) of the continued trend of increasing food prices, my authorities have suspended taxes on imported rice. They have also taken this opportunity to strengthen adequately food security, by accelerating the replenishment of cereal security stocks, which reached 78,000 tons at end 2007 against 65,000 tons last August. Efforts are underway aiming at boosting local rice production, revamping groundnut production and increasing oil refining.

With technical assistance from the Fund, the World Bank and other donors, my Nigerien authorities have diligently implemented several reform measures aimed at improving public finance management. These include the reinforcement of tax and customs administration, the simplification of tax code, the reduction of the number of nonfilers, the adoption of new budget classifications, which could facilitate the identification of poverty-related spending, the tightening of custom controls and procedures for procurement, and a better monitoring of budget execution. As a result, the level of revenue collection increased steadily, along with that of priority spending, while the basic budget deficit was brought back to an average of 1.1 percent of GDP between 2005 and 2007 (from 2.9 percent of GDP in the period 2002-2004). The good track record of policy implementation helped Niger benefit from HIPC and MDRI debt relief, bringing thereby the debt-to-GDP ratio from 52 percent at end 2005 to 16.3 percent at end 2007.

Thanks to the growing interest of external investors in the mining and telecommunications sectors, as well as the positive effect of the upward adjustment of 50 percent in uranium export prices, the external current account improved markedly. As for the capital account, capital inflows originated from both public and private external sources, with the later comprising mainly direct investments.

On the monetary and financial front, positive developments reflected banking sector's holding of substantial external assets. Credit to the economy has also continued to expand, accompanied by several reforms aimed at improving the financial soundness of banking institutions. Other structural endeavors comprise efforts to ensure financial soundness of public enterprises and to improve the business environment.

The program performance since the last review has been broadly satisfactory. All quantitative performance criteria were met, except that related to the reduction of domestic arrears, which was missed by a small margin and was observed in February 2008. A preliminary assessment at mid-May 2008 shows continuous observance of these criteria up to date.

As regards structural performance criteria, all of them were met at end-2007. However, the continuous structural performance criterion on the pricing of petroleum products was missed in May 2008. This nonobservance is due to a recourse to tax deferment given that, with the current level of international oil prices, it became impossible to apply the full pass-through without incurring the risk of violent social unrests, similar to those experienced in March 2005 and recently experienced in many countries in the region. I have many times in the Board raised concerns over such real difficulties experienced by a number of countries in my constituency in the application of the automatic oil price adjustment mechanism. The approach to this problem should be reconsidered more profoundly by the Fund with the aim to take into account the capacity and political economy constraints facing the individual countries, particularly in face of the current world oil and food price shocks. Regarding the structural benchmarks, 8 out of 11 of them were met. Regarding the two among the three missed benchmarks related to the settlement of arrears with local companies, my authorities are seeking a credible framework of negotiations, which could be acceptable by both parties. The completion of the third benchmark, which is related to the reduction of threshold of contracts on public procurement from CFAF 300.to CFAF 100 million, was rescheduled for September 2008.

Key challenges and Medium-term objectives

My Nigerien authorities are in full agreement with the staff on the key challenges they face going forward, which have been laid out in their Accelerated Development and Poverty Reduction Strategy. These include the need to consolidate growth and reduce poverty while preserving fiscal and debt sustainability.

Regarding the annual rate of 5 percent retained as medium-term growth objective under a new PRGF arrangement, my authorities recognize that it is not sufficient to meet all the MDGs by 2015. However, this objective has been set based on realistic assumptions which are consistent with the current economic and structural constraints facing the Nigerien economy, in particular the limited access to financing, the inadequate private sector support mechanisms in the country, and the weak business environment whose improvement requires several reforms currently underway. Other reforms aimed at boosting growth include measures to modernize agriculture, diversify the production and export bases, and enhance competitiveness.

In their new strategy of poverty reduction, my authorities have put emphasis on developing infrastructure. To this end, they have taken steps to finalize the medium-term expenditure framework (MTEF) for infrastructure and transportation, after those already achieved for education, health, and rural sectors. In their efforts to track priority spending, they have established since 2007 a standard list aimed to identify this category of expenditure, and envisage for the coming years to raise the level of these outlays beyond the current 13.2 percent of GDP. In their daunting endeavors to build infrastructure and reduce poverty, my authorities greatly appreciate the timeliness and predictability of external aid while highlighting the need to move ahead with appropriate reforms in order to maintain donor confidence. Timely external assistance is all the more critical as Niger is facing acute challenges with (i) tensions in world cereal markets, which makes it difficult to raise the country's security stock of cereals to a more comfortable level, and (ii) the sharp rise in international hydrocarbon and food prices, which may necessitate an augmentation of the PRGF arrangement going forward.

In order to maintain debt sustainability reached following debt relief under the HIPC and MDRI, my authorities remain committed to contract debt on concessional terms, on the same basis as during the ending program. They will also continue to strengthen public debt service to improve debt planning and monitor sustainability. I would like to take this opportunity to reiterate my authorities' call to the Fund to contribute actively to the efforts they are making to address the aforementioned challenges and preserve the gains achieved in macroeconomic stability and debt sustainability going forward.

The 2008 program

Fiscal Policy

The fiscal policy envisaged in 2008 puts more emphasis on the financing of priority sectors, including health, education, agriculture and governance, complying thereby with the objectives set forth in the DRPS. In so doing, my authorities will pay closer attention to the quality and transparency of fiscal management, and to accelerating the implementation of the Public Expenditure Management and Fiscal Accountability Review (PEMFAR). Taking into account the difficult situation created by the high food and oil prices and also incorporating additional foreign financing and budgetary support, notably from the Islamic Conference, the US Millennium Challenge Account and the WAEMU, a supplementary budget has been approved by the Council of Ministers recently and should be passed by the National Assembly soon.

On the revenue side, efforts underway in tax and customs administration will be reinforced in order to attain the 2008 revenue collection objective of 11.5 of GDP. Key measures towards strengthening the Investigation and Research unit and the Audit unit, improving tax audit, preparing the investment law, and enhancing real estate tax collection are being adopted. Concerning the latter measure, my authorities request technical assistance from the Fiscal Affairs Department to assess its impact on investment decisions in this area. Higher-than-projected revenue at end-April helps offset the revenue shortfall expected from new tax-reducing measures to alleviate the burden on the populations of rising prices of rice, vegetable oils, milk, sugar and flour.

With regard to expenditure, the envisaged measures aim to enhance fiscal oversight and the procurement units in the ministries, increase staffing in the Directorate having in charge the control of government procurement, improve the functioning of spending units, and further strengthen the audit court. In order to speed up the consumption of budget appropriations, a pilot unit will be created by mid-2008 with the specific objective of accelerating spending procedures. My authorities are well aware of the need to clear domestic arrears. In this regard, they are committed to meet the target of eliminating CFAF 15.2 billion in 2008, by giving priority to private suppliers.

Monetary Policy and Financial Sector

While pursuing their policy of keeping inflation under control, in particular by channeling government financing towards the regional capital market, my authorities will continue to remove the existing obstacles to financial intermediation, particularly by favoring credit to the economy. Their goal is to reach the projected credit growth of 12 percent in 2008.

Regarding the financial sector, in spite of its relatively sound financial position, my authorities intend to pursue the reforms underway. In this regard, the decree organizing the procedures for settling deposits at the former postal savings office will be adopted before end-September 2008. The new postal institution is scheduled to start its operations in 2008, and World Bank's assistance is expected to support the process. Likewise, the microfinance network will be strengthened. My authorities welcome the scheduled FSAP mission for September 2008. Its program, which includes analyses of factors limiting access to credit, is consistent with the government's objectives of improving financial intermediation and the business climate.

Other Structural Reforms

My authorities are fully committed to press ahead with the implementation of the structural reform agenda. As regards the business climate, they have already put in place an action plan which is being enriched by World Bank and private sector's inputs. In order to render the mining sector more attractive, the mining law adopted two years ago has been revised in early 2008. With the acceptance of Niger as an EITI candidate country in September 2007 and taking into account the increasing interest shown by external investors in the mining sector, my authorities are making every effort to obtain a full EITI membership status.

Conclusion

My Nigerien authorities have shown firm commitment to sound macroeconomic policies and reforms, as evidenced by the satisfactory implementation of the ending PRGF-supported program, as well as the important accomplishments made in the implementation of the PRSP, in particular in the health and education sectors. The finalization of a new poverty reduction strategy, largely supported by donors at the Conference held in Brussels last October, is also an important achievement. My authorities believe that an adequate approach to boost growth requires the firm implementation of their strategy, which supposes strengthening domestic revenue collection, maintaining macroeconomic stability, pursuing efforts to diversify production, executing steadfastly priority programs, and enhancing the business environment.

Maintaining a sustainable debt position while seeking additional financing needed to carry out their DPRS and make progress towards the MDGs remains an important challenge for my Nigerien authorities. More predictable and timely donor support is required to meeting the country's economic and developmental goals without endangering debt sustainability. In this regard, the authorities rely on the continuous support of the Fund, in particular through its catalytic role in mobilizing development partners' assistance. On their part, my authorities remain committed to pursuing a prudent external debt strategy in the post-HIPC and MDRI era. They will continue to aim at contracting debt only with a grant element of at least 35 percent in 2008 and beyond. As for the management of existing debt, they continue to apply a prudent approach, consisting of avoiding the accumulation of arrears and building capacity to develop a medium-term debt strategy and to analyze debt sustainability.

Based on their demonstrated track record of macroeconomic policy and structural reform implementation, and their commitment to a sound and realistic economic program going forward, I would like to ask Directors' approval of two waivers for the nonobservance of performance criteria and their support for the completion of the sixth review under the current PRGF arrangement. In light of the remaining challenges and the shocks stemming from the rising world oil and food prices, I also request the Board's support of my authorities' request of a successor PRGF arrangement.

Mr. El-Khouri and Ms. El-Ganainy submitted the following statement:

We thank staff for a well-written report and Mr. Rutayisire for his helpful buff statement. We commend the authorities for the solid track record in implementing the PRGF-supported program, which will expire end-May 2008. Indeed, the program has been instrumental in stabilizing the economy, restoring its creditworthiness, and enhancing public financial management. We also welcome the generally satisfactory performance since the fifth review, with all quantitative and structural performance criteria met, except for minor slippages. Considering the corrective measures taken, we support the requests for the waivers and the completion of the sixth review.

Despite the positive accomplishments during the 2005-08 program, Niger continues to face daunting challenges in the period ahead. These include consolidating growth to reduce poverty, especially in the face of rapid population growth and low social indicators, while at the same time maintaining macroeconomic stability, particularly in the current environment of rising food and fuel prices. Addressing these challenges would entail decisive progress with structural reforms aimed at enhancing the country's competitiveness and business climate, while maintaining budget discipline to create fiscal space to address the country's vast social and infrastructure needs without jeopardizing debt sustainability. A successor PRGF arrangement would buttress the authorities' efforts in addressing these challenges. Accordingly, and given the authorities' demonstrated strong track record on two successive PRGF arrangements since 2000 and their commitment to reforms, we support their request for a new PRGF arrangement.

The objectives of the 2008-11 program—which are in line with the priorities articulated in the authorities' new PRSP—appropriately focus on promoting growth, reducing poverty, and preserving fiscal and debt sustainability. However, the program entails risks, which are mainly related to the economy's susceptibility to natural shocks, as well as continued political difficulties. Ensuring the success of the program will, therefore, require strong ownership and strict implementation of the reform agenda. This would be all the more important as it would also facilitate the timely and predictable disbursement of much-needed external aid. We are in broad agreement with the thrust of the staff appraisal, and wish to offer remarks on some key issues.

We welcome the 2007 fiscal outturn, which outperformed the program's objectives. This has been reflected in smaller-than-expected basic and overall budget deficits, largely on account of higher-than-targeted revenues and lower-than-expected capital expenditures. Despite the commendable improvement in revenue collection, the ratio of tax revenue-to-GDP remains low, and significantly below the WAEMU convergence target. In this respect, we are encouraged by the authorities' continued efforts to enhance revenue mobilization through measures aimed at broadening the tax base. We note, however, the authorities' intention to reduce the business profit tax rate to align it with other countries in the region with the aim of boosting investment. In this connection, could staff comment on the potential size of the revenue losses associated with the implementation of such a measure, as well as the experiences of other countries in the region regarding its potential benefits in terms of increased investment? In any event, we encourage the authorities to be mindful of the budgetary impact resulting from such a measure, particularly in the current fiscal environment as Niger is already experiencing revenue losses due to trade liberalization.

On petroleum products price adjustments, we welcome the authorities' intention to continue to apply the monthly pricing mechanism according to the pass-through rule established in 2001. However, we note the intention to introduce an element of "flexibility" in applying the rule. We would appreciate an elaboration from staff on the reasons for and nature of such flexibility, as well as its potential impact on the budget. Looking ahead, it would be important to further strengthen public financial management to create much-needed fiscal space to address the country's development and social needs, while fostering the flow of external aid by improving the credibility of the authorities' policies and investors' confidence. The authorities' welcome participation in the Public Expenditure and Financial Accountability Program, which will be conducted by end-September 2008 in coordination with development partners, bodes well in this regard.

Maintaining a sustainable debt position while seeking additional financing to carry out the PRSP objectives is a challenging task. We note from the staff report that new borrowing under the successor program will be contracted on less concessional terms than the previous program. While this should provide the authorities with greater flexibility to contract loans needed to sustain growth, it would be crucial to remain prudent when contracting new loans to avoid the recurrence of debt distress. The authorities' commitment to maintaining such prudence, as indicated in Mr. Rutayisire's buff statement, bodes well in this regard. This would be critical to preserve debt sustainability, going forward, particularly in view of the results of the updated Debt Sustainability Analysis which points to the sensitivity of debt sustainability indicators to borrowing terms.

With these remarks, we wish the authorities success in facing the challenges lying ahead.

Mr. Gakunu and Mr. Ndyeshobola submitted the following statement:

We are grateful to staff for the clear and concise set of documents and to Mr. Rutayisire for the informative buff statement. We commend the authorities in Niger for the continued impressive performance of the economy and for maintaining sound macroeconomic management that has resulted in the attainment of the program's and the country's policy objectives. In spite of the difficult security circumstances, we note that GDP registered strong growth for four years in a row though now tapering off due to weaker investments, and inflation remained moderate. We also note that inflationary pressures picked up since 2007 owing to rising food and oil prices, and the risks remain to the up-side in the near term. We welcome the authorities' successful program implementation with all but two quantitative performance criteria as well as indicative targets through December 2007 and May 2008 being met. Given the solid track record in the implementation of the previous two programs and the current PRGF program, we support the completion of the sixth review and the associated waiver, and the proposed decision on the new three-year PRGF program.

Going forward, critical challenges remain as pointed out in the staff assessment. These include consolidating growth, preserving macroeconomic stability, and improving further fiscal management. We further note that the country's program faces additional challenges emanating from adverse climatic shocks, higher food and oil prices, and the security deficit linked to insurgency in the North. Since we are in broad agreement with the thrust of the staff appraisal, we will only limit our comments to some of the key issues, including macroeconomic stability, fiscal management and sustainability, and the new PRGF program.

Macroeconomic stability

We commend the authorities for the many achievements in respective fronts consistent with the Strategy for Accelerated Development and Poverty Reduction 2008-2012 and welcome their commitment to continue prioritizing macroeconomic stability both in the design and implementation of the program. In this regard, the authorities have rightly sustained their efforts on revenue mobilization, expenditure management and creditworthiness restoration. Political stability and favorable climatic conditions over the recent years also contributed to strong economic performance. This was paralleled by an increased fiscal space on account of higher and broadened revenues, and debt relief under the HIPC and MDRI that made it possible for the authorities to spend more on priority sectors under an effectively managed public finances. We note with encouragement that Niger continues to meet the convergence criteria of the WAEMU, an essential component for the enhanced regional integration framework.

We concur with staff assessment that the authorities are making commendable strides in the health and education MDG components. We also note the government's efforts to protect the vulnerable as evidenced by the action to suspend taxes on imported rice for a limited period in the face of high food prices. These efforts are also paralleled by measures to boost local rice production, revamp groundnut production and oil refining in order to reduce dependence on imports. We see merit in the authorities' strategy to prioritize infrastructure development as part of the overall policy framework for poverty reduction.

The authorities' determination to target monetary policy by reducing inflation, given the recorded increase in credit growth, is a move in the right direction and contributes towards sustaining the observance of the WAMU convergence criteria. We note the considerable improvements in the financial sector stability, in particular the soundness of the banking sector, with some progress being achieved in strengthening the supervisory framework. Nonetheless, we encourage the authorities to remain vigilant regarding the potential crowding-out effects of the viable projects by the increase in non-performing loans. We also welcome the authorities' pursuit of reforms to further improve the country's business environment as a basis for attracting and retaining foreign direct investment.

Fiscal management and sustainability

We concur with staff assessment that the authorities' fiscal policy stance supports the country's macroeconomic stability through its focus on strengthening revenue and expenditure management. In this respect, we encourage the authorities to pursue further fiscal consolidation. We also encourage them to maintain emphasis on public financing for priority sectors, including health, education, agriculture and governance with particular attention to improving the quality and transparency of fiscal management, and to accelerate the implementation of the public financial management and fiscal accountability review (PEMFAR). We also encourage the authorities to contain the fiscal deficit that is expected to widen by 3.7 percent in 2008. We commend the authorities for their commitment to continuing improving budgetary transparency and reporting.

New PRGF Arrangement

We are confident that in the light of the authorities' solid track record in the implementation of the program under the previous and current PRGF and the surmountable challenges facing the country, the proposed new three-year PRGF program will contribute towards supporting the reform effort under the program and meeting the authorities' development objectives. In this regard, we see merit of the new program, which aims at supporting the authorities' efforts to move towards achieving the MDGs while preserving economic stability through its emphasis on improving public expenditure management by integrating annual budgets with the PRSP, increasing transparency and controls, mobilizing more revenue, building up the financial sector, and enhancing the investment climate. The new PRGF program should be viewed as part of the timely support needed by the authorities to meet the critical challenges they face including the unprecedented surge in the food and oil prices.

We support the completion of the sixth review under the PRGF-supported program and the authorities' request for a new arrangement under the PRGF.

Mr. Guzmán and Mr. Umaña submitted the following statement:

Niger has made substantial progress in its economic performance in the last few years. It achieved a growth rate of 5.3 percent in the years 2005-07, inflation has been low until a recent spike caused by oil and food prices, its debt service has decreased dramatically and tax revenues have increased. Although the growth rate in 2007 slowed to a 3.2 percent due to a disappointing harvest, the country has the potential to grow at 5 percent per year, which would be essential if Niger wants to improve its chances of meeting the MDGs. Advances in primary school enrollment and reduction of infant mortality are encouraging and the country has moved up three positions in human development indicators.

The main challenges faced by Niger are to consolidate growth to be able to increase pro-poor spending and reduce the overall poverty rate while maintaining fiscal sustainability. In order to do this, public investment must be increased and aligned with PRSP priorities. The country faces important challenges due to its rapid population growth, low level of social indicators and the need for major investments in agriculture to improve food security, in particular at this juncture.

Niger received considerable debt relief from the HIPC and MDRI initiatives and its debt service went from 72.5 percent of GDP in 2002-04 to 16.3 percent of GDP in 2007. The fiscal space provided by debt relief has been complemented by revenue mobilization to provide more resources to the social sectors and infrastructure. Preservation of debt sustainability, while still attracting external financial support will be another important challenge, given the level of concessionality that HIPC countries must obtain.

It is encouraging that public finances are being managed more effectively and that progress was achieved in budget preparation and execution, transparency and controls. Reforms in the financial sector and improvement in the climate for doing business are also important positive steps, but additional efforts are required to support further growth. In this regard, timely disbursement of external aid is still essential and scaling up of aid would help accelerate growth.

There are serious risks faced by Niger including the armed insurrection in the North which can reduce available resources for social spending, and disrupt agriculture and mining. Climatic risks and drought are also significant risks, as well as the present international increases in oil and food prices. Comments by Staff on specific plans to deal with these issues would be appreciated.

Niger has a solid track record of program implementation with the Fund, having completed four PRGF arrangements, and there is a high level of ownership of the proposed program. We therefore support the staff's recommendation related to the completion of the sixth review of the PRGF and approval of the two waivers, as well as supporting the authorities request for a new PRGF arrangement.

Mr. Ge and Ms. Yang Fang submitted the following statement:

We thank staff for the report and Mr. Rutayisire for his buff statement.

We commend Niger's improved macroeconomic performance under the PRGF program. Although growth in 2007 slowed to 3.2 percent due to a disappointing harvest, output in the 2005-07 averaged 5.6 percent and is expected to stabilize at around 5 percent in the medium term. High and still rising energy and food prices pose severe challenges for macroeconomic and social stability. Inflation rebounded at end-2007 to 4.7 percent.

We welcome the authorities' efforts to strengthen public finance management. Their initiatives to enhance revenue collection and strengthen expenditure management have been successful and Niger has benefited from the HIPC and MDRI debt relief. We welcome the authorities' commitment to continue to strengthen public debt management and improve on debt sustainability.

Monetary policy conducted at the regional level has been successful in containing inflation so far. We welcome the priority the authorities are giving to improve the business environment—including favoring credit to the economy—which should be conducive to diversifying the economy and boosting growth. In the same vein, we welcome their commitment to pressing ahead with structural reforms and are pleased that much progress has been made in this area. Measures have also been taken to restructure and strengthen the financial sector.

On the issue of the application of the full pass-through mechanism of oil pricing, we sympathize with the authorities and join Mr. Rutayisire in encouraging the Fund to assess the constraints of individual countries more thoroughly and provide realistic advice.

The PRGF-supported program remains broadly on track. Given the authorities' strong and commendable commitment to sound macroeconomic policies and reforms, we support their request for waivers and staff's proposal for completion of the sixth review.

Looking forward, it is reassuring that the government is well aware of the daunting challenges it faces with regard to macroeconomic stability and poverty reduction. The authorities' ongoing efforts and sustained support from the international community and development partners are vital in preserving the gains achieved in macroeconomic stability and development. We support staff's proposal for a new PRGF arrangement.

With these remarks, we wish the Nigerien authorities every success in their future endeavors.

Mr. Moser and Mr. Muradnazarov submitted the following statement:

Niger's economic performance under the current program has been broadly satisfactory. Good progress has been achieved in maintaining economic growth with low inflation, the management of public finances has been improved and poverty related spending increased. Moreover, actions are underway to meet the remaining conditions set under the program. We therefore support the requested waivers and the completion of the sixth and final review.

We concur with staff that Niger is at a very critical stage of its economic development. Performance is commendable in many aspects but the debt situation remains fragile and very dependent on external financing. The current spike in food prices will put the recently improved fiscal position under pressure. Accelerating reforms aimed at promoting growth and further fiscal consolidation would reduce the country's vulnerability. We understand that access under the proposed new arrangement is in accordance with the norm for a fifth successive PRGF arrangement. However, given the complexity of Niger's case where both high food prices and high uranium prices affect macroeconomic stability, and given that the authorities have indicated that they may request an augmentation of the arrangement, we would have appreciate a more thorough assessment of the current account situation and the potential need for resources.

Fiscal Policy

Although there has been clear progress under the current program, the fiscal situation remains weak owing to disappointing domestic revenue collection and increased pressures to expand expenditure. Moreover, both the overall balance and the basic balance are expected to significantly deteriorate for 2008. Staff thus rightly emphasizes fiscal sustainability as a cornerstone of the proposed new PRGF arrangement, and we appreciate Mr. Rutayisire's affirmation that the authorities would like to use the proposed new arrangement to further improve the country's financial position through the strengthening of existing revenue mobilization measures and a better control of quality expenditures.

On the expenditure side, we note that progress has been made in spending management. In particular, a new list was established to help identify and track public expenditure on poverty reduction. We also note from Table 8 that pro-poor expenditures have increased during the current PRGF arrangement. Does the staff also have updated information on poverty indicators?

On the revenue side, the staff points to a marked increase in tax revenues since 2004. We do not share this view, however. As the figures in Table 2 indicate, the increase is mainly due to exceptional receipts in 2007 from the sale of mining assets and a telecom license. These are one-off revenues that will not be repeated. In fact, it is regrettable that despite four PRGF arrangements the tax revenue-to-GDP ratio is still at a very low level and below the WAEMU average. Strengthening domestic revenue collection and limiting tax exemptions should be a key priority, as it would create more space for poverty-related spending and infrastructure investments. We thus welcome the authorities' decision to carry out a fiscal ROSC and PEFA assessment for 2008. These exercises underline the authorities' commitment to enhance budgetary control and improve the implementation of fiscal measures. However, we wonder whether it is appropriate to undertake the two overlapping exercises at the same time. Staff's comments are welcome.

Unfortunately, there are only few structural benchmarks or performance criteria related to improving revenue collection in the program. Generally, structural conditionality covering the first year of the program is very limited and it does not allow dealing with the weaknesses on the revenue side. We note that institutional capacity has been strengthened thanks to technical assistance from donors (Box1). While we understand the merits of streamlining conditionality, we would have expected a more ambitious program with respect to the revenue side. Staff's comments are welcome?

Discussions in the past have emphasized the importance for Niger to maintain a high grant element for concessional loans (at about 50 percent). We are thus a bit puzzled that the new program allows for an average grant element of 35 percent while, at the same time, staff emphasizes the importance of attracting highly concessional loans. While we acknowledge that the debt situation has improved and high commodity prices will have a positive impact on Niger's exports, we wonder whether the signal sent to donors is the right one. This is even more important given the uncertain development of future commodity prices. The hard-won gains from debt relief need to be preserved.

Financial sector

A new PRGF program should also focus more closely on strengthening the financial sector. We note that the deposit-to-GDP ratio is among the lowest in the WAEMU region. The lack of access to finance reflects a considerable obstacle to growth. At the same time, the fact that nonperforming loans are on the rise clearly points to vulnerabilities in the banking system, and we encourage the authorities to undertake measures to further strengthen the supervisory and regulatory framework.

The authorities envisage an FSAP this year and we welcome this decision. We hope that the FSAP's findings and recommendations would provide a useful basis for the development of a comprehensive approach to develop the financial sector.

Structural Reforms

There is a great opportunity to expand the private sector and make it the driving force of long-term growth. However, for this to happen the government must provide the critical support needed to improve the business environment, enhance private sector confidence, and reinforce public/private partnerships. While the government has revamped the implementation of its reform agenda in the last few years, structural reforms have stalled. Effectively addressing existing shortcomings has the potential to considerably magnify the returns on public investment, kick-start growth, and contribute to the human development goals. To this end, speeding up the ongoing reform efforts, including a framing of the privatization agenda in the broader context of the growth strategy, accelerating the regulatory reforms and deepening the financial sector reforms are crucial.

Notwithstanding some improvements, the investment climate is still poor, mired in a series of constraints, including weak infrastructure, regulatory and administrative barriers to business development, and limited access to financing. In the World Bank's Doing Business in 2008 report Niger ranked low, 169th of 178 economies for improvements that ease the terms of doing business. In this context, we agree with the staff that continuous reforms to improve the investment climate would be a key factor for ensuring sustained growth and for diversifying the economy. Furthermore, we urge the authorities to continue with their efforts to enhance transparency, accountability, and good economic and financial management.

Mr. Murray and Mr. Moveni submitted the following statement:

We thank staff for the well-written report and Mr. Rutayisire for his informative buff statement. We applaud the authorities for making significant progress in stabilizing Niger's economy, including in particular mobilizing revenues and managing expenditures, and also for restoring Niger's creditworthiness through HIPC and MDRI. We also comment the authorities for achieving most of the quantitative and structural performance criteria, as well as all but three structural benchmarks.

Given the satisfactory program performance since the last review, we support the request of the authorities for the waivers of nonobservance of performance criteria under the current PRGF program, and the request for a successor PRGF program going forward. As with staff, we consider that these requests would help assist the authorities in consolidating the achievements they have made so far and in addressing macroeconomic and structural challenges needed to push the economy into a more sustainable footing.

We note that the authorities are planning on increasing public outlays to more than 13.2 percent of GDP in order to alleviate poverty. While there is merit in this strategy, we urge the authorities to exercise fiscal discipline. The authorities should ensure that the roadmap to achieving this objective is made within a stable macroeconomic framework. They should also be mindful about the downside risks associated with rising food and energy prices, insurgency in the North, unfavorable terms of trade swings, and the presidential and legislative elections scheduled for 2009. The road ahead may be difficult, but we encourage the authorities to remain steadfast with their reform agenda moving forward.

With these remarks, we wish the authorities success in their future endeavors.

Mr. Charleton and Mr. Perrault submitted the following statement:

We thank the staff for their report and Mr. Rutayisire for his helpful buff. We agree with the proposed waivers and the request for a new arrangement, and offer the following thoughts and questions on the program's design.

More information would be helpful to understand the impact of external aid on the economy. In paragraph 18, the staff indicates that a sustained increase in aid of 5 percent of GDP would raise annual real GDP growth by up to 1.3 percentage points. As there is little analysis provided to back this claim, it is difficult to agree or disagree with the staff's view. A historical perspective would be helpful given the long engagement of donors in Niger's economy. Is there any empirical evidence to suggest that these assumptions are realistic in Niger?

Perhaps more importantly, we are concerned by the message implied in the staff report – that sustained increases in loosely defined aid are a fundamental determinant of Niger's well-being. The historical record in Niger and many other countries speaks for itself: aid has generally not had the desired effects. While there may be a pressing need for aid in Niger, it is quite clear that aid must be properly targeted, and managed, if it is to achieve the results expected in paragraph 18. We would have appreciated a more nuanced view in the staff report, recognizing that selectivity in aid projects is just as important as the aid itself.

While we accept the decision to lower the concessionality floor to 35 percent, we note the great sensitivity of the debt sustainability analysis to changes in the average grant element. We urge the authorities to seek the most concessional form of financing available when they must borrow. In our view, a higher floor on concessionality would have motivated donors to provide more concessional financing than they might with a lower floor, while not unduly restricting Niger's access to external financing.

We agree with the main risks to the program identified by the staff. Noting that adverse movements in the terms of trade pose risks to the program's success, we regret the lack of information provided on the food situation in Niger. A box on how the economy is coping with increased food and fuels costs would have been helpful. Further, the insurgency will no doubt occasionally disrupt mining and agricultural activities. How has this uncertainty been factored into the macroeconomic assumptions underpinning the program? Is export growth assumed to be lower than it would if there were fewer tensions in the northern part of the country?

With these comments, we wish the authorities success in their endeavors.

Mr. von Stenglin and Mr. Denk submitted the following statement:

We thank the staff for a concise report as well as Mr. Rutayisire for his helpful buff statement. We broadly agree with the thrust of the staff appraisal and would like to highlight the following points:

The expiring PRGF program has effectively bolstered Niger's reform process. The authorities have made significant progress in raising the effectiveness of public spending and – aided by reforms in the financial sector – in reducing the cost of doing business. Supported by the assistance of the Fund and the international community, the authorities have also succeeded in advancing economic stability over the past few years, underpinned by an acceleration of growth rates, low inflation, and improvements in health and education. Unfortunately, Niger's macroeconomic performance last year has been thwarted by a disappointing agricultural turnout and rising oil and food prices.

We support the completion of the sixth review and the granting of a waiver for the non-observance of two performance criteria. The slippage in domestic arrears clearance at end-2007 has been relatively minor and the authorities have come back on track in February this year. While we regret the non-observance of the continuous structural performance criterion on the pricing of petroleum products, we acknowledge the political sensitivities outlined by Mr. Rutayisire. Over the medium term, however, we see no alternative to a full pass-through of petroleum price increases, both to protect public finances and to provide the right price signals to consumers. It might thus be necessary to develop alternative policy measures to provide targeted relief to those affected most by external price shocks.

We stand ready to support the authorities' request for a new PRGF arrangement. Our support is based upon Niger's satisfactory performance track record under the past program and the considerable need for further external balance of payments support. The new program's focus on further strengthening fiscal policy and continuing structural reforms is appropriate.

We welcome the over-performance against last year's fiscal targets owing to higher-than-expected tax revenues as well as extraordinary proceeds. It is regrettable, however, that a significant portion of the over-revenue is being spent on security as part of the supplementary budget.

Concerning public revenues, we welcome the progress achieved on strengthening revenue administration through base broadening and more effective tax collection. However, there is still a long way to go. Further reforms in tax policy aimed at increasing the revenue ratio are necessary to raise resources for much-needed priority investments. Continued donor support will also be needed and will depend upon the authorities' unwavering commitment to further reforms.

Following the granting of extensive debt relief over the past few years, we stress the importance of prudent debt management to prevent a re-accumulation of unsustainable debt. The staff has clearly demonstrated how sensitive debt sustainability indicators are to the borrowing terms. We are therefore somewhat concerned about the lowering of the minimum level of concessionality under the program from 50 percent to 35 percent. We understand, however, that financing for some high-priority infrastructure projects is not available at the previously required concessionality levels. We can thus reluctantly support the change, with the understanding that the authorities will (i) resort to concessional borrowing at term close to the 35 percent required minimum only in exceptional cases and after consultation with Fund staff, (ii) provide semi-annual updates on both contracted and envisaged borrowing, and (iii) strengthen their overall debt management capacities.

The projected increase in the current account deficit to more than 16 percent of GDP by 2011 is discomforting, especially against the backdrop of Niger's favorable terms of trade development. We understand that the deterioration can be attributed to rapidly rising imports due to the scale-up of infrastructure investments. Nevertheless, the rising external deficit vividly highlights the need to further improve the business environment in order to ensure continued financing of the current account deficit.

Mr. Alazzaz submitted the following statement:

I thank the staff for a well-written paper and Mr. Rutayisire for his helpful buff statement. I commend the Nigerien authorities for the significant progress made in stabilizing the economy, mobilizing revenue, managing expenditure, and restoring creditworthiness. I am also reassured by Niger's continued satisfactory adherence to the PRGF-supported program, where all performance criteria and indicative targets except for two have been met through mid-May 2008. In view of the corrective actions taken and the authorities' commitment to reform, I support the requested waivers, the completion of the review, and the request for a new PRGF arrangement. Indeed, the proposed PRGF-supported program should support the authorities' efforts to achieve sustained high growth rates, preserve macroeconomic stability, and accelerate progress toward the MDGs.

In the fiscal area, I am encouraged to note that the budget performance was satisfactory in 2007, with a lower than expected fiscal deficit. The higher than anticipated revenues are particularly welcome. I am also reassured by the emphasis placed on financing priority sectors in 2008, such as health, education, and agriculture. This should be facilitated by the authorities' effort to improve public finance management, with technical assistance from the Fund, the World Bank, and other donors. Staff also identifies five areas in which the authorities could further strengthen the management of public finances, as detailed in paragraph 21. On the revenue side, the authorities' effort to strengthen the tax and customs administration should help attain the revenue objective in 2008. Also, higher revenues over the medium term would help provide additional resources for priority expenditure.

In addition to strengthening financial intermediation, enhancing economic growth will require continued efforts to accelerate structural reforms, with emphasis on private sector development. In this regard, I am encouraged that the cost of doing business has been reduced by setting up a one-stop window for new businesses, simpler procedures for registration at the social security agency, deferral of payment of the license tax for new businesses, and cuts in fees for registering contracts. I also endorse the action plan, formulated with the assistance from the World Bank, which should further enhance the business climate.

With these remarks, I wish the authorities success.

Mr. Kiekens and Mr. Mevis submitted the following statement:

We thank the staff for their well-written report and Mr. Rutayisire for his insightful buff statement. As emphasized by the staff, the development of the Nigerien economy stands at a crucial point. In spite of the difficult global conditions, GDP growth and inflation remained satisfactory in 2007. We commend the authorities for the progress they have made in stabilizing the economy and improving fiscal management which should promote the prospects of the Nigerien economy. In order to support the government's intended policies, we agree with the proposed decision to grant the waivers for non observance of two performance criteria and the new PRGF arrangement.

With regard to the non-observance of the structural performance criterion, we regret that the government deferred taxes on energy to mitigate the impact of high energy prices. We encourage the authorities and the staff to discuss a more optimal response to alleviate the consequences of high energy prices on the most vulnerable segments of the population. Could the staff also provide more information on the impact of the high oil prices?

We welcome the solid track record of the authorities' commitment to reducing poverty and inequality. However, the likelihood to miss all but one MDG by 2015 is very worrisome. The authorities should promote equality and provide support to the most vulnerable groups in society as this would also contribute to political stability. Therefore, investment in health and education is critical. We also welcome the authorities' efforts to slow the population growth.

The simplification of taxation and customs, which has led to an increase in tax revenue to 11.7 percent of GDP in 2007 is noteworthy. We take note that tax revenue is expected to continue rising slowly to reach an estimated 13.1 percent in 2011.

The staff has rightly emphasized the importance of sound fiscal policy. Therefore, under the new program, there should be a medium term alignment of annual budgets and PRSP priorities. In addition, as described in the JSAN of March 18 (EBD/08/26), fiscal management should be closely monitored and annual budgets should be compared to a medium term fiscal framework so that discrepancies are discovered in a timely manner. The authorities' efforts to extend fiscal discipline to expenditures by streamlining procurement is a step in the right direction. Furthermore, the technical assistance provided to the audit court should increase transparency and raise the credibility of the government. Overall, sound fiscal policy should increase incentives for donors.

Recently, monetary policy has been confronted with rising prices of oil and food. This has resulted in a sharp rise in inflation from close to 0 percent to 4.7 percent in the last quarter of 2007. Although this development is exogenous, the authorities should remain vigilant to the potential second round effects that could add to inflation.

Given Niger's poor ranking in the World Bank's ease of doing business index, the authorities should strongly commit to improving the business climate. In this context, we welcome the action plan prepared in cooperation with the World Bank. We agree that the main focus should lie in the reduction of the cost and the bureaucratic burden of opening a business. Further investment in infrastructure is also crucial.

Business development in Niger is also strongly hindered by the weak state of the financial sector. In 2008, credit to the economy is projected to be at a mere 6.8 percent of money stock and is even supposed to decline further to 5.9 percent in 2011. Increased efforts by the authorities should strengthen and deepen the financial market.

For Niger, debt sustainability continues to be an issue. Given the staff's debt sustainability analysis of October 2007 and the two scenarios illustrated on page 15 of the Staff Report, it is necessary that the grant element in donor support is maximized. Therefore, additional efforts should be placed in increasing donor confidence and reaching out to additional donors to increase aid.

The Staff Report emphasizes that political stability is essential for achieving sustained economic growth. However, especially the northern region of Niger, which provides opportunities for tourism and mining development, is affected by the ongoing rebellion. Could the staff please elaborate on the current situation in this region and the prospects for a solution to these upheavals? In addition, could the staff also provide information on the actual impediments to mining as a result of this rebellion?

Mr. Bakker and Mr. Rookmaaker submitted the following statement:

Over the past years, Niger has built a strong track record, not in the least by establishing macro stability. The reformed financial sector is now in a better shape and the tax administration has been improved, leading to a substantial increase in tax revenue. This chair supports the conclusion of the Sixth Review under the current PRGF arrangement and the requested waivers. While it is unfortunate that the performance criteria were missed, we understand that the slippages were minor and that remedial action has been taken in the meantime.

Given the challenges ahead, as well as the authorities' strong track record and the useful role the PRGF arrangement has played in this respect, we also support Niger's request for a follow-up arrangement. We agree with staff that fiscal sustainability will form the basis of a successful program and we support measures to further improve the public expenditure management. We take comfort from

Mr. Rutayisire's useful buff statement, which indicated that the authorities are well aware of the need to clear domestic arrears. We also support the focus on financial sector reform. The scheduled FSAP is most welcome in this regard.

Concerning fiscal sustainability, a further broadening of the tax base seems a well-chosen approach. Making use of three-year projections of government spending in the annual state budgets is also a welcome step, as is the fact that exemptions under the investment code will be reviewed. At the risk of stating the obvious, we point to the fact that to achieve a true impact on revenue more is needed than just the review itself.

Further on fiscal sustainability, the structural benchmark in the new program relating to the preparation of semi-annual reports on contracted debt and forthcoming borrowing seems very useful. We believe that staff's use of different scenarios showing the impact on external debt is highly illustrative. The staff paper's alternative scenario with a lower average grant element in external loans shows the importance of highly concessional terms for future borrowing. The graphs on page 15 of the staff paper are most helpful in this regard. We note that in the new program the minimum grant element has been lowered from the previous 50 percent to 35 percent. Staff uses the argument that this is in line with PRGF arrangements for other WAEMU countries. We wonder how staff decides what the desirable level actually is and what the country specific elements involved exactly are. Moreover, we wonder how the 35 percent compares to programs in other (non-WAEMU) countries. Is an overall change in Fund policy taking place in this regard and is the general minimum grant level in Fund programs now lower than in the past? Staff comments are welcome.

We appreciate staff's efforts in negotiating a sustainable program that does not entail an unnecessarily high number of performance criteria. Staff calls the program "very streamlined", as it includes just two structural performance criteria and three structural benchmarks. This compares to four structural performance criteria and eight structural benchmarks over the past year. The former program, for instance, included the two continuous performance criteria related to i) the pricing system for petroleum products and ii) the performance indicators for the main customs offices. While the continuous performance criterion on petroleum pricing has not been met recently, we trust that these criteria are no longer needed to make the program sustainable.

The low number of performance criteria makes implementation of the individual criteria all the more important for the program to be successful. While we support streamlined conditionality, an issue not easily solved remains the optimal number of performance criteria. Clearly, equal treatment of all members in their Fund-supported programs is critical in this regard. We wonder how streamlined this program is compared to other recent programs. Staff comments are appreciated.

Finally, the request for the new arrangement does not seem to be driven by the recent increase in food and oil prices. The program seems fully financed at the current price levels. Nonetheless, the Fund should stand ready to augment the arrangement should additional resources be necessary to deal with a further increase in food and oil prices.

Mr. Mojarrad and Mr. Maherzi submitted the following statement:

The staff report and Mr. Rutayisire's informative statement provide a clear account of Niger's continued good performance under the PRGF-supported program. With all but two quantitative and structural performance criteria met and subsequent corrective action taken to meet the missed quantitative criterion, the authorities continue to demonstrate strong program ownership. As regards the missed structural performance criterion on pricing of the petroleum products, we agree with Mr. Rutayisire that its observance had to be weighed against the risk of violent social unrest, particularly as this would have threatened the hard-won gains of the past years in achieving macroeconomic stability and advancing structural reforms. As indicated in their Memorandum of Economic and Financial Policies (MEFP), the authorities remain committed to pursuing prudent policies and pressing ahead with the remaining reform agenda. While much have been achieved in recent years, as reflected in the robust and broader based growth, low inflation, improved fiscal and external positions—including substantially more sustainable external debt and declining domestic arrears—and progress in improving social indicators, considerable challenges remain to be addressed to anchor higher growth and significantly reduce poverty while preserving fiscal and debt sustainability, as laid out in the new PRSP. To buttress the authorities' efforts, continued external assistance, including from the Fund, is warranted. We support the completion of the sixth review under the current arrangement and the authorities' request for a successor PRGF arrangement.

The medium-term program appropriately focuses on ensuring fiscal sustainability, while better aligning expenditure with the PRSP's objectives, and promoting an environment conducive to private-sector development and economic diversification. Building on recent progress, further efforts to strengthen public finance management, as planned, is essential to ensure spending effectiveness and to induce increased donors assistance. Key in this regard will be early finalization of the remaining medium-term sectoral expenditure frameworks, particularly for transport and infrastructure. While the envisaged steps to enhance public spending transparency, monitoring, and control, as detailed in the MEFP, are noteworthy, the upcoming Public Expenditure Management and Fiscal Accountability Review and fiscal ROSC should help identify further useful directions to this end. Strengthening tax and customs administration and broadening the tax base, as intended, would help enhance revenues and provide for additional fiscal space to accommodate the projected increase in infrastructure and priority capital and social spending. Further improving debt management and limiting external borrowing to highly concessional loans are critical to preserving debt sustainability. The authorities are encouraged to pursue their objective of reducing domestic arrears. In this regard, the establishment of specific targets for 2008-11 is noteworthy.

Private sector development and economic diversification hinge crucially on improving the business environment. While progress has been achieved in this regard, much remains to be done to ensure higher private sector participation, as the authorities acknowledge. Along with improving infrastructure and further strengthening financial sector, determined implementation of the action plan, developed in consultation with the World Bank and private investors, should significantly help in this regard.

With these remarks, we wish the authorities further success in their endeavors.

Mr. Sadun and Mr. Cipollone submitted the following statement:

At the outset, we would like to thank both staff and Mr. Rutayisire for the interesting report and for his informative buff. We support the waivers for the sixth review and we support the request for a new program.

Maintaining fiscal discipline and improving the quality of spending are essential in order to bring growth to a sustainable path. Therefore, we appreciated the progress made on several fronts, particularly on increasing tax revenues, keeping the budget deficit in check, and making progress on trade liberalization. We have a couple of issues on growth, fiscal policy, debt sustainability, and arrears.

Growth

The biggest challenge for the program is to substantially raise the potential growth and, in turn, keep the actual growth close to it over the medium term. The projected growth appears to be on the optimistic side, its achievement largely hinges on a sharp increase in private investment as well as on a timely and comprehensive implementation of the Government investment program. The inclusion in the 2009 budget of a medium-term investment program would facilitate the alignment of the Government program with financing availability as well as promote a close monitoring of its implementation.

Fiscal policy

After the achievement of fiscal consolidation, which was the key challenge of the previous program, preserving fiscal sustainability and underpinning it with a significant improvement of the quality of the budgetary outlays is the key challenge. Moving resources from current to capital outlays while continuing to mobilize tax revenues are the backbone of the program. The progress in raising tax revenues is an encouraging step forward; however, there is still ample room for improvement considering the much higher WEAMU average. Therefore, continued efforts in this area will give additional signals to maintain fiscal discipline in the medium-term while creating fiscal room to cushion any lower-than-projected GDP growth. Like Mr. Moser and Mr. Muradnazarov, we would have expected a continued emphasis on the revenue side, particularly in terms of structural conditionality, in the new program. However, considering that the road map for structural conditionality includes several measures directed towards increasing tax revenue and strengthening transparency and control systems, we believe that the following reviews should focus more on fiscal measures. Staff's comments are welcome.

Sustainability analysis

We welcome the sustainability analysis which takes into account different scenarios of grant components for new borrowing. The updated sensitivity analysis, based on higher uranium prices, shows that an average grant component of 35 percent for new loans will deteriorate the debt dynamic. Therefore, much higher concessional terms is the only option in order to continue to preserve financial sustainability. Therefore, the authorities should aim for an average grant element of new borrowing close to that of the loans contracted so far, which was close to 50 percent. Moreover, we encourage the authorities to be very cautious in their debt strategy; a continued and close monitoring of the debt management remains key. Strengthening of the debt management office of the Ministry of Finance as well as the publication of semi-annual reports on the debt structure will be crucial so as to ensure fiscal discipline.

Business climate and arrears

As pointed out above, the achievement of the projected high and sustainable growth rate will heavily depend on a sharp increase in investment. Therefore, the authorities' decision to participate in the FSAP as well as to simplify and accelerate the procedure for VAT reimbursement are important steps in the right direction. Finally, while we support the waivers for the completion of the sixth review, we strongly encourage the authorities to intensify the negotiations with creditors and to finalize a comprehensive framework soon.

Mrs. Sucharitakul and Ms. Matoto submitted the following statement:

We thank the staff for their concise report and Mr. Rutayisire for his informative buff statement. The Nigerien economy performed well in 2007 with an average annual growth of 5.3 percent from 2005 to 2007, and low inflation which was close to zero, facilitated by political stability and favorable weather conditions. Going forward, the outlook for 2008 is positive with an average annual medium-term growth rate of 5 percent in spite of future risks particularly higher international food and oil prices, which have contributed to the recent pick up in inflation. The immediate priority for the authorities is to support growth and reduce poverty while maintaining fiscal sustainability. Overall, we commend the authorities for their commitment to implement the PRGF-supported program and the improvements made, despite key development challenges confronting the country.

We welcome the corrective action taken by the authorities with respect to the performance criteria on the reduction of domestic arrears. We note the difficult domestic challenges confronting the authorities in allowing the full pass-through of high international oil prices and meeting the criteria on the pricing of petroleum products. Given the generally satisfactory performance, with all but two targets met and the strong commitment and ownership of the authorities to the program, we therefore support the staff proposal for completion of the sixth review under the current PRGF program, the request for waiver of the non-observance of the two performance criteria, as well as the proposal for a successor PRGF arrangement.

Fiscal Policy

We commend the authorities' fiscal performance in 2007 which reflects the strong growth in tax revenue and the high non-tax revenue from the sales of mining assets and of a telecom license. The authorities' successful implementation of the reforms which improved fiscal management, particularly in the tax and customs administration, deserves praise. We acknowledge the efforts reinforced by the authorities to track public expenditure on poverty reduction to prevent any delays in the implementation. Efforts to strengthen the transparency and oversight of fiscal management are welcome and should be continued. Looking ahead, the increase in priority expenditures, which will be financed by special non-tax revenue received in 2007 is projected to result in a widening of the budget deficit in 2008. In this context, we encourage the authorities to continue enhancing their revenue performance while improving the effectiveness of public spending. Also, we welcome the technical assistance from the Fund, World Bank and other development partners to assist with managing the public finances more effectively.

We note the substantial reduction in Niger's external debt underpinned by the HIPC initiative and MDRI. Although the authorities are dependent on financial support from its external partners through grants or highly concessional loans, we urge the authorities to continue to monitor and strengthen the debt management capacity to avoid any debt accumulation that could jeopardize debt sustainability.

Monetary Policy and Financial Sector

Monetary policy has been successful in containing inflation. However, with improvement in investment, increase in money supply and acceleration in credit growth, the forecast for inflation to remain at a constant level of 2 percent in medium term may be too conservative. Reforms in the financial sector, notwithstanding its sound financial position are steps in the right direction, and we urge the authorities to remain vigilant to ensure the increase in nonperforming loans and credit growth will not adversely impact the economy. We are encouraged by the authorities' efforts to enhance the business climate and facilitate access to financial services to support growth. We also welcome other structural reforms aimed at improving the business climate including streamlining procedures for land tenure system. Investments in the mining sector and infrastructure which support GDP growth should be encouraged.

With these remarks, we wish the authorities every success in their future endeavors.

Mr. Heath and Mr. Kaplan submitted the following statement:

Consistent with comments made in the context of the implementation plan for IEO review of structural conditionality, the final review of an arrangement should offer a useful opportunity for stocktaking, to compare stated program goals with their achievements. In this current case, however, the back-to-back review, requesting waivers to complete Niger's PRGF, and launching a new arrangement, deprive the Board of an opportunity to reflect and give guidance on the future of the Fund's relationship with Niger.

Looking back, given the need to pass through fuel price increases, the slippage on the tax take on petroleum products is concerning. Given the significant retail price increases that have occurred over the intervening six months, we can accept the requested waiver.

Looking forward, we appreciate that the goals of the new arrangement are given succinctly, and the overall objectives of the 2008 program appear well mapped to broader goals. Structural conditionality has become more parsimonious, and we welcome the clear explanation of how the proposed structural conditionality is intended to help accomplish the objectives of the new arrangement. The allocation between structural performance criteria and benchmarks appears appropriate, and the two performance criteria appear achievable. We welcome the benchmark on the preparation of semi-annual reports on debt contracted and terms, and on the forthcoming borrowing program for the next six months, as a way to strengthen and keep focus on debt management. We encourage the authorities to follow through on their commitment to pursue grants and highly concessional terms as much as possible.

In terms of access, we can agree to 35 percent of quota, which is less than Niger's previous PRGF and consistent with the norm. That said, we continue to be uncomfortable with the PRGF's arbitrary rules for norms of protracted balance of payments need. We believe a more prudent approach would have been for Niger to move to a low-access PRGF at this stage. Niger benefited from MDRI debt relief in early 2006, but is still judged to be at moderate risk of debt distress. Under the proposed program, Niger's net IMF credit would rise from 38 percent of quota presently to 70 percent of quota by 2010. Niger is currently benefiting from a very favorable improvement in the terms of trade. All things considered, it would be wise to reduce exposure to the Fund to the degree possible while external conditions are relatively favorable.

We note in the Statement by the Staff Representative that the authorities may request an augmentation of the arrangement should additional resources be needed to deal with the increase in international hydrocarbon and food prices. We will judge such a request, if it comes, on its merits. We urge the staff, however, to consider that a financial response to food and fuel price developments would only be warranted on the basis of its impact on Niger's net balance of payments position.

Finally, the authorities are relaxing fiscal discipline, in relation to the original MEFP, with untargeted measures to offset rice price increases. With the approach of the 2009 elections, this could be a risky strategy that may become difficult to reverse.

Mr. Claveranne and Mr. Gibbs submitted the following joint statement:

We thank Staff for their comprehensive report, as well as Mr. Rutayisire for his helpful buff statement.

Given the overall performance under the program, we support the completion of the sixth review under the PRGF. We also agree with the authorities' request for the waiver of the two performance criteria. Firstly, the slight slippage in the reduction of domestic arrears was corrected in February 2008. Secondly, we consider that the nonobservance of the agreed upon floor to dampen the effect of oil price increases is fully justified, in light of the need to preserve the purchasing power of the population affected by the food and oil crisis.

We commend the authorities for their sound macroeconomic management that delivered strong performances during the three-year PRGF program, with the help of debt relief from the HIPC and MDRI. It is noteworthy and commendable that Niger meets most of the convergence criteria of the WAEMU. We also welcome the progress achieved on the structural agenda, in particular in customs and tax administration, public expenditure management, privatization, and the regulatory environment. It is indeed encouraging that the cost of doing business has been reduced. We are reassured that the appreciation of the real effective exchange rate (REER) remains consistent with the favorable movement of Niger's terms of trade.

Despite this broadly positive outlook, the country still faces key challenges. In particular, the economy is highly vulnerable to exogenous shocks, arising from adverse climatic and terms of trade swings, as illustrated by higher food and international oil prices. It is worrisome that the stock of cereals, even if it provides a safeguard against food shortages for the immediate future, has become more precarious than a year ago, with some regions at heightened risks. In this context, we concur with staff that the main challenges for Niger are to consolidate growth and reduce poverty while preserving fiscal sustainability.

Against this background, we fully support the authorities' request for a new PRGF. The proposed program, well focused on the key challenges facing the country, will be instrumental in helping the authorities in their efforts to increase revenue and growth while preserving debt sustainability. The solid track record of Niger, together with the authorities' ownership and commitment to reforms demonstrated with the successful implementation of the previous Fund-supported programs, provides a promising basis for the success of this new PRGF, which will also help maintain donor confidence. We believe that the amount of the PRGF (SDR 23,03 million, 35 percent of quota) is fully justified, taking into account the estimated impact of the food and oil crisis on the balance of payments, and we look forward to a similar engagement in other similar cases. Given the vulnerability of Niger's economy and the potential aggravation of the food and energy prices front, we underscore the fact that the authorities have expressed that they might ask for an access augmentation in case of a further deterioration in the oil and food price environment. We urge staff to show flexibility and reactivity if there should be such a request from the authorities.

Finally, we would encourage the authorities to pursue a prudent debt policy. This new PRGF arrangement is compatible with the debt sustainability of the country, and it remains of the utmost importance for Niger to follow a prudent debt strategy.

Extending his remarks, Mr. Kaplan recalled that in his statement, the streamlining of conditionality in the program had been favorably noted. However, Mr. Moser and Mr. Bakker had argued that more revenue measures could have been included in the structural conditions. Given the traditional weakness that Niger had had on that front, this was a useful point, and it would be interesting to hear the staff's response to that question.

Mr. Bergo made the following statement:

I would like to thank staff and Mr. Rutayisire for the updated information on Niger.

Given the generally satisfactory performance of the program, with all but two targets met and the strong commitment of the authorities, we are ready to support staff's proposal of the completion of the sixth review under the current PRGF program and the request for waiver of the non-observance of the two performance criteria. Regarding the non-observance of the continuous structural performance criteria on the pricing of petroleum products, we see merit in the views presented by Mr. von Stenglin and Mr. Kiekens, namely, that there seems to be a need to develop an alternative policy response to protect the poor in the context of rising oil prices.

As the authorities continue to demonstrate strong program ownership, and given the challenges still ahead of the authorities, we fully support the authorities' request for a successor PRGF program. I appreciate the new program's focus on strengthening the fiscal policy and continuing structural reforms, and the conditionality is also appropriately streamlined with fewer structural performance criteria.

As a final note, I would like to stress the views presented by many chairs on the need to maintain debt sustainability and strengthen debt management. Therefore, as others, we urge the authorities to strive for grant financing and highly concessional terms for loans to the full extent possible.

The staff representative from the African Department (Mr. Sacerdoti), in response to comments and questions from Executive Directors, made the following statement:

I will first address the question on risks to the programs, including impact of higher oil prices, insecurity in the north and other risks, and then turn to the issues and questions on policy measures.

On the question on the impact of high oil prices, the impact on the balance of payments is about 0.8 percent of GDP if we compare it to 2007. Retail prices in Niger have increased since early 2007 by around 23 percent for gasoline and 30 percent for diesel, and are now among the highest in western Africa. It has had some effect on domestic inflation. It is premature to say what the overall impact on demand and on GDP will be. We hope that the impact on GDP will be modest, since GDP is driven by sectors like mining, which is not very dependent on oil, and agriculture.

Should the international food price remain at current levels, consideration will be given by the government of Niger to bring into production an oil field containing around 300 million barrels of oil which was discovered some years ago. It was not commercially viable at the prices prevailing three years ago, but the authorities are now considering having foreign investors either building a mini refinery or considering the possibility of connecting the field with neighboring country pipelines. The cost would be high because pipelines to Nigeria and to Chad are a relatively large distance from the field in Niger, but this is an element that certainly would dampen the impact of continued high oil prices on the economy of Niger.

There was a question on the risks to the program of insecurity in the north, the north being the area where the important uranium mines are located. Our information from the major uranium companies which have large expansions planned for their operating mines in Niger is that these plans are going ahead despite the insecurity, thanks also to stronger military protection provided by the army. However, some exploration plans by smaller actors and companies are being delayed. The staff production and export projections over the medium term are somewhat conservative and back–loaded to take into account these uncertainties, including the risks of delay. Agriculture in the northern region has been affected and so has tourism. These effects are already included in the staff projections. The northern regions are minor agricultural producers, so the impact on agriculture is modest overall, but it is relatively important in those regions.

The high international food prices and climatic uncertainties underline the need for Niger to accelerate the implementation of the investment strategy in agriculture. The role of development strategy incorporating the PRSP is appropriately ambitious, and it is supported by projects sustained by a large number of donors. There is considerable untapped potential in the sector—only one-third of the potentially irrigable land in the country is under irrigation at present. Also, the farm cooperatives along the River Niger need investment to modernize and increase production, and strategies to strengthen all these sectors are under close consideration. A major dam project in Kandadji, north of Niamey, is underway with support from a large number of multilateral and bilateral developmental institutions, as part of the Niger Basin Regional Initiative. So, in short, the high international food prices certainly underscore the need to strengthen all the investment strategies in the sector.

There was a question of the impact of aid on growth that was quoted in the staff report. The staff report quoted analysis indicating that 5 percent of GDP higher aid could raise growth by up to 1.3 percentage points. In the case of Niger, growth has picked up considerably in the last decade after political stability was regained, and this return to stability was also accompanied by an increase in foreign aid. While it is difficult to disentangle the specific impact of aid on growth, it would appear in the case of Niger that aid had a positive impact on growth. Our analysis has been corroborated by similar analysis conducted by the World Bank with a general equilibrium model for Niger which they present in a Country Economic Memorandum. In addition, econometric analysis is being done by other research centers. In particular, the Center for Global Development has also shown that the impact of aid on growth in a large number of developing countries is of a magnitude similar to the one in our staff report.

There were questions on tax measures in the program, including the issue of structural conditionality and the impact on the revision of the corporate profit tax rate. The previous program had a large number of structural performance criteria (PCs) and benchmarks on tax administration, where important progress has been achieved. In this program, in the context of streamlining, we are focused on conditionality of improving the VAT treatment of exporters, which is a PC because this is an important element to improve the investment climate and also to foster development of exports.

In the Memorandum of Economic and Financial Policies we have a large number of measures, both on tax and customs administration, which we will continue to monitor very carefully. They are not part of structural conditionality, but the staff will continue to have intense dialogue with the authorities in monitoring the implementation of these relatively comprehensive action plans both by the tax administration and the customs administration.

On the issue of the reduction in corporate profit tax which is envisaged in the next budget law for 2009, with some consideration being given to lower it from 35 percent to 30 percent, the impact on revenue would be between 0.1 and 0.2 percent of GDP. An important consideration is that other WAEMU countries have also reduced the profit tax. Senegal reduced this tax from 35 percent to 25 percent, and in Burkina Faso it was recently reduced from 35 to 30 percent. It is the view of various observers, including the World Bank in the context of a new development credit that they are preparing, that the formal sector is overtaxed in Niger, creating incentives to remain in the informal sector. The taxation system for the formal sector has to be streamlined with some reduction of the corporate profit tax, but, as we explain in the Memorandum of Economic and Financial Policies, paragraph 41, these revisions should be done in the context of a broader examination of the tax code for which the authorities are requesting FAD technical assistance.

There were also some questions on the flexibility in applying the pass–through rule for oil prices and a request to explain how this flexibility is introduced. A large part of taxation on oil products is ad valorem in Niger. Therefore the increase in import prices has led to an increase in government tax revenue, as indicated in Table 9 of the staff report. This has been a relatively important increase since the beginning of 2007. Some downward adjustment in the tax revenue per liter of oil products could be justified provided that tax revenues per liter remain above a threshold. The additional flexibility we have introduced in this program, in relation to the other program, is that the expiring program had a month by month assessment of the tax take in comparison to the threshold, while we propose in the new program that this assessment be made on a six month average in order to smooth out some oscillation in prices. That is the only flexibility that has been introduced.

The staff representative from the Policy Development and Review Department (Mr. Boote), in response to comments and questions from Executive Directors, made the following statement:

There were two more general questions, one on debt ceilings and one on structural conditionality.

On debt ceilings, the reduction in the minimum concessionality requirement under the new arrangement is in line with the improvement in debt indicators following debt relief and an increase in export receipts. In this sense, it is in line with the Board guidance from the November 2006 discussion of debt sustainability, which encouraged staff to use the results of debt sustainability analyses to establish debt–related conditionality, including the minimum grant level. This grant level of 35 percent is in line with other WAEMU members, apart from Guinea-Bissau, which is in a somewhat different position. However, we recognize that Niger’s debt position is very sensitive to the terms of the borrowing and hence we propose close monitoring of external debt indicators and a strengthened debt management capacity to help the authorities to strike this difficult balance between stepping up investment in infrastructure—for which it is difficult to get highly concessional resources—and the maintenance of debt sustainability.

As far as the more general picture goes, post the November 2006 Board discussion, there has been more focus on setting minimum concessionality levels on a case–by–case basis, and we have seen a number of countries where there are higher concessionality levels which are appropriate for their situations. There are also a couple of examples like this one, where we have lowered the minimum concessionality requirement to reflect an improved debt situation.

On the question on structural conditionality, the focus in the guidelines on conditionality is on actions deemed critical to meeting the objectives of the program. In that sense, the focus is on what is needed rather than a quantitative approach to the number of conditions—the standard of criticality across countries. This approach, rather than considering the actual number of conditions, was endorsed by the Board in the recent discussion of the IEO report on structural conditionality.

Mr. Cipollone noted that two of the missed structural performance benchmarks related to arrears. Although the more streamlined structural conditionality in the new program was welcome, the staff should keep track of the efforts made by the authorities to settle these arrears. This was important because the program was based on a sharp increase in investment, and to improve the business climate, it was necessary to avoid arrears. It was understood that arrears were being settled on the VAT side, but other kinds of arrears should also be settled in a timely fashion. Further updates on the authorities' progress on this matter would be helpful, even though the settlement of arrears was no longer part of structural conditionality.

Mr. Kiekens noted that with the food crisis there was a likely need for balance of payments support. The Board should be updated on the food crisis implications for external financing and the fiscal needs of the WAEMU countries, so that debt sustainability analyses of the countries could be updated. Secondly, although the conditionality guidelines stated that only macro-critical measures need be applied, they also said that all macro-critical measures would include structural performance criteria. In the case of Niger, that meant that there were only two macro–critical measures to be undertaken. One was to unfreeze frozen savings in the former National Savings Bank, and the second was to decide on the full reimbursement of VAT credits for exporting firms. The structural conditionality in this case might therefore have been excessively streamlined.

Mr. Kaplan endorsed Mr. Kiekens' point about the response to the food crisis. If there was going to be an additional request from Niger, or from other countries, it would be useful for the Board to be informed of the magnitude of the shock, the nature and the magnitude of the offsetting adjustment which was taking place, the donor response, and what the possible indication could be for Fund balance of payments support. Niger's program was well-designed and the objectives well-articulated and the follow-through on some of the discussions with the IEO was appreciated. The conditionality was fairly well-mapped to the program objectives. However, the fact that there was a seamless back-to-back transition from one program to the next gave the impression that it was "business as usual," in spite of the Board's indication that it wished to be more strategic in its orientation. The opportunity for the Board to have a separate assessment of the end of the program before beginning a new program would have been a useful device.

The staff representative from the African Department (Mr. Sacerdoti), in response to comments and questions from Executive Directors, made the following statement:

> On the question of the arrears repayment, .there were two structural benchmarks at the end of the year associated with the repayment of arrears to the telephone company and commercial banks. These could not be met because negotiations with these two creditors—the telephone company and the group of banks—were protracted. They were protracted because there were technical difficulties on the side of the banks, especially on the question of late interest. The government requested a discount on the accumulated interested, which the commercial banks did not want to grant. With the telephone company a cross compensation is being worked out, but this is very time consuming. We felt it would not have been fair at this stage to get involved in a commercial dispute between the government and these creditors. We will continue to monitor progress in this negotiation, but we did not feel it appropriate to set a deadline for completion. We have an aggregate PC on domestic arrears. That action was for end of June and end of December. I think this is appropriate in this circumstance.
>
> As for the question about the impact of increased food prices on the economy of Niger, we will keep it under close review. Niger is not a very large food importer. It is a country which produces around 3.3 to 3.6 million tons of cereals and consumes approximately the same amount, but it is a net importer of rice for the urban centers—

importation of rice is around 170,000 tons, while production is 70,000 tons. Out of 3.5 million tons, the import of rice is relatively small, but rice is crucial especially for the urban centers. You have noted that the government has taken some tax alleviation measures in the supplementary budget on rice, suspending the VAT and the import duties for a certain period. The impact on the balance of payments is not very large, but the risk for Niger is whether or not the rainy season will be normal. The rainy season starts in June, and there was a drought in 2004 and in the late 1990s. That is a serious risk for the country, and we have explained in the staff statement that some important donor groups are concerned about this, and they are trying to strengthen the cereal security stock in the country. It is therefore not so much a question of dependency on imports structurally, but if the rain falters there would certainly be a risk like we have seen in previous years.

In the past, when there has been a shortage of cereal because of a bad crop, this was covered by food aid, not by commercial imports. Paradoxically, in a year like 1995 when food aid was very large, also through NGOs, the overall balance of payments improved. There were also some cash contributions, so it had a positive impact. It is a complex situation, but it is not the situation of a country that imports a large amount of food on commercial terms.

The staff representative from the Policy Development and Review Department (Mr. Boote) noted that there was a difference in views amongst Directors on structural conditionality. The conditionality described on page 57, Table (2)(b) was for the forthcoming year for a country which was now in its fifth PRGF arrangement. It included three structural benchmarks, one of which various Directors had welcomed, namely the preparation of semiannual reports on the debt situation and the borrowing plans. Regarding Mr. Kaplan’s concern about the sequencing of the review and the launch of the new program, Box 1 on page 8 was an attempt to draw some conclusions as to where things stood on the main lessons of the previous 2004 Ex Post Assessment.

Mr. Rutayisire made the following concluding statement:

I would like to thank Executive Directors, management, and staff for their support to my authorities’ request for a new PRGF program, cognizant of their good track record and ownership as demonstrated by their strong program performance and their renewed commitment to sound policies and reforms. I am also appreciative of the flexibility accorded in the consideration of the difficult policy environment that confronts my authorities as a result of exogenous food and oil price shocks. In addition, I would like to thank the mission chief, Mr. Sacerdoti, and his team for their dedicated work and quality advice to my authorities and for the lucid answers provided to the questions raised by Executive Directors.

As well–stated in the staff report, and my authorities also acknowledge, Niger will not be able to meet all the MDGs under current circumstances. The successor PRGF program which is approved today will enable my Nigerien authorities to make further progress towards the MDGs. More broadly, the remaining challenges going forward have been properly identified by my authorities in their accelerated development and poverty reduction strategy around which the new PRGF is articulated. In particular, under this program they intend to orient resources towards boosting growth, improve revenue collection, and maintain a prudent debt policy so as to meet the country's infrastructure and poverty reduction needs.

Regarding Niger's debt sustainability, my authorities have reiterated their commitment to contracting debt on concessional terms. I would like to reassure Directors that the decrease from 50 percent to 35 percent in the grant element required for external borrowing does not diminish my authorities' willingness to pursue careful debt planning and to monitor sustainability.

Last but not least, my authorities recognize that the progress achieved in the structural reforms remains insufficient to improve significantly the business climate. The new PRGF arrangement will help make advances in the key areas of transparency, accountability, and good financial management, notably in the mining sector.

Once again, I thank Directors for their support in approving the waivers requested completing the Sixth Review and the new PRGF program.

The Acting Chair (Mr. Portugal) made the following summing up:

Executive Directors commended the Nigerien authorities for their continued overall satisfactory implementation of the PRGF-supported program. They noted that in the last three years the country has made significant progress in stabilizing the economy, the rate of growth has accelerated, and until the last few months of 2007 inflation had abated. They commended the authorities for having supplemented the fiscal space provided by debt relief with revenue mobilization so as to allocate significantly more resources to the social sectors and infrastructure.

Directors noted that despite these favorable achievements, the country still faces daunting challenges, given rapid population growth, very low social indicators, and the need for major investments in infrastructure to sustain growth and progress toward poverty reduction. The recent acceleration of inflation, mainly due to higher import prices for staple goods and hydrocarbons, is a source of concern, and underscores the urgency of fully tapping Niger's agricultural potential in order to further improve food security.

Directors welcomed the good budgetary performance in 2007. They recommended continued strengthening of tax and customs administration and widening of the tax base, in order to boost revenue and provide resources for Niger's large development needs. Directors supported the main lines of the supplementary budget for 2008, allocating large exceptional revenues received in late 2007 and higher mining revenues to strengthen development expenditures in priority areas. Increasing investment in agriculture will be particularly important, in order to make the country less vulnerable to exogenous food price shocks. Directors encouraged the authorities to ensure that recent tax measures aimed at dampening the price increases of imported food staples be targeted to benefit the most vulnerable groups. Directors acknowledged the difficult challenges and constraints related to a full pass-through of high international oil prices. Over the medium term, the authorities were encouraged to seek to develop alternative policy measures that would provide targeted relief to the most vulnerable groups.

Directors welcomed the emphasis of the new three-year program on promoting growth within a stable macroeconomic framework. They stressed the need to maintain fiscal discipline and to further improve budget preparation and execution so as to align the composition of budget expenditures with the priorities of the new PRSP. They noted that progress in strengthening transparency and controls will be essential both to enhance the effectiveness of government priority spending and to mobilize the additional donor resources needed to advance toward the Millennium Development Goals.

Directors noted that the updated debt sustainability analysis shows that the medium-term debt indicators are more favorable than previously reported, owing to the increase in uranium exports. They underscored the need for vigilance and prudence in the financing and debt management strategy, which should rely on grants and very concessional borrowing. They welcomed steps to strengthen external debt management, and looked forward to continuous close monitoring and periodic reporting in this area.

Directors welcomed the strengthening of the financial sector, notably the reforms under way in the microfinance sector, and the measures taken to improve the investment climate, including the reduction of steps to create new businesses and measures to improve the issuance of land title. They underscored the importance of continuing to make progress in these areas, so as to enhance further the business environment, develop the financial sector, and stimulate growth.

The Executive Board took the following decisions:

NIGER—POVERTY REDUCTION AND GROWTH FACILITY—THREE-YEAR ARRANGEMENT—REVIEW, AND WAIVER OF PERFORMANCE CRITERIA

1. Niger has consulted with the Fund in accordance with paragraph 2.I(ff) of the three-year arrangement for Niger (the "Arrangement") under the Poverty Reduction and Growth Facility (PRGF) (EBS/05/8, Supplement 1, 9/1/2005), as amended, and paragraph 6 of the letter dated November 8, 2007 from the Minister of Economy and Finance, in order to review program implementation.

2. The letter dated May 12, 2008 from the Minister of Economy and Finance for Niger (the "May 2008 Letter"), together with its attached Memorandum of Economic and Financial Policies of the Government of Niger for 2008–11 (the "May 2008 MEFP"), shall be attached to the Arrangement, and the letters dated January 10, 2005, October 25, 2005, June 5, 2006, December 6, 2006, May 16, 2007 and November 8, 2007 from the Minister of Economy and Finance for Niger, together with their attachments, shall be read as supplemented and modified by the May 2008 Letter and the May 2008 MEFP.

3. The Fund decides that the sixth review contemplated in paragraph 2.I(ff) of the Arrangement is completed, and Niger may request the seventh disbursement referred to in paragraph 1(f)(ii) of the Arrangement, notwithstanding the nonobservance of (i) the quantitative performance criterion on the reduction in domestic payments arrears on government obligations specified in paragraph

2.I(dd) of the Arrangement and (ii) the continuous structural performance criterion on the application of the pricing system for petroleum products adopted on August 1, 2001, specified in paragraph 2.II(h) of the Arrangement, on the condition that the information provided by Niger on the performance under these criteria is accurate. (EBS/08/56, 5/13/08)

Decision No. 14116-(08/47), adopted
May 28, 2008

NIGER—POVERTY REDUCTION AND GROWTH FACILITY—THREE-YEAR ARRANGEMENT

1. Niger has requested a three-year arrangement under the Poverty Reduction and Growth Facility in an amount equivalent to SDR 23.03 million.

2. The Fund approves the arrangement set forth in EBS/08/56, 5/12/08, to become effective on June 2, 2008, and decides that, upon the effectiveness of the arrangement, Niger may request the first disbursement under the arrangement.

Decision No. 14117-(08/47), adopted
May 28, 2008

APPROVAL: August 18, 2008

SHAILENDRA J. ANJARIA
Secretary