EBS/87/226
Supplement 1

CONFIDENTIAL

November 30, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Niger - Structural Adjustment Facility - Second Annual Arrangement

Attached for the records of the Executive Directors is the text of the second annual arrangement under the structural adjustment arrangement for Niger agreed at Executive Board Meeting 87/159, November 23, 1987.

Att: (1)

Niger - Structural Adjustment Facility -
Second Annual Arrangement

Attached hereto is a letter dated August 28, 1987 from the Prime Minister of Niger, with an annexed Memorandum on Economic and Financial Policies requesting from the Fund the second annual arrangement under the three-year structural adjustment arrangement, and setting forth the objectives and policies of the program to be supported by the second annual arrangement.

To support these objectives and policies, the International Monetary Fund grants the requested arrangement in accordance with the following provisions and subject to the Regulations for the administration of the structural adjustment facility:

1. The second loan in the amount equivalent to SDR 10.11 million is available for disbursement at the request of Niger.

2. Before approving the third annual arrangement, the Fund will appraise the progress of Niger in implementing the policies and reaching the objectives of the program supported by the second annual arrangement, taking into account primarily:

(a) the indicators specified in paragraph 27 of the attached letter,

(b) imposition of restrictions on payments and transfers for current international transactions,

(c) introduction of multiple currency practices,

(d) conclusion of bilateral payments agreements which are inconsistent with Article VIII, and

(e) imposition or intensification of import restrictions for balance of payments reasons.

3. In accordance with the attached letter, Niger will provide the Fund with such information as the Fund requests in connection with the progress of Niger in implementing the policies and reaching the objectives supported by the second annual arrangement.

4. In accordance with the attached letter, Niger will consult with the Managing Director of the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because of deviations from any of the indicators under paragraph 2 above or because he considers that consultation on the program is desirable. These consultations may include correspondence and visits of officials of the Fund to Niger or of representatives of Niger to the Fund.

ATTACHMENT

TRANSLATION

REPUBLIC OF NIGER

Supreme Military Council
Office of the Prime Minister
The Prime Minister

Niamey, August 28, 1987

No. 1241/PM

Mr. Michel Camdessus
Managing Director
International Monetary Fund
700-19th Street, NW
Washington, D.C. 20431

Dear Mr. Camdessus:

On November 17, 1986, the Executive Board of the Fund approved Niger's request for a one-year stand-by arrangement in an amount equivalent to SDR 10.11 million (30 percent of quota) and a three-year arrangement under the structural adjustment facility, including the first annual arrangement thereunder. The Government of Niger has implemented with vigor the envisaged measures. Although the performance criterion for domestic credit at end-December 1986 was not observed, owing to the bumper crop of 1986/87, all the performance criteria at end-March, and, according to estimates, at end-June 1987, have been observed. The Government expects that the performance criteria at end-September 1987 will also be met. In addition, the key benchmarks for the first annual arrangement under the structural adjustment facility have been observed.

Despite the rigorous implementation of the policies envisaged in the program for 1987, two major factors have had a negative impact on Niger's economy and have significantly hampered the adjustment process. First, the return of drought conditions in the latter half of 1987 is expected to result in a 30 percent decline in the output of the agricultural sector, contributing to a reduction in real GDP of 4.9 percent. Second, the weakness of the world uranium market has resulted in significant shortfalls in prices and export volumes for uranium, Niger's principal export commodity. In view of these circumstances, you will appreciate the efforts that Niger has made in 1987 to achieve the fiscal target and to observe the performance criteria.

In view of the negative impact of the drought on the first three quarters of 1988 and the continuing slack in the world uranium market, the Government has decided to intensify its efforts in 1988 with a view to preventing a major deterioration in its economic and financial position, as well as to continue to reduce the underlying distortions and financial disequilibria. The medium-term policies have accordingly been readapted with a view to achieving a sustainable rate of growth under conditions of domestic and external financial viability by 1990. Our medium-term policies are described in the revised version of the economic and financial policy framework paper 1/, which we have prepared in collaboration with the staffs of the Fund and the World Bank, and which is being forwarded today to the managements of the Fund and the World Bank. The Government of Niger will remain in close contact with the staffs of the Fund and the World Bank on developments and progress in implementing these policies and the policy framework paper will continue to be updated annually.

The economic and financial program, described in the attached memorandum, has been formulated consistent with the updated version of the policy framework paper, and sets out the objectives and the policies that the Government of Niger intends to pursue during 1987/88, for which balance of payments assistance is needed. In support of these objectives and policies, the Government of Niger hereby requests from the Fund the second annual arrangement under the structural adjustment facility. The Niger authorities are convinced that the policies and measures described in the attached memorandum are appropriate to achieve the objectives of the 1987/88 program. Nevertheless, they will take any additional measures which may prove appropriate for this purpose. The Niger authorities will consult with the Managing Director on the adoption of any measures which may appear appropriate, either on their own initiative or whenever the Managing Director requests such consultation. The Government of Niger will provide the Fund with such information as the Fund may request in connection with its progress in implementing the policies and achieving the objectives of the program. The Niger authorities remain convinced of the need to continue with the adjustment efforts over the medium term, and, in this context, would appreciate the continued technical and financial support of the Fund.

Sincerely yours,

/s/

Hamid Algabid
Prime Minister

1/ EBD/87/274 (10/26/87).

TRANSLATION

NIGER

Memorandum on Economic and Financial Policies for 1988

1. Starting in 1983, the Government of Niger has made determined adjustment efforts supported by four successive stand-by arrangements as well as the first annual arrangement under the structural adjustment facility from the International Monetary Fund, World Bank adjustment lending, bilateral aid, and debt relief. The measures envisaged under these programs have been implemented, and, with the exception of the performance criterion on domestic credit at end-December 1986, all the performance criteria have been observed. Moreover, the benchmarks envisaged within the framework of the first annual program under the structural adjustment facility, except those pertaining to the studies on the reform of the civil service and on agricultural policy, and the implementation of the reforms based on these studies, have been observed. The progress made through 1986 was reflected in the achievement of an average annual rate of growth of real GDP of 6.2 percent during 1985-86; a significant drop in the rate of inflation from 10.1 percent in 1982 to an average annual rate of 2.75 percent in 1985-86; and a narrowing in the external current account deficit, including official transfers, from 9.7 percent of GDP in 1982 to 2.2 percent in 1986.

2. Notwithstanding the progress made, Niger's economy continues to suffer from major structural constraints as well as sizable financial imbalances. Accordingly, the Government of Niger elaborated a medium-term economic and financial policy framework covering the three-year period 1987-89, which was forwarded, together with a detailed adjustment program for 1987, to the managements of the Fund and the World Bank on September 11, 1986. Niger's request for assistance under the structural adjustment facility, including the first annual arrangement thereunder, and a stand-by arrangement in support of the 1987 program was approved by the Fund on November 17, 1986. In addition, a Public Enterprise Sector Adjustment Program, consistent with Niger's medium-term policy framework, was approved by the Executive Board of the World Bank on June 25, 1987.

I. Economic and Financial Developments in 1986/87 1/

3. Even though the Government has implemented the adjustment program for 1987 with determination, a number of exogenous factors are expected to have a negative impact on the Niger economy and to set back signifi-

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1/ The analysis of 1987 is based on estimates for the year. The program targets, unless otherwise indicated, refer to the revised targets set at the time of the mid-term review in April 1987. All the program targets are set for the calendar year, with the exception of the fiscal target which covers the fiscal year 1986/87 (October/September).

cantly the adjustment process. First, the delay in the arrival of the rains in the second half of 1987 is estimated to result in a drop in output of about 30 percent in the agricultural sector, which accounts for 26 percent of GDP. Second, the slump in the world uranium market has been reflected in a drop in both the price and the volume of Niger's key export commodity; a shortfall of CFAF 9.6 billion, equivalent to 7.8 percent of export receipts, compared with the original program projections, has taken place. Third, the uncertainties related to weather conditions dampened aggregate demand in the second half of 1987, slowing down economic activity. Thus, real GDP, which was projected to grow by 2.7 percent in 1987, is now estimated to decline by 4.9 percent. Largely owing to the estimated substantial increase in the price of cereals, the rate of inflation, as measured by the GDP deflator, is estimated at 7.1 percent, as compared with a projection of 5.5 percent. However, the external current account deficit, excluding official transfers, is estimated to reach CFAF 72.8 billion (9.9 percent of GDP), compared with a program target of CFAF 68.1 billion (8.7 percent of GDP), primarily because of the rise in cereal imports necessitated by the drop in agricultural output. The overall balance of payments deficit is estimated to amount to CFAF 6.6 billion, as against a program target of CFAF 7.7 billion.

4. Notwithstanding the bleak economic conditions confronting the country, the Government has managed to keep a tight rein on the budget. Through additional measures, it has been able to contain the budget deficit, on a commitment basis and excluding grants, to CFAF 65.0 billion, broadly in line with the program target of CFAF 64.2 billion. Taking into account the settlement of cross-debts under the public enterprise reform program, the budget deficit, on a cash basis and excluding grants, has been contained at CFAF 69.8 billion, also broadly in line with the program target of CFAF 69.0 billion. This deficit has been financed by net external borrowing and grants, largely associated with the investment program, and by debt rescheduling. The Government has reduced its net indebtedness vis-à-vis the banking system, thereby releasing resources to the productive sectors. No domestic or external payments arrears have been accumulated.

5. On the expenditure side, the Government has limited expenditure to CFAF 143.9 billion, an amount below the level projected in the program. Current expenditure has been reduced sharply in real terms through the maintenance of a restrained employment policy, the suspension of cost of living wage adjustments, the reduction of subsidies and current transfer payments, and the imposition of severe austerity measures throughout the Government. Capital expenditure is estimated to have been on target, rising by 6.8 percent over the previous fiscal year.

6. On the revenue side, the slump in economic activity and the slight weakening in the financial position of the mining sector had a serious dampening impact on revenue. Furthermore, the high rates of import

duties and of the value-added tax tended to encourage tax evasion. Consequently, on May 18, 1987, the rates of the fiscal duty applying to a large number of imported goods were lowered by between 15 and 30 percent, and the rates of the value-added tax on imports and of the domestic value-added tax were reduced from 15, 25, and 35 percent to 10, 17, and 24 percent, respectively. The immediate impact of these tax cuts, adopted with a view to stimulating economic activity, was a reduction in revenue. A number of complementary measures aimed at offsetting the revenue impact of the cuts were taken simultaneously. These included a considerable tightening of the policy regarding the granting of tax and duty exemptions; the strengthening of customs valuation controls and of the adherence to regulatory procedures; a reinforcement of anti-smuggling measures; and an increase in the duty rates applicable to transit trade. To shore up further its revenue position, the Government decided in August 1987 to transfer from the Petroleum Price Stabilization Fund (CSPPN) to the Treasury CFAF 1.9 billion over and above the amount of CFAF 6.0 billion originally envisaged under the program. In addition, it further strengthened the complementary measures implemented earlier. In particular, it increased the valuation base for custom duties (<u>valeurs mercuriales et barèmées</u>) by 40 percent on average in August 1987. Building on the progress achieved in identifying and assessing the duty and tax liabilities of operators in the informal sector, steps were taken to secure the collection of at least CFAF 0.7 billion in taxes and duties due. As a result of all these efforts, a revenue shortfall that could have reached CFAF 5.0 billion is estimated to have been partly averted. Thus, revenue is estimated to reach CFAF 78.9 billion, close to the program target of CFAF 81.2 billion. However, in view of the exceptional steps taken to attain this target, including the transfer of about CFAF 8.0 billion from the CSPPN, the revenue base for 1987/88 is significantly weakened.

7. The Government has pursued a prudent credit policy, consonant with the adjustment objectives. The Government has continued to reduce its net indebtedness vis-à-vis the banking system. It is estimated that net claims on the Government in 1987 will be reduced by 7.0 percent of beginning money stock. Following the overshooting in crop credit at end-1986, attributable primarily to the 1986 bumper harvest of groundnuts and cowpeas, and the delays in the repatriation of cowpea export proceeds, the monetary authorities set up a schedule for the reabsorption of crop credit in 1987; this schedule has been respected. Furthermore, the slowdown in economic activity has reduced the demand for credit. For the year as a whole, credit to the economy is therefore estimated to grow by only 4.4 percent of beginning money stock. Domestic credit is estimated to drop by 2.6 percent of beginning money stock. The end-March performance criteria for domestic credit and net claims on the Government have been observed, and those for end-June and end-September are estimated to have been observed. Taking into account the balance of payments objective, domestic liquidity is estimated to grow by only 3.3 percent, compared with a program target of 5.3 percent.

8. The public investment program for 1986/87 has been implemented satisfactorily. Investment expenditure grew by 6.8 percent, reaching CFAF 67.3 billion as programmed. Given the overall objective of CFAF 92.5 billion, the implementation rate of 72.8 percent has been achieved. In line with the Government's objective of relying increasingly on foreign grants to finance capital expenditure, the investment program was financed by CFAF 35.8 billion in foreign grants, CFAF 26.8 billion in foreign loans, and CFAF 4.7 billion in budgetary resources. The Government continued to stress the implementation of projects supporting the directly productive sectors, the development of human resources, and the rehabilitation of existing infrastructure. Despite slower-than-expected project implementation in the rural and social sectors, the structure of investment continued to shift toward these two priority sectors, with their relative shares in total investment rising to 36 and 26 percent, respectively. During 1986/87, the monitoring of investment outlays was enhanced, reflecting the integration of the investment budget into the overall government budget.

9. The Government further liberalized pricing and marketing policies. Thus, in the context of the 1986/87 adjustment program, it reduced the list of goods subject to preset profit margins from 200 to 64, simplified the system of preset profit margins from one of specific margins for each good to one of preset margins of 35 and 50 percent, and completely deregulated the prices of all other imported goods. The Government has made progress in the preparation of a study on pricing and marketing in the agricultural sector, being prepared with assistance from the FAO and USAID. A preliminary draft of the study is under review by the government departments concerned.

10. Considerable progress was achieved in the implementation of the major reform of the public enterprise sector, prepared in consultation with, and supported by, the World Bank. In particular, legislation defining the legal status of public enterprise employees has been promulgated and model charters (statuts types) adopted. Notwithstanding some administrative delays, the revision of the charters of individual public enterprises is expected to be completed by end-1987. The specific restructuring programs for OPT, OPVN, and BDRN are being elaborated, and expected to be completed by December 1987. CMAN was privatized before March 31, 1987, while the privatization of SNT is still awaiting a potential buyer. SOPAC was privatized rather than being liquidated as originally envisaged. The privatization of SONERAN and the transfer of the government-held SICONIGER shares are expected to be completed by end-1987. UNCC and SONIFAME have been liquidated. Air Niger is in the process of liquidation. The Government is seeking potential buyers for OLANI and has reached agreement with the World Bank on the conditions for the continued operations of SNC. The establishment of a new water company, in line with a plan of action prepared in consultation with the World Bank, is expected by end-1987. While CNCA's sole remaining function is loan recovery, the terms of reference for a study on a new agricultural credit system, which were prepared in May 1987, are still under review. SONARA has respected the schedule

established for the repayment of CFAF 5.5 billion in crop credit. It has contracted to sell 30,000 tons of groundnuts to SICONIGER for the production of groundnut oil and has been endeavoring to expand its export markets for cowpeas. The high procurement cost of its groundnuts has resulted in substantial losses, which SONARA hopes to offset with profits from the sale of cowpeas and rental income from its real estate holdings. The reduction of outstanding public cross-debts in 1986/87 proceeded on schedule, and the relevant performance criteria have been met. Thus, by end-June 1987 a cumulative total of CFAF 2.750 billion had been settled, compared with a program target of CFAF 2.454 billion. The program target of a cumulative reduction of at least CFAF 3.254 billion by end-September 1987 is expected to be observed.

11. Niger has secured debt relief from the Paris and London Clubs in support of its adjustment efforts. The debt relief secured for 1987 amounts to CFAF 15.6 billion and for the fiscal year 1986/87 to CFAF 12.6 billion. The Government has exerted and continues to exert its best effort to secure debt relief on comparable terms from creditors that did not participate in the Paris Club meeting. The Government has not contracted or guaranteed any nonconcessional loans with a maturity of 0-12 years during the program period. The Government has pursued external sector policies in conformity with the standard clauses regarding the trade and payments system. It has not imposed restrictions on the making of payments and transfers for current international transactions nor has it imposed new or intensified existing restrictions on imports for balance of payments reasons.

II. Medium-Term Economic and Financial Policy Framework

12. The Government's key adjustment objectives and the thrust of its policies for 1988-90 are outlined in the updated medium-term policy framework paper, submitted to the managements of the Fund and World Bank on August 28, 1987. The updated paper, while consistent with the initial version, takes into account a number of issues that emerged from the experience of 1987. First, given the vulnerability of the agricultural sector to fluctuations in weather conditions and the relative importance of the sector, the adoption of a comprehensive strategy for the sector takes on even greater urgency. Second, the continued weakness in the world uranium market underscores the need to implement further measures to stimulate the other sectors of the Niger economy. Third, the difficult fiscal position signals the need for a major improvement in revenue performance and for a thorough analysis of recurrent expenditure requirements in order to determine the most efficient use of public resources. In light of these factors, the updated policy framework paper provides for a reinforcement of incentives policies, the pursuit of a more dynamic agricultural policy, an intensification of the reform of the public enterprise sector, a readaptation of revenue and expenditure policies, and the continued pursuit of a strict external debt management policy. The fiscal deficit, on a commitment basis and excluding grants, is programmed to be

reduced from 9.7 percent of GDP in 1987/88 to 8.8 percent of GDP in 1989/90. The deficit now envisaged is larger than in the basic policy framework paper, partly because of the impact on GDP of the 1987 drought, which has lowered the taxable base over the three-year period, and because of increased provisions for recurrent expenditure, particularly for maintenance. In 1988-90, the policies aim at achieving an annual average rate of growth of 5.4 percent, reflecting in part the recovery from the 1987 drought, compared with the 2.2 percent previously envisaged; the rate of inflation, as measured by the GDP deflator, is projected at 4.1 percent, as compared with the 6.0 percent previously envisaged; and the external current account deficit, including official transfers, is programmed to be reduced from CFAF 30.6 billion in 1988 to CFAF 18.1 billion in 1990, consonant with the objective of attaining a viable balance of payments position in 1990. The achievement of external sector viability will depend critically on developments in the world uranium market, Niger's ability to find new export markets, and the return to normal weather conditions.

III. Economic and Financial Program for 1987/88

13. Within the context of the revised medium-term framework, the program will aim at achieving in 1988 a rate of growth of real GDP of 7.5 percent; limiting the inflation rate, as measured by the GDP deflator, to 2.2 percent; and containing the external current account deficit, including grants, to 3.8 percent of GDP. The achievement of these objectives hinges importantly not only on the effective implementation of the policies envisaged, but also on the return to normal weather conditions and on a sustained demand for Niger's uranium exports. However, the recovery in economic activity is likely to come only in the last quarter of 1988, at the time of the harvest. Thus, the 1987 drought will keep economic activity depressed in the first three quarters of 1988, with a negative impact on revenue performance.

14. To achieve the above objectives, the program for 1988 will emphasize both structural and demand-management policies. The program will focus particularly on structural policies in four key areas, namely the public investment program, the reform of the public enterprise sector, the liberalization of pricing and marketing policies, and the agricultural development strategy. To reinforce the structural policies, a balanced financial policy will be pursued. On the fiscal side, a major effort will be made to improve revenue performance, while the austere expenditure policy will be continued. Credit policy will continue to involve a reduction in the Government's net indebtedness to the banking system so as to provide for an adequate expansion of credit to the productive sectors, while limiting the growth in domestic liquidity consonant with the program's objectives.

a. Public investment

15. The three-year rolling public investment program for 1987/88-1989/90, prepared in consultation with the World Bank and with a targeted investment level of CFAF 341 billion, focuses on projects supporting the directly productive sectors, the development of human resources, and the rehabilitation of existing infrastructure. Within this context, the public investment target for 1987/88 has been set at CFAF 103 billion. Using an implementation rate of 74.2 percent as a working hypothesis, public investment expenditure is projected to grow by 13.5 percent in 1987/88 to reach CFAF 76.4 billion; this is to be financed by CFAF 5.0 billion from budgetary resources, CFAF 29.7 billion from foreign loans, and CFAF 41.7 billion from foreign grants. This would imply an increase in the share of grant-financed investment from 53.2 percent in 1986/87 to 54.6 percent in 1987/88. The Government is enhancing the absorptive capacity of the priority sectors, in particular of the rural sector and of social services (education and health), so as to achieve the targeted shares for these sectors of 36 percent and 27 percent, respectively. The World Bank considers the sectoral composition and the level of the investment program for 1987/88 appropriate and in line with the economic development priorities and the limited debt servicing capacity of the country. The execution of major new projects will only be undertaken after their feasibility has been clearly established, in consultation with the World Bank and other creditors and donors. During 1987/88, the Government will continue to take steps to strengthen the process of public investment programming. In this context, the authorities, in consultation with the World Bank, will monitor the investment program and its financing to ensure that it will contribute directly and indirectly to the reduction of the debt service burden and to the achievement of a viable balance of payments position and sustained economic growth by 1990 and over the long term.

b. Public enterprises

16. Substantial progress has been made in reducing the scope of the public enterprise sector, in restructuring its finances, and in improving the efficiency of its operations. The Government remains committed to the comprehensive reform of the public enterprise sector and, to this end, has recently launched a Public Enterprise Sector Adjustment Program (PESAP), supported by the World Bank, which aims at extending and intensifying the reforms already implemented. In particular, the PESAP will (i) further enhance public enterprise autonomy and accountability through the implementation of legal and institutional reforms; (ii) expand the process of public enterprise rehabilitation; (iii) further the sector's rationalization through the privatizations and liquidations now under way; and (iv) complete the sector's financial restructuring through the elimination of cross-debts by 1988/89 and the implementation of measures to instill financial discipline.

17. In accordance with the PESAP, the Government has made adequate provisions in the 1987/88 budget for support to those public enterprises fulfilling a social function and for the Government's procurement of services provided by public enterprises. It also increased the minimum thresholds for which government contracting procedures apply, effective July 23, 1987. The liquidation of Air Niger has been initiated. The Government will adopt the charter establishing the new water company, SNDE, by end-December 1987. As indicated in paragraph 10 above, individual charters based on new model charters as well as personnel rules and regulations will be adopted by December 31, 1987, and the privatization of OLANI, SICONIGER, and SONERAN will be completed in the course of 1987/88. In conformity with the timetable set forth in the PESAP, the Government will formulate performance contracts for NIGELEC, SONICHAR, and SNTN, and complete the formulation of restructuring programs for OPVN, RINI, and ORTN. The Government intends to have revised the procurement regulations pertaining to public enterprises and to have formulated performance contracts for OPT, OPVN, and ORTN by June 30, 1988.

18. The Government is continuing to adhere to the timetable established for the elimination of the identified and verified cross-debts of the public enterprises. The Government will eliminate an additional CFAF 7.0 billion in public cross-debts under the 1987/88 budget, in accordance with the following cumulative schedule: CFAF 1.0 billion by end-December 1987; CFAF 2.5 billion by end-March 1988; CFAF 4.5 billion by end-June 1988; and CFAF 7.0 billion by end-September 1988. The settlement of these cross-debts is being financed by the counterpart funds of the public enterprise sector adjustment credit and by bilateral donors.

c. Pricing and marketing policies

19. The Government remains committed to the objective of fully liberalizing prices, with the exception of those for certain strategic goods and services, by 1990. To this end, the Government has substantially reduced the number of goods and services subject to price controls, simplified the price control system, completely deregulated the marketing of millet and sorghum, and abolished all import monopolies with the exception of those pertaining to petroleum products. To further this process in 1987/88, the Government reduced the number of goods subject to preset profit margins from 64 to 39, on June 1, 1987. Furthermore, the Government will reduce the number of goods and services subject to price ceilings from 7 to 5 by removing salt and flour from the list by November 1, 1987. In addition, the Government will abolish all restrictions on the number of traders authorized to import rice and will not apply any quantitative restrictions on imports of rice and cement by November 1, 1987. At the same time, the Government will increase the taxes on rice imports and introduce a tax on cement imports; the revenue from these taxes will accrue to the budget. The system of setting prices for groundnuts and cowpeas will be replaced by a system of indicative prices by November 1, 1987. All transactions in

these commodities, including those undertaken by SONARA, will thus take place at prices determined by market conditions. A complete study on industrial and trade incentives, the objective of which is to identify policy measures which would create an environment favorable to increased private sector activity and competition, is to be completed with World Bank assistance by April 1, 1988. Additional measures for the further liberalization of Niger's economy will be formulated in the light of the recommendations of the study, in consultation with the Fund and the World Bank.

d. Agricultural policy

20. The promotion and diversification of agricultural production is critical to the improvement of Niger's growth prospects. In light of the constraints imposed by the country's weak natural resource base and the insufficiency of technical packages to sustain the agricultural sector, the Government is reviewing its rural development strategy in consultation with the World Bank and bilateral creditors and donors. The preliminary diagnostic phase of a study on Niger's rural development strategy was completed in June 1987; further studies are expected to be completed by mid-1988. The Government has already taken a number of steps to foster the growth and diversification of the rural sector through the liberalization of the pricing and marketing of goods and services. Pending the completion of the ongoing studies, the Government intends (a) to further increase the number of economically viable projects in the agricultural sector, with emphasis on the development of small-scale operations; (b) to reform the system of setting the producer prices for groundnuts and cowpeas as indicated above; (c) to reduce gradually subsidies for agricultural inputs in accordance with the structural adjustment program supported by the World Bank; (d) to improve cost recovery in the agricultural sector; and (e) to accelerate the preparatory work for the reform of the agricultural credit system.

e. Fiscal policy

21. Notwithstanding the drought conditions that will prevail during the 1987/88 fiscal year, the Government will intensify its austerity measures and take major steps to offset the impact of the depressed level of economic activity on revenue. These measures will aim at containing the consolidated budget deficit, on a commitment basis and excluding grants, to CFAF 75.9 billion (9.7 percent of GDP), compared with CFAF 65.0 billion (8.7 percent of GDP) in 1986/87. The increase in the deficit stems mainly from the increase in capital expenditure under the investment program, which is almost totally financed from external resources. Including the settlement of CFAF 7.0 billion in public cross-debts, the budget deficit, on a cash basis and excluding grants, will amount to CFAF 82.9 billion. The deficit will be financed by CFAF 21.0 billion in counterpart funds from the structural and sectoral adjustment credits of the World Bank; CFAF 4.5 billion in debt relief; CFAF 41.7 billion in project-related grants; and CFAF 29.7 billion in projected-related loans. Net domestic indebtedness will be reduced by

CFAF 2.5 billion, with a decline in net bank claims on the Government. Taking into account external debt amortization payments projected at CFAF 18.3 billion, a financing gap of CFAF 6.8 billion will remain. The Government expects this to be financed through bilateral aid and additional debt rescheduling.

22. Revenue is projected to increase by 2.2 percent in 1987/88. Without any further measures and in light of the depressed level of economic activity during the fiscal year, revenue, excluding transfers from the CSPPN, would have declined by 4.5 percent, as a result of the impact of the cuts in duty and tax rates and the absence of exceptional nontax revenues collected in 1986/87. It is therefore only on the basis of a number of major measures that revenue, excluding transfers from the CSPPN, is projected to rise by 5.1 percent, implying an additional increase in revenue of CFAF 7.0 billion, or 1.0 percent of GDP. First, the Government is strengthening duty collections through the appointment of special officers to verify the c.i.f. value of imported goods. This measure is projected to yield CFAF 1.7 billion in additional revenue. Second, the full year impact of the increase in the valeurs mercuriales and barèmées by 40 percent on average is projected to yield CFAF 0.8 billion in additional revenue. Third, the taxation of the informal sector is being expanded by identifying additional tax evaders and potential taxpayers in the sector. A vigorous effort in this regard is projected to yield CFAF 3.0 billion in additional revenue. Fourth, the relative decrease in tax evasion associated with the reduction in taxes on imports in May 1987 and the increased availability of technical resources to customs services could generate a revenue increase estimated at CFAF 0.3 billion. As business establishment agreements (conventions d'établissement) expire, any new contracts will restrict exemptions severely. There will also be a significant effort to intensify duty and tax collection. In addition, CFAF 4.0 billion in expected CSPPN profits and an additional CFAF 2.0 billion from the reserves of the CSPPN will be transferred to the budget in 1987/88. The Government is requesting technical assistance from the International Monetary Fund to review measures aimed at mobilizing additional revenue from the informal and modern sectors and at reducing the scope of exemptions.

23. The growth in total expenditure and net lending is to be contained to 8.8 percent, despite a significant increase in capital expenditure. Current expenditure is projected to grow by 4.4 percent. The rise in the wage bill will be limited to 4.9 percent, as the Government will grant no cost of living adjustments and will limit hiring. In tandem with this policy, an increasingly restrictive policy on admission to government training schools is being implemented. The austerity policy involving a strict control of current expenditure shall continue to be enforced. Subsidies and current transfers are forecast to rise marginally to accommodate the requisite support to some public enterprises within the framework of the rehabilitation program supported by the World Bank. Interest payments are expected to remain high. Capital expenditures under the public investment program are forecast to rise by

13.5 percent. The Government will not accumulate any domestic or external payments arrears during the period of the second arrangement under the structural adjustment facility.

f. Monetary policy

24. Consistent with the objectives of the program, the rate of growth of domestic liquidity will be limited to 3.3 percent in 1987 and 6.7 percent in 1988. In line with the Government's policy to release resources to the private sector, net claims on the Government will be reduced by 7.0 percent of beginning money stock in 1987 and 2.4 percent in 1988, allowing for the growth in credit to the economy to amount to 4.4 percent and 7.4 percent of beginning money stock in 1987 and 1988, respectively. For purposes of monitoring the progress under the program, domestic credit, which is estimated to amount to CFAF 129.4 billion at end-September 1987, will not exceed CFAF 130.6 billion at end-December 1987, CFAF 133.1 billion at end-March 1988, CFAF 128.0 billion at end-June 1988, and CFAF 130.1 billion at end-September 1988. Net claims on the Government, which are estimated to amount to CFAF 12.1 billion at end-September 1987, will not exceed CFAF 10.6 billion at end-December 1987, CFAF 9.6 billion at end-March 1988, CFAF 8.0 billion at end-June 1988, and CFAF 7.6 billion at end-September 1988. These ceilings will be reduced by any amount by which external budgetary assistance not related to investment projects, including debt relief, exceeds program estimates at an exchange rate of CFAF 300 = US$1.

g. The external sector

25. Despite the increase in cereals imports resulting from the poor 1987/88 harvest, the measures outlined above should contribute to the containment of the current account deficit, including official transfers, to 3.8 percent of GDP in 1988, compared with 3.2 percent of GDP in 1987. As the world market for uranium is expected to remain sluggish, export receipts are expected to stagnate. Total imports, on the other hand, are expected to increase by about 17.6 percent. Imports of cereals, owing to the drought conditions, are projected to account for 8.7 percentage points of the increase, and capital goods imports under the investment program are projected to account for another 6.1 percentage points. Other imports are projected to account for only 2.8 percentage points, owing to the decline in economic activity during the first three quarters of the year and the restrictive financial policies pursued. The balance on the service account is expected to remain virtually unchanged. In view of the projected official transfers and capital disbursements, largely associated with the investment program as well as the adjustment and sectoral credits from the World Bank, the balance of payments deficit should be limited to CFAF 6.6 billion in 1987 and to CFAF 6.5 billion in 1988. A financing gap of CFAF 8.6 billion is estimated for 1988. This gap is expected to be financed by exceptional external assistance, and, if necessary, debt relief.

26. The Government intends to seek financial assistance to cover the financing gap. If it is not possible to fully cover this gap from other sources, the Government may seek debt relief from the Paris Club, other official creditors, and commercial banks in order to close the financing gaps in the budget and balance of payments. Moreover, the Government will continue to pursue a cautious external debt management policy. The Government will not contract or guarantee any nonconcessional loans with a maturity range of 0-12 years during the program period, with the exception of normal import credits with a maturity of less than one year. In addition, in order to reduce the external debt burden, the Government will continue to emphasize external financing in the form of grants and concessional loans, to the extent possible at terms comparable to those of IDA. The Government will also pursue policies in conformity with the standard clauses regarding the trade and payments system. Accordingly, it will not impose restrictions on the making of payments and transfers for current international transactions nor will it impose new or intensify existing restrictions on imports for balance of payments reasons.

27. To monitor progress under the second annual arrangement under the structural adjustment facility, the following benchmarks have been established: (a) adoption of the budget for 1987/88 in conformity with paragraphs 21-23 above; (b) reduction in the number of goods and services subject to fixed price ceilings from 7 to 5 by November 1, 1987; (c) adoption of the charter establishing the new water company, SNDE, by end-1987; (d) formulation of performance contracts for NIGELEC, SONICHAR, and SNTN by December 31, 1987, and for OPT, OPVN, and ORTN by June 30, 1988; (e) quarterly ceilings on domestic bank credit and on net claims on the Government for 1987/88 in conformity with paragraph 24 above; (f) minimum cumulative quarterly reductions in public cross-debts in conformity with paragraph 18 above; (g) no accumulation of domestic or external payments arrears; (h) no contracting or guaranteeing of any nonconcessional loans with a maturity range of 0-12 years, excluding normal import credits of less than one year; and (i) observance of the standard clauses regarding the exchange and trade system.