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Supplement 2

CONFIDENTIAL

November 24, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Niger - Structural Adjustment Arrangement

Attached for the records of the Executive Directors is the text of the structural adjustment arrangement for Niger agreed at Executive Board Meeting 86/183, November 17, 1986.

Att: (1)

Niger - Three-Year and First Annual Arrangements Under the Structural Adjustment Facility

Attached hereto is a letter dated September 11, 1986 from the Government of Niger, requesting from the Fund a three-year structural adjustment arrangement and the first annual arrangement thereunder, and setting forth

(i) the objectives and policies of the program to be supported by the three-year arrangement, and

(ii) the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the International Monetary Fund grants the requested arrangements in accordance with the following provisions and subject to the Regulations for the Administration of the Structural Adjustment Facility:

1. For a period of three years from November 17, 1986 Niger will have the right to obtain three successive loans from the Fund under the Structural Adjustment Facility in a total amount equivalent to SDR 15,839,000.

2. The first loan, in an amount equivalent to SDR 6.74 million, is available for disbursement at the request of Niger.

3. The second and third loans will be available upon approval by the Fund of the corresponding annual arrangements and will be disbursed at the request of Niger. The amount of the second loan will be equivalent to SDR 4,549,500, and the amount of the third loan will be equivalent to SDR 4,549,500.

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

(a) the indicators described in paragraph 30 of the annexed letter dated September 11, 1986 from the Prime Minister,

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

(c) introduction or modification of multiple currency practices,

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

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

5. In accordance with paragraph 31 of the annexed letter dated September 11, 1986, 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 first annual arrangement.

6. In accordance with paragraph 31 of the annexed letter dated September 11, 1986, Niger will consult 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 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.

TRANSLATION

September 11, 1986

Dear Mr. de Larosière,

1. Starting in 1983, Niger has made determined adjustment efforts supported by three successive stand-by arrangements from the International Monetary Fund. The programs implemented involved wide-ranging supply- and demand-oriented measures designed to reduce structural distortions and to align the level of aggregate demand with available resources. The objectives of these programs were to reduce the domestic and external financial imbalances and to restore, over the medium term, a viable balance of payments position and a sustainable rate of economic growth. The policies pursued were readapted and strengthened to mitigate the effects of a number of adverse exogenous factors, such as recurrent drought conditions, the closure of the border with Nigeria, and the further weakening in the world demand for uranium. Accordingly, Niger witnessed a substantial improvement in its external sector position, a reduction in the rate of inflation, and, due to improved rainfall, a significant increase in agricultural activity. All the policies envisaged under the programs were implemented, and all the performance criteria through end-June 1986 have been observed. In February 1986, the World Bank approved a structural adjustment credit for Niger, in an amount equivalent to US$60 million, in support of a medium-term structural adjustment program. In addition to the resources provided by the Fund and the World Bank, Niger's adjustment efforts have been supported by other external financial assistance, including debt relief under the auspices of the Paris and London Clubs.

2. Notwithstanding the substantial progress made during the past four years, Niger's economy continues to suffer from certain major structural constraints, as well as sizable financial imbalances, attributable both to the weak domestic resource base and to the insufficient flows of external assistance on concessional terms. Accordingly, the Government of Niger has decided to continue with its adjustment efforts. It has thus elaborated a medium-term economic and financial policy framework which was sent to you on September 11, 1986, covering the three-year period 1987-89. The authorities 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 measures. The document on the general policy framework will be updated annually as the program is implemented. In support of the objectives to be pursued during 1987-89 and the objectives and policies for the first year of this period, which are outlined below, the Government of Niger requests from the International Monetary Fund a three-year structural adjustment arrangement in the amount that will be available to Niger under the Fund's structural adjustment facility, and the first annual arrangement

thereunder. Furthermore, the Government hereby also requests from the Fund a one-year stand-by arrangement in an amount equivalent to SDR 10.11 million (30 percent of quota), to enter into effect on December 5, 1986, upon the expiration of the current stand-by arrangement.

I. Economic and Financial Developments in 1985-86 1/

3. To consolidate and build upon the progress achieved during 1983-85, the Government of Niger adopted a comprehensive adjustment program for 1986 supported by a stand-by arrangement. Compared with the difficult conditions which Niger faced under previous programs, the country's economy should benefit from the impact of improved weather conditions, the reopening of the border with Nigeria, the drop in the prices of imported petroleum products, and the depreciation of the U.S. dollar vis-à-vis the CFA franc. On the negative side, the negotiated export price for uranium in CFA francs has remained at its 1985 level, instead of rising by 5 percent as originally estimated in the program. Reflecting these factors, as well as the measures implemented, the external current account deficit, including official transfers, is estimated to decline from CFAF 25.7 billion in 1985 to CFAF 17.0 billion in 1986, compared with a program target of CFAF 26.2 billion. However, because of the deterioration in the capital account, the balance of payments deficit rose from CFAF 16.9 billion in 1985 to CFAF 18.9 billion in 1986, compared with a program target of CFAF 20.3 billion. The rate of inflation, as measured by the GDP deflator, dropped to 6.0 percent in 1986, below the program target of 7.0 percent. Following the recovery in economic activity in 1985, real GDP growth is estimated at 3.0 percent, below the program target of 4.0 percent.

4. During 1986 the Government pursued major structural reforms. There was a significant further liberalization of pricing and marketing policies. All import monopolies and quasi-monopolies, with the exception of petroleum products, were abolished. In addition, OPVN expanded the scope of the system of tenders and bids to cover all wholesale purchases and sales during the 1985/86 season, reduced retail selling prices in remote areas in line with market conditions, and introduced price differentials to reflect variations in transportation and distribution costs among regions. Finally, the list of 27 products and services subject to price ceilings (homologation) was reduced to 7 products, and the remaining products were subjected to a more flexible system of preset profit margins.

1/ The analysis of 1986 is based on estimates for the year. The program targets refer to the revised targets set at the time of the mid-term review in March 1986.

5. In late 1985, the Government launched a major reform program in the public enterprise sector, which was prepared in consultation with the World Bank. The program includes a revision of incentive policies, improvements in the legal and institutional framework within which public enterprises operate, and programs of liquidation, privatization, and rehabilitation. The liberalization of pricing and marketing policies, together with the alignment of the tax treatment of public with private enterprises, should contribute to an improvement in production incentives. In January 1986, the Government adopted legislation classifying enterprises as public agencies of an administrative nature, industrial or commercial agencies, state corporations, and mixed enterprises. The legislation defined their structure and organization as well as the supervisory role of the Government for each category. So far, four public enterprises have been liquidated, four have suspended operations, and three have been privatized. Three state-owned hotels and SONIDEP'S petroleum distribution stations have been leased under management contracts to the private sector. For eight public enterprises, rehabilitation programs are being implemented with World Bank and/or bilateral assistance. Specific measures undertaken include management and technical reforms in SONICHAR, enhanced cost recovery at OFEDES, an increase in BDRN's capital, and a reduction in OPVN's price stabilization role.

6. To strengthen investment planning, the Government formulated a three-year rolling public investment program for 1985/86-1987/88 in consultation with the World Bank. The thrust of the program is to reorient investment toward directly productive sectors and to finance a higher proportion of investment expenditure through grants. An investment target of CFAF 80 billion had been set for 1985/86. It is estimated that an implementation ratio of 74 percent was achieved, with total investment reaching CFAF 59 billion. This was financed by CFAF 29.0 billion in grants, CFAF 26.2 billion in loans, and CFAF 3.8 billion in budgetary resources, in line with the Government's policy of relying increasingly on grants. Despite slower than expected project implementation in the rural and social sectors, the structure of investment continued to shift toward the productive sectors, with their share in total investment rising from 39 percent in 1984/85 to 44 percent in 1985/86.

7. The budget deficit on a commitment basis, excluding grants and grant-financed investment, has declined to CFAF 29.9 billion (3.9 percent of GDP), compared with a program target of CFAF 29.3 billion. This deficit has been financed by CFAF 20.9 billion in net foreign financing, including CFAF 12.1 billion in debt relief, and CFAF 9.0 billion in net domestic financing, including CFAF 5.0 billion in net bank credit. The improvement in the budgetary position reflects both an increase in revenue and a containment in expenditure. Revenue is projected to reach the target of CFAF 73.2 billion, an increase of 7.2 percent, due primarily to the wide-ranging tax measures introduced at the beginning of the year, as well as to receipts of CFAF 2.0 billion from the profits of the oil sector, resulting from the drop in oil import prices while

selling prices remained constant. Total expenditure and net lending is estimated to have grown by 1.6 percent, as against a targeted increase of 0.5 percent. However, the base for 1984/85 has been revised downward by about 1 percent. The increase in 1985/86 was attributable to a 14.1 percent rise in investment expenditure resulting from faster implementation of projects financed by external borrowing, while current expenditure and net lending decreased by 2.9 percent, owing principally to a cut of 11.5 percent in non-wage current expenditure and to a lower deficit on the special accounts.

8. A balanced monetary policy, consonant with the program targets, has been pursued. All the performance criteria at end-June 1986 were observed. The Government's recourse to net domestic credit at end-June 1986 was lower than initially envisaged under the program, while credit to the private sector expanded considerably less than projected. Net foreign assets increased sharply during the first half of 1986 because of the impact of the revaluation of the SDR and the improved net external position of the commercial banks. Reflecting these factors, domestic liquidity grew by 3.6 percent during the first half of 1986. During the second half of the year, it is expected that the demand for credit from the government and private sectors will pick up, resulting in a growth of net claims on the Government estimated at 1.1 percent of beginning money stock and in domestic credit at 5.0 percent for the year as a whole. Taking into account the balance of payments estimate, domestic liquidity is projected to grow by 9.0 percent, compared with a program target of 8.0 percent.

9. The Government has continued to follow a prudent debt management policy and has not contracted or guaranteed any nonconcessional loans with a maturity range of 0-12 years. Moreover, to improve external debt management, all new loans contracted or guaranteed by the Government since April 1986 required the authorization of the Minister of Finance. In addition, most public debt data have been computerized. In November 1985, the Paris Club agreed to the rescheduling or refinancing of Niger's government and government-guaranteed external debt obligations for the period December 1, 1985 to December 4, 1986. Furthermore, the commercial banks, under the auspices of the London Club, agreed in April 1986 to the rescheduling of Niger's external debt obligations for the period October 1985 to December 1988. Accordingly, the amount of debt relief for 1986 is estimated at CFAF 19.7 billion, compared with the original estimate of CFAF 20.3 billion. This difference is attributable to the fact that certain countries and bilateral institutions that did not participate in the Paris Club have not agreed to reschedule Niger's government and government-guaranteed debt. The Government of Niger is exerting its best efforts to secure debt relief from those countries on comparable terms. The overall debt service ratio, before rescheduling, is estimated at 48.2 percent in 1986, compared with 45.5 percent originally projected. After rescheduling, this ratio is estimated to reach 32.9 percent, compared with an original projection of 30.8 percent.

II. Medium-Term Economic and Financial Policies

10. The achievement of a sustainable rate of economic growth under conditions of external and domestic financial stability is impeded by a number of structural problems. These problems, coupled with the country's landlocked position, the degradation of the soil due to over-exploitation, and the limited growth prospects for the mining sector, constrain Niger's growth potential. The structural weaknesses are both reflected in and compounded by the financial imbalances. Even though these imbalances have been reduced in recent years, the budgetary and balance of payments positions, nonetheless, remain difficult, with large financing gaps necessitating external financial assistance, including debt relief. The high external debt service burden of the country contributes significantly to the financial imbalances. While debt relief has helped reduce the short-term financing problems, the rescheduling of official and commercial debt has involved high costs and has deferred the debt problem.

11. Against this background, the Government has decided to pursue a medium-term economic and financial program, covering the three-year period 1987-89. The program will aim at further alleviating the structural constraints and aligning the level of aggregate demand with available resources. The emphasis will be on generating a favorable environment for fostering private sector economic activity and investment, and promoting domestic savings. The development strategy is geared at achieving a rate of real economic growth higher than 3.0 percent. The attainment of this rate will depend critically on the emphasis that will be placed on investment in the productive sectors, a marked improvement in weather conditions, the increase in activity in the informal sector, the rehabilitation of the production base, the reconstitution of livestock, and the emergence of a more favorable international economic environment that will bring about a marked improvement in the terms of trade. However, the World Bank's analysis indicates that, in the absence of these structural adjustment measures, real economic growth would average 1.1 percent annually during 1987-95. With the major measures implemented by the authorities, and on the assumption that normal weather conditions prevail and that prospects for the international economic climate remain unchanged, the World Bank estimates that the growth rate could double, reaching 2.1 percent for the period 1987-90. This growth rate has been used as a working hypothesis for purposes of financial programming, and will be revised annually. The growth rate is expected to rise above the rate of population growth in the early 1990s. The annual rate of inflation, as measured by the GDP deflator, is projected to average 6.0 percent annually. Furthermore, the external current account deficit, including official transfers, is programmed to be reduced from CFAF 17.0 billion in 1986 to CFAF 14.5 billion in 1990, consonant with the objective of attaining a viable balance of payments position in 1990.

12. The policies to be pursued during 1987-89 are outlined in the policy framework paper, attached to my letter addressed to you dated September 11, 1986. To address the structural problems in public resource management, a reform of the tax system will be undertaken, and measures to improve the structure of expenditure, emphasizing the importance of adequate allocations for recurrent operations, adopted. In addition, the budgeting and expenditure control processes will be expanded in scope to cover all government operations, and the process of investment programming will be strengthened, with priority given to projects involving the directly productive sectors. The implementation of a comprehensive reform program for the public enterprise sector, initiated in 1985, will continue during 1987-89, including a narrowing in the scope of the sector, measures to increase the efficiency of the enterprises, and the settlement of identified and verified cross-debts. Concomitantly, the incentive system will be further liberalized through a reduction in government intervention. As regards agricultural policies, a study is currently under way in consultation with USAID and the FAO.

13. Based on the current presentation of the budget, which excludes grants and grant-financed investment, the consolidated budget deficit of the Central Government on a commitment basis will be reduced from 3.9 percent of GDP in 1985/86 to only 1.3 percent in 1989/90. Including grant-financed investment outlays and excluding grants, the overall budget deficit on a commitment basis will narrow from 7.8 percent of GDP in 1985/86 to 6.4 percent in 1989/90. This will be achieved through a strengthened revenue performance and a containment in the growth of current expenditure, which will permit an expansion of development expenditure within this overall target. During this period, the policy to be pursued by the Government will aim at avoiding recourse to net domestic bank financing; the declining financing gaps will be essentially covered by external financial assistance on concessional terms, including diminishing levels of debt relief. Monetary policy will be consonant with the external current account, inflation, and growth targets. With the reduced recourse of the Government to the banking system and the expected improvement in the financial position of the public enterprise sector, the private sector will have increased access to domestic credit. While the policies described above will constitute the main elements of the program to be pursued, the quantitative projections for 1988-90 should be viewed as indicative. They will be modified as specific measures are formulated in the context of the specification of each annual program and as more up-to-date information becomes available.

III. Economic and Financial Program for 1986/87

14. Within the context of the medium-term framework, the program for 1987 will aim at further reducing structural and financial imbalances. The major quantitative objectives of the program for 1987 will be to achieve a real rate of growth of at least 2.0 percent, to limit the

inflation rate, as measured by the GDP deflator, to 6.0 percent, and to contain the current account deficit, including grants, to 2.0 percent of GDP. In line with these objectives, the program will involve a further narrowing in the consolidated central government budget deficit, a reduction in outstanding cross-debts in the public sector, the pursuit of a restrictive credit policy, and a continued prudent external debt management policy. The program will also include structural measures related to public resource management (including investment programming), incentive policies, public enterprises, agricultural policy, and the financial system.

(1) Fiscal policy and public resource management

15. In the fiscal year 1986/87, the Niger authorities will continue to pursue austerity measures and to mobilize revenue to achieve a reduction in the consolidated budget deficit of the Central Government on a commitment basis, excluding grants and grant-financed outlays, from CFAF 29.9 billion (3.9 percent of GDP) in 1985/86 to CFAF 28.6 billion (3.5 percent of GDP) in 1986/87. In view of the prospects for a more rapid increase in grant-financed investment outlays, the overall budget deficit on a commitment basis, excluding grants, will increase from CFAF 58.9 billion in 1985/86 (7.8 percent of GDP) to CFAF 64.4 billion (7.8 percent of GDP) in 1986/87. The deficit will be financed by budgetary assistance amounting to CFAF 19.7 billion, of which CFAF 11.0 billion will be provided by counterpart funds of the structural adjustment credit from the World Bank, CFAF 3.5 billion from grants, 1/ CFAF 5.2 billion from rescheduling already obtained; CFAF 26.8 billion in project-related loans, and CFAF 35.8 billion in project-related grants. There will be no net recourse to the banking system; nonbank domestic financing is estimated at CFAF 2.3 billion. Taking into account amortization payments amounting to CFAF 26.4 billion, the remaining financing gap of CFAF 6.2 billion is expected to be covered by additional rescheduling.

16. Revenue is projected to increase by 8.2 percent. Over the last two years, the Government has introduced all the tax measures recommended in the report of the Fund's technical assistance mission on the tax system; these measures were aimed at widening the tax base and improving tax administration. No further tax measures are envisaged for 1986/87. Based on the effects of the tax measures introduced in the last two years and the projected growth in nominal GDP, tax revenue is projected to grow by 6.0 percent. Customs duties are projected to rise by 5.9 percent, in line with the increases in dutiable imports, taxable

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1/ Total grants will amount to CFAF 5.0 billion, in two installments of CFAF 2.0 billion and CFAF 3.0 billion. Of the former, the budget will receive CFAF 0.5 billion, and the balance will be used for the direct repayment of the arrears of municipalities and certain public enterprises. The CFAF 0.5 billion will be used to reduce the Government's outstanding credit to the BDRN.

exports, and mining royalties. Other tax revenue is projected to grow by 6.0 percent, reflecting in particular the effects of the recently introduced value-added tax and improved collection of tax arrears as a result of the introduction on August 11, 1986 of a 10 percent penalty for late tax payments. Nontax revenue will grow by 23.1 percent, owing primarily to the channelling into the budget of CFAF 6.0 billion, of which CFAF 4.0 billion is derived from profits resulting from the fall in petroleum import prices and CFAF 2.0 billion from CSPPN reserves.

17. The expansion in total expenditure and net lending (excluding grant-financed investment) will be limited to 4.6 percent, notwithstanding a sharp rise of 12.3 percent in interest payments on the government debt. The growth in current expenditure and net lending, excluding interest payment, is projected to be only 3.4 percent, implying a cut in real terms. This will be achieved by limiting new hiring and by granting no cost of living adjustments. Furthermore, austerity measures will continue in effect, with other current expenditure and net lending growing by only 3.1 percent. Economies will be effected in housing allocations, scholarships, and other current transfers and subsidies, with a view to improving the structure of current expenditure. Capital expenditure, excluding grant-financed investment, will increase by only 2.6 percent, reflecting the emphasis the authorities place on financing a larger share of investment expenditure through grants. Including grant-financed investment, total capital expenditure will increase by 12.7 percent, and total expenditure and net lending by 8.7 percent. The Government will not accumulate any domestic or external payments arrears during the program period.

18. The Niger authorities are determined to implement further measures over the medium term to strengthen the budgetary position. In particular, there will be an assessment of the impact of the recently completed revision of the tax system. Accordingly, by end-February 1987, a study will be prepared to evaluate the reform of the tax system and tax administration procedures recently introduced with a view to identifying additional measures that would contribute to a further broadening of the tax base and the improvement in the elasticity of the tax system. The study will particularly focus on customs valuation and tax and customs duty exemptions. The Niger authorities are requesting technical assistance from the International Monetary Fund for this study. It is envisaged that its findings would be examined at the time of the first review of the program in March 1987, with a view to introducing the requisite measures in the context of the 1987/88 budget. With regard to expenditure, the Niger authorities will continue to enhance the process of budget execution and to strengthen expenditure control. In consultation with the World Bank, the Niger authorities are undertaking a study on the civil service system, which will assess the employment needs and examine recruitment policies. The study will be completed by July 1, 1987, with a view to formulating a plan of action to be implemented with the 1987/88 budget. In order to ensure that

there are sufficient budgetary allocations for the recurrent expenditure, the Government will be examining the concept of zero-based budgeting.

19. The three-year rolling public investment program has been extended by one year. Total investment expenditure for 1986/87-1988/89 has been targeted at CFAF 310.5 billion, for which full funding has already been secured. The investment program will be financed by CFAF 170.3 billion in grants, CFAF 120.9 billion in loans, and CFAF 19.3 billion in budgetary resources. Even though the objective of the Niger authorities is to implement the public investment program in its entirety, an implementation rate of about 73.5 percent for the period 1986/87-1988/89 will be used as a working hypothesis for purposes of financial programming. The public investment program continues to stress the channeling of investment toward projects supporting the directly productive sectors, the development of human resources, and the rehabilitation of existing infrastructure. The program will be reviewed and extended yearly in consultation with the World Bank. The annual investment budget will be set in line with the availability of financial resources and the priorities of the investment program. The financing plan will take into account the recurrent expenditure needs, as well as the country's debt servicing capacity. The Niger 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 the achievement of a viable balance of payments position with sustained economic growth by 1990 and over the long term.

20. Within the context of the three-year rolling investment program, the public investment target for the fiscal year 1986/87 has been set at CFAF 92.5 billion. Using an implementation rate of 72.8 percent as a working hypothesis, investment expenditure is projected to grow by 14 percent relative to the outturn for 1985/86. Investment expenditure in 1986/87 will total CFAF 67.3 billion, which is expected to be financed by CFAF 4.7 billion from the budget, CFAF 26.8 billion from foreign loans, and CFAF 35.8 billion from foreign grants, based on a minimum implementation ratio of 72.8 percent. This would imply an increase in the share of grant-financed investment from 49.2 percent in 1985/86 to 53.2 percent in 1986/87. The Niger authorities are commited to making a particular effort to expand the investment implementation capacity in rural development and social services (education, health, and water supply) so as to achieve the targeted shares of 40 percent and 28 percent, respectively. The World Bank considers the sectoral composition and the level of the investment program for 1986/87 to be appropriate and in line with the development priorities and the limited debt servicing capacity of the country. To enhance the monitoring and control of the public investment program, the Niger authorities have adopted the legislative framework needed to incorporate investment expenditure into the regular budgetary process. A simplified nomenclature has been adopted for the investment budget, the documentation that is to be submitted to the Ministry of Finance in

connection with any investment expenditure has been defined, and the method of transmission determined. In addition, the Niger authorities will continue their efforts to obtain timely and accurate information on grant-financed investment expenditures made directly by donor agencies.

(2) Public enterprises

21. The Government intends to continue with the implementation of the ongoing public enterprise sector reform program, with a view to limiting Government involvement to strategic enterprises and improving the efficiency of their operations. In this context, the Government will take the following measures by October 1, 1986: (a) the promulgation of legislation defining the legal status of public enterprise employees; and (b) the adoption of model charters ("statuts-types") on the basis of which the individual charters of specific public enterprises will be drawn up. Furthermore, by October 1, 1986, specific action programs will be prepared for the reform of OPT and OPVN. The latter will specify that OPVN will confine itself to the management of a security stock, which shall not exceed 80,000 tons. No decision with regard to the implementation of OPVN's program, and, in particular, any measures relating to new purchases will be taken without prior consultation with the World Bank. In addition, a plan of action will be prepared to improve BDRN's collection of overdue loans from its 100 largest clients. By March 31, 1987, the charters of all public enterprises will be revised in line with the model charters, and SNT and CMAN will be privatized.

22. The Government has also decided to completely privatize OLANI, SICONIGER, and SONERAN by end-1987. A decision with regard to Air Niger and SNC will be taken by end-October 1986. In addition, the process of partial privatization of certain enterprises will be continued. The Government will continue with the liquidation of those enteprises for which such a decision has been reached. Accordingly, it expects to complete the liquidation of SOPAC, UNCC, and SONIFAME by end-December 1987. A study on the institution of a water company will be completed by end-December 1986, and a plan of action to set up the company will be prepared by end-February 1987 in consultation with the World Bank.

23. The Government has established a timetable for the elimination of outstanding public cross-debts; outstanding amounts will be eliminated by 1988/89. The total net amount to be settled is estimated at CFAF 16.1 billion; work to identify the precise amount of such debts is still underway, with technical assistance from the World Bank. Nonetheless, during the fiscal year 1986/87, a total of CFAF 3.254 billion of verified cross-debts will be repaid in four installments. For purposes of monitoring the implementation under the program, a cumulative amount of CFAF 854 million will be settled by end-December 1986 and CFAF 1,654 million by end-March 1987. On an indicative basis, CFAF 2,454 million will be settled by end-June 1987 and CFAF 3,254 million by end-September 1987. The settlement of these cross-debts will be fully financed by CFAF 3.0 billion from the counterpart funds of the

structural adjustment credit from the World Bank and by CFAF 254 million from bilateral sources. These amounts will be held specifically for this purpose in a special escrow account to be administered by a Commission for the Settlement of Public Enterprise Cross-Debts, to be established by October 1, 1986.

(3) Pricing and marketing policies

24. The Government of Niger has taken additional measures to continue the liberalization of pricing and marketing policies. Under the current pricing system, products and services are classified under five categories: (a) those subject to price ceilings (homologation); (b) those subject to a specific preset profit margin; (c) those subject to a profit margin of 60 percent; (d) those produced by local industries benefiting from the investment code, the prices of which may be raised by up to 7 percent annually; and (e) those not subject to price controls. The Government will take the following measures by November 1, 1986: (a) the list of imported goods considered essential and currently subject to specific preset profit margins will be reduced to 64 products and subjected instead to preset profit margins of 35 and 50 percent; (b) all other imported goods will be completely deregulated. The goods and services that remain subject to price controls will be liberalized in a phased manner by 1990, with the exception of certain essential products, which may be excluded in consultation with the Fund and the Bank. With regard to marketing policies, since October 1985 all import monopolies and quasi-monopolies have been abolished and the marketing of cereals fully liberalized. With the introduction of the system of tenders and bids for the wholesale purchases and sales of OPVN, its price stabilization role has effectively been abolished as well. Measures based on the aforementioned plan of action for OPVN will be implemented starting end-October 1986. In addition, the Government intends to prepare, in consultation with the World Bank, a study on the cereal pricing and marketing system. The study, which is expected to be completed by mid-March 1987, will provide the basis for introducing specific measures in the context of the mid-term review to be held in March 1987.

(4) Agricultural policy

25. In view of the importance of promoting and diversifying agricultural production so as to improve the growth prospects of Niger's economy, the Government intends to implement a comprehensive reform of agricultural policies. With assistance from the World Bank and bilateral donors, the Government is currently reviewing its rural development strategy. This study is expected to be completed by end-1988. Pending the outcome of the study, the Government will take a number of specific steps to improve agricultural policy. As described above, the grain marketing and storage policies are being revised to encourage private sector participation. Subsidies for agricultural inputs will be reduced as provided for in the structural adjustment program supported by the World Bank. Continuing efforts are being made

to improve cost recovery in this sector. The Government will examine, together with the donors concerned, the options for a viable agricultural credit system. Proposals will be prepared by February 1987. The review of the agricultural credit system and a redefinition of agricultural research priorities will be completed by end-1987. The Government's strategy also involves an increase in the share of public investment aimed at rural development. For 1986/87, an increase of about 40 percent in investment in the rural sector is programmed.

(5) Monetary and credit policy

26. Consistent with the objectives of the program, the rate of growth of domestic liquidity will be limited to 9.0 percent in 1986 and to 7.5 percent in 1987. Domestic credit to the private sector will expand by 4.0 percent of beginning money stock in 1986 and by 8.3 percent in 1987, while the growth of net claims on the Government will be limited to 1.1 percent of beginning money stock in 1986; there will be no increase in 1987. For purposes of monitoring the program, domestic credit, which is estimated to amount to CFAF 127.82 billion at end-September 1986, will not exceed CFAF 131.02 billion at end-December 1986 and CFAF 132.52 billion at end-March 1987. Net claims on the Government 1/ which are estimated to amount to CFAF 27.82 billion at end-September 1986, will not exceed CFAF 27.82 billion at end-December 1986 and CFAF 27.82 billion at end-March 1987. 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 350 = US$1. On an indicative basis, domestic credit will not exceed CFAF 136.32 billion at end-June 1987 and CFAF 137.02 billion at end-September 1987; net claims on the Government will not exceed CFAF 27.82 billion at end-June 1987 and CFAF 27.82 billion at end-September 1987. Binding quarterly ceilings for the second half of the program will be established in the context of the mid-term review of the program in March 1987.

(6) The external sector

27. The continuation of good weather conditions and the measures outlined above should contribute to the containment of the current account deficit, including official transfers, from 2.2 percent of GDP in 1986 to 2.0 percent of GDP in 1987. On the exports side, as the world market for uranium is expected to remain sluggish, uranium export receipts are expected to increase by only about 3 percent. However, non uranium exports are projected to increase by 8.9 percent, owing to the return to more normal weather conditions. Taking into account the increase in imports of capital goods called for under the investment program and the measures designed to contain aggregate demand, imports

1/ The special account to be set up for the settlement of cross-debts of public enterprises will not be included in net claims on the Government for the purpose of program monitoring.

are expected to increase by only about 4.9 percent. The balance on the service account is expected to deteriorate marginally because of a projected 5.4 percent increase in interest payments. Taking into account the forecast increase in the amount of official transfers and capital disbursements, largely attributable to projected drawings of CFAF 11 billion against the structural adjustment credit from the World Bank, the balance of payments deficit should be reduced from CFAF 18.9 billion in 1986 to CFAF 8.7 billion in 1987. A financing gap of CFAF 15.1 billion is estimated for 1987. This is expected to be financed by CFAF 5.8 billion in purchases from the Fund and a rescheduling of external debt.

28. The Government intends to seek debt relief from the Paris Club, other official creditors, and commercial banks in order to close the 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. In addition, in order to reduce its 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. To this end, a donor's conference is expected to take place under the auspices of UNDP in 1987. To improve debt management, any drawings against loans contracted or guaranteed by the Government will require the prior authorization of the Minister of Finance, effective October 1, 1986. Moreover, the process of computerizing all public debt data is expected to be completed by end-1987.

29. The Government will pursue external sector policies in conformity with the standard clauses regarding the trade and payments system. Accordingly, it will not impose restrictions on payments and transfers for current international transactions or impose new or intensify existing restrictions on imports for balance of payments reasons.

IV. Benchmarks

30. For the first year of the program under the structural adjustment facility, the quantitative performance criteria and indicative numbers agreed with the Fund under the requested stand-by arrangement will also serve as benchmarks. In addition, the following are included as benchmarks under the SAF arrangement: (a) adoption of the 1986/87 overall budget of the Central Government in conformance with paragraphs 15-17; (b) completion of the study on the evaluation of the tax reform by end-February 1987, with understandings to be reached on the measures that may be appropriate for the 1987/88 budget; (c) completion of the study on the civil service by August 1, 1987 and the formulation of a plan of action by end-September 1987; (d) implementation of the measures relating to public enterprises as specified in paragraphs 21-23; (e) liberalization of pricing policies by November 1, 1986, in accordance with paragraph 24; (f) implementation of the plan of action

for OPVN and the reaching of an understanding on the reform of the cereal marketing system by end-March 1987; and (g) the completion of a program for the reform of agricultural credit policy by end-February 1987 and the initiation of its implementation by April 1, 1987.

* * *

31. The Niger authorities believe that the policies and measures described above are adequate to achieve the objectives of the 1986/87 program. However, they will take any further measures that may be required for this purpose. The Niger authorities will consult with the Fund as to the adoption of any measures that may be considered appropriate at their own initiative or whenever the Managing Director requests such consultation. The Niger authorities will reach understandings with the Fund on any further measures that may be needed by end-March 1987 in the context of a mid-term review of the program. During the mid-term review, progress in the implementation of the program will be assessed, and understandings on any necessary additional measures will be reached, particularly in light of the outcome of the debt rescheduling arrangement; understandings will also be reached on the appropriate performance criteria for the remainder of the program period. The Government will provide the Fund with such information as the Fund requests in connection with the progress of Niger in implementing the policies and achieving the objectives of the program and will update the medium-term economic and financial projections annually as the program is implemented. The Niger authorities remain convinced of the need to pursue adjustment efforts in the medium term and, in this context, will appreciate the continued technical and financial support of the Fund.

Sincerely yours,

Hamid Algabid
Prime Minister

TRANSLATION

September 11, 1986

Mr. J. de Larosière
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. de Larosière:

On behalf of the Government of Niger, I transmit herewith a document on the general policy framework for the next three years, which has been prepared in cooperation with the Fund and World Bank staff. It describes the principal medium-term objectives for the next three years as well as the macroeconomic policies and the structural adjustment measures designed to achieve these objectives.

We are forwarding today a similar letter and attached document to the President of the World Bank.

Sincerely yours,

Hamid Algabid
Prime Minister

Attachment

TRANSLATION

Niger: Medium-term Economic and Financial Policy Framework (1987-1989)

I. Background

In the second half of the 1970s, the buoyant world demand for uranium, Niger's main export commodity, contributed to a sharp rise in export receipts and in government revenue and led to a period of rapid economic growth. In the early 1980s, however, a number of exogenous factors and inadequate domestic policies contributed to a slowdown of economic activity, increased inflationary pressures, and a deterioration in the external sector position. The exogenous factors included a weakening in the world demand for uranium, a decline in the terms of trade, unfavorable weather conditions, and a reduction in foreign aid. These were coupled with the continuation of expansionary domestic financial policies, an inappropriate public investment program, and serious structural problems in the public enterprise sector.

To redress these mounting imbalances, the Government of Niger has made determined adjustment efforts starting in 1983, supported by three successive stand-by arrangements with the Fund and by financial and technical assistance from the World Bank. In addition, the Government has adopted a wide-ranging economic reform program supported by a structural adjustment credit equivalent to US$60 million from the World Bank, approved in 1986.

II. Major Structural and Financial Imbalances

Notwithstanding the progress made in Niger's adjustment efforts in recent years, the achievement of a sustainable rate of growth under conditions of external and domestic financial stability is constrained by a number of major structural problems. These include deficiencies in public resource management, a large and inefficient public enterprise sector, a low level of development of the modern private sector, and a weak resource base. In the area of public resource management, the major problems relate to the relative inelasticity of the tax base, the imbalanced structure of government current expenditure, the shortage of qualified managers and administrators, and inadequate cost recovery. The public enterprise sector has suffered primarily from weak management, under-capitalization, and inadequate pricing policies. The private sector has been constrained by rigorous price controls, government regulation, transportation problems, and the small size of the domestic market. Niger's meager resource base, coupled with its landlocked position, limits its growth potential. In particular, the expansion of agriculture, which accounts for about one third of GDP, is hampered by the degradation of soils, the lack of economically viable technical packages for rainfed agriculture, and the high cost of irrigation. In addition, the agricultural sector has suffered from inappropriate policies, in particular with respect to marketing and pricing. With primary education enrollment and literacy rates among the lowest in the world, the human capital base also constrains the growth prospects for the country, while rapid population growth places a strain on the country's scarce resources.

The structural weaknesses are both reflected in and compounded by the financial imbalances. While considerable progress has been achieved so far, the budgetary and balance of payments positions remain difficult, with large financing gaps necessitating exceptional external financial assistance, including debt relief. Furthermore, the financing of the public investment program is virtually totally dependent on external financial aid, in the form of grants and concessional loans. Niger's heavy external debt service burden, evidenced by the high scheduled debt service ratio (about 48 percent in 1986), largely reflects past borrowing on nonconcessional terms and contributes significantly to the financial imbalances. While debt relief has helped reduce the short-term financing problems, it has entailed high costs and has deferred the debt problem.

Alleviating these structural problems is particularly critical in view of Niger's limited resource base; indeed, the country's landlocked position, underdeveloped human capital, and rapid population growth limit its growth potential. Furthermore, Niger's economy, with its heavy reliance on the agricultural sector, is highly vulnerable to changing weather conditions. Thus, while measures to address the structural problems can improve the efficiency with which available resources can be mobilized and allocated, it is also necessary to implement a new investment strategy in order to gradually reduce resource constraints and to improve the long-term growth prospects.

III. Overview of the Medium-Term Policy Framework

Against this background, the Government of Niger has formulated a medium-term structural and financial adjustment program to address its protracted balance of payments problems and promote growth on a sustained basis. The program will cover the three-year period 1987-89, consistent with the thrust of current policies supported by the stand-by arrangement with the Fund and the structural adjustment credit from the World Bank. The program aims at alleviating the structural constraints and aligning the level of aggregate demand with available resources. Emphasis will be on generating a favorable environment for fostering private and public sector savings. By enhancing Niger's competitiveness, the program will aim at expanding and diversifying exports and at encouraging import substitution.

A six-pronged approach is being pursued. First, to address the structural problems in public resource management, a reform of the tax system will be undertaken, and measures will be adopted to improve the structure of expenditure. In this regard, policies relating to civil service employment, cost recovery, and transfers to consumers will be reassessed with a view to providing adequate allocations for recurrent operations, and restrain the evolution of the wage bill. In addition, the budgeting and expenditure control processes will be expanded in scope to cover all government operations. The major thrust of fiscal policy will be to mobilize domestic resources to finance an increasing share of public investment. The process of investment programming will be strengthened, with priority given to projects involving the directly productive sectors and the rehabilitation of existing infrastructure. Furthermore, financing requirements and operating costs will be carefully evaluated. Second, the implementation of a comprehensive reform program for the public enterprise sector, initiated in 1985, will continue during 1987-89, and will include a reduction in the size of the sector, measures to improve the efficiency of public enterprises, and the settlement of identified and verified cross-debts. Third, the incentives system, particularly as regards pricing and marketing, will be examined with a view to reducing government intervention, enhancing the efficiency of resource allocation, and promoting economic activity. Fourth, agricultural policies will be strengthened to complement the reform of grain pricing and marketing, aiming at gradually increasing the role of the private sector and reducing subsidies for agricultural inputs. Fifth, monetary policy will be designed in light of the targets for the external current account, inflation, and growth. In line with the objectives of the program, it will emphasize the provision of credit to the private sector. In addition, the efficiency of the banking system will be improved through a reform of the major financial institutions. These reforms, coupled with an appropriate interest rate structure, should mobilize domestic savings and improve resource allocation. Sixth, in view of the heavy debt burden, the policy of the Government will be to rely to the extent possible on grants for the external financing of the public investment program and gradually to reduce its recourse to rescheduling of the external debt.

The full impact of the structural measures already in place can be expected to be felt only in the long run and cannot be completely quantified. The basic objectives are to sustain an annual rate of real economic growth of about 2.1 percent (1987-90), 1/ to limit the annual

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1/ It is estimated that, without the structural measures, real economic growth during 1987-90 would remain close to 1 percent annually. Real GDP declined at an annual rate of 0.8 percent during 1965-73, prior to the sharp expansion in the uranium sector. Led by the expansion in this sector, real GDP grew by 11 percent annually during 1974-80. It subsequently declined at an annual rate of 4.6 percent during 1981-84.

inflation rate to 6 percent compared with an average of about 8 percent during 1984-86, and to reduce the external deficits gradually so as to reach a viable position by 1990. The current account deficit is projected to be reduced from 2.2 percent of GDP in 1986 to 1.4 percent of GDP in 1990. Accordingly, by 1990 Niger will have laid the foundation for achieving a sustainable rate of economic growth, exceeding that of population growth, and for achieving an overall balance of payments position and structure consistent with orderly relations with creditors, in the context of an exchange system that is free of restrictions on payments and transfers for current international transactions. This will contribute to a gradual improvement in living standards in Niger, which, in the absence of the program, would have been further curtailed. In particular, the secular fall in per capita consumption would be halted, the provision of basic public services improved, and new employment opportunities generated by the expansion of the private sector. The Government recognizes that achievement of these objectives will be critically dependent on the adaptation of policies in light of the progress made and the emergence of unforeseen factors.

1. Public resource management

To improve public resource management, the Government plans to take steps to change the structure of expenditure, improve the elasticity of the tax system, integrate all financial operations into the regular budgeting and expenditure control processes, and reduce the fiscal imbalances.

To improve the structure of expenditure, the Government plans to reduce gradually the proportion of the wage bill, provide more adequate allocation for supplies and equipment, and improve funding for essential public services. In this regard, a study of the civil service system is now in progress; it is designed to serve as a basis for a reform program, to improve the distribution of staff, and to streamline hiring procedures. To reduce the pressure on the budget, the Government has also decided to increase cost recovery efforts. In addition, transfers to consumers will be reduced. These measures will make it possible to limit the growth of current expenditure to a rate lower than the anticipated rate of inflation during the 1986/87-1989/90 period.

The public investment program is aimed at reorienting investment toward the directly productive sectors, developing human resources, and rehabilitating existing infrastructure. It also includes a number of projects designed to finance recurrent expenditure, particularly in the social sectors, given their importance for the long-term development prospects of the country. Investment expenditure would be determined in light of resource availability and the priorities of the investment program; the financing plan will take into account Niger's limited debt servicing capacity. Accordingly, the Government will seek to finance an increasing share of investment from foreign grants and to improve the degree of concessionality in its external borrowing. Consistent with these objectives, the authorities have introduced, in cooperation with the World Bank, the concept of a three-year rolling public investment program, and have prepared the first annual program for 1985/86. The investment target for the three-year period (1985/86-1987/88) has been programmed at CFAF 275.5 billion. For 1985/86, the first year of the program, the public sector investment target has been set at CFAF 80.0 billion. The program will be reviewed and extended yearly in consultation with the World Bank. The authorities, in regular consultation with the World Bank, will monitor the implementation of the investment program and its financing to ensure that it contributes directly and indirectly to the reduction of the debt service burden and the achievement of a viable balance of payments position with sustained economic growth by 1990 and over the long term. Starting in 1986/87, all investment outlays will be included in the regular budgeting processes, and efforts will continue to establish an appropriate breakdown between capital expenditure and related recurrent expenditure.

On the revenue side, the Government has already introduced several measures aimed at improving the efficiency of the tax system, including the introduction of the value-added tax in early 1986. Moreover, a study is expected to be conducted, with the assistance of the World Bank, on industrial and trade incentive policies. Although the scope for generating substantial new revenue is limited, determined efforts will be made to improve incentives to the private sector while reducing exemptions, reforming customs tariffs, and strengthening tax administration.

Based on the current presentation of the budget, which excludes the grants and grant-financed investment, the consolidated budget deficit on a commitment basis would be reduced from 3.9 percent of GDP in 1985/86 to 1.3 percent in 1989/90. During this period, the Government will avoid recourse to domestic bank financing; the deficit will be financed by external financial assistance on concessional terms, including diminishing levels of debt relief. If adequate funding is forthcoming on appropriate terms, the 1987-89 targets for investment, the budget position, and the external current account will be revised accordingly, taking into account the impact on recurrent costs and the debt-servicing of the country.

2. Public enterprises

The Government of Niger is committed to strengthening the performance of the public enterprise sector and to reducing its scope. During 1987-89, the Government intends to continue the implementation of a major reform program for the public enterprise sector that was prepared in consultation with the World Bank and initiated in 1985. The program aims at revising incentive policies by improving and equalizing the structure of incentives for both public and private enterprises, improving the legal and institutional framework within which public enterprises operate, and restructuring the public enterprise sector by liquidating, privatizing, and rehabilitating various enterprises. Based on diagnostic studies of 54 enterprises, the Government has decided to retain only 25 in the public sector, to fully or partially privatize 22, and to liquidate those for which divestiture proves impossible. Another three enterprises have been incorporated into a ministry owing to their special functions, while the operations of the remaining four enterprises will be defined at the time of the completion of ongoing studies. In addition, all outstanding public cross-debt, beyond normal working balances, will be eliminated by 1989. To this end, a study financed by the World Bank has been prepared. A commission has been set up to verify and determine the amounts of outstanding cross-debts to be settled, as well as to set a timetable for their phased elimination.

3. Marketing and pricing policies

The Government of Niger has recently taken specific measures related to marketing and pricing policies. With respect to marketing policy, the Government's objective is to reduce the role of the public sector in marketing activities. Hence, since October 1985, all import monopolies and quasi-monopolies have been abolished, except for petroleum products, and the marketing of cereals has been completely deregulated. These measures, coupled with the reduction in the scope of the marketing activities of public enterprises, are expected to encourage the private sector to assume a wider role. In the pricing area, the Government's policy is to rely on market forces in determining prices. Thus, in December 1985, the list of products and services subject to the fixed price ceiling system was reduced from 27 to 7 items; the remaining products were subjected to a more flexible system of preset profit margins, or totally deregulated. The fixed price ceiling system, applying to all local industrial products benefiting from the provisions of the Investment Code, has also been made more flexible in that prices may be raised by up to 7 percent a year without prior authorization by the Ministry of Commerce. Goods remaining subject to price controls will be deregulated in a phased manner by 1990, with the exception of certain essential products, which may be excluded in consultation with the Fund and the Bank.

4. Agricultural policy

The Government of Niger is undertaking a comprehensive reform of its agricultural policies, with the basic objective of promoting and diversifying production through greater reliance on the private sector. With assistance from the main donors in the sector, the Government is currently reformulating its rural development strategy. The measures envisaged include the abolition of the role of the grain marketing agency (OPVN) with regard to price stabilization, support of rural incomes, and subsidization of urban consumers; the maintenance of a revolving cereal security stock of a limited size; the reduction of subsidies for agricultural inputs; enhanced cost recovery in the agricultural sector; the reform of the agricultural credit system; and a redefinition of agricultural research priorities. In addition, investment policy in the rural sector will be geared toward developing small-scale operations with strong participation of local communities, and reorienting projects to better adapt them to existing local conditions.

5. Monetary and credit policies

Monetary policy will be designed to maintain the growth of domestic liquidity at a rate compatible with the objectives of achieving a sustainable expansion in economic activity and reducing domestic and external financial imbalances. Interest rate policy, which is determined jointly for all member countries of the West African Monetary Union, has generally been and will continue to be geared toward fostering the mobilization of domestic savings, strengthening financial intermediation, and improving resource allocation. Credit policy will aim at channeling resources toward the most productive sectors of the economy. Emphasis will be shifted toward providing adequate credit to agriculture and livestock, as well as to small- and medium-sized enterprises, in line with the overall development strategy. The reduced role and improved financial performance of the public enterprise sector will allow greater emphasis to be given to the provision of credit to the private sector. In view of the fiscal measures envisaged, the Government will avoid recourse to net bank credit. In addition, further measures will be taken to improve the financial position of the banking system, including programs designed to restructure and rehabilitate the national development bank (BDRN), and to reform the agricultural credit system.

6. The external sector: outlook and policies

The measures being taken should contribute to a gradual expansion and diversification of exports over the medium-term. As the growth of imports will be constrained by the financial policies pursued, the trade balance is expected to improve. Furthermore, in view of the cautious foreign borrowing policy being pursued, the current account deficit of the balance of payments should decline in relation to GDP, thus permitting the achievement of a viable external sector position by 1990. Preliminary projections suggest that, if the adjustment process is continued, the overall external financing gap should decline from US$26.6 million (CFAF 9.3 billion) in 1987 to US$20.0 million (CFAF 7.0 billion) in 1989; in 1990 there would be a marginal increase in net foreign assets. These projections take into account the balance of scheduled disbursements from the World Bank under the structural adjustment credit, estimated at about US$49 million. A gross total estimated at US$636 million in external assistance to finance the investment program during 1987-89 is also taken into account in the projections. It is expected that drawings under the Fund's structural adjustment facility, the mobilization of additional concessional financing, and diminishing levels of debt rescheduling would suffice to cover the prospective gaps. In this regard, a donors' conference is scheduled in 1987. For 1987, the first year of the program, purchases under a new stand-by arrangement requested from the Fund are expected to amount to SDR 8.1 million; an additional SDR 6.7 million would be available under the structural adjustment facility.

During the next three years, the Government will follow a prudent external debt policy and will not contract or guarantee any new nonconcessional loans with a maturity of 0-12 years. Furthermore, in seeking external financial assistance, the Government will emphasize loans on highly concessional terms, and grants. To improve external debt management, any new loans contracted or guaranteed by the Government, as well as any drawings against loans contracted or guaranteed by the Government, will require the authorization of the Ministry of Finance. All data concerning the external public debt will be centralized at the level of the Ministry of Finance and fully computerized.

7. Social impact

The structural adjustment program is designed to consolidate the foundation for achieving a gradual improvement in living standards and to avoid the negative social impact of an adjustment in the absence of a program. The reform program aims at halting the secular fall in per capita income and ensuring that long-term benefits will be associated with greater economic efficiency and higher growth, more than offsetting the unavoidable social costs of the transitional phase. The restructuring of the public expenditure will channel resources into the continued expansion of basic services which benefit the population as a whole. The reorientation of the public investment program will also benefit a larger proportion of the population and lower income groups in rural areas. The reform of the public enterprise sector will involve some further layoffs in this sector. In the medium term, however, these workers are likely to be absorbed by the gradual expansion of the modern private sector. The effects of the price and domestic trade liberalization measures on the lower income groups will be mixed. For 1986, any short-term upward pressure that the liberalization of the cereals market can exert on consumer prices for food grains is likely to be more than offset by the good cereal crop expected for 1986 and the existing large stocks. In the medium term, increased cereal production will have a dampening effect on food grain prices, although they are likely to be heavily influenced by weather conditions. The elimination of official support prices for millet and sorghum and the necessary complementary measures will reduce distortions and provide appropriate signals to producers.