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NIGER AFRICAN ECONOMIC POLICY REFORM PROGRAM

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PROGRAM ASSISTANCE INITIAL PROPOSAL

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NIGER AFRICAN ECONOMIC POLICY REFORM PROGRAM
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I. SUMMARY

The Niger African Economic Policy Reform Program (AEPRP) is a program grant which will provide assistance to the Government of Niger over a three and a half year period in support of the Government's efforts to encourage private initiative through relaxation of administrative, legislative and fiscal constraints to private enterprise and by improving the institutional setting for formal and informal private enterprise. The USAID program will focus on improving the efficiency and expanding the activity of rural marketing channels for raw and processed Nigerien products.

The goal of the program is to increase rural incomes through stimulating diversification and increased marketing and export of Nigerien agricultural production. The purpose of the program is to expand access to marketing channels by private agents (including cooperatives).

The Niger AEPRP is an integrated package of policy reforms linked closely to the Government's own program of support to the private sector and synergistically related to the current USAID policy reform program in agricultural production. Reforms to be sought will be among the following (with final choice made during PAAD design): streamlining of export regulations, publicizing of international and domestic market information, reduction of overlapping controls on marketing activities, elimination of export tariffs on key agricultural products, continued price liberalization, revision of investment and commercial codes. A technical assistance, studies and training component will support implementation of the reform program.

USAID has identified two implementation options to achieve the reform objectives:

1) Compensation for Revenue Loss - a $12 million grant disbursed in three increments, of which approximately $10 million would be straight cash transfer for budget support, to compensate, on a degressive scale, for temporary revenue losses to the Government resulting from elimination of export tariffs on key agricultural products. The program would feature a package of reforms, both policy and institutional in nature. It would highlight elimination of export tariffs as a key performance benchmark, attributing the dollar value of the conditional resource transfer directly to that reform.

The Compensation for Revenue Loss option offers advantages to the Government of Niger in that dollar transfers can be deposited by the Grantee directly in the operational budget, without the sometimes lengthy process of project design and approval which is part of the "Counterpart Fund" system on other USAID program grants. This option has the advantage that it will not be management intensive for the mission, having no requirement for joint programming and day-to-day oversight of local currency funded project activities. The Revenue Loss option will require more intensive multi-donor coordination at the design stage in the area of fiscal policy, as IMF acceptance of removal of a tariff is likely to be required. Coordination with the IBRD and other donors will be needed to assure that activities which would be funded under the Local Currency Investment Fund option are covered to the maximum extent feasible.

2) Local Currency Investment Fund - a $7 million grant disbursed in three increments against an agreed timetable of reforms, of which approximately $5.5 million would be configured as a local currency fund used by the Grantee for development activities acceptable to both parties which promote the policy and institutional reform measures of the program.

The key advantage to USAID of this option is the flexibility of programming afforded by the local currency fund. Criteria for local currency use are defined and mutually agreed to in the Grant Agreement, but actual programming is developed during the course of the grant, allowing the partners to adapt activities to changing conditions. The local currency fund can supply strong support to implementation of the reform program in a very direct way. The disadvantage is the management burden which this approach implies for both parties.

The two approaches also diverge in definition of conditionality, as the Revenue Loss approach places more emphasis on elimination of export tariffs as a key reform measure (dollar transfer attributed directly to this reform), while the Investment Fund approach gives more equal priority to a mix of institutional, administrative and fiscal reforms to be pursued. In the Investment Fund program, conditionality on reduction of export tariffs would be modest because no funds would be provided to the Government budget to compensate for initial revenue losses.

USAID has assessed in detail the advantages and disadvantages of each approach in terms of our program. On balance, we prefer the larger program approach, Compensation for Revenue Loss, for reasons of greater impact on revenue collection systems, management efficiency and neatness of design. However, if sufficient funding is not available for Option 1, USAID would be happy to design and implement the Investment Fund option. USAID and the Government of Niger are quite experienced in managing this type of program.

A combination of the two programs (Option 1 funded at $7 million) is not a viable option. The Revenue Loss option can only work if the conditional resource transfer is sufficiently large to compensate for anticipated revenue losses in the transition period. This point cannot be overstated. Without a dollar resource transfer which covers early year losses from elimination of export tariffs, policy dialogue on that subject is unlikely to yield more than agreement on studies, or reduction of tariffs on a few items. Reduction of tariffs does not remove the constraint to export marketing, nor does it reduce costs to the government of operation of the tariff collection system.

Annual revenue receipts from export tariffs on non-industrial products average $8-9 million, at current exchange rate, according to figures supplied by the government. The compensation would be fixed to cover the majority of losses the first year, with losses compensated on a diminishing scale over the life of program (in principle actual losses would themselves decrease over the duration of the program as revenues from other sources increased). See Section IV.F. for further analysis. More research will be carried out on the subject at PAAD stage.

USAID, therefore, requests $12 million in FY 88 Economic Support Funds for the Niger AEPRP. If sufficient funding in that category is not available in FY 1988, split funding of the "additional" $5 million between two or even three years would be accepted. The additional funds would not necessarily need to

be AEPRP-type or from the ESF account but must be supplemental to current AAPL levels for Niger, as USAID has firm plans for existing AAPL and AEPRP programs are by definition additional to regular programming.

Both programmatic options identified by USAID/Niger for the AEPRP build on the experience in economic policy reform of USAID and the Government of Niger since 1984, adding a new dimension in the stress on private sector opportunities. The Niger proposal diverges from most previous AEPRPs in that it does not represent a comparatively massive infusion of funds in relation to normal OYB (under either option), and it is not the first economic policy reform program undertaken by USAID. USAID began its economic reform program before the AEPRP modality was designed. The Niger AEPRP is a natural progression in an existing and related policy reform program concentrating on rural sector production and income. It will reward continued strong performance in economic policy reform and provides means for further accomplishments.

The Niger AEPRP will be designed and implemented in close coordination with other donors, particularly the World Bank, which has the most active program in private sector development at the present time. The efforts of the Bank and the United Nations (see Section III) will complement the AEPRP.

II. PROGRAM SETTING

A. MACRO-ECONOMIC SITUATION

1. The early eighties

The Government of Niger has spent the decade of the 1980's confronting a series of economic crises. The market for uranium collapsed in 1981. In response, and with the support of the IMF and the World Bank, the Government took the difficult steps necessary to reduce the domestic financial imbalances and re-establish a viable balance of payments position. The Government developed an adjustment program that included cutbacks in public expenditure, an increase in the tax effort, a reduction in domestic government arrears, measures designed to improve the financial performance of public enterprises, a substantial deceleration in domestic credit expansion, and restraints on foreign borrowing.

Initial improvements as a result of these measures were interrupted in 1984 by the drought, which resulted in close to a 17 percent decline in GDP (adjusted for inflation) in 1984, with the rural sector, particularly livestock, registering the sharpest decrease. According to available estimates, the drought lowered rural income by more than 50 billion CFA francs.

2. Stabilization and recovery: 1984-1986

Real GDP increased in both 1985 and 1986, by 5.5 percent and 3.0 percent respectively. This growth was largely due to Government of Niger economic policy reforms and a sharp recovery in the agriculture and livestock sectors following the improvement in weather conditions. The rate of inflation, measured by the GDP deflator, has been reduced to below 7 percent. Nevertheless, despite progress in boosting output and restraining inflation the economy has not yet regained the pre-drought level of output in real terms.

In the midst of this sequence of economic crises, the ability of the Government of Niger to achieve every IMF program target since 1984 demonstrates the will and ability of policy makers to carry out and maintain the structural reforms that are designed to restore balance in the country's economic structure.

a. Public Finance

The Government has taken a number of revenue-raising and expenditure-containing measures to reduce the continuing fiscal imbalance. Revenue measures include: the introduction of a value-added tax in 1986; an increase in customs duties, stamp duties, and registration fees; increased profit margin on petroleum products concomitant with the drop in world oil prices. Expenditure measures include: a reduction in scholarships and subsidies; improved expenditure controls; limited government hiring; and elimination of cost-of-living adjustments. The Government has also expressed interest in revising commercial codes and taxes in order to reduce or eliminate outdated measures which are deemed to have a negative impact on private sector activity and indirectly on government revenues. The Government has recently reduced the rates of value-added taxes for a variety of consumer products in an effort to revive consumption. The potential economic impact of these adjustments has not yet been assessed.

b. Balance of Payments

Niger's balance of payments profile is not expected to be viable until the 1990's. Projections for the remainder of the decade indicate that the deficit on the trade balance will widen beyond the 1986 level despite the fact that imports will increase at approximately 5 percent annually while the rate of increase for exports is projected to be 7 percent. (This is due to the fact that the the base levels of exports is so much lower than imports.) Export receipts cover only 83 percent of the cost of imports and non-interest service payments. Export growth is hampered by the lack of diversification in exportables (primarily agriculture products) and by climatic conditions. Official transfers are projected to increase sufficiently to keep the current account balance within 20 percent of its 1986 level. Long-term capital inflows to the public sector are projected to increase during this period such that the financing gap of the overall balance is eliminated by 1990. These projections highlight the importance of external financing in just maintaining the inflow of goods and services, leaving aside the debt problem for the moment.

c. Foreign Debt

Niger's external debt service remains heavy: the ratio of public debt service to exports of goods and non-factor services was 48.2 percent in 1986 before debt rescheduling and is expected to be approximately the same in 1987. Debt management is constrained by the fact that, under current Paris Club rules, less than one-third of external public debt is eligible for rescheduling.

Despite a variety of efforts by the Government, debt service on medium- and long-term debt will increase in 1987 to $200 million, up from $180 million in 1986 (before rescheduling). Based on current levels of disbursed debt, debt service is expected to peak at almost $210 million in 1988 before declining in 1989. However, closing the annual financing gap of 10 billion CFA francs

foreseen for the period 1987-1990 (over $30 million at current exchange rates) will require continuing the annual debt rescheduling exercises or increasing official transfers beyond the high levels already contained in the projections. In the financing plan presented to donors at the June 1987 Round Table, the GON stresses the need not only for additional financing on grant terms but also for increased non-project assistance. (See section II.C.)

d. Composition and direction of foreign trade

Imports: In 1984, the last "normal" year for which data is available, Niger's officially recorded imports were almost evenly divided between consumer goods (including petroleum and cereals) and investment goods (primary and intermediate inputs and capital equipment). Key suppliers are France (30 percent), Nigeria (14 percent), and Cote d'Ivoire (7 percent).

Exports: Uranium constituted 75 percent of the total value of Niger's officially recorded exports, and went primarily to France and Libya (Japan has since replaced Libya as a major customer). The remaining 25 percent came from rural sector production -- primarily livestock (including hides and skins) and cowpeas, but also high value products such as onions, tomatoes and sweet peppers. The bulk of these products, representing well-established trade patterns, is directed toward Nigeria. Official data show Nigeria receiving 21 percent of Niger's total exports in 1984.

3. The Nigeria connection:

There is widespread agreement among observers and students of West African trade patterns that unofficial trade flows along the 1,000 kilometer Nigerian border are substantial as well as of long standing. Research (cited in 1987 SEDES study, Ch. 8, pp. 235-6) indicates for instance:

- in 1982, Niger's unofficial cattle exports alone were valued at over 22 billion FCFA. This figure more than equaled official figures for all livestock exports for that year.

- total exports of cowpeas through unofficial channels were estimated on average at 135,000 metric tons per year over the period 1978-83. By contrast, official records (reported in IMF, Recent Economic Developments, June 1986) indicated levels of only 4.4, 2.4, and 21.0 thousand metric tons in 1981 through 1983.

There is also evidence that reverse unofficial flows (imports into Niger from Nigeria) are equally substantial, consisting of foodgrains (millet, sorghum) as well as fertilizer and simple manufactured goods.

B. GOVERNMENT OF NIGER DEVELOPMENT POLICIES AND PLANNING

The Government of Niger has earned a good reputation for economic reform in the period since the uranium bust. The reform process is still evolving, as the government attempts to improve balance of payments, break out of economic stagnation and broaden the income sources of the country while at the same time endeavoring to improve the situation of rural citizens. The Government is now embarking on a major program to revive the economy through relaxing government restrictions on private initiative. This program is a companion to the five year development plan (1987-91) which stresses rural sector growth, allocating 40% of the investment budget to agriculture and rural development.

1. Consolidation Program, 1984-85

In 1984 the Nigerien authorities began the consolidation of public investment spending with the implementation of the 1984/85 program of consolidation. Under the consolidation program the level of spending was cut by about 20 percent. The program also re-oriented more spending toward the directly productive sectors and less toward administrative infrastructure (government buildings), telecommunications, and social services. More emphasis was given to economic policy. USAID's Agriculture Sector Development Grant (1984) reflected these new directions.

In fiscal 1985 the Government adopted an integrated investment budget approach together with the concept of a "rolling plan" (programmation glissante). With the World Bank assistance, the authorities also completed an initial three-year rolling investment program (1986-1988) of 275.5 billion CFA francs. The emphasis was in the areas of agricultural and rural development, industry, trade and commerce, and maintenance or rehabilitation of selected existing projects instead of new projects, as well as giving priority to maintenance in the transport sector. The World Bank's Structural Adjustment Program, effective in early 1986, reinforces the GON's policy re-orientation and efficiency-based approach to public resource allocation.

2. The Economic Recovery Program (PSR)

The first policy statement to address economic planning beyond the stabilization process was the Programme Significatif de Relance (PSR) (Economic Recovery Program), issued in October 1986. The PSR is an action plan which specifies the public policy changes that will be undertaken to revive the economy of Niger. Its foundation is a redefinition of the role of the State in economic affairs and an acknowledgement of the importance of the private sector in Niger's economic recovery. The State's role is to provide a fiscal and administrative framework which supports private sector development. In exchange for this offer of support to the private sector, the government expects a scrupulous adherence to its laws and regulations by the private sector, especially as regards taxation and customs administration.

The thrust of the PSR is to increase the productivity of the existing capital stock through regulatory reform, in other words to get more output from existing resources through more efficient use of these resources. It is a companion document to the five-year development plan.

3. Program to Support Private Sector Initiatives and Job Creation (PAIPCE)

The Ministry of Plan's Programme d'Appui aux Initiatives Privées et à la Création d'Emplois (PAIPCE), issued in June 1987, supplements and expands on portions of the PSR. PAIPCE deals with two public policy problems: burdensome and counterproductive regulations of the private sector and overemployment in the public sector. Specific actions to reduce disincentives to private sector activity are prescribed along with assignment of responsibility. Among the reforms to be carried out are revisions of the commercial and investments codes, revisions in labor laws, and reductions in the extent of oversight by the economic police. Institutional changes will strengthen the Chamber of Commerce and encourage the formation of other business interest groups capable of interacting with the government on public policy issues. The Government

D. RELATIONSHIP OF THE AEPRP TO USAID'S STRATEGY

The Niger Country Development Strategy Statement (CDSS) has the objective of increasing food production, leading towards food self reliance and increased income. This broad objective is compatible with helping Niger to take advantage of regional (north-south) complementarities that will increase its export earnings. Major efforts to diversify rural incomes and increase purchasing power are needed. Medium term strategy objectives focus upon sector support policies and undertake actions necessary for structural adjustment.

USAID's medium term agriculture strategy emphasizes food production and diversification through community based, self managed development, with a programmatic thrust on local management, private (and cooperative) sector participation and utilization of improved technical packages. The four components are:

- Implementation of the policy reforms under the Agriculture Sector Development Grant (ASDG) and related activities;
- Development of agricultural research and extension linkage capacities;
- Development of participatory self-managed organizations through cooperative development and restructuring, extension, seed multiplication, and credit and input distribution; and
- Institutionalization of land use planning and effective measures against desertification and integration of these activities into ongoing programs.

USAID's agriculture strategy in the CDSS is, in some respects, a transitional strategy. It is leading towards eventually establishing a broader strategy based on rural income diversification which might permit escape from the "subsistence trap."

USAID/Niger's private sector strategy includes the following:

- Backing the Government's effort to rationalize, through privatization and reform, the State-owned enterprises, increase the private sector's role in the economy and reduce the subsidy burden on the public treasury.
- Supporting the IBRD and other donors in their efforts to help Niger reform and/or privatize the parastatal enterprises.
- Taking advantage of certain targets of opportunity within our approved strategy objectives for implementation of activities that support privatization and private sector development along with increasing competition in the modern sector so that the Nigerien population can obtain commodities from alternative sources of supply. This should, in turn, encourage market forces to keep prices to the consumer at reasonable levels.

The proposed AEPRP is consistent with USAID's and IBRD's strategy objectives of structural adjustment and agricultural development. The AEPRP's policy reforms concentrate primarily on distribution and marketing of agricultural production. The reforms will complement work done in the ASDG on input supply,

seed distribution, credit, cross border trade and strengthening the role of the private sector. Recent success in reducing the commercial role of the public sector must be supported by the creation of a fiscal and administrativ environment which encourages private sector growth.

E. RELATION TO OTHER USAID PROJECTS

The AEPRP is closely related to a number of USAID's agriculture sector projects. AEPRP's primary objective is increasing the accessibility of domestic and foreign marketing channels to the producer, thereby facilitating production. Most of USAID's agricultural portfolio concentrates on productio itself, with marketing as an increasingly important focus of activities.

USAID/Niger's assistance portfolio is thoroughly integrated. One project or program may contribute to two or more developmental objectives. Within this portfolio, the combination of project and non-project assistance forms a basi part of the country development strategy. Policy reform-based programs are complemented by technical assistance projects which provide key institutional development support to reform measures.

1. Policy/Resource Transfer Programs:

The AEPRP is the principal policy reform program directed towards actions tha will strengthen the private sector. It complements the existing policy refor programs in the USAID portfolio, ASDG and the Niger Health Sector Support (NHSS) Grant, which are designed to increase the efficiency of human and financial resource allocation as part of the structural adjustment process.

The Agriculture Sector Development Grant: (1) promotes agriculture production by diminishing policy constraints to development in the agriculture sector; (2) provides resources to Niger to support ongoing development activities; an (3) contributes towards economic stabilization (structural adjustment). The policy reform areas are agriculture input subsidies and restructuring, grain marketing, credit, seed multiplication and distribution, cross border trade, and promotion of cooperatives.

The ASDG policy areas that relate most closely to AEPRP are cereals marketing and cross border trade, but ASDG employs a different, more limited approach t them. ASDG grain marketing policies deal primarily with improving management systems of the parastatal grain marketing organization (OPVN) and fostering liberalization of grain marketing systems, with reduced OPVN role. The objective is to rationalize the national grain marketing and storage systems, with the goal of increasing farmer earnings from dryland cereals production.

AEPRP will build upon the ASDG objectives but will address all agricultural production, including processed products. The emphasis is on more effective private marketing channels for normal commercial requirements. AEPRP is strongly oriented towards diversification of rural income and improving the effectiveness of distribution channels of all commodities, issues which ASDG does not directly address in its reform program.

ASDG policy reform benchmarks for cross border trade are limited specifically to reducing restrictions and easing administrative procedures for the export of cowpeas and livestock. AEPRP again takes a broader approach than ASDG, promoting increased private sector trade in all agriculture related products,

particularly diversified higher income earning products such as hides, fattened animals, onions, and vegetables, primarily in a sub-regional trade context. AEPRP will benefit from the commodity-specific experience of ASDG and from technical expertise offered under the Integrated Livestock Project in dealing with export regulation issues.

The proposed $7.0 million FY 88 Amendment to ASDG will focus on further conditionalities for agriculture credit, specifically as regards creation of cooperative credit and savings unions and more effective participation of cooperatives in production marketing and supply of services. Reform measures to be carried out in 1989-90 under this component of ASDG will indirectly support AEPRP implementation.

The next phase agriculture sector grant, ASDG II, is planned as a five year program for FY 1989 authorization. USAID proposes to focus the program on agriculture production (rather than distribution) and on resource allocation. The tentative purpose of ASDG II is:

- To contribute to the GON's sector adjustment program by implementing policy changes to complete the transition of the agriculture input distribution system to the cooperative/private sector.
- To improve resource allocation and planning for agriculture, livestock and land use planning, including natural resources.
- To implement remaining aspects of integrated legal framework for full service rural financial markets with flexible and realistic interest rates.

The ASDG II policy reforms will complement and make the AEPRP's marketing policy reform program more effective.

2. Institutional development/technical assistance

AEPRP's ultimate success, in terms of USAID's long-term agricultural development and income generation objectives, will also rest on parallel technical assistance projects for institutional development, particularly self managed organizations, as well as agriculture research and extension.

The following projects have components, or activities which complement AEPRP (See annex for details):

Agricultural Production Support Project (FY 82-89). The objective of this project is to expand and improve the national-level supporting services needed to achieve sustainable increases in agricultural production. The component which will provide most direct support to realization of AEPRP objectives is cooperative training (which includes a bank loan program for economic activities, including export of produce). Other core activities (agricultural inputs supply, seed multiplication, agricultural extension) are also aimed at resolving crucial institutional constraints to improvements in agricultural marketing.

Niamey Department Development II (FY 82-89). Experience gained under this agricultural production project in cooperative development (including the local investment fund activities, especially small ruminant fattening), adaptation and extension of technical packages (especially small scale irrigation) can be useful to AEPRP. Field data are available on constraints to domestic marketing.

The revised Integrated Livestock Project (FY 1983-89) includes a component to strengthen policy planning and marketing analysis capability in the Ministry of Animal Resources. The development of a market information system for livestock will be an especially important contribution to AEPRP.

The new Niger Applied Agricultural Research Project (1987-1992) will strengthen the institutional capacity of the national research organization to conduct applied research for both dryland and irrigated agriculture, with strong links into extension. Although this project is primarily crop production oriented, some long term market analyses will be done which should help AEPRP. The project will continue research on cowpeas (a major export) and will begin research on major irrigated crops, water management and cropping systems for higher value crops which will support achievement of AEPRP's objectives.

III. OTHER DONOR INTERVENTIONS IN MARKETING AND PRIVATE SECTOR

The World Bank is the largest donor seeking policy reform measures and conditionality in exchange for financing. It is examining the private sector in an effort to encourage its development to replace the GON parastatals in many areas currently being privatized. The current SAC includes a heavy emphasis on privatization or restructuring of parastatals. Some of these firms are active in areas targeted by AEPRP (skins and hides, tanning, animal feed, etc.). It has also recommended a program for management assistance to parastatals that remain under the Government control.

In addition, the World Bank plans to finance two studies highly complementary to the AEPRP effort: Obstacles to the Development of the Private Sector (picking up where the Giroday report funded by AFR/PRE leaves off) and Incentives to Industry. It also proposes pilot studies of two caution mutuelle groups and an entrepreneurship development pilot program with PAIPCE.

The Bank is also reviewing plans for a livestock production policy reform effort and for a $10 million project (Small Rural Operations) to provide training at the production level in Niger. These two efforts will complement AEPRP well, as our policy reform program is focused on marketing. USAID will cooperate on the development of the AEPRP program as on other projects to insure mutual reinforcement of all such activities.

In addition to these interventions the Bank is financing or implementing the following studies: public recurrent expenditures in health, agriculture, education and transportation, policy reform and long-term investment strategies in the rural sector, the social impacts of the Adjustment Program, and civil service reform. It has also proposed to examine the banking sector, petroleum product distribution and the agriculture sector (including marketing studies). USAID will coordinate its own activities closely with the Bank.

The International Labor Organization (ILO) provides support with ASDG funding to the rural based artisans of the informal sector through its Project for Training and Support for Artisanal Enterprises in Niamey and Dosso Departments. This activity, which CARE International proposes to extend to Maradi Department, provides training and credit to project beneficiaries who have improved technology and expanded production of locally produced farm tools and carts, as well as repair services. The ILO also provides direct technical and financial support to the Centre National de Perfectionnement à la Gestion (CNPG), a Chamber of Commerce center for improving business skills.

The United Nations Development Program (UNDP) maintains assistance via its Industrial Development Organization (UNIDO) to the Office for Promotion of Private Enterprise (OPEN). This intervention includes technical assistance to the studies division of OPEN. UNDP is also planning a project to assist the Centre Nigerien de Commerce Extérieur, financing technical assistance to develop an export action plan, rationalize import operations and techniques, and create a pilot commercial information system. The UNDP is also planning a project which would help develop livestock products such as dairy, meat, and leather.

IV. PROGRAM DESCRIPTION

A. THE PROBLEM

1. The Role of Agriculture in Niger's Development

Niger's agricultural sector, broadly defined to include crops, livestock, forestry and fisheries, plays a key role in the country's overall development by providing food and fiber for the nation and employment for approximately 90 percent of the labor force. About 73 percent of the population consists of sedentary villagers engaged in the production of such crops as millet, sorghum, cowpeas and groundnuts, with an additional 14 percent of the population being transhumant pastoralists raising cattle, goats, sheep, and camels. The national accounts reflect the preponderance of agriculture, with the rural sector accounting for about 50 percent of GDP and 24 percent of foreign exchange earnings. Livestock alone accounts for 17 percent of GDP and is Niger's second largest export after uranium.

Because of its sheer size relative to the rest of the Nigerien economy, the agricultural sector holds the key to overall development in Niger. Unfortunately, Niger's resource base is very poor, with generally poor soils and with rainfall varying widely from year to year and from region to region. Such poverty of resources has caused Niger to place highest priority on attaining food self-reliance, an emphasis which has strong roots in the experience of the great drought of 1968-74 and the more recent drought in 1984.

Food self-reliance incorporates the ideas of comparative advantage and use of Nigerien exports to finance required imports of food. Under this strategy, increasing importance is given to diversification of production (away from the heavy dependence on cereals) and to marketing of production in Niger and abroad. The Government also seeks to increase processing of crop/animal products, to improve the profitability and marketability of Nigerien products.

2. Agricultural Development Prospects

The development of Niger's rural sector is constrained by a wide gamut of problems, natural and manmade: poor soils, unfavorable climate, disadvantageous geographic location, high population growth rate, low levels of literacy and training, lack of appropriate technologies and support systems, sometimes contradictory and restrictive government policies and systems. At the same time, a hard working populace, comparative advantage to coastal countries in production of certain commodities, and technological improvements now being developed hold out possibilities of increased agricultural production in the long term. See Negash (1987) and Wilcock (1987) for detailed descriptions of the agricultural sector in Niger.

As Niger attempts to enhance marketing channels, domestic and export, it must deal with a variety of particular barriers to development:

- The geographical position of the country, over 1000 kms from the nearest port, is foremost in restraining economic growth and in making cost competitive development of industry difficult. It also means that Niger is dependent on the good will of its neighbors in allowing transit trade at moderate fees. This has not always occurred.

- The commercial codes and fee systems in Niger are antiquated, with some codes dating to colonial times. That makes formal marketing, and especially export marketing, complicated, as there are a variety of rules existing in different aspects of the commercial and fiscal codes which must be satisfied (and which the non-French speaking marketer may find very difficult to understand and to fulfill).

- There is a lack of independent business capacity in the modern agriculture and agri-business area. There is little competence available to design, execute or evaluate proposals on potential large business ventures. Similarly, there is a clear need for supporting business services such as accounting, computer information management, packaging and marketing services as well as the more basic mechanical and engineering skills.

- There is a lack of readily available and timely information which is necessary to plan short or longer term business operations in agri-business and in the marketing of agricultural products either domestically or to international markets.

Positive prospects for marketing of Nigerien products at home and abroad should not be overlooked in discussions of problems:

- There is a very active informal private sector in Niger whose activities are not fully reported or quantified at this time.

- The fact that Niger has a 1000 km border with Nigeria and language and cultural ties to northern Nigeria presents a great advantage. This advantage is now more in the field of informal trade than in official links, hence not easily quantified. The common language with northern Nigeria (Hausa) can also be used to advantage for transfer of skills and technology between the two. The symbiotic Niger-Nigeria trade relationship is very complicated and would benefit from further study (see Wilcock for a summary description).

- In terms of export trade, Niger has comparative advantage in the production of livestock (in general goats, sheep and cattle go south, camels north), and is known for its high quality onions, potatoes, and garlic (products that grow poorly in coastal African states). Niger also supplies Nigeria with cowpeas, red peppers and other items that grow in insufficient quantities in Nigeria to satisfy that market. Certain of Niger's processed goods, such as SONITEXTIL cloth, also are sought in neighboring countries because of their superior quality. There is some trade with Europe in winter vegetables and fruit as well as hides and partially tanned leathers.

B. OBJECTIVES

After recent examination of the private sector and agricultural marketing in Niger, USAID proposes to negotiate with the Government a program to improve rural sector marketing channels. The goal of the program is to increase rural incomes by stimulating diversification and increasing commercialization and export of Nigerien agricultural production. The purpose of the program is to expand access to marketing channels by private agents (including cooperatives).

The approach proposed is consistent with USAID strategy, extending the ASDG focus on the production and distribution of agricultural inputs to the marketing of output as well. An important consideration in this strategy is that food security in drought-prone countries requires an efficient marketing system both within the national borders and within the regional context to supply deficit areas. The program will not in and of itself address technical constraints to agricultural production or food security issues, which are the subject of other USAID and donor projects. It views primary as well as secondary producers as market channel participants and seeks to increase their access to this channel.

The approach also meshes with GON's own analysis of obstacles to the development of a more vital private sector. The PAIPCE identifies constraints such as an ill-adapted tax policy, cumbersome administrative procedures, overlapping and arbitrary enforcement of a multiplicity of rules, pricing restrictions, and poor information on economic programs and market conditions. The GON would like to encourage market participants by creating a legal environment more favorable to the private sector and by developing a regulatory climate that would promote initiative rather than punish it. This provides an excellent opportunity for USAID to support efforts to remove the mutual suspicion which exists between the public and private sectors, particularly the formal and informal rural sector. The strong marketing and export tradition that exists along the long Nigerian border offers an environment in which such efforts may be particularly rewarding.

C. CONSTRAINTS WHICH THE AEPRP ADDRESSES

USAID has identified the following major constraints to private initiative in marketing of agriculture-related products which are appropriate for further study and action under AEPRP:

1. Export Regulations

Cumbersome export regulations enforced at the central and local levels of government are important factors inhibiting exportation of agricultural products. Recently simplified and partially decentralized, these regulations still limit access to export marketing activities. The layers of controls, licenses, and procedures increase costs, inhibit access to markets, encourage arbitrary administrative decisions on economic matters, and discourage market actors from using official channels for exports. This latter factor not only deprives the Government of a reliable statistical base for planning but also reduces opportunities to provide services to the exporter (livestock vaccinations, quality certificates, etc.). PAIPCE recognizes this as an area needing reform.

2. Market Information

Lack of information is a serious barrier to smooth market functioning, especially given the vast territory of Niger. Currently, the radio is little used as a means to inform the public of government programs and market conditions. This not only limits participation in markets but hinders integration of internal markets by limiting information to large operators with their own communication networks. The lack of publicity on changes in regulations or on program opportunities further increases suspicion between public and private sector. Apart from the Chamber of Commerce bulletin, there is no regular reporting on government measures affecting agriculture and business, relevant development programs, and basic market information on internal and external commodity and product prices. This limits understanding of the regulatory environment and impedes more effective marketing channels. PAIPCE identifies this as a constraint which needs to be removed.

3. Administrative Control System

The overlapping control system currently creates tension between the Government and the private sector. Customs, economic police, gendarmes, tax agents, local administrators and police now conduct investigations on similar infractions with little or no coordination among them. Being granted clearance by the customs in April does not preclude the requirement for clearance by the economic police in May. These controls consume significant amounts of time and have a very real cost. They are based on regulations that give broad mandates which do not necessarily limit time period, subject matter, or duration of the investigation. Fines for infractions are not always clearly spelled out and consequently seem to be applied arbitrarily. At times, they are grossly out of proportion to the gravity of the offense. Legal recourse in the case of abuse is difficult, as appeals procedures are poorly publicized and understood. PAIPCE points out in some detail the importance of eliminating this problem.

4. Export Tariffs

Export tariffs restrain trade and limit profitability on the most important agricultural products. When competition increases, as it already has with the export onion trade, profit margins can be eroded to minimal levels. In these cases, export taxes can make the difference between profit and loss, between export marketing or glut on the domestic market. This tax is in many cases a disincentive to export, compromising the very limited targets of opportunity for export from Niger and making Nigerien products uncompetitive internationally. All this serves to hinder the development of stronger trade ties within the region. The tariff also encourages traffic through unofficial channels, making development of market oriented services difficult and statistical bases unreliable. The Government has begun conferring with private exporters to examine solutions to this problem.

5. Price Controls

Formal and informal controls on prices currently provide great latitude for misunderstanding between public and private sectors. While these controls have been reduced under the World Bank's SAC, there are still items subject to such control. The economic police, local price control committees, and the price control brigades still patrol the markets for pricing infractions.

While the effectiveness of such controls is questionable, the overall impact on marketing and relations with the market actors is clear. Market prices are distorted and antagonism develops. PAIPCE recognizes this mutual lack of confidence as a fundamental constraint to development of the private sector.

6. Business Laws

The current commercial and investment codes are outdated and often inappropriate in encouraging private sector and marketing activities. These codes are not helpful in their present form in assisting development of joint ventures with Nigerian firms or others whose appropriate technology and marketing know-how could provide a much needed vigor to the Nigerien private sector. Joint venture efforts might also provide a bridge between the modern and informal business sectors with mutual benefits for both groups. PAIPCE deals at length with this constraint.

D. CONDITIONALITY

Conditionality will be developed in negotiation with the grantee at PAAD stage. Note that each of the areas of conditionality which will be pursued is a subject which the Government of Niger itself has recognized as a problem. The exact choice among the options presented below, and the relative priority accorded to them, will vary depending on whether Revenue Loss or Investment Fund option is selected for our program. USAID will also coordinate with other donors to assure broadest possible collaboration in policy dialogue, without duplication or contradiction of efforts.

Based on experience of the ASDG and NHSS, and considering the complexity of each of the issues to be pursued, USAID proposes to design at PAAD stage a set of three areas of conditionality from among the six listed below. The three areas may include combinations of the following six items (such as administrative and regulatory questions which are closely related). USAID believes that it is important, especially given the two different programmatic approaches under consideration, to allow leeway in PAAD design and negotiation with the Government, rather than to predetermine particular conditionality at the PAIP stage which could prove inappropriate (or duplicative of other donor efforts) on further study.

1. The streamlining of export regulations within the central and local levels of government.

Potential benchmarks:
- reduction in the number of check points maintained by different government agencies along major axes,
- extension of "one-stop" export permit systems,
- reduction in the number of administrative steps required to qualify for an export permit.

2. Introduction of regular reporting on government measures affecting agriculture and business, relevant development programs, and basic market information about external and internal commodity and product prices.

Potential benchmarks:
- establishment of radio and television reporting of prices for key items (onions, garlic, potatoes, animals/meat, etc.) at the ports of Abidjan, Lome, Cotonou, Lagos;

- posting in local languages at border posts, post offices, etc. of government announcements and decrees relating to marketing, and reporting on them by radio and television.

3. Reduction of overlapping controls on private enterprise, encouragement of inter-ministerial liaison, clarification of regulatory texts and fines for infractions, determination of rights of private commercial and entrepreneurial agents and assurance of an appeals process to strengthen the ability of the private sector to exercise its activities within its rights.

Potential benchmarks:
- Government will carry out studies on certain aspects of this question, and design an action plan to be carried out within the AEPRP's LOP.

4. Elimination of export tariffs on the most important agricultural products.

Potential benchmarks: Elimination or reduction of tariffs, depending on which programmatic option is chosen.

5. Reduction or elimination of price controls.

Potential benchmarks: Study of economic impact of overlapping systems of controls on market prices, to be followed by action within AEPRP LOP.

6. Revision of the commercial and investment codes.

This is a multi-donor effort. USAID will work with the World Bank to define conditionality which is mutually useful. More information on IBRD plans for technical assistance to this effort should be available by this fall when the PAAD is under design.

E. PROGRAM IMPACT AND BENEFICIARIES (outputs)

1. Impact

Anticipated impacts of the program will be defined in detail following analysis conducted at PAAD stage. Preliminary definition of impacts is as follows:

Conditions established to encourage:

- increased volume of trade in internal markets, with resultant increase in income of market participants, particularly cooperatives and small scale traders (trade volume to be estimated through market surveys, tabulations of market fees paid, etc.; income recorded for selected cooperatives);

- larger quantities of exports of certain agricultural products (to be measured for products which are not directly affected by erratic rainfall patterns, e.g. irrigated crops such as onions, garlic, red peppers; and for processed or semi-treated items such as tanned skins and hides);

- increased quantities of products exported through formal channels (customs statistics).

The program should also result in additional production and increased profit for producers. If the number of officially recognized traders grows, there will be an anticipated increase in government revenue from export licensing. Further, if returns increase, there is the possibility of additional numbers of formal sector operators. Employment impact will depend on the nature of production processes influenced, e.g., impact may be greater for processed hides/skins than for crops. All of these aspects of the program will be studied at the PAAD stage.

Measurements of improved access to marketing channels (through reduction of overlapping or contradictory regulations and procedures) will be developed at PAAD stage and depend on the programmatic option chosen and conditionality defined.

The macro-economic impact of the program will be modest, given the current limited role of the modern private sector in Niger's economy. Even massive changes in government policy cannot transform the country overnight. This does not diminish the potential importance of the program as part of the comprehensive structural adjustment process that Niger is carrying out which should lead to increasing modernization of what still remains largely a subsistence economy.

2. Beneficiaries

Intended program beneficiaries are the market participants in the Nigerien economy, both formal and informal. These groups are estimated to number approximately 3,000,000, or 43% of the population. More precise definition of beneficiary groups will be made at PAAD stage and will depend, in part, on the programmatic option selected.

Indirect beneficiaries are producers (to the extent that producers can be distinguished from marketers in this predominantly rural and agricultural economy), particularly producers of products with relatively high commercial potential at this point (certain vegetables and tubers, animals and animal products).

Direct beneficiaries will also include government employees and private sector agents/cooperative members who participate in training activities (seminars, colloquia, workshops) under the program or who work in organizations receiving long or short-term technical assistance. Again, there will be differences in the composition of this beneficiary group under the two options, preventing precise definition at this time.

F. PROGRAM APPROACH: CHOICE OF MODALITIES

1. The Compensation for Revenue Loss option

a. Description

The Compensation for Revenue Loss option ($12 million LOP) provides for direct revenue transfer to the Grantee. Under this program, AEPRP conditionality would include elimination by the government of export tariffs on agricultural production. This option would have the considerable advantage to USAID of not requiring micro monitoring of uses of local currencies, as the dollar resource transfer would not be configured as a jointly programmed project fund. The

disadvantage in this approach is that USAID might theoretically lose opportunities, with no direct AID funding, for promoting innovative activities. USAID will work closely with the World Bank and other donors in designing the program to identify other sources of funding for any activities identified in support of the program which cannot be financed under the technical assistance component of AEPRP.

Under this option, USAID proposes $500,000 more for the technical assistance/studies/training component than under the Investment Fund option, in order to make up for the lack of counterpart funds commonly used in USAID programs to provide the local cost component of studies, in-country training and other technical assistance types of activities.

b. Rationale for approach

As it continues to implement its new fiscal system, the Government has stated its intention to review the role of export taxation. However, the Government may be extremely reluctant to undertake export tariff reductions without some assurance of financial support while hoping for compensating shifts in revenue generation to take effect.

Export taxation provides approximately 15 percent of revenue from foreign trade and almost 6 percent of total government revenue. Agricultural products account for approximately 60 percent of export revenues (fiscal duties and statistical tax, assuming uranium is exempt from the statistical tax). In 1984, these revenues amounted to $2.4 billion CFA, or $7.8 million at current exchange rates ($1 = CFA 310). Informal estimates for 1987 indicate expected revenues of between $8 and $9 million.

The Revenue Loss option is based on diminishing compensation to the Government for initial net losses (revenues less any savings in administrative costs) resulting from reduction/elimination of export duties on agricultural products. Yearly contributions would be calculated in terms of declining compensation against export revenue loss on a net basis, i.e., estimated revenue loss minus savings in administrative costs. It is expected that revenues would eventually be recouped from business income taxes as a result of increases in export marketing activity through formal channels.

A direct cash transfer (without creation of a counterpart fund) in support of the Government operating budget is a reasonable proposal because of the sustained progress made in recent years in implementing budget restructuring measures under successive IMF agreements and the World Bank's structural adjustment program. The Government has:

- applied strict controls on expenditures, particularly salaries, based on carefully set development priorities;
- directed operating budget resources to maintenance and rehabilitation of priority investments;
- strengthened cost recovery measures through user fees;
- increased the ratio of expenditures on equipment and supplies relative to personnel, to improve recurrent cost support of priority government activities. In particular, the Government's financing plan for 1987-91 aims toward a materials/personnel expenditure ratio of 70 percent (up from the current 60 percent). The IMF and the World Bank continue to provide technical assistance and monitor compliance with the expenditure control provisions of the structural adjustment package.

These measures are being adopted in the overall context of changes in national resource allocation policies that involve extensive public divestiture and encouragement of private initiative.

The Revenue Loss option assumes that reducing taxation of agricultural exports and alleviating administrative burdens on their marketing would:

- facilitate existing private trade through official channels;
- encourage more aggressive export marketing, particularly of higher valued products (with support from the technical assistance component, for identification of potential new market outlets);
- encourage entry of new participants in export marketing, promoting efficiency through competition;
- induce shifts from informal to formal channels.

2. The Local Currency Investment Fund option

a. Description

The Local Currency Investment Fund option ($7 million LOP) would be implemented using the sector grant system already in place under ASDG and NHSS. That is, conditional dollar resources would be transferred against an agreed timetable of reforms to the Grantee, which would deposit the equivalent value in CFA francs in a separate local currency fund (after return to USAID of 8 percent for the Trust Fund) administered by a joint Government-USAID management committee chaired by the Ministry of Plan. Available funds would be programmed by the two partners into mutually acceptable projects and activities, selected based on programmatic criteria established in the grant agreement and on technical merits and managerial soundness.

Use of a local currency fund has advantages in that USAID plays a direct role in deciding what activities are funded. Hence the policy reform program can be supported by a range of project activities. The disadvantage to A.I.D. of this approach is the management burden. Whatever the precise legal relationship to grantee owned local currency, A.I.D. has a responsibility to monitor its use. Given Congressional concerns on uses of ESF, this monitoring responsibility is becoming more and more intense. Use of Trust Funds to hire skilled individuals for monitoring of management and policy reform elements of the program does not remove USDH oversight responsibilities, which remain significant.

The following is a preliminary proposal for the definition of criteria for local currency use.

Activities financed by the local currency component of the grant will be allocated according to the following rank order:

(1) Financing of activities, including studies and analyses, which contribute toward the implementation of the policy and institutional reform program of the grant. This would include pilot activities, extensions of programs/projects currently in implementation or high priority new projects in the sector which will promote realization of the program objectives.

(2) Financing recurrent or local costs of USAID-financed projects or activities which contribute to the objectives of the program.

(3) Financing recurrent or local costs of other projects which support the objectives of the program but whose capital and non-recurrent costs are financed by other donors. The funds would help finance the "budgetary capital expenditures" of the Government National Investment Fund Budget.

(4) Financing other worthwhile projects, of mutual interest to the two parties.

Both governmental and nongovernmental organizations will be eligible to receive financing under the local currency fund. A minimum of 10 percent of total funding should be set aside for use by non-governmental organizations, Nigerien or international.

Indicative examples of activities which might be funded under the local currency fund include:

- Studies (requiring no foreign exchange financing) on economic impact of export tariffs, certain provisions of existing commerical codes and procedures, legal status of private enterprise, etc.
- Establishment of fee-for-service outreach services by Chambers of Commerce, including programs to familiarize private sector market participants with governmental rules and provisions as well as with business-promotion services available from public/mixed/private sources such as CNPG, Chambers of Commerce, OPEN, etc.
- Training programs to improve informal sector market participants' management capacity; training programs for new entrepreneurs.
- Pilot programs for exchange of technical or financial expertise with Nigeria.
- Establishment of market information services by government (financing of start-up costs).

b. Rationale for approach

The Investment Fund option is developed in close coordination with the PAIPCE and responds directly to proposals for assistance under the terms of that program. This approach allows for a broader mix of reform measures and accompanying institutional development activities (proposed by the Grantee and funded from the local currency fund) than the Revenue Loss option. Use of this approach allows USAID and the Grantee to develop a truly integrated package of actions in support of the objective of expanding private sector access to marketing channels. The Revenue Loss option will rely on concerted advance planning and collaboration with other donors to assure supporting project-type activities. Negotiators of policy conditionality under the Revenue Loss option will have to take into consideration any lacunae in supporting activities and must be prepared to scale down conditionality accordingly.

The Investment Fund option is less similar to AEPRPs in other countries than the Revenue Loss approach but closer in style to existing USAID policy reform programs. This similarity can be construed as an advantage to the extent that the Government is used to the concept of using local currency funds to provide implementation support for policy reform measures. Whereas the Revenue Loss option is advantageous to the central government in transferring funds

directly to the operational budget, it is less advantageous to the agencies and offices involved in the AEPRP directly who would normally have first access to Counterpart funds.

The Investment Fund option shares with the Revenue Loss option the assumptions that alleviating fiscal, legislative and administrative burdens on marketing would:

- facilitate existing private trade through official channels;
- encourage export marketing, particularly of higher value products (with support from the technical assistance component for identification of potential new market outlets);
- encourage entry of new participants in marketing, promoting efficiency through competition;
- induce shifts from informal to formal marketing channels.

Note that this option emphasizes domestic and export marketing channels on an equal basis.

G. PROGRAM COMPONENTS

AEPRP will consist of conditional dollar resource transfer and technical assistance components. A trust fund, equivalent to 8 percent of the conditional resource transfer, will be put at the disposal of USAID for program management-related expenditures. The points of difference in the definition and operations of the program under the two options are discussed below.

1. Conditional Dollar Resource Transfer

Under the Revenue Loss option, cash transfers would be made in increments of $5, 3 and 2 million respectively over the life of the grant. The Grantee would remit to USAID 8 percent of each tranche for the USAID Trust Fund. The Transfer would be direct budgetary support.

Under the Investment Fund Option, transfers would made be in amounts of $2.5, 1.5 and 1.5 million respectively over the life of the program. The Grantee would remit to USAID 8 percent of each tranche for the USAID Trust Fund. The Grantee would establish a local currency fund equivalent in value to the dollar resource transfer minus the Trust Fund.

- Technical assistance/training/studies: The technical assistance component of the program will allow direct AID contracting for technical assistance, training and studies requiring foreign exchange and for which USAID prefers to have a direct oversight role in collaboration with the Grantee.

The following types of technical assistance are planned ($950,000 estimated budget):

Long-term advisors at the Ministry of Plan, Ministry of Commerce, and/or Ministry of Finance for 2-2.5 years each who would assist the Grantee in establishing and maintaining systems for monitoring of performance in meeting conditionality as part of an improved computer-based system for reporting on domestic and foreign agriculture and market information; assist the Grantee in coordinating the studies, planning pilot activities,

and other activities incorporated under the program; and foster cooperation and encouragement of free market initiatives within those agencies. (TA mix will depend on option chosen and exact reform package negotiated.)

- 30 person months of short-term assistance to the following types of Government/parastatal/private organizations, on request of those agencies (for planning, studies, seminars, technical advice on various aspects of business and marketing):
  - Ministries and agencies involved in AEPRP (e.g., Finance, Plan, Commerce, Animal Resources, Agriculture)
  - Chamber of Commerce, CNPG
  - Nigerien Center for External Trade
  - SOTRAMIL, SONITAN, OLANI

Studies: (Note that this subcomponent will be $800,000 if the Revenue Loss option is selected because of the absence of local currency for full or partial financing of studies and $300,000 under the Investment Fund option).

The following are indicative of types of studies under consideration:

- Studies of administrative and regulatory controls on rural-based, private commerce;
- Studies on commercial/investment codes, particularly vis a vis rules for small joint ventures. Comparative analysis of Government policies and practices with neighboring countries.
- Market outlet studies for export products;
- Impact of current fiscal system on small operators;
- Evaluation of consultant capacity in West Africa, especially in marketing and technologies related to processing of agricultural products;
- Effectiveness of local price controls;
- Appropriate technologies and research in West Africa, especially those relative to marketing and processing of Nigerien agricultural products;
- Budget/consumption studies to estimate demand elasticitities in urban and rural areas for raw and transformed agricultural products;
- Case studies such as transformation of informal activities to formal sector, means of helping bring modern management skills to informal sector;
- Niger consultant capacity and business skills training assessments (potential for institutionalization of both);
- Study of impact of export taxes;
- Marketing in drought years, trade strategies for coping with drought, examination of the self-reliance model in drought situations.

Training: ($250,000)

- Seminars, colloquia, workshops for public and private actors in the marketing system in support of the policy measures (e.g. explanation and publicizing of the regulatory changes).

- Short-term training in computer use, analytic techniques for market studies, etc. for participants in the monitoring of the program (government/private agents).

- Short-term training/workshops on marketing, packaging, advertising, transformation technologies.

V. IMPLEMENTATION PLAN

A. USAID MANAGEMENT PLAN

USAID management needs and plans will be assessed in detail at PAAD stage, after a decision has been reached on which option to pursue. Note that USAID/Niger's staffing pattern and hierarchical organization are being readjusted to take into consideration the reduction of technical assistance projects and the increase in policy reform programs.

The following options are to be explored in depth at PAAD stage: 1) place management in ADO, within an existing or newly created USDH position, 2) place management under mission economist, 3) place management in GDO, under the special projects officer, or 4) place management in GDO under a private sector specialist (banking or business). Each of the options would include recruitment, using Trust Funds, of Nigerien and expatriate technicians for assistance in monitoring the program. In the Revenue Loss option, technicians would concentrate on reform program performance. The Investment Fund option would also require a separate staff to monitor management and financial performance.

B. GRANTEE MANAGEMENT PLAN

The Government's management plan for this program will be defined at PAAD stage, since there would be significant differences in management approach under the two implementation options. A detailed management model exists for the Investment Fund option already, given the existence of two other programs of this type. This model is based on direct USAID contracting for technical assistance component activities, programming of local currency funds by a joint Grantee-USAID management committee, and use of a secretariat under the Ministry of Plan to manage and monitor end use of Grantee-owned local currency funds. If the Investment Fund option is selected, then detailed study will be made at PAAD stage of the capacity of this secretariat to take on additional responsibilities, and of alternative approaches to management and monitoring.

If the Revenue Loss option is selected, conditional resource transfers would be configured as straight cash transfer for budgetary support. This would in itself require a reporting system, but of a quite different nature. USAID will work with the regional legal advisor to define appropriate reporting systems taking into consideration current ESF guidelines.

C. PAAD DESIGN

The USAID design team consists of the Special Projects Officer, PDO, Mission Economist, with assistance from representatives of ADO and PROG. Other mission offices provide input throughout the process. USAID is currently recruiting a PSC coordinator/liaison officer for the PAAD stage. USAID will receive assistance from REDSO/WCA regional legal advisor and regional contracting officer during PAAD design and will consult with other regional advisors as required (depending on final design details).

PAAD design will be carried out with assistance from an IQC contract team. The exact scopes of work of the consultants will vary depending on which option is chosen, however requirements in terms of technical specialities

(agricultural economist, business (tax/finance) expert, marketing specialist) remain the same, allowing recruitment of the team to proceed during PAIP review.

The following issues will be studied in detail at the PAAD stage:

- Economic impact of export tariffs, including revenues collected by commodity;
- Institutional capacity of agencies involved in AEPRP to carry out program measures;
- Impact of proposed policy and institutional reforms on beneficiaries, rural sector, national economy;
- Existence of alternative, low-cost approaches to realization of objectives;
- Management capacity of the Grantee (financial, contracting for services, commodities, construction), and audit requirements;
- Relationship of proposed activity to other donor (and other USAID) programs and projects (issues of overlap and contradiction in program policies and activities).

As a separate activity, USAID proposes over the next few months to carry out one or more rapid reconnaissance surveys of commodity subsectors in order to identify targets of opportunity for marketing activities as part of the USAID private sector strategy.

VI. BUDGET

Revenue Loss Option:

Dollar Resource Transfer (of which Trust Fund)	$10,000,000 (800,000)
Technical Assistance	950,000
Studies	800,000
Training	250,000

Investment Fund Option:

Dollar Resource Transfer (of which Trust Fund)	$ 5,500,000 (440,000)
Technical Assistance	950,000
Studies	300,000
Training	250,000