UNCLASSIFIED

NIGER

AGRICULTURE SECTOR DEVELOPMENT GRANT

(683-0246/47)

PROGRAM ASSISTANCE APPROVAL DOCUMENT

AMENDMENT TWO

AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID/NIGER

AUGUST 1988

UNCLASSIFIED

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

FROM: PDO: Erna Kerst

SUBJECT: Approval of Amendment to Program Assistance Approval Document (PAAD) and Authorization, Agriculture Sector Development Grant (683-0246/0247)

I. PROBLEM: Your approval is required to amend the PAAD and authorization for the Agriculture Sector Development Grant (ASDG). The amendment adds $7,000,000 from the Development Fund for Africa (DFA) for a new life of program value of $45,915,000. With this amendment the Agriculture Sector Development Grant funding will total $22,637,000 from SDF, $16,278,000 under Economic Support Funds and $7,000,000 from DFA. The program assistance completion date (PACD) for the program will be extended from September 30, 1989 to September 30, 1991 for one component of the program (pilot credit union activity) only.

II. DISCUSSION:

A. Description

The Amendment to ASDG further defines and expands on one of the areas of policy conditionality under the program (rural credit), provides additional funding for the technical assistance contract and finances a pilot credit union activity through a U.S. registered Private Voluntary Organization (Credit Union National Association, through the World Council of Credit Unions).

B. Financial Summary

It is planned that the $7,000,000 additional funding will be programmed as follows:

Conditional Dollar Disbursement	- $4,900,000
Technical Assistance	- $ 200,000
Pilot Credit Union Activity (grant for CUNA-WOCCU)	- $1,900,000

The plan for total life of program budget is detailed in the Executive Summary to the PAAD Amendment (attached).

C. Project Analyses

1. The Project committee review found the macro-economic justification for dollar disbursement satisfactory.

2. There are no human rights issues.

3. Because there are no changes in the conditions of the grant regarding environmental issues, the original determination of a categorial exclusion holds.

4. Technical analyses are sound.

5. All issues raised by the AID/W project committee (State 225146) have been adequately addressed in the PAAD amendment.

D. Implementation Plan

The implementation plan of this amendment uses the practices approved under the original ASDG PAAD and implemented in the existing program.

E. Major Implementing Agency

There is no change in major implementing agencies for the GON, with the exception of a change in name of the Ministry of Plan to Ministry of Plan and Regional Planning. This change took place after the PAAD Amendment was written.

F. Procurement Plan

Of the $7,000,000 approximately $1,900,000 will be obligated through a limited scope grant agreement to finance a direct grant (OPG) to the Credit Union National Association (CUNA) a U.S.-based cooperative development organization registered by A.I.D./Washington. Implementing the grant will be the World Council of Credit Unions (WOCCU), a CUNA affiliate.

A further $200,000 will be used to complete financing for the existing direct AID technical assistance contract with the University of Michigan.

The remainder of the funding, $4,900,000 will be in the form of a dollar resource transfer (sector grant) to the Government of Niger.

G. Conditions and Covenants

The revised conditions are set forth in the PAAD Amendment attached to this action memorandum.

H. Section 121 (d)

Specific section 121 (d) certification procedures have been approved for ASDG.

III. Program Assistance Completion Date

The pilot credit union activity has a proposed life of three years, two years beyond the existing PACD of ASDG. USAID initially considered requesting that WOCCU present its project proposal to the Government of Niger for funding under jointly managed local currency Counterpart Funds associated with the grant program. Disbursement of these funds is not limited by the PACD. However, use of local currency Counterpart Funds presents the disadvantage of not allowing direct A.I.D. oversight of the grantee. Further, financing of an activity with substantial foreign exchange costs with local currency is inconvenient, particularly with fluctuating exchange rates.

After consultation with WOCCU and exploration of alternatives with RLA Anthony Vance, the USAID Project committee decided to opt for a direct grant (OPG) to CUNA-WOCCU. This requires extension of the ASDG PACD to 9/30/91 for this one component only.

IV. Justification to Congress

The Congressional Notification waiting period for this amendment expired on July 26, 1988.

V. Authority

You have been delegated authority to approve this PAAD amendment and to authorize the modifications in the program (State 225146).

You have authority under Africa Delegation of Authority 551 to extend the Program Assistance Completion Date (PACD) as long as the total life of program (LOF) does not exceed ten years. In extending the PACD for two years the total LOF becomes slightly over seven years. This is well within your authority to approve.

VI. Recommendation:

It is recommended that:

A. You sign the attached PAAD Facesheet Amendment of the subject Grant to add $7,000,000, from the Development Fund for Africa. The total funds available for the Agriculture Sector Development Grant will be $45,915,000, with $22,637,000 in Sahel Development Program funds, $16,278,000 from the Economic Support Fund, and $7,000,000 from the Development Fund for Africa.

B. You sign below approving the extension of the PACD to 9/30/91 for the pilot credit union activity only.

Approved: _____

Disapproved: _____

Date: AUG 22 1988

Draft:	PDO:EKerst		Date	8/1/1988 , WG:0179b/SI
Clear:	ADO:RBloom	(Draft)	Date	8/1/1988
	ADO:EGitson		Date	8/17/88
	EXO:JMayer		Date	8/17/88
	D/ECON:FMartin		Date	8/17/88
	CONT:RHenry		Date	8/18/88
	PROG:LDouris		Date	8/18/88
	RLA:MAlexander		Date	

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CLASSIFICATION:

AID 1120-1

PAAD

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.: 683-K-602C; 683-Y-601B; 683-Y-601C
2. COUNTRY: Niger
3. CATEGORY: Cash Transfer
4. DATE:
5. TO: George T. Eaton, Mission Director
6. CYB CHANGE NO.:
7. FROM: Louanne Douri, A/Program Officer
8. CYB INCREASE: $7,000,000 DFA
TO BE TAKEN FROM: $7,000,000 DFA; 22,637,000 SDP; 16,278,000 ESF
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 7,000,000
10. APPROPRIATION: 72-1181014 GSSA-88-31683-KG31 GSSA-88-21683-KG13
11. TYPE FUNDING: ☐ LOAN ☒ GRANT
12. LOCAL CURRENCY ARRANGEMENT: ☒ INFORMAL ☐ FORMAL ☐ NONE
13. ESTIMATED DELIVERY PERIOD: 08/88 to 09/89
14. TRANSACTION ELIGIBILITY DATE: NA
15. COMMODITIES FINANCED

16. PERMITTED SOURCE	FY 88	LOP
U.S. only:		
Limited F.W.:	2,100,000	6,100,000
Free World		
Cash:	4,900,000	39,815,000

17. ESTIMATED SOURCE	FY 88	LOP
U.S.:		
Industrialized Countries:		
Local:	4,900,000	39,815,000
Other	2,100,000	6,100,000

18. SUMMARY DESCRIPTION

This amendment amplifies existing conditionality under one component (rural credit), of the Agriculture Sector Development Grant, increases funding for technical assistance, and finances a pilot credit union activity through an OPG. The amendment increases the life of program funding, modifies conditions precedent for the fifth increment and increases funding for that increment.

This Agriculture Sector Development Grant (ASDG) is a resource transfer with a technical assistance component. It is justified both in terms of achieving desirable and significant agricultural policy reforms which act to promote increased production and rural incomes in the long term, and of the need to provide domestic capital to support ongoing development activities.

19. CLEARANCES	DATE
ADO, RBloom	8/16/88
PDO, EGibson	8/17/88
PDO, EKerst	8/15/88
CONT, RHenry	8/18/88
FLA, MAlexander	8/12/88

20. ACTION: ☒ APPROVED ☐ DISAPPROVED

AUG 22 1988

AUTHORIZED SIGNATURE: Director

DATE

TITLE

CLASSIFICATION:

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This amendment provides an additional $7,000,000 for a new total of $45,915,000 over the life of the ASDG. This amendment will provide the fifth increment of funds for the ASDG. The funds in this amendment consist of $7,000,000 in Development Fund for Africa funds. The total of Development Fund for Africa funds made available under the ASDG thus amounts to $7,000,000, the total of Economic Support Funds equals $16,278,000, and the total of Sahel Development Funds $22,637,000.

To date, grants (conditional dollar disbursements) have been made available in increments of $7,000,000, $9,500,000, $9,873,000, $2,627,000 and $5,915,000 for a total of $34,915,000. A total of $4,000,000 has been made available to date for direct payments by A.I.D. of foreign exchange and local currency costs of technical assistance, policy studies, workshops, in-service training and support and evaluation and audit. This Amendment, subject to the availability of funds and the mutual agreement of the parties to the terms and conditions set forth herein, provides grants (conditional dollar disbursements) of additional $4,900,000 for a new total of $39,815,000. An additional $200,000 will be made available by this Amendment for direct payments by A.I.D. for technical assistance and related support items listed above for a new total of $4,200,000 and $1,900,000 will be used to fund a grant to WOCCU to implement a credit union project intervention. Each of the conditional dollar disbursements, but not direct payments for technical assistance and the credit union interventions, is tied to Conditions Precedent which confirm progress in the implementation of the policy reform program. Moreover, the Government of Niger (GON) is expected to deposit in the special local currency and Trust Fund accounts the local currency equivalent of each dollar disbursement under the grant.

The Conditions Precedent for this Amendment are:

1. Complete a review of existing statutes and legislation and develop a plan of action to assure that the appropriate legal framework is set in place to foster credit union development;

2. Grant interim legal status to credit unions supported by the USAID project permitting them to transact business with all rights in law, including the right of enforcement of contracts and legal redress. This interim legal status will be provided by the issuance of an Administrative Decree or Ministeriel Arrete no later than ninety days after the signing of the Grant Agreement Amendment.

3. Grant exemption to credit unions supported by the USAID project from current laws or statutes governing banks, financial institutions and cooperatives. This exemption will be provided by the issuance of an Administrative Decree or Ministeriel Arrete no later than ninety days after the signing of the Grant Agreement Amendment.

4. Prepare a plan for implementation of the proposed policy changes that will be executed prior to the completion of the ASDG program. This will include:

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(a) Reducing the average rate of subsidy on agriculture inputs to not more than 15 percent of the delivered cost of the inputs;

(b) Having in operation a tender and bid system for reconstituting OPVN stocks for all purchases and sales;

(c) Maintaining a minimum level of 6,000 tons of village level grain stocks through arrangements with cooperatives and groupements mutualistes;

(d) Liberalizing, simplifying, issuing and informing the general public of procedures for cross border trade, especially for cowpeas and livestock, by eliminating legal and administrative barriers to participation in cross-border trade and relying on market forces;

(e) Continuing expansion of private and cooperative sector participation in production and distribution of agriculture inputs, cereals marketing and distribution, agriculture credit and cross border trade. This includes reliance on free market prices and continuation of the policy of not issuing official prices for cereals; and

(f) Continuing to maintain the implementation of the Seed Action Plan.

The last three paragraphs of the PAAD amendment 3 are deleted and the following is substituted.

The FY 1988 dollar disbursements or resource transfers covered in this PAAD amendment consist of: $4,900,000 from the Development Fund for Africa.

These conditional dollar disbursements or resource transfers for FY 1988 obligations will be disbursed after the Grantee has met the Subsequent Conditions Precedent for disbursement of the fifth increment or tranche as amended as set forth above.

In addition, $2,100,000 of Development Fund for Africa funds will be disbursed for technical assistance and pilot credit union activities. Disbursement of these funds is not tied to meeting of subsequent conditions precedent. No A.I.D. funds will be made available for credit under the pilot credit union activity. The grant to WOCCU will be to support the costs of setting up and monitoring pilot credit union activities. Funds for credit will be from resources of credit union members themselves.

All of the other Conditions Precedent and Covenants, as well as other provisions set forth in the original PAAD signed on August 14, 1984, as amended on July 10, 1986, July 23, 1986 and July 2, 1987 remain in effect.

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Niger
ASDG PAAD Amendment No 2.
June 1988

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DOC. 0073b/SI

I. Executive Summary and Recommendations

A. The Request

The Government of Niger (GON) has requested a second amendment to the Agriculture Sector Development Grant (ASDG) Program Assistance Approval Document (PAAD), to further implement the necessary policy reforms in the area of rural financial markets, more specifically to carry out the recommendations of the agricultural credit study by establishing the framework for formation of credit unions. The amendment will amplify an existing condition precedent, and increase the life of program funding by $7,000,000 from $38,915,000 to $45,915,000.

B. Background

USAID/Niger included a condition precedent in the original PAAD requiring that the GON undertake a comprehensive study of the rural financial sector in Niger to formulate appropriate policies to promote the development of rural financial markets. The GON and USAID/Niger, with the assistance of Ohio State University (OSU), completed the study in October 1986. The principal conclusions of the study were: there is a marked absence of an institutional system of financial intermediation in Niger; standard banking functions are underdeveloped in the administrative framework of productivity projects and other programs developing the rural economy; and only indigenous mechanisms of savings and loan activity play out a rudimentary but useful role of intermediating the investment flows in rural areas. The study made three recommendations: 1) closing the central agricultural credit institution; 2) maintaining project-specific lines of credit through various productivity projects as an interim measure of administering agricultural credit; and 3) promoting village level savings and credit cooperatives, i.e., credit unions.

The study's results and recommendations were reviewed by a GON-sponsored Round Table held in December 1986. The study's recommendations were accepted by the GON and key donor organizations. In support of the study's recommendation for the promotion of credit unions, USAID/Niger included a condition precedent in the July 1987 ASDG PAAD Amendment requiring that the GON take appropriate action in accordance with the conclusion and recommendations of the study to encourage the development of rural financial markets.

Subsequently, the GON and USAID/Niger sought the services of the World Council of Credit Unions (WOCCU) to further analyze the potential for a credit union movement in rural Niger, including the identification of the requisite policy reforms needed to promote credit union development. WOCCU completed two consultancies to this end, in April 1987 and November 1987-January 1988. WOCCU assisted USAID in identifying the necessary policy conditionalities to be included under the proposed ASDG amendment and provided a technical description of a credit union project.

C. Program Assistance Description

The ASDG's goal, purpose and outputs will remain unchanged from the July 1987 PAAD Amendment. They are stated in section II.C. of this amendment.

The amendment: 1) amplifies a component of one of the conditions precedent to the disbursement of the fourth tranche of U.S. dollars as described in section VI.A. (Conditions and Covenants) of this PAAD Amendment; 2) increases the life of program funding; and 3) updates the July 1987 PAAD Amendment where appropriate.

The inputs of the ASDG consist of 1) conditional dollar disbursements; 2) equivalent local currencies derived from the Grant; and 3) technical assistance for policy formulation and implementation support.

This amendment adds a total of $7,000,000 of which $200,000 is for technical assistance in policy analysis. The implementation of the policy reform program will continue to be supported by specific policy studies and the development of a policy analysis unit in the Ministry of Agriculture to help ensure the continuation of effective policy formulation and implementation. Approximately $1,900,000 of this amendment will be in the form of the cooperative agreement with WOCCU for a Pilot Credit Union activity.

The life of program total will be increased from $38,915,000 to $45,915,000 as presented in the following summary table.

(Funding Source $000 U.S.)

	This Amendment		New Total		
	DFA	SDF	ESF	SDF reobs	DFA
Conditional Dollar Disbursement	4,900	15,627	16,276	3,010	4,900
Limited Scope Grant Agreement for WOCCU	1,900	-	-	-	1,900
Technical Assistance	200	3,007	-	-	200
Policy Studies, Seminars, Workshop	-	722	-	-	-
In service training and support	-	38	-	-	-
Evaluation	-	173	-	-	-
Audit	-	60	-	-	-
Total:	7,000	19,627	16,276	3,010	7,000

D. Implementation

The executing agency for this program will continue to be the Ministry of Plan. The technical assistance portion of the program includes an AID contract for long-term advisors and short-term consultants. The contract is with University of Michigan, which has subcontracts with Abt Associates and Tufts University. The credit union development component of the program will be implemented by a grant to the World Council of Credit Unions (WOCCU) through a Limited Scope Grant Agreement with the GON.

E. Other Donor/Support

The International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) are major donors in the field of economic stabilization and structural adjustment. Niger had IMF stand-by arrangements in effect from August 1984 through December 1987. The government entered into a three-year, SDR 21 million Structural Adjustment Facility (SAF) arrangement with the IMF in December 1986. This facility is supported by a Policy Framework Paper prepared by the government with assistance from the Fund and the World bank. The program seeks to foster conditions of increased private sector activity by reducing the structural obstacles to economic growth. The scope of price controls will be narrowed, marketing will be liberalized, and the public enterprise sector will be reformed to improve its financial position and operations. The Government has met most of the first year objectives and policy measures of the SAF arrangement.

The IBRD and the Government of Niger developed a structural adjustment credit program in 1986. The program will continue throught 1988 and disbursements will total $68 million. The objective of the program is to increase the efficiency of resource use by addressing key structural problems of the economy through an economic reform program. Specifically, the program deals with three structural problems. The problem of public resource management is addressed by restructuring current expenditures towards materials and supplies and away from salaries, by higher rates of cost recovery and by improved debt management. Secondly, public enterprises are to be reformed by revising economic incentive policies, improving their legal and institutional framework and selected privatization and divestiture efforts. Finally, the structural adjustment program calls for the same agricultural policy changes as the Agriculture Sector Development Grant: liberalization of cereals marketing, reduction of agricultural input subsidies, and improvement of the agricultural credit system.

F. Program Benefits

In addition to the macroeconomic and sectoral benefits described in the July 1987 PAAD Amendment, the people who will benefit most from the policy reforms promoting credit union development will be the rural populations in the Maradi and Zinder regions where the initial pilot credit union activities will be supported. It is estimated that at the end of the three year period, credit union membership will be between 1500-3000. Some of the short-term benefits which will be realized during the three-year project period will be the increased mobilization of rural liquidity for productive investments in the rural economy. Financial services will be provided in the project zone which lower the cost of borrowing while raising the yields on savings leading to an increase in both activities. Community awareness and training in accounting

and financial management will increase the potential for longer-term development investments and local community management of their own financial resources. Credit unions will support all aspects of the rural economy: production, consumption and commercial enterprises. Increased liquidity circulation and more effective financial intermediation will have secondary benefits of catalyzing the overall rural economy and increasing employment in off-farm and agricultural support enterprises. A source of consumption credit will alleviate the economic strains brought on by drastic food price fluctuations over the year as well as allow farm families to take advantage of grain marketing opportunities.

The principal policy benefit for the GON is that it does not need to provide massive infusions of capital from the public budget to support an agricultural credit institution or create a costly administrative infrastructure for its functioning.

G. Summary Findings

From the review and analysis of the PAAD Amendment, USAID/Niger has found that:

1. The proposed program sector assistance and the provision for disbursing funds under the grant are technically, economically and administratively sound;

2. The timing and funding of the program amendment are scheduled appropriately;

3. Sufficient planning has been completed to implement, monitor and evaluate progress under the program; and

4. All statutory criteria have been met.

H. Recommendation:

The project committee recommends that the Director, USAID/Niger, approve the ASDG PAAD Amendment in an amount not to exceed $7,000,000.

The Grant as amended will consist of $39,815,000 for conditional dollar disbursements tied to specific policy changes, $4,200,000 for technical assistance, policy studies and implementation support and $1,900,000 to be used to fund a grant to WOCCU for the implementation of a credit union project for a total of $45,915,000.

This PAAD amendment amplifies a component of one of the conditions precedent to disbursement of the fourth tranche of U.S. dollars and increases the life of program funds.

The Agriculture Sector Development Grant (ASDG) remains a resource transfer with a technical assistance component. It is justified in terms of achieving desirable and significant agricultural policy reforms and provides domestic capital to support ongoing development activities.

This amendment provides an additional $7,000,000 for a new total of $45,915,000 over the life of the ASDG. It will increase the fifth increment of funds for the ASDG. The funds in this PAAD amendment revision consist of $7,000,000 from the Development Fund for Africa (DFA). The total amounts by appropriation are $22,637,000 SDP, $16,278,000 ESF and $7,000,000 DFA.

To date, grants (conditional dollar disbursements) have been made available in increments of $7,000,000, $5,500,000, $9,673,000, $2,627,000, and $5,915,000 for a total of $34,915,000. A total of $4,000,000 has been made available to date for direct payments by A.I.D. of foreign exchange and local currency costs of technical assistance, policy studies, workshops, in-service training and support, and evaluation and audit. This Amendment, subject to the availability of funds and the mutual agreement of the parties to the terms and conditions set forth herein, provides a grant (conditional dollar disbursements) of an additional $4,900,000 for a new total of $39,815,000. An additional $200,000 will be made available by this Amendment for direct payments by A.I.D. for technical assistance and related support items listed above for a new total of $4,200,000, and $1,900,000 will be used to fund a Limited Scope Grant Agreement (LSGA) which will be used to finance a grant to WOCCU to implement a credit union project intervention. Each of the conditional dollar disbursements, but not direct payments for technical assistance and the LSGA, is tied to Conditions Precedent which confirm progress in the implementation of the policy reform program. Moreover, the Government of Niger (GON) is expected to deposit in the special local currency and Trust Fund accounts the local currency equivalent of each dollar disbursement under the grant.

The Conditions Precedent for this Amendment are that the GON:

1. Agree to review existing statutes and legislation and develop a plan of action to assure that the appropriate legal framework is set in place to foster credit union development;

2. Grant interim legal status to credit unions supported by the USAID project permitting them to transact business with all rights in law, including the right of enforcement of contracts and legal redress. This interim legal status will be provided by the issuance of an Administrative Decree or Ministeriel Arrete no later than ninety days after the signing of the Grant Agreement Amendment.

3. Grant exemption to credit unions supported by the USAID project from current laws or statutes governing banks, financial institutions and cooperatives. This exemption will be provided by the issuance of an Administrative Decree or Ministeriel Arrete no later than ninety days after the signing of the Grant Agreement Amendment.

4. Prepare a plan for implementation of the proposed policy changes that will be executed prior to the completion of the ASDG Program. This will include:

   (a) Reducing the average rate of subsidy on agriculture inputs to not more than 15 percent of the delivered cost of the inputs;

   (b) Having in operation a tender and bid system for reconstituting OPVN stocks for all purchases and sales;

   (c) Maintaining a minimum level of 6,000 tons of village level grain stocks through arrangements with cooperatives and groupements mutualistes;

   (d) Liberalizing, simplifying, issuing and informing the general public of procedures for cross border trade, especially for cowpeas and livestock, by eliminating legal and administrative barriers to participation in cross-border trade and relying on market forces;

(e) Continuing expansion of private and cooperative sector participation in production and distribution of agriculture inputs, cereals marketing and distribution, agriculture credit and cross border trade. This includes reliance on free market prices and continuation of the policy of not issuing official prices for cereals; and

(i) Continuing to maintain implementation schedule of the Seed Action Plan.

The paragraph beginning with "The FY 87 dollar..." and the subsequent paragraphs of the PAAD Amendment are deleted and the following is substituted.

The FY 1988 funds for dollar disbursements or resource transfers covered in this PAAD amendment consist of:

$7,000,000 Development Fund for Africa

The conditional dollar disbursement or resource transfer of funds obligated in FY 1988 will be disbursed after the Grantee has met the Conditions Precedent for disbursement of the fifth increment or tranche as amended as set forth above.

All of the other Conditions Precedent and Covenants, as well as other provisions set forth in the original PAAD signed on August 14, 1984, as amended on July 2, 1987 remain in effect.

II. Program Description

A. Macroeconomic and Sectoral Problems

1. The Macroeconomic Situation

The debt crisis brought on by the collapse in uranium prices along with the recession following the second OPEC price increase in 1979 will constrain Niger's economic development for years to come. The 1984 drought exacerbated the situation. The Government of Niger has nevertheless undertaken difficult stabilization policies to correct imbalances brought on by liquidity and debt crisis and drought. These efforts, together with extraordinary donor support, stabilized the external and public budget accounts but output levels remain below their pre-drought levels.

The five year Economic and Social Development Plan (1987-1991) has as its major policy objective an increase in rural income. This is to be accomplished through the introduction of new technologies and output diversification. The Financing Plan, which accompanied the Five-Year Plan, shows that the Government of Niger will not be able to raise sufficient revenues to finance the needed investments. The crucial role of foreign aid in financing the investment budget will remain throughout the period of the Five-Year Plan.

2. Government Finance in the Agriculture Sector

The budget consolidation aspect of the GON structural adjustment program produced large reductions throughout the investment budget. The ASDG, and the earlier RSDG, by providing budgetary resources to the GON, reduced the severity of the budget cuts.

The counterpart funds are allocated to agriculture, livestock, and forestry/natural resources activities included in the investment budget. The importance of the counterpart funds can be gauged by comparing the size of the resource transfer and the planned expenditure levels for investments in agriculture and rural development. This comparison shows that during the general budget contraction the RSDG/ASDG resource transfer to the GON agriculture investment budget was almost 10 percent of planned expenditures of the first year. The share rose to nearly 14 percent in 1985. For 1986 through 1988 the share declines as the GON substantially increases its agricultural investment and the value of the CFA increases vis a vis the U.S. dollar. The proposed tranfer in this amendment is equal to 5 percent of the anticipated GON investment spending for the rural sector.

Year	GON Investment Budget Agriculture and Rural Development Investments	RSDG/ASDG Resource Transfer	RSDG/ASDG share of Column 2
1984	21,656	2,101	9.7%
1985	21,712	3,000	13.8%
1986	31,215	3,368	10.8%
1987	36,954	3,600	9.7%
1988	38,254	1,656	4.3%
1989	42,939	2,114	4.9%

(All figures in million FCFA. 1989 figure based on requests contained in this amendment.)

These counterpart funds have a multiplier impact on investment levels since they, in many cases, finance goods and services which are prerequisites to the expenditure of donor project funds. Thus had the 1985 transfer of 3 billion FCFA not taken place the agriculture sector investment budget would have been reduced by more than 3 billion FCFA.

3. Agricultural Sector Setting and Constraints

About 12 percent of the total land area, 15 million hectares (ha) out of 126.7 million ha in Niger, is considered potentially useful for cultivation. Most of the agricultural land is a strip along the southern border where the annual rainfall varies from 350 mm to 800 mm. Recent studies in the Niamey Department indicate that the 350 mm Isohyete has fallen from 16 to 14 degrees latitude between 1968 and 1984. Outside of this area, available soil resources are too poor and the rainfall too irregular for successful cultivation. The typical agricultural production unit is a small family-cultivated plot, where rainfed crops are cultivated by traditional methods.

Some 61,000 ha of land are identified as potentially irrigable, of which about 13,000 ha are under the management of the state structure, Amenagement Hydro Agricole (AHA). About 24 million ha of land located in the North (i.e., north of the official boundary of cultivable land) are considered as useful pastoral lands. The forest land is estimated to cover about 14 million hectares. Overall, about 65 percent of Niger is located in the Saharan zone (characterized by less than 200 mm of rainfall at 90 percent probability).

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The agricultural population is estimated at 4,303,000 in 1987, or about 64% of total (6,703,000 mission estimate) population. The balance of the population is categorized as urban dwellers and pastoralists. The distribution in the seven departments ranges from 0.2 persons per square kilometer in Agadez to about 25 persons per square kilometer in Maradi Department, with an overall estimated population density of 4.4 inhabitants per square kilometer.

Niger's principal food crops are millet and sorghum, covering about 70 percent of the area cultivated each year. Other products such as rice, peanuts, cowpeas, onions, cotton, corn, peppers, wheat, potatoes, skin and hides, live animals, firewood and fishery generate an appreciable level of value added to the economy. According to Ministry of Plan statistics, the contribution of the rural sector to the gross domestic product (GDP) in 1987 is estimated to be about 44.4 percent. The contribution by sub-sector is as follows: agriculture 22.7%, livestock 17.7%, forestry and fishery 4%.

Generally favorable weather in the years since the drought of 1968-73 has resulted in higher food crop production. However, the precariousness of Niger's agricultural and livestock production was underscored by the recurrence of a drought in 1984. Erratic and scant rains resulted in disastrous harvests and pasture conditions. Substantial commitments by the U.S. and other donors were required to bridge the gap until the 1985 harvest. However, dramatically improved weather conditions in 1985 and 1986 crop seasons gave Niger two of its best harvests in recent years. This situation was somewhat reversed in the 1987 production year.

GON harvest estimates indicate that the 1987 gross production (millet, sorghum and rice) is about 1,439,000 MT. This quantity is definitely lower than the 1986 gross bumper harvest of 1,816,000 MT, but is significantly better than the 1984 gross harvest of about 1,000,000 MT. According to the GON, the uncovered deficit for the 1987/88 crop season is 274,000 MT (including 80,000 MT for reconstituting a security stock at OPVN)[a]. About 50,000 MT of grain equivalent is planned to be generated from the off-season production activities.

The livestock sector in Niger is the second major source of foreign exchange earnings after uranium. Niger's livestock situation is, however, made precarious by the disappearance of the southern pasture which in the past provided seasonal relief for the herds in the North. Deficiencies in rainfall have reduced the potential forage which in turn has led to a reduction in the herd, weakened the animals and made them more vulnerable to disease.

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a. According to USAID this 1987/88 uncovered deficit estimate ranges from 194,000 MT to a surplus of 218,000 MT depending on the assumptions (stock level, per capita consumption, etc.).

b. For additional information on constraints and policy programs see II.C and III below, FY 1988 CDSS, the ASDG mid-term evaluation, the original ASDG PAAD, and the Updated Annex H "Institutional and Policy Constraints on Agricultural Production in Niger, March 1987."

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The productivity of the agriculture and livestock sector is limited by a multitude of technical and institutional/policy constraints. The main constraints stressed in various documents include: insufficient rainfall, poor soil, low level of literacy, high level of population growth, inadequate research/lack of appropriate technologies, inappropriate training, top heavy program/project design and execution practices, inadequate structure for credit and supply of inputs. However, most of these constraints are acknowledged, and the GON and many financing agencies are collaborating in seeking solutions. In the last two years, for instance, the Agriculture Sector Development Grant (ASDG)[b] has been attempting to reduce policy and institutional constraints in the areas of input subsidies and distribution, cereals marketing, cross border trade, rural financial markets, and cooperatives and private sector development. The ASDG was amended in 1987 to include a policy reform program for restructuring and diversifying the seed and plant materiel multiplication system. Following conclusion of the rural financial markets study and recommendations of the December 1986 GON/Donor meeting, USAID is making a further amendment to include a credit union component in the ASDG. The objective is to facilitate the promotion of village level credit unions as a step towards establishing a viable credit and savings system in rural Niger.

B. Description of Amendment

The need for reform measures in support of rural financial markets was identified in the course of designing and negotiating the original ASDG program with the GON. The lack of a viable agricultural credit system promoting effective financial intermediation in rural areas is considered a key factor impeding development efforts. Access to credit is fundamental to enabling farmers to obtain key agricultural inputs on a timely basis, and to participate in off-farm enterprises such as product marketing and activities relating to agricultural production support, i.e., input supply. Reform measures included in the original PAAD and the first Amendment to the PAAD were undertaken by the GON to clarify the reforms required to promote the development of rural financial markets. Efforts in this regard have culminated in the GON and its principal donors agreeing to promote credit union development as an initial step in further developing rural financial markets.

Credit union development represents a progressive and amplified reform measure of the ASDG. As a CP to the original PAAD, the GON was required to conduct a thorough review of rural financial markets, with an emphasis on informal mechanisms for financial intermediation, as a first step in the reform process. The study, carried out with technical assistance provided by Ohio State University (OSU), was intended to identify constraints to more effective financial intermediation and made recommendations for further reform measures. The study's principal recommendation was the promotion of credit unions as a first step in revitalizing rural financial markets and filling the void left by the collapse of Niger's central agricultural credit facility. Building on GON interest and to encourage the promotion of credit union development, a second CP for this policy reform area was included in the last Program Agreement Amendment requiring the GON to take appropriate actions in accordance with the conclusions of the study. To this end, key GON officials forming a working committee on agricultural credit made informational visits to other African countries considered to have strong credit union movements, and the GON requested assistance from WOCCU to identify reform measures and to design a credit union promotion project intervention.

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This Amendment will include Conditions Precedent (CP) intended to create an appropriate policy environment for the promotion of credit union development and will support the implementation of a credit union project intervention designed by the World Council of Credit Unions (WOCCU). More specifically, the CP's are related to providing the necessary legal framework in which credit unions can freely operate and to providing credit unions exemption from current UMOA regulations governing financial institutions (see Section II of this PAAD Amendment). This effort will assist the GON in testing the feasibility of a credit union program in Niger and provide the basis for credit union expansion on a national scale.

Under this PAAD Amendment, WOCCU will establish a credit union movement in a key region of Niger in an effort to test the feasibility of credit unions on a national scale and to gauge their effectiveness as financial intermediaries building on local liquidity mobilization. The WOCCU intervention will promote a comprehensive information campaign to assure a more accurate understanding and appreciation of the fundamentals of financial cooperation among the rural population of Niger and a training approach specifically designed for a credit union movement in Niger in keeping with the cultural, economic and demographic conditions peculiar to Niger. Additionally, WOCCU will collect baseline data and establish a monitoring system to effectively gauge the impact of credit unions on the rural economy. Annex D provides an Amplified Project Description of the WOCCU project activities.

The concept of credit union development is based on the substantial amounts of already existing liquidity found at the village level in Niger through tontine and money-keeper activities. This was aptly pointed out in the course of the GON review and the USU study of Niger's rural financial markets. Mobilizing this rural liquidity is the key to promoting more effective financial intermediation in rural Niger. The USU study further recommended that credit unions would be the best mechanism for promoting liquidity mobilization for improved intermediation at this point in time. Credit unions normally have characteristics of both formal and informal financial intermediaries, have attributes of both traditional, informal community cooperative structures and modern, chartered financial institutions and often serve as the first step in the development of formal financial markets in rural areas to fill the savings and credit gap. Local initiative, responsibility and investment build the credit union system starting at the community level. The democratic structure, operating principles and social goals of credit unions build upon the principle of traditional mutual cooperation that exists in rural areas.

Improved rural financial intermediation through credit union development will have an effect on almost every facet of the rural economy in Niger. Timely access to credit will assist farmers in obtaining key inputs from private sources. Building upon the substantial traditional liquidity base found in rural Niger will minimize the need for massive infusions of capital and administrative infrastructure by the GON or other donors to re-establish a formal, central credit facility. The rural population will have increased access to deposit services with interest and dividend accumulation. Credit will be used for more than just production lending and enable families to have easier access to liquidity for investment and consumption purposes, the marketing of agricultural production and enterprise development. Credit union development will build upon local, village level leadership and promote management by villagers of their own resources with individual motivation providing the impetus for future growth.

C. Justification for the Amendment:

The proposed credit union activity is consistent with the original PAAD completed in 1984 and the PAAD Amendment completed in June 1987 and builds upon the same basic justification. USAID/Niger chose program assistance for three basic reasons which remain valid: (1) Niger is strongly dependent on the agriculture and livestock sector for economic growth and diversification; (2) Niger's agricultural and livestock sector has limited absorptive capacity for investment; and (3) program assistance supports and complements economic policy reform measures of other donors, most notably the IMF and the IBRD. Each of these criteria is reviewed in the following paragraphs with a discussion of their relevance to this PAAD Credit Union Amendment.

As almost 90 percent of Niger's population depends on agriculture and livestock production for its income and subsistence, this sector is the most likely to provide the basis for economic growth over the medium and long-term, given Niger can no longer depend on export revenues from uranium to support its development programs. The GON has made significant progress towards reorienting its public investment strategy towards the agricultural and livestock sector in order to increase food production and export diversification. A key factor impeding development efforts in the rural sector, however, is the lack of a viable system of agricultural credit. Access to credit is fundamental to enabling farmers to obtain key agricultural inputs on a timely basis, to participate in off-farm enterprises such as agricultural product marketing and activities relating to agricultural production support, i.e., input supply. Niger's agricultural credit system has been a key area for policy reform since the beginning of the ASDG, and the GON performance in conducting a thorough review of its rural financial markets as a first step in initiating the reform process and defining areas of policy reform has been admirable. This effort culminated in the GON and its principal donors agreeing to promote credit union development as a first step in revitalizing rural financial markets and filling the void left by the financial collapse of Niger's central agricultural credit institution. The concept of credit unions goes beyond simple production loans and is seen as a way of promoting more effective financial intermediation and the overall integration of all rural economic activities.

The agriculture and rural sectors have a limited capacity to absorb investment. This is caused by institutional limitations, human capital scarcity, and inappropriate policies. Since its beginning, the ASDG has helped increase the national absorptive capacity of the sector by financing recurrent operating expenses of projects which would otherwise terminate due to Niger's inability to meet its counterpart fund obligations. To date, the ASDG has provided $29 million in support to 40 development projects whose range of activities include: rural development, livestock production, irrigated vegetable production, training in financial management for host country collaborating organizations, small-scale enterprise development, forestry, fisheries, crop protection and feasibility studies and pre-project analyses. The largest portion of these funds (30 percent) has gone for recurrent costs in support of USAID/Niger-financed projects. This amendment is proposing to make an additional $7.000 million available to support rural development efforts, including the funding for a credit union development activity.

The GON has taken significant steps to restructure its public debt, reduce the role of the state in the economy and phase out many parastatals, reduce government expenditures and generally rationalize its policy framework. To date, the GON has met the conditions of the ASDG and, likewise, made excellent progress in implementing the IBRD's Structural Adjustment program. Continued progress in implementing policy reform measures of these programs is anticipated.

This credit union activity will support implementation of policy reforms required to rehabilitate Niger's rural financial markets. The need for such was identified during preparation of the original PAAD for the ASDG. As an initial policy conditionality of the ASDG, the GON was required to conduct an in-depth analysis of Niger's rural financial markets. The Ohio State University report Rural Finance in Niger was completed in 1986 on behalf of the GON. The OSU study's findings were reviewed by a GON-sponsored Round-Table in late 1986. The Round-Table discussions culminated with acceptance of OSU's three conclusions: (1) close the central agricultural credit parastatal, the CNCA; (2) as an interim measure, continue to use productivity projects as a channel for production credit; and (3) to promote credit union development as the most effective means for improving rural financial markets and financial intermediation in Niger. Based on the Round-Table's acceptance of the recommendation for credit union development, the GON requested USAID/Niger to take the lead in assisting it in this effort. USAID/Niger, in turn, sought the services of the World Council of Credit Unions (WOCCU) to identify the policy framework required for effective development of credit unions and to design a potential credit union intervention. Based on WOCCU's work, USAID/Niger has included this intervention as the basis for this PAAD Amendment. See Annex D for WOCCU report.

Improved rural financial intermediation will have an effect on almost every facet of the rural economy in Niger. Timely access to credit will assist farmers in obtaining key inputs from private sources. Building upon the substantial traditional liquidity base found in rural Niger will minimize the need for massive infusions of capital and administrative infrastructure by the GON or other donors to re-establish a formal, central credit facility. The rural population will have increased access to deposit services with interest and dividend accumulation. Credit will be used for more than just production lending and enable families to have easier access to liquidity for investment and consumption purposes, the marketing of agricultural production and enterprise development. Credit union development will build upon local, village level leadership and promote management by villagers of their own resources with individual motivation providing the impetus for future growth.

D. AID Agriculture Sector Development Grant Program

1. Relationship of ASDG Amendment Goals to AID Strategy in Niger

The AID program in Niger, as approved in the CDSS, has a long-term strategy objective of increasing food production leading towards food self reliance and increased income. It has three medium-term objectives: structural adjustment, agriculture production, and health/family planning.

The Credit Union Policy Amendment to the ASDG contributes directly to USAID/Niger's strategy objectives of structural adjustment and agricultural production. Under the various policy reform activities undertaken by the GON, a principal goal has been to assess and evaluate the performance of current institutions serving the agricultural sector. In some instances, ineffective and costly public sector institutions have been closed or reorganized to reduce their drain on the public budget. For all intents and purposes, Niger's central agricultural credit system has collapsed financially. Some donors still use it as a conduit for their project-specific credit programs, but the GON has not made an attempt to rehabilitate it. The GON will use the credit union movement to at least partially address the problem of rural credit. This Amendment will institute the necessary policy reforms to enable a more efficient management and increased use of already existing rural liquidity for myriad economic activities.

The concept of credit union development is based on the substantial amounts of liquidity found at the village level in Niger. Improved and expanded financial intermediary services for this liquidity base will provide the financial impetus and means whereby farmers will have easier and more timely access to loan capital for investment for production, marketing or consumption purposes. Cooperatives and private entrepreneurs will be better able to provide off-farm support services for production activities. The State's role in credit union development is extremely limited, and no allocations from the public budget for its support are required. Credit unions clearly build upon individual initiative, and existing village-level financial and management resources.

a. Structural Adjustment

USAID's medium-term strategy for helping the Nigerien Government improve its balance of payments and budgetary resources situation consists of backing the structural adjustment process which is now under way. AID concentrates on supporting sector policies conducive to structural changes and to alleviate constraints imposed by debt service obligations and a limited resource base. AID focuses on improving resource management and increasing efficiency of human and financial resource use in agriculture and rural development, as well as expanding the opportunity for resource mobilization in the private sphere.

AID's agriculture strategy in Niger stresses food production and diversification through community-based self-managed development, with emphasis on local management, private (and cooperative) sector participation and utilization of improved technical packages. Its components are:

- Implementation of the policy reforms under the ASDG;
- Development of Niger's applied agricultural research capacities and its linkage into extension;
- Development of participatory self-managed organizations through cooperative development and restructuring, extension, seed multiplication, credit and input distribution; and
- Institutionalization of land use planning and measures against desertification, and integration of these activities into ongoing activities.

The goal of the original ASDG, authorized in 1984, is "to assist Niger to achieve its economic and financial stabilization program currently in place under IMF auspices and to contribute to an increase in food production and farmers' incomes."

The goal is still valid as long as the objectives are broadened to include the structural adjustment program now underway as an outgrowth of the successful stabilization program.

In general, by using sector grants, USAID programs concentrate on policy changes, better resource management and increased efficiency of human and financial resource use in agriculture/rural development and health/family planning. Policy reform and structural adjustment require institutions to develop policies, implement the reforms, monitor and evaluate their effects, and modify them if necessary. The analytic capacity necessary for policy reform will also contribute to better resource planning and management. Strengthening the institutional capacity for policy analysis and resource planning/management is an important part of the strategy.

Domestic credit allocations to Niger from the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) have diminished with the economic recession brought on by declining uranium revenues in the early 1980's. At the same time, the GON was using a greater portion of these allocations to support its public enterprises with lesser credit allocations being reserved for private sector use. Niger's central agricultural credit agency, the Caisse Nationale de Crédit Agricole (CNCA), was being continually forced to absorb parastatal debt as certain parastatals were used to channel CNCA loans. The CNCA also suffered by not being able to directly manage its lending program but relied on the intermediation of Union Nationale des Coopératives et Crédit (UNCC) agents for almost all its loan evaluation, monitoring and collection functions and never matured as a viable financial institution. With the deepening of the economic recession, exacerbated by the drought in 1984, the GON and donors realized they could no longer continue to subsidize the CNCA's operations. The problems of the CNCA in particular and of the system of agricultural credit in general were brought to the forefront by the agricultural sector institutional analysis conducted in preparation of the ASDG, and policy reforms pertaining to agricultural credit were included in the ASDG program. Credit union development contributes directly to the sector strategy objective of developing self-sustaining rural organizations focusing on expanding the opportunity for resource mobilization in the private sphere.

b. Agricultural Production Objectives:

The agricultural sector Institutional Analysis indicated that a viable system of agricultural credit was not in place in Niger. The Credit Union PAAD Amendment will promote the creation of credit unions at the village level to serve as a means for improving financial intermediation of existing rural liquidity. Credit unions are intended to support all economic activities in rural Niger, and not necessarily be confined to supporting agriculture per se. Nonetheless, as the rural economy of Niger is dominated by agricultural production, marketing and production support activities, the credit union component of the ASDG will contribute in a significant way to providing an expanded resource base to support agricultural production. Credit unions will have a beneficial impact on input supply, product marketing and off-farm support enterprises and private commerce.

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2. Purpose of the ASDG and Amendment

The ASDG's purpose states that the Grant:

- promotes agricultural production by diminishing the policy constraints to development in the agricultural sector;

- maintains existing investment activities and raise the level of the sector's absorptive capacity; and

- contributes towards economic stabilization directly and acts to minimize the adverse impact on development programs of austerity measures imposed by the Government of Niger in order to achieve its short-term stabilization goals.

The last section of the purpose statement was modified in the last PAAD Amendment because, since the inception of the ASDG, Niger had succeeded in reaching its short-term stabilization objectives and has adopted a program for medium-term structural adjustment. Therefore, the last section of the purpose statement was revised to read:

- contributes towards structural adjustment objectives through minimizing the adverse impacts of austerity and structural adjustment measures on agriculture/rural development programs.

The ASDG encourages the GON to achieve a set of long-term policy objectives in six areas. Credit union development represents the progression the GON has made under the ASDG in terms of achieving its policy objectives relating to agricultural credit. The GON has moved from completing the agricultural credit study, policy objective of the original PAAD, towards implementing the recommendations of the study by establishing the framework for the formation of credit unions, the objective of this PAAD Amendment. The following list covers all six policy objectives of the ASDG. The discussion after each objective gives a brief description of the relationship of credit union development objectives to the other five agricultural policy objectives.

a. Agriculture Inputs Supply and Subsidies

-- Increase the overall availability and use of improved agricultural inputs by adjusting prices and subsidies in a way that increases aggregate agricultural production in Niger and fully reflects production and procurement costs;

-- Improve the responsiveness of producers and suppliers of inputs to the farmers; in particular, encourage technological adaption and provision of better quality and lower cost inputs;

-- Minimize the strain on Niger's investment and operating budgets by shifting the cost of input production and supply to the private sector; and

-- Promote the role and importance of cooperatives in supplying inputs to farmers.

Credit unions will provide a lending source which will enable farmers to procure the necessary agricultural inputs on a more timely basis from private sources. This will facilitate their production planning and decision making. Likewise, credit unions promote credit and savings activities which go beyond production loans and have the potential for support to all economic activities in rural areas. Credit unions can play an important role in promoting off-farm support services by providing a source of credit to cooperatives or private traders. Promoting the concept of credit unions in Niger will build upon village-level liquidity mobilization for improved financial intermediation. Credit union development will not require major capital investment or the creation of a central administrative infrastructure for its functioning.

b. Seed Production and Distribution Program

-- Foster the availability, diversity and use of improved seed to expand agricultural growth and production in Niger;

-- Establish a national certification and quality control regulatory system for seed and plant materials. This would include locally produced seed as well as imported seed of any variety;

-- Encourage decentralization and autonomous decision making in price and output levels for the multiplication and distribution of seed and plant materials;

-- Minimize the drain on Government of Niger investment and operating budgets by restructuring the seed supply system to reduce per unit production and distribution costs and recurrent costs; and

-- Establish an economically feasible national seed security policy based on limited replenishment of seed stocks which are lost as a result of localized natural disasters such as floods, fires, disease and insect infestations or drought. This policy should have as a sub-objective the reduction of per unit costs and recurrent costs.

The credit union component of the ASDG will have an impact on the seed and plant material production and distribution program to the extent farmers will have a lending source to procure the necessary quantities of seeds, and cooperatives and private seed suppliers will have the operating capital for seed production and marketing activities.

c. Cereals Price and Marketing Policies

-- Reduce the cost of supplying cereals to the urban sector and to northern areas of the country; and

-- More effectively support producer prices for cereals and reduce intra-seasonal price variations.

As a source of consumption credit, credit unions will better enable farmers to manage and market their food stocks over the entire year. The preoccupation of the subsistence farmer with his family's food security and his perception of risk in his production activities should be lessened, enabling him/her to diversify and expand his/her production base for cash crops.

As with increased involvement of cooperatives and private traders in input marketing, the credit union is a source of capital enabling more private sector involvement in cereals trade and arbitrage.

d. Agricultural Credit

-- Establish a sound social and financial basis for delivering agricultural credit to Niger's farmers;

-- Increase the ability of farmers to repay loans obtained for agricultural production by increasing access to improved inputs and by ensuring the economic use of these inputs.

e. Cross-border Trade

-- Promote increased production and exports of cowpeas and livestock as alternatives to excessive dependence on uranium for foreign exchange;

-- Increase incomes of crop and livestock producers;

-- Promote interregional trade, particularly with Nigeria and other neighboring countries as a first line of defense against failures in the region; and

-- Promote registration of exports.

Credit unions will provide a lending source for rural entrepreneurs for marketing purposes and provide a timely cash-flow to better enable them to take advantage of marketing opportunities.

f. Cooperative and Private Sector Involvement

-- Promote more cooperative and/or private trader participation in the supply of agricultural inputs; and

-- Encourage the evolution of cooperatives as grain marketing and storage intermediaries.

As discussed to varying degrees under policy reform objectives a., b., c., and e. above, credit unions provide an important financial service to farmers and rural entrepreneurs engaged in different occupations and economic activities. Increased liquidity mobilization will provide an additional resource for production and marketing purposes and enhance and promote all aspects of the rural economy. Credit unions provide loan capital not only for production activities, but also for agricultural product marketing and to support commercial involvement in production support services.

3. Program Amendment Outputs

Within the framework agreed upon by the Government of Niger and USAID, the ASDG assists the Government of Niger's Ministries of Agriculture, Animal Resources, Plan, Commerce and other related agencies to achieve the policy reforms as amended, namely:

a. Reorientation of the agricultural input pricing and subsidy policies and restructuring of the official input supply agency, Centrale d'Approvisionnement (CA).

b. Foster the availability, diversity and use of improved seed to expand agricultural growth and production in Niger.

c. Undertake a study of the country's agricultural credit situation, particularly in the informal market, in order to formulate appropriate policies to promote the development of rural financial markets.

d. Promotion of competition in grain marketing through the liberalization of official marketing agency and pricing policies.

e. Established policies to promote border trade of livestock, cowpeas, and other agricultural products.

f. Promotion of more cooperative and private trader participation in the supply of agricultural inputs; border trade of livestock, cowpeas and other agricultural products; and internal grain marketing and storage.

4. Program Amendment Inputs

The original ASDG as amended has three input components: (a) conditional dollar transfers to local currency, (b) the use of local currency derived from the sector grant through dollar transfers, and (c) technical assistance and in-service training for managing the program, including monitoring the policy implementation, conducting policy studies, strengthening policy analytic capacity and evaluating the impact from policy changes. These components will be maintained in this Amendment, and this Amendment will add a fourth component, a direct A.I.D. grant (OPG) to finance a WOCCU project intervention for credit union development. The full description of the WOCCU grant is provided in Annex D.

a. Conditional Dollar Transfers

This section remains the same as in the original PAAD as amended.

b. Local Currency Component

This section remains the same as in the original PAAD as amended.

c. Technical Assistance and Policy Studies Monitoring

This section remains the same as in the original PAAD. This input category will be financed by increasing the foreign exchange component from $4.0 million to $4.2 million, with $200,000 provided by this Amendment.

d. Pilot Credit Union Activities

Through an OPG (cooperative agreement) USAID/Niger will provide a grant to WOCCU to implement a credit union development project activity. The amount earmarked for the OPG will be $1.9 million of foreign exchange costs.

e. Summary of AID Input Costs

(000 U.S.$)

Foreign Exchange Component	Current Agreement		This Amendment	
	SDP	ESF	DFA	ESF
Dollar Disbursement	18,637	16,278	4,900	—
Technical Assistance	4,000	--	200	—
LSGA (WOCCU)	—	—	1,900	—
TOTAL:	22,637	16,278	7,000	--

III. Program Specific Analysis

A. Macroeconomic Analysis

1. Overview 1986 - 1987

1986. The economy of Niger continued to recover from the effects of the 1984/1985 drought. Real Gross Domestic Product (GDP) increased by 7 percent, following a 5.5 percent increase in 1985. One indicator of the severity of the recent drought is the fact that despite the 1985 and 1986 outturns, real GDP is still 6 percent below its pre-drought level. Niger had its second consecutive year of good rainfall patterns in 1986. Sorghum and millet production was 1.8 million tons, compared to 1.0 million tons in 1984. The livestock sector also rebounded; the value of its marketed output increased 46 percent over 1985. There was no improvement in the uranium sector (7 percent) of GDP); value-added was slightly lower than in 1985. Output was higher in the service sectors, reflecting the improved agricultural outcome in 1985. Industrial growth, at 6 percent, was respectable but of limited macro-economic importance, as its share of GDP is only 6 percent.

Public finances remained inadequate to finance the investment portion of the government budget. The overall deficit (excluding grants) increased by 3 billion FCFA (an increase of 5 percent -- equal to 8.5 percent of GDP). Foreign financing closed the budget gap with increases in both loans and grants. Debt rescheduling was at the same level as 1985. The fiscal accounts record a sharp drop in domestic financing via the banking system, as the government reduced its debt to the banking system by 3.3 billion FCFA compared to a 7.2 billion FCFA increase in 1985. The fiscal system displayed a lack of buoyancy with respect to GDP; both tax and non-tax revenue to GDP ratios declined, despite the strong growth outturn. Expenditure growth was larger in the investment budget than in the recurrent budget, again reflecting strong donor support for Niger's investment program.

The external accounts recorded a sharp drop in the balance of trade deficit from 46 billion FCFA to 11.6 billion FCFA, primarily attributable to a decline in cereal imports. Uranium exports declined, but the loss was offset by increases in traditional exports. The deficit in the overall balance of payments was closed by debt relief totaling $58 million.

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1987. Preliminary data indicate a decline in real GDP due to a poor harvest (1.4 million tons of sorghum and millet) and a continuation of the contraction in the uranium sector. Trade and services are the only sectors in which the nominal growth rate exceeded the inflation rate. Overall real GDP is estimated to have declined by 5 percent.

The outturn in the fiscal accounts continues the trends of recent years. Public investment is increasing, relative to both recurrent expenditures and GDP. Tax revenues increase more slowly. In 1987 the Value-Added Tax rates were reduced to stimulate business. Foreign assistance again rose to close the budget gap. The overall deficit (excluding grants) reached 70 billion FCFA. The 1987 budget includes, for the first time, repayments of parastatal cross-debt arrears. This item alone accounts for over one-half of the increase in the deficit.

The deficit in the balance of trade will exceed the 1986 deficit (17.7 billion FCFA vs. 11.6 billion FCFA). Imports are rising in step with the investment program. Official capital inflows increased sufficiently to lower the overall deficit in the balance of payments. As was the case in 1986, the overall balance was achieved via debt relief of $52 million. As a result of the reduction in the financing gap, Niger did not request an IMF stand-by arrangement in December 1987, but it did negotiate a debt-rescheduling package with the Paris Club in April 1988.

2. The Stabilization Program

IMF Program. Niger had IMF stand-by arrangements in effect from August 1984 through December 1987. The government entered into a three-year, SDR 21 million Structural Adjustment Facility (SAF) arrangement with the IMF in December 1986. This facility is supported by a Policy Framework Paper prepared by the government with assistance from the Fund and the World Bank. The program seeks to foster conditions of increased private sector activity by reducing the structural obstacles to economic growth. The scope of price controls will be narrowed, marketing will be liberalized, and the public enterprise sector will be reformed to improve its financial position and operations.

The government has met most of the first year objectives and policy measures. Progress to date in the Stand-by and SAF arrangements include the following. The number of imported goods subject to preset profit margins has been reduced from 200 to 39. The number of goods subject to price ceilings has been reduced from 27 to 5. Monetary growth and public expenditure growth have been within target levels. Public investment level and implementation rate targets have been met. The second tranche of the SAF (SDR 10.11 million) was approved in November 1987.

World Bank Program

The World Bank and the Government of Niger developed a structural adjustment credit program in 1986. The program disbursed a total of $60 million. The objective of the program was to increase the efficiency of resource use by addressing key structural problems of the economy through an economic reform program. Specifically, the program deals with three structural problems. The problem of public resource management is addressed by restructuring current expenditures towards materials and supplies and away from salaries, by higher

rates of cost recovery and by improved debt management. Secondly, public enterprises are to be reformed by revising economic incentive policies, improving their legal and institutional framework and selected privatization and divestiture efforts. Finally, the structural adjustment program calls for the same agricultural policy changes as the Agriculture Sector Development Grant; liberalization of cereals marketing, reduction of agricultural input subsidies, and improvement of the agricultural credit system.

Progress to date includes the following: standard charters for parastatals have been approved; thirteen parastatals have been privatized, six are being rehabilitated; five additional parastatals will be partially or fully privatized and two will be liquidated; nine of thirteen major public enterprises have reduced their operating losses; 3.25 billion FCFA of parastatal cross debt arrears have been settled; the state cereals marketing and storage agency (OPVN) has abandoned its price stabilization objective and it limits itself to managing a food security stock of 80,000 tons; efforts to develop an agricultural credit policy are underway; studies are underway in the areas of cost recovery and civil service reform; and no new external non-concessional debt has been approved.

Structural reform of parastatals received additional impetus from an $80 million World Bank program (Public Enterprise Sector Adjustment Program) approved in mid-1987. This program extends the ongoing reform in six areas: public resource management, price liberalization and incentive policies, institutional reform of public enterprises, rehabilitation of selected enterprises, additional privatizations and liquidations, and completion of the settlement of parastatal cross debts. The program disbursed $30 million in 1987. The balance is to be disbursed in 1988.

3. Development Planning

The first policy statement to address economic planning beyond the stabilization process was the Programme Significatif de Relance (PSR) (Economic Recovery Program). 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 acknowledgment 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 PSR differs from the Five-Year Development Plan (Five-Year Plan for Economic and Social Development, dated April 1987) in that 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, while the Five-Year Plan and its accompanying Three-Year Investment Program emphasizes increasing the stock of capital. Public pronouncements in the fall of 1986 characterized the PSR as a bridge from the period of stabilization to a period of sustained economic growth.

Between December 1986 and April 1987 a unit in the Ministry of Plan worked on an elaboration of the PSR, in conjunction with several technical ministries and several public institutions. The program is known as the Programme d'Appui aux Initiatives Privées et à la Création d'Emploi (PAIPCE) (Program To

Support Private Sector Initiatives and Job Creation). PAIPCE deals with two public policy problems: burdensome and counter-productive regulations of the private sector and overemployment in the public sector. Specific actions to reduce disincentives to private sector activity are prescribed. Among the reforms to be carried out are revisions of the commercial and investment 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 second major policy shift to be highlighted during the revival of development planning in Niamey is the decision to stress rural development as the engine of economic growth in Niger. The shift began several years ago as budget allocations for public investment changed in favor of agriculture and rural development. This shift in sectoral emphasis has its most fully developed rationalization in the five-year development plan. Three documents make up the five-year plan: the economic and social development plan of Niger 1987-1991; the financing plan 1987-1991 and the three-year investment plan (1987-1989). The strategy of the development plan is export-oriented and rural based. The strategy represents a formal recognition that prospects in the world uranium market rule out any recovery in the mining sector. The productive sectors, other than agriculture, are too small to serve as a base for wide-spread economic growth. Only agriculture, the work place of 90 percent of the labor force, has the resource base from which sustained economic growth can emerge. At the same time, the resource base is threatened by natural (erratic rainfall patterns) and man-made (overgrazing and soil-depleting agricultural practices) calamities. The strategy gives considerable importance to the preservation of the resource base. The five-year development plan incorporates the private sector emphasis found in the PSR.

B. Agriculture Sector Analysis and Rural Finance

1. Background and Overview of Rural Finance in Niger

With the economic recession brought on due to declining uranium revenues since the early 1980s, the Government of Niger (GON) is attempting to reorient and diversify its economy with the major emphasis on the agricultural sector. To promote agriculture's role in the overall economy, agricultural policy reforms have been a central concern of the GON and its principal donors. USAID/Niger identified the need for major policy reforms in the structure of administering agricultural credit in Niger in the course of an agricultural sector-wide institutional analysis conducted prior to the approval of the ASDG. The analysis specified the major deficiencies of the formal means of providing agricultural credit through the central credit institution, the Caisse Nationale de Crédit Agricole (CNCA), as well as other structural impediments working against more effective financial intermediation in rural areas.

The GON implemented a comprehensive study of rural finance in Niger as an initial step towards policy reform in this area. Ohio State University was contracted under the ASDG to assist the GON in this effort. The principal conclusions of the study were: there is a marked absence of an institutional system of financial intermediation in rural Niger; standard banking functions are underdeveloped in the administrative framework of productivity projects and other programs developing the rural economy; and only indigenous

mechanisms of savings and loan activity play out a rudimentary but useful role of intermediating the investment flows in rural areas. The study made three basic recommendations: (1) the closing of the central agricultural credit institution (CNCA); (2) maintaining project-specific lines of credit through various productivity projects as an interim measure; and (3) the promotion of village level savings and credit cooperatives, i.e., credit unions.

The study's results and recommendations were reviewed by a GON-sponsored Roundtable held in December 1986. The study's recommendations were accepted by the GON and key donors. The GON requested USAID's further assistance in promoting the concept of credit unions as a next step in implementing rural financial market reforms while other donors were solicited to further analyze the question of reforming a central agricultural finance facility.

USAID, in turn, sought the services of the World Council of Credit Unions (WOCCU) to provide further analysis of the potential for a credit union movement in rural Niger, including the identification of the requisite policy reforms needed to promote credit union development. WOCCU completed two consultancies to this end, and provided USAID with the necessary policy conditionalities to be included under the ASDG and a technical description of a credit union project activity.

2. Macroeconomic Influences on Niger's Financial Sector

Niger is a member of the West African Monetary Union (UMOA). As a member of UMOA, Niger has a limited degree of autonomy in controlling its money supply and credit allocations. The main tool of the UMOA for liquidity control of its member countries is rediscounting by UMOA's central bank, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO). Within the fixed limits of BCEAO discounting established for each of its member countries, each country's National Credit Committee decides on domestic credit allocations. Credit to member country governments is limited to a maximum of 20 percent of the previous year's officially recorded fiscal revenue. Rediscount rates are determined by the board of the BCEAO. Sectoral priorities are established by each member government. In the case of Niger, the order of priority is: agriculture, Nigerien enterprise, industry and mining, construction, transport and commerce.

Despite the sectoral priorities established by the GON, the rural sector (agriculture, forestry and fisheries) has the lowest share of total credit going to the private sphere. The average share of the rural sector in the total private sector credit for the period 1980-1983 was only 6 percent, whereas the sector's average contribution to non-government gross-domestic-product (GDP) in the same period was 51 percent. Construction, public works, industry, and energy are sectors with the highest credit to GDP ratios over this period.

With the decline in uranium revenues, Niger has experienced a period of economic recession since the early 1980s. As a result, there has been a drastic reduction of monetary and domestic credit growth. During the years of rapid economic expansion driven by uranium production and exports, domestic credit as a proportion of GDP grew almost three-fold. The other side of this equation is that deposit-to-GDP ratio has stagnated since about 1978. As a result, rediscounting from the BCEAO has substituted more and more for the

mobilization of resources from the general public as a source of funding for credit. This growing reliance on central bank funds has affected the profitability of banking in Niger, increased the level of delinquency in loan portfolios and increased the risk associated with banking activities. As a result, banks in Niger have reduced their scale of operations, shortened their term structure and accentuated the urban bias in their loan portfolio. The rural sector has been particularly affected in this process.

Concommitant with the decline of export revenues has been the change in the GON's position from net creditor to debtor since 1982. The result of this situation is that the share that the private sector receives in total domestic credit is ever declining. Private sector's share of total domestic credit declined from 100 percent in 1981 to approximately 80 percent as of 1985. The increase in the GON's demand for credit can be traced back to financial difficulties of public enterprises, primarily official grain marketing agencies and the prefinancing of GON extrabudgetary investment projects. Short and long-term foreign borrowing increased substantially, leading to a negative net foreign asset position and a sustained growth in long-term foreign liabilities. This is a drastic reversal from pre-1980 when Niger had a positive net foreign asset position.

3. Formal Agricultural Credit and Savings Programs in Niger

a. Agricultural Credit

The Caisse Nationale de Credit Agricole (CNCA), which was established in 1967 as a public sector institution with commercial goals, was officially dissolved in mid 1988. The CNCA was fully owned by the GON and was under the direction of the Ministry of Finance. Within the limits established by current laws and banking regulations, the CNCA was empowered to carry out financial operations that could benefit economic activity in rural areas. The organizational structure of the CNCA consisted of a Board of Directors, Technical Credit Committee, which assisted the Board of Directors in implementing credit policies, Departmental Technical Committees, which evaluated credit granting decisions for cooperatives at the Departmental level, Arrondissement Technical Committee, a Director and Branch Managers. The predominate source of funds were either from the GON or external donors.

The most peculiar feature of the CNCA's lending program was the role and functions of GON public agencies and special external donor programs in carrying out credit operations. In terms of public agencies, the Union Nationale des Cooperatives (UNC) and the Centrale d'Approvisionnement (CA) predominated in CNCA operations. The UNC's mandate is to promote, organize and provide administrative support to cooperatives. Cooperative statutes provide some autonomy for local organization, however, membership rules are still defined by national statutes. All cooperatives in the UNC structure work with UNC agents and use a standardized set of organizational and accounting forms for administering the CNCA credit program. UNC agents are responsible for many diverse activities for cooperative support such as record keeping for credit allocation, loan repayment collection, supervision of input delivery and marketing and even training in agricultural production techniques. UNC agents' principal contacts within the cooperative are the cooperative leaders and they have limited contact with the individual credit beneficiaries due to logistical constraints. As such, the UNC agent faced rather enormous constraints for effective record keeping, loan monitoring and

loan collection. Also, as he was one step removed from direct affiliation with the CNCA, his incentive for efficient loan monitoring and collection was questionable, and these activities were, thus, carried out poorly, if at all.

The CA is the public agency responsible for input delivery to farmers done through cooperatives with assistance from UNC agents. Farmers in the cooperative pay for the inputs in cash or inputs are delivered against a signed loan agreement between the cooperative and the CNCA. The CNCA, then, credits the CA's account and debits the cooperative account. The direct subsidies the CA receives from the GON have never come close to covering its operating expenses. Until 1983, the CA's operating deficits were being financed with a line of credit from the CNCA, which in fact amounted to an additional subsidy.

Foreign donors account for over 90 percent of GON public investment in agriculture and in rural development. One of the principal areas of investment is Productivity Projects (PP). The most common feature of PPs is the objective of increasing agricultural production through the adoption of improved inputs and techniques. Credit to allow for the purchase of inputs, equipment and other capital goods is always a component of PPs. Most projects operate their credit components through the CNCA under a system of advances and prefinancing that are subsquently reimbursed to the CNCA by the donor. This method of providing agricultural credit is a "supply-leading" approach where credit serves the purpose of facilitating the adoption of techniques that will eventually increase production. This type of credit system is clearly borrower-dominated with the development of the credit-giving institution as a secondary concern, if a concern at all.

Most parastatals themselves incurred heavy accumulations of arrears whenever they were direct borrowers from the CNCA. These deficits were usually the result of mismanagement on the part of the parastatals, but sometimes also derived from policies adopted by higher authorities such as the case of the insufficient allocation of resources to the CA for its input subsidy program. The CNCA did not have the political power to resist pressure to "bail out" these parastatals to make up for budgetary shortfalls.

Finally, the fragmented Productivity Projects approach to credit delivery contributed directly and indirectly to undermine the performance of the CNCA. This occurred directly due to the complicated procedures introduced by sources of funds to reimburse the CNCA for the advances and prefinancing it granted to PPs. Indirectly, the CNCA's performance was compromised by subordinating credit activity to servicing productivity goals. It tended to de-emphasize repayment performance, credit-worthiness and financial viability as goals meriting serious attention.

The demise of the CNCA, thus, can be traced to poor loan management procedures and practices and to an operational philosophy that prevented it from maturing sufficiently to play a relatively autonomous role as a true financial intermediary. The CNCA became an administrative conduit for funds earmarked for use by other organizations promoting the adoption of new inputs with the financial viability of the CNCA as a lesser priority. The perverse structural and organizational deficiencies of the CNCA made it a non-viable financial institution incapable of performing a resource allocation role through financial intermediation. The OSU research team's recommendation to close the CNCA was based on these considerations.

b. Savings

The Caisse Nationale d'Epargne (CNE) is the only formal instrument for deposit services in Niger. The CNE was officially created in 1970 and is defined as a public autonomous, financial institution. It operates primarily through the branches of the Office des Postes et Telecommunications (OPT). The CNE has no lending functions and all deposit funds are channelled to the Treasury or deposited at the Banque du Développement de la République du Niger (BDRN), a public bank. The CNE's own funds can be invested only in real estate or in government securities and shares of parastatals.

Most of the funds mobilized from public deposits in the CNE are savings and retirement accounts. The OSU study, Rural Finance in Niger, shows that for the period 1971-84 balances increased on an average annual rate of 12 percent, while the number of accounts grew at 18.5 percent per year. However, both growth rates slowed down after 1981, probably due to the overall economic recession of the early 1980's. Deposits in the CNE are paid a nominal interest rate of 7.5 percent per annum. The effective rate is substantially lower as interest accrues only starting the first and sixteenth day of the month. OSU estimated that the implicit effective rate paid on deposits may only be between 3.7 or 4 percent per annum. In 1985, the CNE was earning 9.25 percent on its account with the Treasury (30 percent of its financial assets) and 11.25 percent on a fixed-term deposit with the BDRN (the other 70 percent of its financial assets).

The CNE operates through 42 full service branches of the OPT. The CNE compensates the OPT for its support with a flat fee of 1.25 million CFA francs per year. Despite the support received from the OPT, the CNE has been recording administrative costs as high as its interest costs. However, the CNE continues to earn operating surpluses due to the implicit subsidy provided by the OPT which probably contributes administrative support to the CNE in excess of the 1.25 million CFA compensation fee.

In appraising the CNE, it appears that the CNE is a relatively healthy financial operation, partially because of the support received from the OPT in excess of its annual compensation. The CNE is the only formal supplier of deposit services in rural Niger and is the single most important institution where deposits are kept. Farmers, it appears, represent only a small proportion of CNE depositors. The CNE operates with very small accounts with a clientele difficult to reach and service. The implicit subsidy provided by the OPT is probably justified as it covers transaction costs that otherwise would prevent rural depositors from access to the deposit services of the CNE.

4. Informal Credit and Savings:

a. Credit

The Ohio State University study, Rural Finance in Niger, indicates that informal transactions between rural households as a mechanism of transmission and relocation of liquidity are extremely important. The vast majority of households included in the OSU survey had received loans (80%) and engaged in lending activities (67%). Most of the loan sources were relatives or friends and neighbors with the predominant form of borrowing being grains, livestock, cash or a mixture of all three. The imputed average value of these informal loans received during the survey year in the villages was 31,000 CFA which

represented 20 percent of the average annual agricultural income. This figure is compared with 16,000 CFA from formal sources which represents only 10 percent of average annual agricultural income. The survey also indicated that some households used both formal and informal sources of credit bringing the calculation to 47,675 CFA of average loan size which represented 30% of agricultural income. OSU's overall conclusion drawn from these data is that informal financing or assistance provided about 88 percent of total indebtedness acquired by the average rural household, thus highlighting the importance of non-institutional credit in rural areas.

Wholesale and retail merchants play a dominant role in the flow of informal finance at the village level. A large share of both merchant groups have a high access to credit to finance their operations. Wholesalers have almost universal access to credit with 87 percent of the surveyed wholesalers receiving loans, mostly from banks. A lesser number of retailers have access to formal credit lines depending more on wholesalers as their source of loans. In many cases, wholesalers will consign on credit important stocks of merchandise to retailers for later sale to villagers. The retailers, in turn, lend goods to villagers for payment later. Initial supplies of credit for both wholesalers and retailers, regardless of source or form, are associated with a comparable flow of on-lending to their respective customers. Short-term liquidity thus flows downstream through various layers of the commercial network reaching the village.

Another characteristic of informal lending activities is that both wholesale and retail merchants, in effect, transform their long-term source of funds into a shorter-term structure for their borrowers. Wholesalers tend to have access to loans that can stretch out to one or two years in time. This is probably due to higher levels of commercial inventories which serve at least implicitly as a form of collateral for formal lending institutions. Retailers, on the other hand, do not have access to longer term loan structures, and they must restrict their lending to a shorter repayment period for their customers (1-3 months). Both wholesalers and retailers usually give indeterminant credit lines to their customers especially for in-kind loans, and their clients are permitted to wait until the goods are sold before repaying the in-kind debt which usually only takes a short period of time. Most loans to both merchant classes are usually repaid in cash.

The OSU study showed that a larger share of retailers are involved in indigenous savings activities than wholesalers. Wholesalers probably hold savings in more formal forms in nearby urban areas or in their inventory of goods. The fact that many retail merchants also act as money-keepers in their village strongly suggests their merchant profession attracts a demand for providing depository services to villagers. Thus, retail merchants carry out multiple commercial and financial services at the village level, i.e., sellers of merchandise, lenders of credit in cash and in-kind, and act as a personal deposit institution.

The question of interest charges for credit given by merchants to their clients was left unanswered by the OSU study. Most merchants did not admit to charging explicit interest on these loans. The fact, however, that most loans given in-kind were repaid in cash raises the question as to whether merchants use their role as a purchaser of products to extract implicit interest on their loans. The study concluded that a more intensive survey documenting merchants' transactions over a period of time is necessary to generate the required information on interest charges implicit to commercial purchases and sales.

b. Savings:

The OSU survey was designed to obtain information on the use of local savings groups or associations as depositories of financial forms of savings by the household. These non-institutional forms of savings were detected through a set of questions about the different ways in which households allocate their operational surpluses. The two major dimensions to indigenous savings activity at the village level in Niger are the tontine savings groups and money-keeper services. The OSU survey found that both of these traditional forms of savings play an important role in facilitating a rudimentary form of financial intermediation.

i. Tontine:

The tontine is the most common form of group savings. It is a rotational system in which each member makes a uniform contribution on a periodic basis (weekly, bi-monthly or monthly depending on the organizational rules) with each member, in turn, given an opportunity to receive the contribution as a loan. Tontines are found throughout Niger in all ethnic groups and geographic settings. The OSU sample included 56 tontines covering five departments and five ethnic groups. A tontine's lifecycle ranges from four to eight months. The OSU survey indicated that the size of tontines range from small groups of three to five people to larger groups of up to forty members. Tontines are organized by low-income producers as well as sophisticated traders. Rules of organization, likewise, can vary from the rudimentary to the very formal. The level of tontine activity usually fluctuates with the seasonal flow of the village's production cycle.

Tontines are relatively homogenous with respect to gender, occupation and social class so that the characteristics of the organizers reflect the predominate characteristics of the membership. The OSU survey showed that women predominate as tontine organizers. However, the higher income class of tontines (by monthly contribution of members) was strongly associated with male members, literacy of the leader-organizers, public employee groups and dominated by farmers or merchants. The survey further indicated that small membership groups of three to ten usually were made up of members of a wealthier class, and the tontine usually had a longer lifecycle. Larger tontine membership groups were made up of less wealthy individuals who made smaller individual contributions with shorter tontine lifecycles. It was also interesting to note that 43 percent of the tontine organizers surveyed also played a role as a money-keeper for villagers; 66 percent of tontine leaders were involved in more than one tontine; and that 84 percent of the tontines paid a fee to the leader or organizer for managing the tontine's business.

Most loans received from the tontine are for consumption needs. The sample of tontines included in the OSU study showed that loan sizes ranged from 800 CFA to 200,000 CFA with an average loan size of 39,342 CFA. The total financial circulation (i.e., individual loan generated and multiplied by the number of tontine members) among tontines in the sample ranged from 6,400 CFA to 4,000,000 CFA in their respective lifecycles. The grand total for all 56 tontines in the OSU sample reached 27,195,088 CFA for an average of 485,626 CFA per tontine for a time period, in most cases, of well under a year. Thus, the circulation of liquidity in tontines can be considerable in total scale and could provide the potential base for a more formal cooperative savings and loan organization.

ii. Money-keepers

The money-keeper is the second indigenous form of savings activity at the village level. Money-keepers serve a diverse clientele that cuts across many social classes and groups. The evidence provided by the OSU study indicates that there is a strong demand for depository services at the village level even though the money-keeper pays no fee to depositors for holding their deposits. The two most important attributes of money-keepers identified by villagers are a record of personal honesty and fairness in dealing with people in the village and economic security. Most clients of money-keepers want to get money out of their homes and into someone else's hands where it is safer and not immediately available for other family members to draw upon. Also, the money-keeper is a convenient place for clubs and village associations to keep their collective funds, and they serve as a convenient intermediary for individual or group funds to purchase goods on their behalf in other locales.

Farmers and merchants predominate among occupations of money-keepers. Most money-keepers are men. Money-keepers' activity is highly seasonal. The maximum deposits and number of deposits are much higher at the harvest and post-harvest period than they are during the dry season. The OSU survey showed that total deposits held by the 39 money-keepers in their sample during the immediate post-harvest period was 30,000,000 CFA compared to 13,000,000 CFA during the dry season. OSU data also show that the average size of deposit during the post-harvest period being 48,774 CFA and 35,507 CFA for the dry season. This marked seasonality in the flow of funds reflects the highs and lows of the rural economy. These average size of deposit figures compared to an average size of deposit on a countrywide basis of only 19,200 CFA in the formal market of the CNE.

Money-keepers also engage in informal loan activity as well as pawnbroking and other storage activities for villagers. OSU data show loan sizes ranging from 1,000 CFA to 500,000 CFA with an average loan size in its sample of 55,000 CFA. Once again, these figures compare to an average size of the outstanding loan balance for individual loans to the CNCA of approximately 42,300 CFA as of 1985. Thus, the rural money-keepers, on the average, make village loans of comparable size or larger than the agricultural production loans of the CNCA. A Money-keeper's loan activities combined with the seasonal flow of funds in his deposit activities strongly suggest that the money-keeper is engaging in a rudimentary form of liquidity management with his fungible financial resources. Money-keeper loans tend to be for short periods with most loans being repaid within one or two months. This flow of loan repayments, then, services further deposit withdrawals. The money-keepers' loans essentially function as an open line of credit for an indeterminant period of time. This is typical of informal lending at the village level with lending and repayments recycling through time on a fairly regular ongoing basis.

5. ASDG Policy Implications:

The evidence accumulated from the OSU study, Rural Finance in Niger, on tontine and money-keeping activity at the village level suggests that an embryonic form of financial intermediation is already occurring in rural Niger. These indigenous styles of savings and loan activity could form the base for the emergence of a cooperative savings and loan initiative. The OSU

report shows there is a sufficient liquidity base to represent an important current and growing demand for savings and loan services. Furthermore, given the large savings and loan volume that characterized a number of the tontines and money-keepers in the OSU survey, there clearly exist indigenous leadership and experience at the village level to manage sizeable flows of liquidity.

The formal systems of savings and credit in Niger which have attempted to replace traditional forms usually fail in attempting to build upon the traditional forms' strength and inadvertently work against them. The outside funds move in and displace the local base of funding, thus creating an alien institution that weakens local identification and loyalty to its interest. Also, the formal systems ignore the natural, shorter-term need for consumer loan demand and force an irrational longer-term production loan bias on their clientele. In ignoring deposit services and consumption loans, the formal institution will fail since it is not catering to the real needs of the villagers.

Given the limited options for promoting the development of financial markets in Niger, the OSU study on rural finance concludes that a well designed and well managed credit union movement is the most appropriate vehicle to introduce formal finance into the rural milieu of Niger. Credit unions can build upon a strong base of local deposits and savings properly rewarded with interest on savings and dividends on share accounts.

Credit unions are Cooperative financial organizations owned and operated by their members according to democratic principles and are financially self-sufficient. Credit unions normally have characteristics of both formal and informal financial intermediaries, have attributes of both traditional, informal community cooperative structures and modern, chartered financial institutions and often serve as the first step in the development of formal financial markets in rural areas. Credit unions bring institutional financial services to rural areas not generally served by formal sector financial intermediaries. This lowers the cost of borrowing and raises the yield on savings. As a result, both savings and lending are increased substantially. Since many credit union members are new entrants into the financial system, the growth of credit unions is likely to reflect increased monetization of the economy and increased economic efficiency by reducing the costs of financial intermediation to middle and lower income groups previously dependent on informal financial market services. These new savings provoke both investment and consumption through credit union loans at the local community level.

C. Program Impact

1. Macroeconomic Impact of the Amendment

The macroeconomic impact of the sector assistance will come from the increased foreign exchange availability to the public sector and the consequent increase in budgetary resources, as was the case for the original grant. The ASDG allows Niger to increase the level of imports above that which would have been possible otherwise. The proposed increase would equal 23 percent of the anticipated foreign exchange financing gap in 1989, as estimated in the GON Policy Framework Paper (PFP) 1988-1990. The impact in subsequent years should include greater levels of intermediation of rural financial assets. As intermediation increases, credit availability in rural areas will increase. Since the current lack of credit in rural areas suppresses aggregate demand, this new credit source should stimulate a higher level of economic activity, including short-term investments in agricultural production.

The local currency generated from the cash transfer will be deposited in a special local currency account and programmed in support of development activities in agriculture. These funds can reduce shortfalls in Government of Niger contributions to projects' recurrent costs. Such shortfalls are due to the weak public finance situation which constrains the amount of budgetary resources allocated to the sector. Low productivity limits the revenue yield the Government can obtain from domestic production. The local currency account augments the Government's revenue-raising capability without exacerbating the public debt problem. The local currency spending will take place in the sector that has become the leading element of the Government's long-term development strategy.

2. Agricultural Sector Impact

Village-level credit unions build upon the strengths of informal institutions for savings and credit (tontines and money keepers) by providing a safe place to save and a convenient form of credit for myriad purposes. Credit unions will have the long-term effect of creating a more complete financial cycle resulting in an increased rate of investment of local resources in the local economy. Credit unions promote more effective rural financial intermediation of existing rural liquidity and provide an expanded resource base for the overall integration of rural economic activities.

Convenient and timely access to credit will allow farmers to obtain key agricultural inputs on a timely basis, to participate in off-farm enterprises such as agricultural product marketing and activities relating to agricultural production support. Rural enterpreneurs will have access to credit for commercial purposes to expand their activities to service the rural population. At the macroeconomic level, credit union development does not require a large investment by the state or the creation of an administrative infrastructure for implementation. Credit unions rely on local leadership and management for their functioning.

The need for assessing progress in project implementation and measuring the impact of the credit union activity on participants/sector at large has been clearly anticipated during the design process. The project document (See annex D) enumerates suggested targets, building on already existing benchmarks identified by the OSU study. Proposed actions include installing financial and statistical information gathering procedures at each credit union level. However, as specified in section V (Information Plan), the data gathering and analysis tasks regarding credit union development activities are to be incorporated within the existing data bank and the general analytical approach in place for monitoring effects of the other ASDG I Program policy components and counterpart-funded project activities.

D. Social Soundness Considerations

The CNCA's lending program failed for a multitude of financial, managerial and social reasons. From a social perspective, the OSU study pointed out that the central government lending programs were perceived by villagers as alien and imposed upon them for specific purposes usually tied to donor or central government sponsored production activities. The lending structures, i.e., terms and interest rates, did not coincide with the short-term cash-flow needs of village life which were usually for consumption purposes. Deposit services were, likewise, overlooked as an important part of the rural financial market.

Furthermore, because of their nature, the formal lending programs never served as a catalyst to increased liquidity circulation or expanded financial intermediation.

Based on the OSU study's recommendation and as part of the ASDG program, consensus was reached with the GON to undertake the development of a pilot credit union activity to test the feasibility of an expanded credit union movement on a national scale as a means for promoting improved financial intermediation in rural areas. The concept of credit union development is based on the substantial amounts of already existing liquidity found at the village level in Niger through tontine and money-keeper activities. Credit unions normally have characteristics of both traditional, formal community cooperative structures and modern, chartered financial institutions and often serve as the first step in the development of formal financial markets in rural areas. Local initiative, responsibility and investment build the credit union system starting at the community level. The democratic structure, operating principles and social goals of credit unions build upon the principle of traditional mutual cooperation that exist in rural areas.

The evidence on tontine and money-keeper activities presented by the OSU study of rural finance in Niger further indicates that substantial informal financial intermediation is already occurring at the village level, and that there is a promising base of liquidity circulation reflecting current demand for deposit and loan services. The study also points out that indigenous leadership and experience exist at the village level to manage sizable flows of liquidity through these informal channels. These findings would further indicate that these indigenous forms of savings and loan activity could form the base for the emergence of a network of voluntary savings and credit cooperatives or credit unions at the village level.

Voluntary savings and credit cooperatives, i.e. credit unions, emulate many highly valued features of village finance, thereby ensuring a greater chance of their acceptance by villagers. The OSU study indicated that many villagers need short-term, easy liquidity to smooth out their cash flow needs over the year. Respondents to the OSU study also indicated a desire to secure alternative savings mechanisms other than holding their savings in risky inventories (crops and livestock) which can be depleted by disease, drought or spoilage. Credit unions offer savings services, can grant loans for consumption needs and as these loans are short-term, can be repeated many times, thus responding to the multiple liquidity needs of villagers. Savings activity leads to expanded loan activity, as savings act as a form of collateral that generates access to future loans for members. The close group association acting through village-level credit committees and frequent, repeated deposit and loan activity generally insure responsible loan recovery behavior.

On-site loan management activity is what formal government-sponsored credit programs located outside the village find difficult to emulate at the village level. It is extremely difficult for government programs to evaluate numerous small loan applications, to offer the same range of services, maintain the same level of active loan turnover and instill the same degree of confidence and loyalty as a village-level institution. As a consequence, there is weak identification among villagers with the interests of the government-sponsored credit program and poor loan recovery. Village-level credit unions are the only formal vehicle of financial intermediation that can avoid these

shortcomings and effectively build upon the strengths of informal finances at the village level. An emerging network of these village-level credit unions offers the potential for financial intermediation between surplus and deficit units across villages. This financial intermediation between savers and borrowers makes an important contribution to improved resource allocation and subsequent economic growth. This intermediation across villages is what informal tontine and money-keepers activities cannot carry out. A growing network of credit unions will eventually constitute a built-in base for the emergence of a viable, self-sustaining rural financial institution that could begin to incorporate production loans as part of their village-based activity.

Evidence in other African countries is that once credit unions are well established and have ample liquidity, moving funds between areas to satisfy credit needs is socially acceptable. This stage cannot be expected to be reached in Niger for many years. WOCCU's monitoring system will allow attention to this question over time.

The direct beneficiaries of the proposed WOCCU credit union intervention will be approximately 1500-3000 villagers of the selected project zone. This estimate represents the eventual credit union membership target after three years of organizational and development activities. Secondary beneficiaries will be those rural inhabitants who will be involved in economic activities instigated by the multiplier effects of increased financial intermediation of resources at the village level.

Initial credit union members will be residents of Hausa-speaking villages with a population of 1,000 - 3,500 (2,500 is considered optimum), in which there is a variety of income sources and evidence of descretionary income. Most members will be farmers or traders by principal vocation. The majority of members will be illiterate, with perhaps one-third literate in Arabic or Hausa. Few, if any, members will be literate in French. Special efforts will be needed to reach potential women members as many women state that they are reluctant to pool their funds with men.

The WOCCU project intervention will devote a substantial amount of resources to the collection and analysis of baseline data to accurately determine both the economic and social impact of credit unions in rural Niger. A statistical base as well as methodologies and procedures to measure the impact of credit unions already exists as a result of the OSU study. The WOCCU project will build upon this data base and further gather and synthesize credit union financial and related statistical information on a regular and on-going basis. Key variables to be monitored will include: rates of savings and membership growth, credit granting and repayment rates, income/expense ratios and overal profitability. These data will be disaggregated according to gender, income class, family size, ethnic group and occupation.

IV. Program Implementation

A. Overall Implementation Responsibilities

This sector assistance program will continue to be comprised of two groups of activities under the proposed amendment: (1) policy implementation and its support activities; and (2) management of local currencies derived from the grant.

1. Government of Niger

The "High Committee", chaired by the Secretary General of the Office of the President, and consisting of the Secretaries General of participating ministries, is responsible for reviewing, guiding and providing semi-annual progress reports on implementation of policy reform measures agreed to in the grant. The ASDG "Technical Committee" assists the "High Committee" in this effort and is responsible for daily monitoring and reporting on implementation of the measures.

The Ministry of Plan is responsible for use and accounting for local currencies derived from the grant. Within the Ministry of Plan, the National Investment Office will continue to program, monitor and account for allocation and use of local currency (from the grant counterpart funds). The joint GON/USAID Management Committee and the ASDG Secretariat will continue to coordinate activities and prepare necessary reports and documentation related to the counterpart component.

2. AID

USAID's Agricultural Development Office will continue to manage the program and coordinate its implementation with the Program Office. The USAID program steering committee will continue to monitor and evaluate the program. The committee is comprised of the Agricultural Development Officer, who is the chairman of the committee, the ASDG Program Officer, a financial analyst from the Office of the Controller, an agricultural economist, and a macroeconomist. The specific responsibilities of the committee remain as described in the original PAAD and Program Grant Agreement.

B. Implementation of Policy Reform

Under the original Agriculture Sector Development Grant, the Government of Niger agreed to modify its sectoral policies during the life of the program in the areas of pricing and marketing, input subsidies, input supply system, credit, border trade with Nigeria, cooperative and private sector promotion. The 1987 ASDG amendment added restructuring and the diversification of the seed and plant material multiplication system. Under this amendment, additional conditionalities are being included to the agricultural credit policy reform area focusing on credit union development. This activity represents a progression of the policy reforms already achieved under this reform measure.

1. Implementation Responsibilities

Government of Niger

Under the original ASDG Program, the Ministry of Rural Development (MRD), and the Ministry of Plan were responsible for policy implementation. However, in 1985 the MRD was reorganized into two ministries, the Ministry of Agriculture and the Ministry of Animal Resources. In 1987 the two ministries were again reorganized into the Ministry of Agriculture and Environment and the Ministry of Animal Resources and Hydrology; these two ministries are the principal agencies responsible for policy implementation and will continue in this capacity for those areas of policy reform under their purview. Under this Amendment, the Ministry of Plan will have the principal policy implementation role for credit union development. All involved ministries' responsibilities include:

— monitoring the program of policy reforms;

-- carrying out the necessary policy studies, assessments, seminars or workshops aimed at achieving intended policy reforms;

-- ensuring or coordinating the issuance of necessary administrative decrees for policy implementation from appropriate ministries or agencies; and

-- coordinating inter-ministerial reviews and evaluations of the policy reform program.

AID

The Agricultural Development Office, with the support from the steering committee, will continue to be responsible for:

-- monitoring the policy reform program and preparing reports for USAID and AID/Washington as required under this program;

-- preparing and reviewing with the Government of Niger any changes or revisions to the grant agreement;

-- coordinating and carrying out the necessary reviews and evaluations to ensure that policy reforms are properly implemented.

2. Policy Implementation Schedule:

The revised indicative policy implementation schedule which covers the ASDG Program extension period, June 1987 until the PACD of September 1989, is as follows:

Action	Month/Year
Condition Precedent for third tranche met.	June 1987
Grant Agreement Amendment signed.	July 1987
Establishment of Technical Committee Structure.	August 1987
Semi-annual progress report submitted and reviewed.	December 1987
ASDG TA Contract Amendment signed.	February 1988
Carry out recommendations of the agriculture credit study by establishing the framework for formation of credit unions.	February 1988
Average level of subsidy on agricultural inputs reduced to no more than 25 percent.	April 1988
Prepare a work plan for implementation of all policy measures to be executed as of ASDG PACD.	April 1988
Seed Policy Advisor arrives.	April 1988

Maintain and improve tender and bid system by OPVN (toward the objective of 25 percent of OPVN reserve stock replenishment/turnover made through tenders and bids from cooperative and merchants).	June 1986
PAAD Amendment revision and design of a credit union activity.	July 1986
Activities detailed in the work plan: studies, issuance of texts, and decisions to totally liberalize cross-border trade in livestock completed.	July 1986
Provide USAID with an action plan to achieve policy reform for the restructuring and diversification of the seed and plant material multiplication system.	July 1986
Taken appropriate actions to make the agricultural Input Supply Agency (CA) move closer to being an autonomous cooperatively owned entity and ensure the existence of competition between the CA and private traders by not granting the CA a monopoly de jure or de facto in the supply of inputs.	July 1986
Semi-annual progress report submitted and reviewed.	July 1986
All CPs met, and fourth tranche funds released.	August 1986
PAAD Amendment approved.	August 1986
Grant Agreement Amendment signed.	August 1986
Conditions Precedent for fifth tranche met, funds released.	September 1986
Credit Union Activities begin	September 1986
Semi-annual progress report submitted and reviewed.	January 1989
Village level storage reaches 6,000 tons.	July-August 1989
75 percent of all district-level markets covered by radio broadcasts.	July-August 1989
Average rate of subsidy on agricultural inputs reduced to no more than 15 percent	July-August 1989
End-of-Program Evaluation.	July-August 1989

Liberalize, simplify, and publicize procedures for cross-border trade, especially for cowpeas and livestock, by eliminating legal and administrative barriers to participation in cross-border trade and relying on market forces.	September 1989
Continue expansion of private and cooperative sector participation in production and distribution of agriculture inputs, cereals marketing and distribution, agriculture credit and cross-border trade. This includes reliance on free market prices and continuation of the policy of not issuing official prices for cereals.	September 1989
Final Progress Report.	September 1989
Departure of the last member of the ASDG TA Team.	September 1989

c. Conditional Dollar Disbursements

The dollar disbursements for local currency generation under this proposed sector assistance program amendment will continue to be conditioned on evidence of the Government of Niger's progress in carrying out the policy reform program described in Section II of this amendment. To date, three tranches of resource transfers have been released totalling $29 million. Disbursement of the fourth tranche of $5.915 million is scheduled for September 1988. The fifth tranche for $4.900 million to be provided by this Amendment, will be conditioned on evidence that the Government of Niger has satisfied the conditions set forth in Section VI - A. of this Amendment. In addition to the resource tranfer approximately $1.9 million will be made available to the GON through a Limited Scope Grant Agreement (LSGA) to fund a grant a 60000 for the implementation of a credit union project intervention.

The following table IV. I provides performance criteria indicators which are also the remaining conditions precedant to further dollar disbursements. Three CPs for this Amendment pertain to policy performance indicators in the area of financial market development. These CPs are intended to provide the necessary policy environment in support of the independent development of a credit union movement in Niger. This represents a progressive step towards the policy reform target of establishing an effective and efficient rural financial system. The final CP requires the GON to prepare a plan for implementation of the proposed policy changes that will be executed prior to the completion of the ASDG.

TABLE IV. I

Indicators of Progress Made in Policy Changes	Targets of Policy Reforms
Before Release of Fifth Tranche	
1. Take appropriate actions in accordance with the conclusions and recommendations of the agricultural credit study, to encourage the development of rural financial markets.	1. Establish an effective and efficient rural financial system (credit Unions).
a. The GON agrees to review existing statutes and legislation and develop a plan of action to assure that the appropriate legal framework is set in place to foster credit union development.	
b. The GON provides interim legal status to credit unions supported by the USAID project permitting them to transact business with all rights in law, including the right of enforcement of contracts and legal redress. This interim legal status will be provided by the issuance of an Administrative Decreee or Ministeriel Arrêté no later than ninety days after the signing of the Grant Agreement Amendment.	
c. The GON provides exemption to credit unions supported by the USAID project from current laws or statutes governing banks, financial institutions and cooperatives. This exemption will be provided by the issuance of an Administrative Decree or Ministeriel Arrêté no later than ninety days after the signing of the Grant Agreement Amendment.	
2. The GON Prepares a plan for implementation of the proposed policy changes that will be executed prior to the completion of the ASDG. This will include:	
(a) Reducing the average rate of subsidy on agriculture inputs to not more than 15 percent of the delivered cost of the inputs;	(a) By the PACD the average level of subsidy on agriculture inputs will not exceed fifteen percent (15%)
(b) Having in operation a tender and bid system for reconstituting OPVN stocks for all purchases and sales; and	(b) Reduce government intervention in cereals markets.
(c) Maintaining a minimum level of 6,000 Tons of village level grain stocks through arrangement with cooperatives and Groupements mutualistes;	(c) Reduce government intervention in cereals markets.

(d) Liberalizing simplifying, issuing and informing the general public of procedures for cross-border trade, especially for cowpeas and livestock, by eliminating legal and administrative barriers to participation in cross-border trade and relying on market forces;	(d) Increase farmer incomes and export earnings.
(e) Continuing expansion of private and cooperative sector participation in production and distribution of agriculture inputs, cereals marketing and distribution, agriculture credit and cross border trade. This includes reliance on free market prices and continuation of the policy of not issuing official prices for cereals; and	(e) Increase the availability and diversity of improved inputs and efficiency in cereals markets.
(f) Continuing to maintain implementation schedule of Seed Action Plan	(f) Increase availability of improved seed

D. Local Currency Management Procedures and Implementation Schedule

With the additional $4.900 million to be added to the local currency program by this amendment, the equivalent of $39,815,000 (less the trust fund) in CFA francs will be generated from this sector assistance program. The local currency will be used to support recurrent cost and host country contributions of development activities and activities contributing to the implementation of the policy reform program. The criteria for the allocation of local currency remains as described in Annex D of the original PAAD.

A special account has been established for the local currency. The local currency in this account is considered additional but separate resources for the National Investment Budget. The allocations of the local currency are determined by the Counterpart Management Committee. A local currency Trust Fund was established for USAID's use. The Trust Fund allocation was equivalent to 5 percent of the local currency generated by tranches 1-3, and 8 percent for tranches 4-5.

The Government of Niger and USAID have established the Counterpart Management Committee which consists of representatives from each of the following:

Government of Niger:

Ministry of Plan
Ministry of Agriculture and Environment
Ministry of Animal Resources and Hydrology
Ministry of Commerce, Industry and Artisanship
Ministry of Finance.

For operational purposes, a quorum consists of a representative from the Ministry of Plan and the USAID/Niger representative.

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The joint Government of Niger/USAID Counterpart Management Committee reviews and rank orders proposals for financing from the local currency special account. Following the review, the Committee makes written recommendations for the approval to the Minister of Plan and to USAID. Funds can be transferred from the special account only when both the USAID Mission Director and the Minister of Plan have countersigned the approval document.

E. Other Foreign Exchange Components of the Program

Under the foreign exchange component of the original PAAD and the first Amendment to the PAAD, a total of $5,007,000 was made available for technical assistance and $993,000 was made available for policy studies, seminars, in-service training and evaluation.

The technical assistance team, comprised of a senior agricultural policy advisor, an agricultural policy analyst, a development economist and a microcomputer resource specialist, was fielded in October, 1985. A seed policy advisor was added to the team in the last contract amendment. Under this proposed Amendment, an additional $200,000 will be made available for technical assistance to fully fund the team through the PACD.

Also under this Amendment, approximately $1.9 million will be made available to the GON via a Limited Scope Grant Agreement (LSGA) to finance a grant to WOCCU for a credit union project intervention.

F. Financial Plan

Table IV. 2 shows the cumulative obligations of funds for all components of the ASDG, including this Amendment. With this Amendment, a total of $59,015,000 (less USAID/Niger's trust fund allotment) is planned for dollar disbursements under the program's Counterpart fund account. The Counterpart Fund disbursements will be made available to the GON in five tranches, three of which have been made and, one of which is scheduled for release in July 1986. The disbursements will be tied to evidence of progress in the implementation of the policy reform program.

Dollar disbursements will be made via electronic transfer as follows:

1. AID and the Government of Niger will sign the Grant Agreement Amendment which will contain certain policy performance indicators and conditions precedent to the dollar disbursements;

2. After the Government of Niger (GON) has satisfied conditions precedent, the U.S. Treasury will be requested by M/FM/PAFD, based on documentation provided by USAID/Niger, to disburse the resource transfer to the account of the Banque Centrale des Etats de l'Afrique Occidentales (BCEAO) in the Federal Reserve Bank, New York, New York.

3. The Federal Reserve Bank will electronically transfer this deposit to the BCEAO Dakar, Senegal for conversion to CFA francs, the BCEAO, in turn, will transfer the funds to BCEAO Niamey, Niger and from the BCEAO Niamey to the ASDG Counterpart Fund account within the treasury.

4. Local currencies equivalent to 8 percent of the dollar disbursements, will be deposited in the Special Local Currency Trust Fund Account with the BCEAO in Niamey, Niger for the USAID/Niger Trust Fund.

Funds have been set aside in the foreign exchange component for audits of the program. The Government of Niger will arrange for independent audits of the local currency program. Normal USG audit provisions will apply to technical assistance contractors under the grant, with whom AID has a direct contractual relationship.

Of the $4.200 million budget for technical assistance, policy studies, in-service training, workshops and evaluation, $3,160,000 was obligated prior to 1984, $ 840,000 in 1987 via the last Amendment and $200,000 with this Amendment. Direct AID contracting is used for these activities. The method of financing is direct payment. Under this Amendment a LSGA in the amount of $1.9 million will be used to finance a grant to WOCCU for credit union development activities. The method for financing the LSGA will also be direct payment. The illustrative methods of implementation and financing are provided by Table IV. 3.

Section 121 (d) certification standards have been and will continue to be applied to the Secretariat. A 121 (d) certification review will be carried out on a semi-annual basis, which will include inspection of all books and ledgers of the Ministry of Plan and site visits of projects financed through the local currency fund. No local currency funding will be controlled by the Grantee under the technical assistance component of the grant. Direct procurement and payment will continue to be used by USAID for this component of the program.

TABLE IV. 2

Illustrative Obligation of Funds
(000 US $)

	Previous Obligated			This Amendment			New Total			
	SDP	ESF	Total	SDP	DFA	Total	SDP	DFA	ESF	Total
Conditional Dollar Disbursement	18,637	16,278	31,905	-	4,900	4,900	18,637	4,900	16,278	39,815
Technical Assistance	3,007	-	3,007	-	200	200	3,007	200	-	3,207
Limited Scope Grant Agreement (WOCCU)	-	-	-	-	1,900	1,900	-	1,900	-	1,900
Policy Studies, Seminars, Workshops	722	-	722	-	-	-	722	-	-	722
Evaluation	173	-	173	-	-	-	173	-	-	173
Audit	60	-	60	-	-	-	60	-	-	60
In-Service Training and Support	38	-	38	-	-	-	38	-	-	38
GRAND TOTAL:	22,637	16,278	38,915	-	7,000	7,000	22,673	7,000	16,278	45,915

Table IV. 3

Agriculture Sector Grant Amendment
Method of Implementation and Financing
(in $000) Project No. 683-0246

Type of Assistance	Method of Implementation	Method of Financing	Approximate Amount
1. Foreign Exchange Component			
Technical Assistance	Direct AID Contracts	Direct Payment	3,207
Limited Scope Grant Agreement	AID Grant	Direct Payment	1,900
Policy Studies, Workshops and Seminars	Direct AID Contracts	Direct Payment	722
In service Training	Direct AID Contracts	Direct Payment	38
Evaluation	Direct AID Contracts	Direct Payment	173
Audit	Direct AID Contracts	Direct Payment	60
2. Local Currency Fund	Basket of sub-projects (Disbursed by program) controlled by GCN under 121 (d) standards	GCN provided Local currency	39,815
		TOTAL	45,915

The Project Amendment conforms to the mission's general assessment entitled Mission Financing Policy and Procedures updated as of December 31, 1985. There are no departures from the general assessment.

V. Information Plan

Section IV.F. and V. of the July 1987 PAAD Amendment on monitoring and evaluation have been incorporated into the information plan.

A. Users of the Information

The principal users of data and related information generated under the ASDG program are economic policy decision makers within the Government of Niger. The policy reforms supported by the ASDG have relevance for the Ministries of Agriculture and Environment, Animal Resources and Hydrology, Plan and Commerce and Finance.

The Director, USAID/Niger is responsible for determining whether conditions precedent have been satisfied. In addition, the USAID/Niger Agricultural Development Officer has responsibility for monitoring and evaluating compliance towards economic reform measures included in the program. He receives assistance in this effort from the ADO ASDG Program Officer, the ADO agricultural economist and the USAID/Niger Economist. They are the principal USAID/Niger monitors of ASDG data.

The information generated by the ASDG, also, has relevance for other donors supporting policy reforms, most importantly the IBRD and IMF.

B. Principal Objectives:

The principal objectives of the ASDG as amended are set forth in section III.2. of this PAAD Amendment revision.

C. Priority Information Needs

Under the ASDG, funding is released in tranches after agreed upon policy reform measures have been attained by the GON. A joint USAID-GON evaluation is used to determine the degree of compliance to the policy conditionalities. Thus, the ongoing data collection and analysis activities by the participating GON organizations and contract personnel contribute directly to the joint ASDG program evaluation. The joint evaluations provide the necessary information and represent the key decision points for the release of the resource transfer to the GON. Also, the mid-term evaluation was used to identify the needed management reforms for the implementation of the overall program. The final evaluation will assist USAID in determining the content of ASDG II.

D. Management Information System (MIS)

Table V.I. was developed by the University of Michigan (U. of M.) technical assistance (TA) team in collaboration with the various ASDG counterparts. The table illustrates the tracking system moving from the policy reform objectives to the monitored indicators and ending with the specific data source for each policy reform area. The data sources include both standard GON statistics as well as ASDG-specific data collected in support of the ongoing efforts.

TABLE V.1.

MONITOR POLICY REFORM AREAS AND OBJECTIVES	MONITORED INDICATORS OF COMPLIANCE AND IMPACT
By end of T1: Maximum rate of subsidy = 50% By end of T2: Maximum rate of subsidy = 30% By end of T3: Maximum rate of subsidy = 25%	GON Ag Input pricing decrees CA price schedules
OPVN TENDERS/BIDS	
By end of T1: 20% of OPVN purchases and sales by tender/bid By end of T2: 50% of OPVN purchases and sales by tender/bid By end of T3: maintain use of tender/bid system	OPVN cereal transaction reports Free market cereal prices
VILLAGE LEVEL GRAIN STORAGE	
By end of T1: To be promoted thru arrangements w/coops, GM,CBs By end of T2: Reach 6,000 tons of storage by GMs & coops. By end of T3: Maintain use of these facilities	Levels of cereal band stocks Levels of GON village stock programs Economic viability of CBs
AGRICULTURAL CREDIT	
By end of T1: Initiate AG credit study By end of T2: Complete Ag credit study By end of T3: Encourage development of rural financial markets	Assistance to/cooperative with study team Publication of report Constitution of credit policy task force Expansion of rural financial mkts/networks
LIVESTOCK/NIEBE BORDER TRADE	
By end of T1: Reduce administrative & fiscal restrictions By end T2: By end of T3: Maintain & promote free trade (exports)	GON decrees simplifying procedures GON decrees decentralizing control
CEREAL PRICES	
By end of T2: Abolish uniform national pricing for cereals	GON decrees on marketing campaigns
CENTRALE D'APPROVISIONNEMENT	
By end of T2: Develop the CA toward coop-owned input supply entity in competition with private sector input suppliers.	Preparation of new statutes for the CA

TABLE V.1. (CONT).

IMPACT	SPECIFIC SOURCES AND DOCUMENTS
GON budgetary outlays for inputs Effective demand for Ag. inputs	CA annual reports MA/DEPSA production/input use stats
Savings realized by Office Proportion sold by producer groups Cereal price stability	OPVN audit documents Price and stock level bulletins MA/DEPSA study
Village-level cereal stock stability Village-level cereal price stability Economic gains/losses	Enquete stocks villageois, 85/86 MA/DEPSA cereal banks study
Access to credit Access to savings institutions level of investment	USD rural financial mkts study CNE activity repots CLUSA coop guarantee fund reports
Extent of exports (licenses issued, transcripts from border posts) Interviews with traders	MCIT/DCE, NO. of license issued Decrees on marketing campaigns Ch of Comm/CNCE reports
Farmgate and consumer prices	GON decrees - OPVN documents
Scale of new CA operations Viability of new CA User prices for inputs Reliability of delivery system	CA financial reports CA annual reports

Monitoring and Reporting

The monitoring and reporting of the program implementation under this sector assistance includes: (1) the policy reform program; and (2) the local currency program.

Monitoring of Policy Reforms

Monitoring and reporting on the progress (or problems) toward the implementation of the ASDG policy reform program is the responsibility of the Offices of Program and Studies within Ministries of Agriculture and Environment, and Animal Resources and Hydrological Works. The policy reform measures have been and will continue to be carried out under the coordination of the "High Committee" chaired by the Secretary General of the Office of the President, with membership consisting of the Secretaries General of the Ministries of Agriculture, Animal Resources, Plan, Finance, and Commerce and Transport. The credit union policy reforms proposed under this Amendment revision will be monitored within the Ministry of Plan.

Prior to the 1985 reorganization of the Ministry of Rural Development (MRD), a needs assesment was conducted with the Office of Program and Studies of the MRD to assist the ministry in setting up appropriate systems for effective monitoring, coordination, and evaluation of the program. In addition, a policy analysis unit was to be established. Although the functions are being carried out the Ministries with assistance from the U. of M. TA team, the policy analysis unit has not been officially established. The responsibilities are as follows:

1. identify relevant data to be used in the evaluation and determination of progress made in the implementation of the policy reform program;

2. collect the data considered above;

3. assist the Offices of Program and Studies within the Ministries of Agriculture and Environment and Animal Resources and Hydrological Works in the preparation of necessary reports to be used as inputs in the review, assessment, and determination of whether the conditions precedent related to policy reforms have been met;

4. assist the Office of Program and Studies prepare terms of reference for necessary policy studies, promote policy debates, seminars and workshops to increase the awareness of the significance of appropriate policy framework;

5. provide continuing analysis and evaluation of the effects of policy changes on resource allocation, government finance, and agricultural production;

6. following the analysis and evaluation, make recommendations as to the need to modify the policy reform targets and to mitigate any unforseen negative effects of the policy changes;

7. coordinate and assist other ministries or governmental agencies involved in the implementation of the policy reform program;

8. provide training aimed at transferring skills in economic policy analysis, formulation, and monitoring to the Nigerien counterparts in order to develop the policy analytic capability in the Ministry of Rural Development; and

9. prepare required reports for both the Government of Niger and USAID.

The technical assistance team will continue to assist in carrying out the functions of policy analysis and will work closely with the Agricultural Development Office of USAID/Niger in monitoring implementation of the policy reform program. The technical assistance team in collaboration with its counterparts in the Ministries of Agriculture and Environment and Plan are also developing data bases to better measure the impact of policy changes at both the macro and micro levels. The USAID steering committee will provide recommendations to USAID senior management in determining whether satisfactory policy actions have been taken to meet the conditions precedent for subsequent dollar disbursements.

Annual review and assessment between the Government of Niger and USAID senior management will continue to be held to discuss progress or problems encountered in the policy reform program. Such reviews will provide the basis for determining subsequent disbursements of funds under the grant. They will also provide an opportunity to make necessary adjustments to the program. Other methods of monitoring the program will include monthly progress reports, quarterly program implementation reports, joint reviews, audits and evaluations.

The Mission Director with inputs from the USAID ADO, USAID steering committee and GON policy analysis will make the determination as to whether necessary conditions precedent for subsequent dollar disbursements have been met or whether modifications of policy reform targets are needed. AID/W will be informed of the decision with necessary documentation to support the decision. Any decision involving substantive modifications of the program will be deferred to the AA/AFR.

Monitoring of Local Currency Program

Under the direction of the joint GON/USAID Counterpart Management Committee, a secretariat has been established to monitor and account for use of counterpart funds. The responsibilities of the secretariat include technical and financial review of counterpart use proposals, regular reports on allocation and expenditure of funds, assisting in annual audits, and site visits to assess performance of counterpart-funded activities.

The mid-term evaluation suggested a number of management improvements in the operation of the secretariat including appointing deputies to assist the Executive Secretary in management of the secretariat; publishing standard operating procedures; installing an internal control system for document receipt and action; adopting a standard format for project submission to the counterpart fund; providing training on the use of microcomputers and others, including establishing the position of Deputy Chairman of the Joint Management Committee to assure continuity of operations. USAID and the Government of Niger have been implementing these recommendations as modified and will continue to do so under the amended program.

E. Host Country Participation

The Ministries of Agriculture and Environment (MAE), Animal Resources and Hydrological Works, and Plan are the fundamental implementing agencies for the Management Information System (MIS). The U. of M. provides a technical assistance team to the Ministry of Agriculture and Environment (MAE) and the Ministry of Plan (MP). The U. of M. has been successful in installing microcomputor capacity and in training MAE and MP counterparts in their use for data collection, analysis and retrieval purposes.

In the Ministry of Animal Resources and Hydrological Works, a three-member technical assistance team from Tufts University is, likewise, assisting in implementing policy studies in the livestock sector. Tufts is also installing microcomputor capacity at the regional level as well as the central ministry level.

F. Operation of the MIS

Information related to ASDG falls into three main categories:

- data used for the monitoring/evaluation of policy reform areas;
- data used for specific studies in the same areas;
- data used as part of technical assistance in the normal flow of ministry activities.

Monitoring/Evaluation Data: Statistics collected from various sources by the U. of M. team (i.e., input use, input and cereal prices, etc.). These are processed and analyzed, and used to monitor progress and become part of the ASDG evaluation of policy reform compliance. These data appear in tabular form and are available to AID and Ministry staff.

Data Used for Specific Studies: These various statistics are gathered (primary or secondary collection) as specific ASDG related studies which are carried out (fertilizer use, cotton production, marketing by cooperatives, etc.). They are processed by the TA team and Ministry staff on project computers and appear in the relevant study reports. They are also archived and regularly updated. Since they include over a hundred different files on various topics, their list is organized in a data base.

Technical Assistance to the Ministry of Agriculture: In this case, the TA team is using data collected by the Ministry's field agents which includes agricultural production and price statistics and appear in tabular and graphic form in the Ministry's yearly agricultural statistics yearbook. Statistical analysis and presentation are done with constant feedback for top-level Ministry staff.

During the agricultural season, the Ministry's Direction of Studies and Programming also publishes a synthesized situation report every two weeks. It contains recent information on rainfall, prices, production and crop infestation reports. It is limited to 8-10 pages, contains tables, maps and graphs, and is sent directly to the Minister's cabinet.

Information management also covers the monitoring of various projects by the Ministry. Project budgets and activities are tracked through a simple data base system allowing the preparation of regular situation reports. Ministry staff are entirely in charge of this activity.

6. Estimated Evaluation Requirements:

The Mid-Term Evaluation of the ASDG was conducted in July 1986. The Final Evaluation is scheduled for July 1989. Both of these evaluations are considered external. Prior to the release of successive tranches of ASDG funds, a joint GON-USAID internal evaluation is conducted to determine the degree of compliance on the part of the GON in meeting predetermined policy reform measures. Thus far under the ASDG, two joint evaluations have been conducted, one in 1985 and the other in June 1987. The next two joint evaluations are scheduled for September 1988 and September 1989. Additionally, the U. of M. technical assistance team will conduct an interim internal evaluation of the data bases it has established for monitoring and evaluating ASDG policy reforms. This will also take place before June 1988 and September 1989.

For the one remaining external evaluation, data will be required from the table provided in the Management Information Systems Section. This data is specifically related to the policy reform process. Also, as the final evaluation will assess USAID/Niger's and the GON's management performance in the course of implementing the ASDG, both USAID and GON records will be important sources of data. The data contained in the Management Information System is provided by the collaborating GON institutions of the ASDG with the studies and evaluations units of the MAE, MARH and MP specifically responsible for the data collection and analysis. Data for evaluating USAID's management role will be provided by the program files.

In accordance with the March 10, 1987, Executive Committee for Project Review recommendations, the final external ASDG Evaluation will cover the results of follow-up actions to the mid-term evaluation including the status of non-seed activities. Except for the changes noted here and above, the description of the evaluation plan presented in section V. of the original PAAD remains the same.

Budget:

The line items for Technical Assistance; Policy Studies, Seminars and Workshops; and Evaluation of the Financial Plan (Section IV.E.) depicts the necessary funding for the implementation of the Information Plan for the ASDG.

Information Plan for the Credit Union Development Activity

The pilot credit union activity will include its own monitoring and evaluation plan. Data derived from the Niger experience should be useful for other Sahelian countries. It should be noted, however, that this is a relatively modest project in terms of size (15 credit unions) and duration (three years, and data will not be comprehensive as a result.

Quantitative targets for the activity are as follows:

- Establishment of 5 credit unions per year;
- enrollment of 500 - 1000 members per year, with average deposits of 2,000 FCFA.
- by end of year 2, loans granted, 2.3 million FCFA value.

At the end of the project the following quantitative results are foreseen:

- 15 credit unions established, with 1500 - 3000 members
- credit union deposits totalling 14,759,000 - 29,500,000 FCFA
- loans granted 8,000,000 - 15,000,000 FCFA

Monitoring the level of financial activity (deposits, loans repayment rates) provides a means of judging the viability of the credit union during and after the pilot program's implementation period.

The aim of the pilot credit union activity is to provide for a system of financial intermediation to rural Niger that will meet the savings-safekeeping and credit of the target population and - in due course - contribute towards a more complete national financial cycle.

A statistical base as well as methodologies and procedures to measure the impact of credit unions on the economic and social lives of the target populations already exists thanks to the work accomplished by the Ohio State study. What must be established from the beginning of the project are the means to gather and synthesize credit union financial and statistical information on a regular and on-going basis. It will then be possible to monitor certain key credit union indicators, such as rates of savings and membership growth, credit granting ans repayment rates, income/expense ratios and overall profitability, etc. It will be possible to feed this financial and statistical information into a larger data pool and begin to draw some conclusions about the effect of credit unions on individual and family savings and credit practices and to impact on their lives.

Formal statistical gathering systems can easily be set up in each credit union by assuring that pertinent personal and financial data are recorded and kept. These can be completed and analyzed regularly to yield desired impact information.

At the time of joining the credit union certain personal information can easily be obtained. Application for membership forms can be designed to facilitate this. The following should be included as a matter of routine:

1. Name
2. Age (Date of Birth)
3. Gender
4. Marital - Legal status
5. Number of dependents and thir ages
6. Occupation.

Subject to possible reticence on the part of applicants consideration could be given to the following additional question:

7. Number of income earners in household
8. Level of household income
9. Level of personal income
10. Value of goods owned; Amount of debts; Net worth.

Credit union records should be established to provide, on demand, the following data:

1. Number of members - Adult male
   Adult female
   Minor male
   Minor female

2. Total credit union assets/liabilities
3. Total credit union loans/outstanding
4. Total number of loans/outstanding
5. Total number of loans granted in the period
6. Total value of loans granted in the period
7. Breakdown of purpose of loans granted by number and amount in each period
8. Breakdown of purpose of loans outstanding by number and amount at a particular point in time.

Note: For ASDG purpose - Sub-categories will be kept in No. 6 and 7.

The two sets of data above can be manipulated to yield valuable information:

- Number of people using what services and how often
- Percentage of target group affected
- What loans being extended and purpose and to what type of borrower
- Rate of repayment by type of loans and/or type of borrower
- Average loan per borrower and rate of change over times
- Average savings held by type of saver, frequency and rate of turnover
- Rate of growth of the credit union versus the others - the banks
- Rate of growth of certain services by certain types of members.

From USAID/ASDG point of view, measurements wi l be wanted of the amount of agricultural credit used by number of people and specific type of loan (e.g. - seed - equipment - fertilizers, rates of repayment and default rate. The first of these and the last two can be determined from permanent credit union accounting records. The others will be recorded by requiring the recording of this information on the application for loan form.

The monitoring system will be designed and operated by WOCCU, with assistance from Nigerien researchers and enumerators. As noted, much of the data collection can be done as a routine part of credit union organization. Data will be analyzed by WOCCU, with assistance of survey and evaluation specialists.

The information resulting from this monitoring system will be used in policy discussions between USAID and the GON. It will also provide information to WOCCU throughout the period of project implementation which will assist WOCCU in identifying problems and possible modifications needed in the model credit

union approach. The final results of the project will be disseminated to other missions, and through the WOCCU system for use in design of credit union activities elsewhere.

VI. Conditions Precedent, Covenants and Negotiating Status

A. Conditions Precedent to Subsequent Disbursement

All conditions precedent to the disbursement of the first, second, third, and fourth tranches of U.S. Dollars under the grant remain unchanged except for the condition precedent No. 6 of the first PAAD Amendment which is deleted from that document and included as a condition precedent to this Amendment. This Amendment adds additional CPs pertaining to the agricultural credit policy objective. More specifically these CPs are intended to promote the establishment of the legal framework for the formation of credit unions and to require the preparation of a plan for the implementation of the proposed policy changes to be executed prior to the completion of ASDG. The CPs are:

Conditions Precedent:

1. The GOH agrees to review existing statutes and legislation and develope a Plan of Action to assure that the appropriate legal framework is set in place to foster credit union development.

2. The GOH provides interim legal status to credit unions supported by the USAID project permitting them to transact business with all rights of law, including the right of enforcement of contracts and legal redress. This interim legal status will be provided by the issuance of an Administrative Decree or Ministeriel Arrêté no later than ninety days after the signing of the Grant Agreement Amendment.

3. The GOH provides exemption to credit unions supported by the USAID project from current laws or statutes governing banks, financial institutions and cooperatives. This exemption will be provided by the issuance of an administrative Decree or ministeriel arrêté no later than ninety days after the signing of the Grant agreement amendment.

4. The GOH prepares a plan for implementation of the proposed policy changes that will be executed prior to the completion of the ASDG. This will include:

   (a) Reducing the average rate of subsidy on agriculture inputs to not more than 15 percent of the delivered cost of the inputs;

   (b) Having in operation a tender and bid system for reconstituting OPVN stocks for all purchases and sales,

   (c) Maintaining a minimum level of 6,000 Tons of village level grain stocks through arrangements with cooperatives and groupements mutualistes;

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(d) Liberalizing simplifying, issuing and informing the general public of procedures for cross border trade, especially for cowpeas and livestock, by eliminating legal and administrative barriers to participation in cross-border trade and relying on market forces;

(e) Continuing expansion of private and cooperative sector participation in production and distribution of agriculture inputs, cereals marketing and distribution, agriculture credit and cross border trade. This includes reliance on free market prices and continuation of the policy of not issuing official prices for cereals; and

(f) Continuing to maintain implementation schedule of the Seed Action Plan.

B. Conditions Precedent to Disbursement of Local Currency Generated

-- No change.

C. General Covenants

-- No change.

D. Negotiating Status

Based upon the Ohio State University study entitled Rural Finance in Niger, conducted to accommodate the original CP of the policy objective for agricultural credit, the GON organized a Roundtable discussion in December 1986 to analyze the study's results and to determine future actions towards rehabilitating Niger's rural financial sector. As a result of the Roundtable, the OSU study's recommendation to promote credit union development was unanimously accepted by the GON and donor participants. USAID was requested to take the lead in the credit union development effort. The World Council of Credit Unions (WOCCU) conducted two consultancies under the ASDG to assist USAID and the GON in determining further policy modifications to insure and foster credit union formation and growth. These consultancies took place in April 1987 and December 1987 - January 1988. The policy conditionalities identified by WOCCU were presented to the Ministry of Plan for review. The Ministry of Plan's acceptance of the conditionalities of the policy was received by USAID on June 26, 1988. The policy reform measures were subsequently transmitted to the High Committee of the ASDG for further review and decision.

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A N N E X A

LOGICAL FRAMEWORK

LOGICAL FRAMEWORK

Project Title and Number: Agriculture Sector Development Grant
683-2046/0247

Life of Project:
From FY 1984 to FY 1989
Total U.S. Funding: $22,631,000 SDP
$16,278,000 ESF
$7,000,000 DFA

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal:			
1. To assist the GON achieve its economic and financial stabilization program currently in place under the IMF asuspices	1. No further deterioration in the country's balance of payments and budget deficits and debt situation.	GON statistics and IMF economic reports and assessment.	1. IMF program implemented and additional external donor assistance available.
2. To contribute to the goal of increasing food production and farmers income.	2. Increased crop production and farmer incomes.	GON reports, surveys, and independent evaluations and assessments.	2. GON commitment to increasing food production remains high priorit
			3. Climate, rainfall, soil, and other natural environmental factors d not change drastically.
			4. Higher yield seed varieties will be developed under current GON and donor-financed projects
			5. Agricultural technical packages are effective in increasing production and are accepted by farmers.

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program Purpose: Promote Agricultural production by diministing the policy constraints to development in the agricultural sector To maintain existing investment activities and raise the level of the sector's absorptive capacity; and Contributes towards structural adjustment objectives through minimizing the adverse impacts of austerity and structural adjustment measures on agriculture/ rural development programs.	Conditions indicating purpose has been achieved: 1. More agricultural inputs are made available to farmers at prices which reflect benefits to the economy.	Ministry of Agriculture and Animal Resources surveys	1. The increased use of market incentives and more competition improves resource allocation
	2. The role of the Official Agricultural Input Supply Agency is reduced and transformed toward a cooperatively owned agency in competition with other cooperatives and private traders.	Ministry of Plan evaluation reports	2. Dollar Disbursements Program is functional and generates the local currency as planned.
	3. Operating losses of the Grain Marketing Agency are reduced by 30 to 50 percent of the average 1981-1983 losses.	Grain Marketing Agency reports	3. Local currency generated from the program is used to finance activities which contribute directly to agricultural productivity and the sector's absorptive capacity.
	4. Cross-border trade in livestock, cowpeas, and other agricultural products increases.	Ministry of Animal Resources' Report on Export Policy	
	5. Development activities supported by the recurrent cost funding from the program continue to progress toward their objectives.	Counterpart Fund records and project evaluations	
	6. Framework established for restructuring and diversifying the seed and plant material production and distribution system. National certification and quality control regulatory system operating	Seed Action Plan, National Seed Service records	
	7. Legal framework established for Credit Union Development.	WOCCU Reports	

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs: 1. Reorientation of the agricultural input subsidy policy and restructuring of the Official Input Supply Agency achieved. 2. Promotion of competition in grain marketing through the liberalization of official marketing and pricing policies achieved.	Conditions indicating outputs have been achieved: 1. Level of subsidy on any input reduced to no more than 50 percent of its full delivered cost. 2. Rate of subsidy declines to a maximum average of no more than 15 percent 3. Significant progress made in the restructuring of the official Input Supply Agency toward a cooperatively owned input supply entity. 4. Removal of all restrictions and fiscal impediments, except requirements for professional licensing, on the movement of grain within the country.	Government decrees, reports and surveys from Ministries of Agriculture and Animal Resources, Commerce, Finance, Planning, Official Grain Marketing and Input Supply Agencies Joint Program Evaluations Sector Assistance Program records, evaluation reports, and special studies. Grain Marketing Agency records	1. Farmers are responsive to economic incentives both in the use of agricultural inputs and in their decision to produce and market the outputs 2. The response from cooperatives and private sector is adequate in ensuring competition in both the marketing of agricultural outputs and supplying agricultural inputs. 3. The GON continues its commitment to develop self-managed cooperatives and encourage private sector development. 4. Cooperatives and private sector are responsive to the opening up of marketing opportunities in both the agricultural outputs and inputs.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	5. The role of Official Grain Marketing Agency in urban markets is reduced toward that of managing food reserve stock at the wholesale level, food aid handler, and supplier of cereals to collective consumers.	Grain Marketing Agency statutes developed by GON-Donor Committee	5. Cooperatives have adequate storage capacity and are able to manage the grain reserve owned by the Official Grain Marketing Agency at the village level.
	6. A system of tenders and bids is established by the Official Grain Marketing Agency in order to encourage competition in the purchases and sales of grain from the Agency; the target level is 40 percent of the Agency's total transactions during the life of this sector assistance program.	Grain Marketing Agency records	6. The GON provides staff who are adequately trained in policy analysis and capable of implementing the policy reforms in appropriate offices.
	7. Village level grain storage through arrangements with cooperatives established and functional; the target level is 6,000 tons during the life of this sector assistance program.	Ministry of Agriculture, Cereals Bank Study	
	8. Radio broadcasting of grain marketing situation at the "arrondissement" level established and functional; the target level is 75 percent of all the "arrondissement" markets.		
	9. Uniform national pricing abandoned.	Price and Marketing surveys	

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
3. Appraisal of the country's agricultural credit situation, particularly in the informal credit market, achieved. Implementation of study's recommendation for experimental program.	10. In-depth study of agricultural credit in the country done and appropriate policy recommendations and experimental programs adopted.	Credit unions exempted from current laws or statues governing banks, financial institutions and cooperative; Credit unions transacting business with all reghts of law; Schedule for the development of national credit union legislation.	Village interest in credit unions maintained GON does not create competing credit institution that has unfair advantage vis-a-vis subsidized interest rates.
4. Policy to promote border trade of livestock, cowpeas, and other agricultural products adopted.	11. Reduction of administrative and fiscal requirements for obtaining trading permits and export licenses for all agricultural products.	Joint GON-AID Program Evaluation;	Terms of trade for Niger products remain favorable with Nigeria
5. Promote more cooperative and private trader participation in the supply of agricultural inputs; border trade of livestock, cowpeas, and other agricultural products; and internal grain marketing and storage.	12. System of high minimum license fees for livestock and other agricultural products is replaced by a fee system which is proportional to actual volumes.	Ministry of Commerce decrees	
	13. Administrative decrees issued to allow cooperatives and private traders to supply agricultural inputs in competition with the Official Input Supply Agency.	Cooperative statutes developed and approved.	
	14. Administrative decrees issued to allow cooperatives and private traders to engage in primary marketing of grain freely including during the official buying campaigns.		

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTION
	15. The relative share of agricultural inputs marketed by cooperatives and private traders increases at an annual average rate of 2 to 5 percent during the program period.	Cooperative records.	
	16. The relative share of agricultural outputs marketed by cooperatives and private traders increases at an annual average rate of 2 to 5 percent during the program period.	Marketing surveys.	
6. Establish the framework and prepare action plans for restructuring and diversifying the seed and plant material production and distribution systems, including establishment of a national certification and quality control regulatory system.	17. Increased availability and use of improved seed.	National Seed Service Seed use and demand survey;	Promising new varieties generated by research program;
	18. Decentralized and autonomous decision making in price and output levels for the multiplication and distribution of seed and plant materials.	Regional Seed Committee records	
	19. Reduced per unit production, distribution and recurrent costs of seed supply system.	Seed Multiplication Center records and accounting data	
Inputs:	Type and Quantity ($000)		
Dollar Disbursements	$19,412 (SDP funded) 16,278 (ESF funded) 4,900 (DFA funded)	Sector Assistance Program records.	Funding Available
Technical Assistance	3,207		
Policy Studies, seminars and Workshops	722		
In-service Training and Support	38		
Evaluation	173		
Audit	60		
Credit Union project activities	1,900		

REPUBLIQUE DU NIGER

CONSEIL MILITAIRE SUPREME

MINISTERE DU PLAN

N° 4.204 /MP/DEPP/SPDRM

Niamey, le 28 Juin 1988

ANNEX B

URGENT

Le Ministre du Plan

Référence :

Objet : Caisse Mutuelles d'épargne et de Crédit.

Monsieur le Directeur,

Suite à des contacts informels entre vos Services et les miens concernant les conditions préalables relatives à l'objet ci-dessus, j'ai l'honneur de vous faire part des points d'accords convenus entre les deux parties :

1- L'appelation définitive retenue est celle de Caisse Mutuelle d'Epargne et de Crédit au lieu de Coopérative d'Epargne et de Crédit afin d'éviter toute ambiguité ou confusion avec nos Coopératives existantes.

2- Concernant la législation, des négociations seront poursuivies entre les deux parties en vue de l'avènement du sous-projet USAID conformément au document relatif à "la Stratégie de Développement de l'USAID à l'endroit du Niger".

3- Les Caisses Mutuelles d'Epargne et de Crédit seront soumises au régime de l'Ordonnance régissant les associations au Niger.

4- Elles ne seront pas concernées par l'Ordonnance relative aux établissements financiers et bancaires.

Je vous saurais gré des commentaires et observations que ces points d'accord susciteront de votre part, en vue de la poursuite des négociations par nos deux Services.

EMBASSY OF THE
UNITED STATE OF AMERICA
JUN 29 1988
NIAMEY,

REPUBLIQUE DU NIGER * MINISTERE DU PLAN *

ALMOUSTAPHA SOUMAILA

70

ACTION: AID INFO: AMB DCM /3

683-0246/47
LOC: 208 210
14 JUL 88 1328
CN: 09158
CHRG: AID
DIST: AID

TZCZCNMO234
PP RUEENM
DE RUEEC #5146/01 1962314
ZNR UUUUU ZZH
P 1423112 JUL 88
FM SECSTATE WASHDC
TO RUEENM/AMEMBASSY NIAMEY 6372
INFO RUEHAB/AMEMBASSY ABIDJAN 6206
BT
UNCLAS STATE 225146

AIDAC ABIDJAN FOR REDSO/WCA

E.O. 12356: N/A

SUBJECT: NIGER AGRICULTURE SECTOR DEVELOPMENT GRANT (683-0246/47) PAAD AMENDMENT

REF: A) NIAMEY 2193; B) NIAMEY 2620

1. MISSION DIRECTOR, USAID/NIGER, IS HEREBY DELEGATED AD HOC AUTHORITY BY AA/AFR TO APPROVE AND AUTHORIZE THE PAAD AMENDMENT FOR THE NIGER AGRICULTURE SECTOR DEVELOPMENT GRANT (683-0246/47) TO INCREASE THE LIFE OF PROGRAM FUNDING TO DOLS 46,670,000. THIS INCREASE FROM THE DEVELOPMENT FUND FOR AFRICA IS TO ADD DOLS 7,000,000 AS WELL AS PROVIDING DOLS 775,000 TO REPLACE FUNDS NOT OBLIGATED IN FY 1987. IN FINALIZING THIS AMENDMENT THE USAID IS REQUESTED TO ADDRESS THE FOLLOWING CONCERNS AND CONSIDERATIONS WHICH WERE RAISED AT THE AID/W PROJECT COMMITTEE REVIEW MAY 3, 1988. THIS REVIEW WAS ATTENDED BY REPRESENTATIVES FROM AFR/PD, AFR/SWA, AFR/DP, AFR/TR, GC/AFR AND REPRESENTATIVES FROM THE USAID, DIRECTOR GEORGE EATON AND PROGRAM ECONOMIST FRANK MARTIN.

2. ADEQUACY OF BACKGROUND INFORMATION: THE DELAYS ASSOCIATED WITH THE AID/W REVIEW COULD HAVE BEEN AVOIDED HAD THE MISSION TRANSMITTED, IN ONE DOCUMEMT, THE

ESSENTIAL BACKGROUND AND ANALYTICAL INFORMATION ASSOCIATED WITH THE PROPOSED AMENDMENT. THE COMMITTEE APPRECIATES THAT CONSIDERABLE ANALYSIS OF RURAL FINANCIAL MARKETS HAS BEEN CONDUCTED BY OHIO STATE UNIVERSITY AND THAT THE WORLD COUNCIL OF CREDIT UNIONS (WOCCU) HAS DEVELOPED THE BASIC FRAMEWORK FOR THE CREDIT UNION PROGRAM.

3. RELATIONSHIP OF CREDIT COMPONENT TO BROADER SECTORAL OBJECTIVES: THE CAUSE AND EFFECT RELATIONSHIP BETWEEN THE PROPOSED POLICY CHANGE AND INCREASES IN AGRICULTURE PRODUCTION SHOULD BE EXPLAINED IN THE PAAD AMENDMENT. THE DISCUSSION OF THE PROPOSED POLICY REFORM SHOULD CLEARLY IDENTIFY THE CONSTRAINTS AND PROBLEMS BEING ADDRESSED AND THE PROPOSED STRATEGY FOR CORRECTING THESE PROBLEMS. AN IMPLEMENTATION PLAN LISTING SPECIFIC

ACCOMPLISHMENTS TO BE ACHIEVED AT SPECIFIC TIMES SHOULD ALSO BE SET FORTH IN THE AMENDMENT. FINALLY, THE PAAD SHOULD DISCUSS WHAT FOLLOWS WHEN THE CREDIT UNION LEGISLATION IS IN PLACE. IT SHOULD BE CLEAR HOW THE PROPOSED REFORMS FIT WITH OTHER POLICY REFORMS AS WELL AS OTHER EFFORTS TO INCREASE AGRICULTURAL PRODUCTION.

4. ATTAINING POLICY REFORMS:

A. NATIONAL CREDIT UNION LEGISLATION. WE DO NOT BELIEVE THAT IT WOULD BE APPROPRIATE TO RELEASE THE ENTIRE CASH GRANT PRIOR TO ATTAINING THE DESIRED POLICY OBJECTIVE. FAA SECTION 611(A)(2) PROVIDES, IN PERTINENT PART, THAT QUOTE NO AGREEMENT OR GRANT WHICH CONSTITUTES AN OBLIGATION OF THE UNITED STATES IN EXCESS OF DOLS 500,000 . . . SHALL BE MADE FOR ANY ASSISTANCE AUTHORIZED UNDER CHAPTER I OF PART I . . . IF SUCH AGREEMENT OR GRANT REQUIRES LEGISLATIVE ACTION WITHIN THE RECIPIENT COUNTRY, UNLESS SUCH LEGISLATIVE ACTION MAY REASONABLY BE ANTICIPATED TO BE COMPLETED IN TIME TO PERMIT THE ORDERLY ACCOMPLISHMENT OF THE PURPOSES OF SUCH AGREEMENT OR GRANT. END QUOTE. IN VIEW OF THE REQUIREMENTS OF FAA SECTION 611(A)(2), THE PAAD AMENDMENT SHOULD EXPLAIN THE MISSION'S RATIONALE FOR PROPOSING TO EXECUTE THE GRANT AGREEMENT PRIOR TO PASSAGE OF THE CREDIT UNION LEGISLATION. SPECIFICALLY, THE PAAD SHOULD INCLUDE A DISCUSSION OF THOSE FACTS UPON WHICH MISSION RELIES AS THE BASIS FOR ITS EXPECTATION THAT THE REQUIRED LEGISLATIVE ACTION WILL BE QUOTE COMPLETED IN TIME TO PERMIT THE ORDERLY ACCOMPLISHMENT OF THE PURPOSES OF THE AGREEMENT END QUOTE.

GIVEN THE STATUTORY REQUIREMENTS OF FAA SECTION 611(A)(2) AND THE OBJECTIVE OF SECURING NATIONAL CREDIT UNION LEGISLATION TO ESTABLISH A LEGAL FRAMEWORK FOR CREDIT UNION DEVELOPMENT, THE PROPOSED CONDITIONALITY SHOULD BE REVISED TO REQUIRE A DEMONSTRATION OF PROGRESS TOWARDS PASSAGE OF THE REQUIRED LEGISLATION PRIOR TO DISBURSEMENT OF THE SECOND TRANCHE AND SHOULD REQUIRE PASSAGE OF THE NATIONAL CREDIT UNION LEGISLATION AS A CONDITION FOR DISBURSEMENT OF THE THIRD TRANCHE.

B. INTERIM STATUS FOR CREDIT UNIONS.

WE DO NOT BELIEVE THAT IT WOULD BE DESIRABLE TO RELEASE THE CASH GRANT PRIOR TO ATTAINING THE DESIRED POLICY OBJECTIVE. MOREOVER, WE DO NOT BELIEVE THAT THE PROPOSED INTERIM LEGAL STATUS FOR CREDIT UNIONS SHOULD BE LIMITED TO ONLY THOSE UNIONS SUPPORTED BY A.I.D., BUT RATHER SHOULD APPLY TO ALL CREDIT UNIONS. WE SHOULD BE SEEKING NATIONWIDE REFORM POLICY, NOT SIMPLY REFORMS BEARING ON A LIMITED SET OF CREDIT UNIONS SUPPORTED BY A

PARTICULAR DONOR AGENCY SUCH AS A.I.D.

GIVEN THE REQUIREMENTS OF FAA SECTION 611 DISCUSSED ABOVE, WE BELIEVE THE MISSION SHOULD CONDITION THE DISBURSEMENT OF THE FIRST TRANCHE ON, INTER ALIA THE ATTAINMENT OF INTERIM LEGAL STATUS FOR CREDIT UNIONS. THE PAAD SHOULD, OF COURSE, PROVIDE THE BASIS FOR THE MISSION'S EXPECTATION THAT THE INTERIM LEGAL STATUS FOR CREDIT UNIONS IS FORTHCOMING.

A FINAL CONCERN RELATES TO GON PLANS FOR ESTABLISHING A NATIONALLY BASED INSTITUTION TO REPLACE SOME OR ALL OF THE AG CREDIT FUNCTIONS CARRIED OUT BY THE DEFUNCT CAISSE NATIONAL DE CREDIT AGRICOLE (CNCA). IT COULD BE INJURIOUS TO THE CREDIT UNION MOVEMENT IF A REVISED CNCA-TYPE STRUCTURE WERE TO BE ESTABLISHED AND ENTICE POTENTIAL CREDIT UNION CLIENTS WITH BELOW-MARKET INTEREST RATES, INADEQUATE ENFORCEMENT OF REPAYMENT OBLIGATIONS AND OTHER ADMINISTRATIVE WEAKNESSES WHICH HAVE UNDERMINED THE INSTITUTIONALIZATION OF SOUND AG CREDIT PROGRAMS IN NIGER. THE MISSION MAY WANT TO CONSIDER A COVENANT WHICH COULD HELP SAFEGUARD AGAINST SUCH AN EVENTUALITY BY SECURING GON AGREEMENT TO CONSULT WITH A.I.D. REGARDING THE ESTABLISHMENT OR REORGANIZATION OF AGRICULTURAL CREDIT INSTITUTIONS BEARING ON THE DEVELOPMENT OF CREDIT UNIONS.

5. PAAD AMENDMENT ANALYSES

SOCIA SOUNDNESS IT IS IMPORTANT THAT THE SOCIAL SOUNDNESS ANALYSIS CLEARLY IDENTIFY THE TARGET BENEFICIARIES IN BOTH QUALITATIVE AND QUANTITATIVE TERMS. SUCH ANALYSIS SHOULD ALSO ASSESS THE LIKELIHOOD OF CREDIT UNION CONCEPT ACCEPTANCE BY RURAL COMMUNITIES GIVEN TRADITIONAL SAVINGS AND LENDING PRACTICES, SUCH AS THE TONTINE. ONE CONCERN VOICED AT THE COMMITTEE REVIEW INVOLVES THE FEASIBILITY OF MOVING FUNDS FROM AN AREA OF CREDIT SURPLUS TO AN AREA OF CREDIT NEED, PARTICULARLY WHERE THE AFFECTED GROUPS ARE UNRELATED BY KINSHIP, COMMUNITY, PROFESSION AND OTHER TRADITIONAL LINKAGES. THIS CONCERN SHOULD BE ADDRESSED IN THE SOCIAL SOUNDNESS ANALYSIS.

B. ECONOMIC IMPACT: WHILE RECOGNIZING THAT THE DESIRED IMPACT OF THIS PROGRAM ON RURAL FINANCIAL MARKETS WILL OCCUR OVER A PROTRACTED PERIOD OF TIME, THE WOCCU PROJECTIONS INDICATE THAT BY THE END OF THE PROGRAM'S THREE-YEAR IMPLEMENTATION PERIOD THERE WILL ONLY BE DOLS. 29,000 - DOLS 55,000 IN LOAN ACTIVITY. COULD A PORTION OF THE LOCAL CURRENCY BE USED TO ACCELERATE CREDIT UNION DEVELOPMENT AND THEREBY ACHIEVE A GREATER IMPACT ON CREDIT AVAILABILITY FOR AGRICULTURAL PRODUCTION IN THE SHORT TO MEDIUM TERM?

C. BUDGET PLAN AND ANALYSIS: THE WOCCU REPORT SETS

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FOR A DOLS. 2 MILLION BUDGET FOR FINANCING TECHNICAL SERVICES, THE DEVELOPMENT OF CRITERIA FOR SELECTING PILOT PROMOTIONAL AREAS, BASELINE DATA SURVEYS AND PERFORMANCE MONITORING. THE MISSION ESTIMATES DOLS. 722,000 IN TECHNICAL ASSISTANCE, DOLS. 6.3 MILLION IN CONDITIONAL DOLLAR DISBURSEMENTS, WITH AN UNSPECIFIED AMOUNT OF LOCAL CURRENCY USED FOR POLICY STUDIES, LOCAL CURRENCY MANAGEMENT AND AN AUDIT. THE PAAD AMENDMENT SHOULD INCLUDE A DETAILED BUDGET AND FUNDING SOURCE FOR ALL ACTIVITIES ASSOCIATED WITH THE CREDIT PROGRAM UNDER ASDG-I. MOREOVER, THE BUDGET ANALYSIS SHOULD INDICATE THE RATIONALE FOR THE LEVELS OF TECHNICAL ASSISTANCE, CONDITIONAL DOLLAR DISBURSEMENTS AND LOCAL CURRENCY USES.

6. MONITORING AND EVALUATION PLAN: AS THIS IS ONE OF THE FIRST CREDIT UNION ACTIVITIES IN THE SAHEL, IT IS ESPECIALLY IMPORTANT TO ASSURE THAT THE MONITORING AND EVALUATION PLAN IS WELL DEVELOPED. IT SHOULD PROVIDE ESSENTIAL TARGETS AND BENCHMARKS TO OBJECTIVELY MEASURE PROGRESS DURING AND FOLLOWING THE PROGRAM'S IMPLEMENTATION PERIOD. THE PLAN SHOULD IDENTIFY THE ESSENTIAL INFORMATION NEEDED FOR PERFORMANCE INDICATORS

AND OTHER PURPOSES, THE SOURCES OF INFORMATION AND HOW IT WILL BE COLLECTED, ANALYZED, DISSEMINATED AND USED. IT IS IMPORTANT THAT THE PLAN INCLUDE A CAREFUL ASSESSMENT OF CHANGES IN FARMER AND OTHER PARTICIPANT BEHAVIOR AS A RESULT OF PROJECT INTERVENTIONS. IT IS REQUESTED THAT DATA COLLECTION BE SEGREGATED BY GENDER TO FACILITATE ANALYSIS OF IMPACT ON RURAL WOMEN WHITEHEAD
BT
#5146

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ACTION: AID INFO: AMB DCM /3

VZCZCNMO173
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SUBJECT: NIGER AGRICULTURE SECTOR DEVELOPMENT GRANT (683-0246/47) PAAD AMENDMENT

REF: A) NIAMEY 5827; B) STATE 225146

DUE DATE: 8-15-88

1. THE PROJECT COMMITTEE MET MONDAY, AUGUST 1, TO DISCUSS REF (A) REQUEST. THE PROJECT COMMITTEE AGREES THAT IT IS UNREALISTIC TO EXPECT THE GON TO DEVELOP AND ENACT CREDIT UNION-SPECIFIC LEGISLATION BEFORE THE PACD OF SEPTEMBER 30, 1989. HOWEVER, SHOULD THE GRANT AGREEMENT REQUIRE LEGISLATIVE ACTION, THE REQUIREMENTS OF FAA SECTION 611(A)(2) WOULD HAVE TO BE TAKEN INTO ACCOUNT. ON THE OTHER HAND, CONSIDERATION OF THE REQUIREMENTS OF FAA SECTION 611(A)(2) WOULD NOT BE NECESSARY IF THE MISSION WERE TO DETERMINE THAT LEGISLATIVE ACTION IS NOT REQUIRED IN ORDER TO ACHIEVE THE OBJECTIVES OF ASDGI.

2. SINCE THE INTENT OF THE MISSION IS TO INSURE THAT THE APPROPRIATE LEGAL FRAMEWORK EXISTS SO THAT CREDIT UNION DEVELOPMENT CAN OCCUR AND NOT NECESSARILY TO REQUIRE THE GON TO DEVELOP AND ENACT CREDIT UNION-SPECIFIC LEGISLATION DURING THE LIFE OF THE

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PROJECT (I.E., BY SEPTEMBER 1989) AND SINCE THE ANALYSIS OF THE LEGISLATIVE SITUATION IS NOT YET COMPLETED, THE PC RECOMMENDS CHANGING THE CONDITION PRECEDENT TO QUOTE COMPLETE A REVIEW OF EXISTING STATUTES AND LEGISLATION AND DEVELOP A PLAN OF ACTION TO ASSURE THAT THE APPROPRIATE LEGAL FRAMEWORK IS SET IN PLACE TO FOSTER CREDIT UNION DEVELOPMENT UNQUOTE. THE IMPLEMENTATION OF THIS PLAN OF ACTION SHOULD BE A CONDITION PRECEDENT FOR ONE OF THE EARLY TRANCHES OF THE ASDG II, PRESUMABLY THE FIRST.

2. BECAUSE OF THE CLARIFICATION PROVIDED IN REF (A), THE PC AGREES THAT, WITH THE MODIFICATION NOTED ABOVE, RELEASE OF THE FULL RESOURCE TRANSFER IN ONE TRANCHE AFTER SATISFACTION OF ALL CPS BY THE GON IS APPROPRIATE.

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3. PLEASE RESUBMIT REF (A) FOR THE RECORD AS PARTS WERE GARBLED IN TRANSMISSION.

4. PLEASE MAKE EVERY EFFORT TO OBLIGATE THESE FUNDS BEFORE THE END OF THIS MONTH. ARMACOST
BT
#4728

NNNN

ANNEX D

A Credit Union System for Niger:

Recommendations and a Plan for Implementation

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This document integrates the report and recommendations of World Council of Credit Union's consultant Norbert LePage, who conducted a study in Niger from November 1987 to January 1988, with the input and recommendations of the WOCCU home office staff through Kelly J. Morris, WOCCU Project Manager.

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I. EXECUTIVE SUMMARY

Much has been written, particularly in the last year, which points to the desperate need for some form of savings gathering/credit granting mechanism accessible to and dedicated to serving the needs of the grass roots population of Niger. The most relevant documents on the subject are:

- Ohio State Study - Financial Markets in Rural Niger
- SDID STUDY - 4419-04-02 (1024,) May 1987
- USAID Evaluation Special Study 47, June 1987
- A.S.D.G. P.A.A.D. AMENDMENT (683-0246/47).

Some of these documents also deal at length with the absence of some of the basic principles of cooperation present in the existing cooperative structure in Niger.

Our knowledge of the cooperative system generally and the credit union formula in particular, coupled with the study of these and other documents together with our own observation of the situation in Niger leads us to make the following assertions:

A. A credit union system can work in Niger.

B. Such a system can fill the savings/credit gap in Niger.

C. Such a system in time can complete the new truncated financial cycle present in Niger.

D. Successful development of a credit union system will require:

1. A comprehensive information campaign to assure a more accurate understanding and appreciation of the fundamentals of cooperation among the rural population of Niger.

2. Recognition by the Government of Niger that the regulations governing deposit gathering institutions and cooperatives in Niger do not apply to credit unions.

3. Agreement from the national government to adopt in due course, credit union legislation with the assistance of ACCOSCA and, where necessary, WOCCU.

4. Competition from existing economically unsound financial institutions or financial activities of state controlled institutions of other types operating in rural Niger must be restricted.

5. A training and promotion approach specifically designed for the Niger credit union movement in keeping with the cultural, economic and demographic conditions peculiar to Niger must be developed. A high proportion of illiteracy requires:

a. - A high rate of illiteracy requires:

- Strong support of literacy training;

- Development of strong oral training tools and visual aids.

b.- A low rate of understanding of French requires:

- Development of local language training, financial and administrative documents, and promotion materials;

- Top priority to the development of Nigerien field agents who will be responsible for promotion, training, and control;

- A concerted attempt to find technicians who speak or can learn Nigerian languages.

E. Selection of initial sites should be governed by the necessity of providing highest possible chance of success. The criteria to be employed are set out in Appendix B to this report.

II. BACKGROUND

A. Strategy of the Government of Niger

On March 10, 1987 a Commission was established to deal with the results of a Round Table discussion of donor agencies which had occurred late in 1986 and its recommendations regarding the establishment of an Agricultural Credit System. Specifically it sets out terms of reference for a study group (Cellule de Réfléxion) which would make recommendations on the subject.

The members of the study group (one of the five was substituted for) traveled to Togo and Cameroon in August of 1987 as a result of recommendations contained in the Ohio State Study concerning credit unions and of the proposals of the WOCCU representative in his June 1987 report.

While in Togo and Cameroon they visited the National Credit Union Association Offices and observed the operations of individual credit unions. As a result of their trip they made the following recommendation:

"We recommend the installation of credit unions. For this purpose it is our hope that USAID in concert with Nigerien authorities would accelerate the implementation of the project which it (USAID) expects to propose to the Government of Niger."

B. Perceived Problems

The Ohio State University study has set out in great detail the rural finance situation in Niger and has described the principle problems which must be addressed.

1. Absence or rural financial intermediation

"There is a marked absence of an institutional system of financial intermediation in rural Niger. What exists is a high cost system of input delivery. This truncated credit system does not engage in intermediating between depositors or savers on the one hand, and borrowers on the other hand. Standard banking functions are undeveloped in the administrative framework of the productivity projects and other programs developing the rural economy. The net result is a range of segmented projects working in relative isolation from each other with no formal financial intermediation of investment flows taking place in their areas of action. Only indigenous mechanisms of savings and loan activity play out a rudimentary but useful role of intermediating the investment flows within these areas." (OSU, p. 304)

2. Formal banks neglect rural sector

"The banking system of Niger has been increasingly servicing the government and the para-statals at the expense of the private sector. Reliance upon central bank funds and foreign borrowing has increased, while private sector deposits have declined. The loan portfolio of the banking system shows a clear urban bias, to the detriment of the rural sector." (OSU, p. 305)

3. Informal finance is important in rural areas

"Informal finance plays a role far more important than institutional financial services in rural areas." (OSU, p. 305)

4. Banks subordinate sound financial management to project objective.

"Indirectly, the CNCA (Caisse National et de Credit Agricole) performance and project credit programs are compromised because the supply-leading approach to rural development subordinates credit activity to service productivity goals. It tends to de-emphasize repayment performance, credit-worthiness, and financial viability as goals meriting serious attention. Thus this project focus does not create credit discipline and sound financial management among its rural clientele or the financial institutions servicing this clientele." (OSU, p. 309)

5. No financial intermediation for liquidity generated by productivity project

"At the same time, the continuous inflow of resources into the rural sector through direct investment, credit, and current expenditures circulates in rural areas without the benefit of formal intermediation services. No matter how low the rates of return to investment, some return, even if only a temporary surplus, is generated by the capital transfers involved in public investment and donor activity. The salaries and wages of public employees funded by rural development projects, the revenues obtained by contractors and workers of these projects, by suppliers of agricultural inputs, by suppliers of consumption goods to rural dwellers, and by traders dealing in rural products constitute monetary flows circulating outside of the formal financial system. There is no appropriate institutional channel in place to service this derived liquidity that public investment and credit flows are generating in the rural areas serviced by productivity projects." (OSU, p. 310)

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6. Absence of rural financial systems blocks social benefits of projects

"The social benefits from government and donor efforts are restricted by the absence of an efficient rural financial system. Sound formal financial intermediation would have a multiplier effect for the resources that are being allocated to rural development. (OSU, p. 311)

7. Credit unions can build on the "tontine" tradition, not fight it.

The OSU study points out that in Cameroon and in Togo successful credit union movements have been launched on the basis of "tontine" societies. The existence of such societies and of money keepers is quoted as evidence of a strong demand for deposit services at the village level. The strength of the existing system is also highlighted to advise against confrontation. The advice is rather to try to build on and extend some of the benefits of a "tontine."

8. Cooperatives in Niger have been para-statal institutions

The May 1987 report by the Société de Développement International Desjardins (SDID) - which also references the Ohio State University and WOCCU's proposed activity - elaborates at some length on the situation (pages 43 and 44) and confirms to a large extent the observations of O.S.U. It goes on to discuss the unusual cooperative image in Niger created by a desire to hasten the development of a cooperative network (pages 72-75).

Cooperatives, as they currently exist in Niger are largely a creation of the state in which villagers are supposed to participate. Membership at the bottom level (Groupement Mutualiste) is automatic for everyone in the village. The term "Cooperative" does not appear until the next tier - "Union Locale des Coopératives" (about 10 G.M's) the staffing at the upper echelons is largely civil service. The national charter enshrines the current five tier structure thus perpetuating the para-statal image of the word cooperative in Niger.

The situation is exacerbated by the National Charters Reference to Cooperatives as an instrument of rural/agricultural life. Communications media reinforce this image. An artisan's cooperative in Niamey has awaited its own statute for some years.

The use of the term "Caisse d'Epargne et de Crédit" has therefore been selected for use in Niger rather than the more common "Cooperative d'Epargne et de Crédit" (COOPEC) in order to distinguish credit unions from other forms of cooperatives

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in Niger, which have a different purpose, history, operating principles, and legal framework. The addition of other words such as - "Villageoise" or Mutuelle should also be avoided in order to avoid confusion.

C. Key Factors

There are several negative effects present in the situation:

As stated earlier, the truncated nature of the financial cycle does not provide for the benefits of a multiplier effect which occurs in a mature financial system where funds paid from one party to another are deposited by the second party to be later paid to a third (or fourth or fifth - and so on) party and/or on-lent to another party and again redeposited. In Niger the cycle is partly halted as soon as it goes beyond the reach of the existing banking system at the peasant-village level. There it ends, out of circulation, in cash, hidden, either by its owners or by a money keeper, to be kept towards the day when it may be needed again. The impact of funds input by the state or by aid agencies is thus reduced. Benefits are not maximized and more funds are required to re-start the cycle from time to time. The rural villager being outside the financial system does not have at his (her) disposal the safekeeping, interest earning and credit granting facilities that a financial institution can provide. As a result the rural villager continue to be unserviced by society. His/her security level in it remains precarious and the chances of improving it, low.

D. Summary

1. There is no accessible funds gathering and safekeeping service in rural Niger. The existence of large numbers of tontine societies and money keepers at the village level indicate that:

   a. There is a demand for savings and safekeeping services;

   b. There is excess liquidity in some rural areas;

   c. Systematic saving is a notion with which rural people are familiar;

   d. The notion of entrusting one's savings to a third party is well rooted.

2. There is no accessible formal system of rural credit in Niger.

   a. Lending activities of money keeper indicate a demand for this service;

   b. Most rural/agricultural development projects contain a credit element.

3. The combination of 1 and 2 above are the cause and effect of the truncated nature of the financial cycle in Niger.

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E. Conclusion and Recommendations

The rural nature of Niger, its lack of an accessible rural financial system, its traditional use of money-keepers and tontine societies all support the introduction of the credit union idea to establish an effective and efficient rural financial system that would have the following goal:

> To provide for a system of financial intermediation accessible to rural Niger that will meet the savings-keeping and credit needs of the target population and - in due course - contribute towards a more complete national financial cycle.

F. USAID Strategy

Based on the findings of the OSU team, USAID is including a credit union component as part of its overall A.S.D.G. The A.S.D.G. will promote the organization of credit unions at the village level by requiring that certain policy conditionalities, be met by the Government of Niger (GON) intended to create a policy environment conducive to credit union development.

The SDID report also recommends a credit union project in the Dogondoutchi area (Dosso) provided CIDA funding can be obtained. Their willingness to co-ordinate activities and exchange information with WOCCU is viewed as most propitious.

The contents of both of these documents is supported by USAID's evaluation special study No. 47 - credit programs for small farmers - a project managers reference - June 1987, pages 3 to 5, 11, 25 and 29 also C-3 and C-4.

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III. IMPACT

A. Macro-Economic Impact

The long range effect of visible progress towards goal achievement will not be particularly noticeable in a macro-economic sense at the end of the project. What will eventually occur as a result of the creation of a more complete financial cycle is an increased rate of investment of local resources in the local economy. Concurrently, an increased efficiency of the financial inputs supplied by GON and donor agencies will occur by extracting secondary and tertiary benefits generated by a re-deposit and on-lending mechanism. The use of short term credit by farmers (see personal-economic-social) to await better prices for commodities will eventually serve as a stabilizing influence on commodity pricing by reducing the pressures to "fire sale" farm products as soon as they are harvested.

B. Micro-economic Impact

Credit for development will eventually be provided and managed more efficiently by a maturing credit union network from member savings. GON and donor agencies can eventually reduce that portion of funds dedicated to the provision of credit in their projects. The amounts thus saved can be re-directed to other specialized elements of the projects or to other projects.

C. Personal-Economic-Social Impact

On the level of the individual Nigerien - and to a larger extent on a village basis - the impact will be more immediate. The village and the individual will have created an institution which will go a long way towards smoothing the flows of cash both on a community level and on an individual level. The feast/famine cycles can never be eliminated but their destructive effects can be cushioned. The farmer can chose to defer converting his crop to cash (given safe storage) when he is being "whip-sawed" by the sharp highs and lows of the current commodity price/marketing system. He can chose to use credit for survival until a fair price is obtainable, and know that the cost of that credit will not cripple him.

Summary

Credit unions will provide the on site loan function which is precisely what is lacking in formal government credit programs due to their location outside the village.

Village credit unions are the only financial institutions which can effectively emulate and build on the strength of informal institutions (such as "tontines" and "garde-monnaies") by providing a convenient and safe place to save on a regular habitual basis, while at the same time remedying their weaknesses. The money one

has saved in a tontine or with a money-keeper is not available on-demand but rather when one's turn comes or at a pre-arranged date. These times do not frequently coincide with an individuals moment of greatest need for money. Money saved does not earn interest. Real credit is not usually available or has unreasonable interest rates and terms. Village credit unions go "tontines" and "garde-monnaies" one further by providing credit in a convenient place at reasonable interest rates and terms.

Village credit unions also present many advantages over formal government or project credit programs. Credit unions are in the community, not at some central point outside it. Both the cost and the time required to process a loan application will be sharply reduced. The credit union borrower's loyalty to his fellow member/savers with whom he shares a common bond of residence, place of work, or other affiliation, is amplified by his deep religious and cultural belief, and will promote high turnover and low default rates. The shortcomings of project credit - where default rates are high and repayment becomes less important than participation - will be avoided.

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IV. ELEMENTS OF A CREDIT UNION DEVELOPMENT PROGRAM

The purpose of a Credit Union Development Project executed by the World Council of Credit Unions (WOCCU) on behalf of its affiliate, the Credit Union National Association of the U.S.A. (CUNA) is to organize a core group of fifteen credit unions in a pilot zone in rural Niger over a three-year period spanning the last year of the current Agricultural Sector Development Grant and the first two years of the following A.S.D.G. This core group, organized by WOCCU project staff, will benefit from the accumulated experience of the credit union movement in Africa and worldwide. They will form a credit union promotion committee which will endeavor to spread credit unions in the initial and adjacent zones and eventually nationwide, and in so doing will form the nucleus of a future self-financing national service organization for credit unions. Most important, they will be the beginning of a nationwide system of autonomous, self-financing and self-managed member-owned financial institutions. This project will also benefit from the ongoing baseline data studies and performance monitoring of Ohio State University and their Nigerien counterparts.

The basic elements of the project are as follows:

A. Policy Conditionality

The conditions precedent to the beginning of project activities (as presented in sections VI and VII) must be met by the Government of Niger. The government will recognize the legal status of credit unions and credit union organizations, guarantee the movement's authority for effective self-regulation and monitoring, and undertake the process that will lead to legislation specifically applicable to credit unions. In addition, the government will insure that credit unions do business in a financial marketplace free of subsidies.

B. Recruitment, Selection, and Training of Personnel

WOCCU will recruit and place a Chief of Project who is experienced in the areas of promotion, training, and management. This technician will in turn recruit a Nigerien Credit Union Development Officer with skills in these same areas plus Niger-specific language and cultural skills and who gives indication of being able to evolve into the role of a national association manager. This team will recruit candidates for the field promotion agent positions. They will organize and help conduct pre-selection training in the areas of promotion credit union accounting, and basic adult education on the basis of which they will make selections according to performance.

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C. Promotion Activities

Under the supervision of the Chief of Project and the C.U. Development Officer, the Promotion Agents will be installed in the pilot zone. They will conduct village meetings and other promotional activities where they explain credit union philosophy and operating principles and practices and most important explain how active membership and participation in a credit union can improve a Nigerien man or woman's daily life. They will identify interested people and among them form credit unions and register them with the government through the project.

D. Education and Training

The promotion agents, once a credit union has been formed, will organize training sessions for the bookkeeper/manager in basic credit union accounting and management, and for members of the Board of Directors and the Credit Supervisory, and Education Committee in order to orient them to their roles and responsibilities. He will follow up with on the-job monitoring and training. He will conduct member education programs with credit union education committees in order to encourage regular savings, prompt reimbursement and active participation. He will work with those same committees to continue promotion campaigns to recruit new members.

E. Promotion Committee

Once a sufficient number of a credit unions have been organized and are functioning (probably no later than the beginning of the third year of the project), a Nigerien credit union promotion committee will be created by elected representatives of the credit unions in keeping with credit union's commitment to democratic control. It will be the responsibility of the Promotion Committee to speak for and make decisions on behalf of the emerging Nigerien credit union movement. The project personnel will become the personnel of the Promotion Committee. They will help the elected representatives plan and execute strategies for multiplying the number of credit unions and spreading credit unions to new areas and for developing the Promotion Committee into a national association which is representative and provides essential services to credit unions (audit, training, promotion, central finance, insurance, etc.) on a self-financing manner.

F. Baseline Data Study and Project Monitoring

The Credit Union Development Project has the unique opportunity to build upon and reap the ongoing benefits from the Ohio State University study of rural financial markets in Niger -- a study which recommended the creation of a credit union movement in Niger. Providing complete and accurate statistical and financial information on an ongoing basis has been one of the credit union movement's strongest points as a partner with USAID in Africa. There has never been, however, the opportunity in any other country to do what is possible in Niger - to conduct base line data studies

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from the beginning of a movement and to monitor the effects of membership/participation in credit unions and compare them with the status of control populations. The ever elusive and frustrating search for means to accurately measure a project's impact on a target population may, in this case at least, have ended. The results of these ongoing OSU/Nigerien studies will provide data that will be invaluable in designing future stages of credit union development projects in Niger and in other countries as well. There may even be some lessons learned that could be valuable to other sector projects as well.

G. Niger Specific Factors

In addition to the above elements, it is important to note that there are several Niger-specific factors which must be taken into consideration in elaborating a plan of action. Prominent among them are the following:

1. Language

The O.S.U. study indicates literacy levels in excess of 36%. However, for the purpose of developing a rural financial system, communication is hindered by the fact that in only about 7% of the cases is the language of communication French in which credit union documentation is already written. The oral language of communication in the initial target area is Hausa and the ability to read and write is principally in Arabic.

2. Islamic Law and Interest

Credit unions, where owners are also the clientele, offer a built in protection against usury. The supremacy of the membership ensures that any excess charges can be returned to those against whom the charges were levied in an equitable fashion.

3. Sex Roles

The clear separation of roles of men from women in Nigerien society resulted in effectively no information to or feedback from women in all of the villages which were visited in preparing this proposal. This may pose a problem to the acceptance and/or acceptability of a credit union system introduction at the village level.

The separation mentioned in the O.S.U. study, Rural Development Study G.O.N. as well as interviews with Adriana Nunez, SDID Niamey, Mesdames Desiré Haoua and Disorée Ouassa, Association des Femmes du Niger - Zinder indicate:

a. An important part of the savings are held by women;

b. Women are quick to speak up, voice their opinion and contribute but not in the presence of men;

c. Women do not trust projects or activities controlled by men and would be unlikely to participate in them.

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V. PROPOSED CREDIT UNION DEVELOPMENT ACTIVITY

The activities outlined in the preceding section will be conducted over a three year period following in large measure the "Three Year Plan of Action" presented in the OSU final report to USAID/Niger in February 1987.

Year I

1. Recruitment, selection, and training of three Nigerien employees (a CU Development Officer and 2 Promotion Agents, or 3 Promotion Agents).)

2. Installation of promotion agents in sites in or near target villages;

   Promotion meetings in target villages and organization of village study groups;

   Organization and registering of five credit unions in target villages;

   Prepare promotion campaign for Year II after assessment/evaluation of Year I activities.

3. Conduct member education campaign in new credit unions (rights and responsibilities of members);

   Train new credit union education committees in promotion and member education activities;

   Train new credit union boards of directors, credit committee, and supervisory committee in knowledge and skills necessary to function.

4. Development and production of credit union manuals, pamphlets, and financial and administrative documents in French and in local language;

   Equipment of new credit union offices, including equipment loans.

   Elaboration of a Nigerien credit union law undertaken with the assistance of ACCOSCA.

5. Participation in baseline data study of credit union activity and of credit union members' savings/loans activity.

6. Year I expected results:

   a. 5 credit unions established
   b. 500 to 1000 members
   c. average deposits per member = 2,000 FCFA
   d. total deposits 2 - 3,000,000 FCFA

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Year II

1. Recruitment of three additional Nigerien credit union promotion agents and their training.

2. Installation of new agents in sites in or near target villages;

   Promotion meetings in 5 new target villages and organization of village study groups;

   Organization and registering of five additional credit unions in target villages;

   Continued campaigns in first groups of credit unions to mobilize additional savings and to increase membership, working with credit union education committees;

   Prepare promotion campaign for Year III after assessment/evaluation of Year II activities.

3. Continue training of credit union committees, especially regarding evaluation of applications for loans related to agriculture, and granting of initial loans in first group of credit union;

   Conduct member education campaign in new credit unions;

   Train new credit union education committees in promotion and member education activities;

   Train new credit union boards of directors, credit committee, and supervisory committees in requisite knowledge and skills.

4. Continued development and refining, based on experience of credit union documentation in French and local language;

   Equipment of new credit union offices including through loans, where necessary;

   Regular follow up and monitoring of functioning of credit union and its governing bodies, and verification of accounts.

5. Completion of drafting of credit union law with ACCOSCA assistance and proposal of draft law to appropriate Nigerien government authority.

6. Continuation of baseline data study of credit union members savings/loan activity and of credit union activity.

7. Year II expected results:

   a. 5 new credit unions
   b. 500 to 1000 members
   c. total new deposits [illegible] 2,000,000 [illegible]

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d. cumulative total members 750 - 1,000
e. total movement deposits 3,750,000 - 7,500,000 ICFA
f. loans granted 2 - 3,000,000 ICFA

Year III

1. Creation of Credit Union Promotion Committee by elected representatives of each credit union

   Registering of Promotion Committee and definition of its role and functions

   Preparations for transfer of project assets and personnel to Promotion Committee

2. Promotion meetings in 5 new target villages and organization of village study groups

   Organization and registering of 5 additional credit unions in target villages

   Continued savings mobilization and membership promotion campaign in existing credit unions, working with education committees.

   Prepare for future promotion activities after Year III after review/assessment of Year III activities and results.

3. Continue training of newest credit committees, especially in evaluation of applications for loans related to agriculture

   Continued loan activity in first five credit unions, and granting of initial loans in second group

   Conduct member education campaigns in new credit unions

   Train new credit union education committees in promotion and member education activities

   Train new credit union boards of directors, credit committees, and supervisory committees in requisite knowledge and skills

4. Continued development and refining of credit union documents in French and local language

   Equipment of new credit union offices with equipment loans where necessary

5. Regular follow-up and monitoring of functioning of credit union and its governing bodies, verification of accounts, and monitoring loan repayment

6. Follow up with appropriate GOH authority to monitor passage of new credit union law.

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6. Continuation of baseline data study of credit union members' savings loans activity and of credit union activity.

7. Joint WOCCU/Promotion Committee/ACCOSCA/USAID evaluation of project

   Development of multi-year credit union development strategy and plan by Promotion Committee with committee staff and WOCCU/ACCOSCA assistance

   Negotiation for assistance for continued credit union development and expansion after EOP.

8. Expected results at end of Year III

   a. 5 new credit unions
   b. 500-1000 new members
   c. new deposits 1-2,000,000 FCFA
   d. end of project total 15 credit unions
   e. end of project total deposits 14,750,000 - 29,500,000 FCFA
   f. end of project total - loans granted 8 - 15,000,000 FCFA

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VI. POLICY CONDITIONALITIES FOR CREDIT UNION DEVELOPMENT

A. Kinds of Obstacles

The obstacles to the development of credit unions that need to be identified and dealt with can be classified as follows:

1. By level of "manageability":

   a) Those that can be effectively eliminated in advance;
   b) Those that can be partially neutralized; and
   c) Those that have to be lived with and watched.

   Pre-conditions even though thoroughly identified, cannot however assure a 100% secure environment.

2. By sector or source:

   a) Legal: Those obstacles which currently exist within laws. These can be eliminated by a blanket exemption and by specific exemptions of the application of all and/or certain laws which would otherwise govern Credit Unions.

   b) Institutional and Structural: This would consist mainly of obstacles which should be removed by exemption but because people charged with enforcing the law and institutions as well as people used to obeying the law do not easily accept or believe an exception to the law. (For example, a policeman would not know how to handle a driver exhibiting an official document exempting him from normal requirement of possessing a driver license.)

   c) Behavioral and Attitudinal: People and institutions who feel that credit unions are to passing on their "turf" and who utilize their official and unofficial power to obstruct and to defend their interests.

The legal obstructions can be dealt with (not eliminated in the strict sense of the word) in advance.

The structural and institutional obstacles will have to be handled on an "ad hoc" basis - as they occur. They will cause delay from time to time but as a rule can be lived with.

Behavioral and Attitudinal: These obstacles will occur from the outset of a project but mostly they become a problem when the credit union system starts to take on a higher profile and certain persons perceive it to be a threat to their function and/or personal position.

The combination of legal exemption and persuasion should in time eliminate all but the most determined of these. There are certain advance measures, however which can be taken to reduce the impact of such opposition.

B. Review of Current Environment

1. Perception of Cooperatives

The current image held by cooperatives is that they are para statal in their origins - which is correct and goes back to colonial times - and in their control structure -- which is less true. What is important is the manner in which they are perceived - by everyone. Even some well informed officials who professed to understand the shortcomings of the historic cooperatives structure and image in Niger had difficulty comprehending how a truly autonomous co operative could exist outside that present structure.

2. Bank Regulations

Current bank regulations do not envision the creation of small, local, autonomous financial institutions:

- minimum capital requirements are high; and

- interest rates on deposits and loans were designed with a large centralized banking institution in mind, with its potential for more varied investments and government subsidies.

3. Projects

Donor and GON programs sometimes contain financial elements which are not in keeping with a [illegible] functioning market place: specifically, subsidized [illegible] rates.

In view of the above and of previously identified key factors and constraints a list of conditions required to attempt to neutralize, in part, the negative aspects of the environment for a period of time sufficient for a credit union movement to take root were discussed with GON officials on January 13, 1988. As a result the officials, representing the Ministry of Plan, must agree to provide assurances in writing in keeping with the following request which [illegible] was to transmit to them in writing "The Government of Niger agrees to create a favorable environment for the establishment and development of an autonomous, self-governing credit union movement in Niger."

They agree that it is also desirable that the movement be perceived as being entirely free of any form of government control or influence.

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C. General Requirements

The credit union development project requires that the government refrain from involvement in the decision making and the internal operations of credit unions and credit union organizations. It requires government recognition of its role as registrar and the provider of the legal framework within which they can operate. Agreeing not to interfere with it and not to try to become involved in its growth will not be an easy task. Allowing credit unions to grow and to make, correct, and learn from their own mistakes is, however, an essential part of the development of a truly autonomous movement.

Before any significant amount of funds are spent or released, USAID and WOCCU need to be assured of three additional things:

1. The project will not be tampered with, directly or through "subsidized" competition.

2. Credit unions will have legal rights (transaction, collection, etc.) in the interim.

3. A proper credit union law will be put into place in due course.

Officials in the Ministry of Plan have committed themselves to issuing a positive written response to a written request to the above effect.

"In course" conditionalities should then be put into place to measure progress towards meeting deadlines as well as to ensure that the favorable environment created does not deteriorate. These will be set out in the time phased plan for policy changes.

D. Specific Conditions

The Government of Niger recognizes that credit unions are organizations of people having a common bond of residence, occupation or association pooling their savings to make low cost loans to one another and that these credit unions are autonomous and operate along the operating principles adopted by the World Council of Credit Unions in 1984. Such credit unions were not envisioned when current laws governing financial institutions and governing co-operatives were put into place. It is clear that such laws were never intended to apply to credit unions.

The government is anxious to see a credit union system functioning in Niger to provide for a more complete financial cycle and for a savings and credit system accessible to and at the service of all citizens. The Government of Niger agrees that:

1. A specific credit union law needs to be put into place and the government undertakes to produce such a law in conformity with the provisions in Appendix G and in consultation with ACCOSCA (and when necessary with WOCCU) and to do so by a target date mutually agreed upon.

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2. In the interim and to permit the release of funds for the expeditious and sound development of the credit union system, the Government undertakes to provide the following prior to the start of the project:

a) A mechanism for registering credit unions and their by laws by means of modalities to be provided by BOCCU (including model credit union by laws);

b) The recognition through such registration or otherwise of the status of credit unions and any future credit union committees, associations, unions, or federations, as legal entities so that they may enter into and enforce contracts (especially but not limited to the granting and recovery of loans, the employment of personnel, and the purchase of goods and services).

c) Recognition for the credit union project and for the credit union representative bodies which will be organized eventually (promotion committee to be replaced eventually by a national association) which would allow the officially designated representatives of the project, committee, or association to conduct periodic and unannounced monitoring, inspection, and audits, and to issue and enforce orders which are binding on credit union officials. The purpose of these actions is to insure that the credit unions are managed in accordance with sound financial management practices, and that the Bylaws of the credit union and the laws of the Republic of Niger are respected. The orders may include but are not limited to the seizure and conserving of credit union documents, cash, and property, and the removal from office for cause of any credit union employee or elected official or group of either or both.

d) An undertaking not to engage directly or through any of its para-statal organizations, in any credit programs offering subsidized interest rates in any areas of the country where credit unions are being promoted.

In addition USAID needs to commit itself to a program and process of credit union development that cannot proceed faster than the people in the process. Too much pressure for a rapid "maturity" would simply repeat the errors of previously "implanted" solutions.

Best Available Document

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VII. TIME PHASED PLAN FOR POLICY CHANGES

As stated in the previous section, credit unions are democratic, member owned financial organization that can best thrive and provide the services for which they were intended in a milieu where the financial marketplace is free of external subsidies and where credit unions are free of oppressive government intervention in their management and decision making.

In keeping with the above and with the content of the previous section on Policy Conditionality, the following plan is proposed to ensure pre-start and "in course "measurement of maintenance of the conditions.

A. Conditions-Precendent to Project Start-Up

1. Assurance of no Direct or Indirect Interference

a. Status: There is a written undertaking on the part of GON assuring AID and WOCCU that credit unions did not exist and were not foreseen by either banking or cooperative law at the time of their adoption and therefore that the restrictive provisions of legislation covering banks and/or cooperatives will not be used to obstruct or delay the project or the growth of the system.

Specifically referring to:

- Decret No. 89 93/PCMG/MDR, 31 Mai 1984;
- Ordonnance No. 84-22, 31 Mai 1984;
- Barème de conditions applicables BCEAO, 24 Mars 1986;
- Condition Générales applicables par les Banques dans l'U.M.O.A - BCEAO;
- Ordonnance No. 75 29, 17 Juillet 1975.

Means: Letter from AID to GON setting out requirements in such a way that acknowledgement constitutes commitment.

b. Assurance of no interest rate subsidies.

Status: There is a written undertaking by GON that they will not engage directly or indirectly in subsidized loan rates for rural credit nor will any of the statal or para statals to do so in the zones in which credit unions are being promoted..

Means: Letter from AID to GON setting out requirements in such a way that acknowledgement constitutes commitment.

2. Undertaking to grant interim legal status for credit unions.

Status: Credit unions are able to be registered.
- Enter into and enforce contracts.

- Project promotion committee, or association officials can require adherence to laws of Niger and issues and enforce orders for the purpose of protecting the interests of credit unions and their members by assuring that sound management and financial practices are followed.

Means: Written evidence in project hands that the above condition is now if effect or will irrevocably be in effect when triggered by some mechanism in project control. Such status to continue in effect until there is a credit union law as described in A.3 and Appendix G. Chief of Project will report regularly affirming that there are not unresolved issues.

3. Undertaking to draft credit union legislation which provides for autonomy of credit unions and includes the provisions described in the attachment to this section.

Status: There is a written undertaking by GON together with a mutually agreed upon deadline. A letter is written to ACCOSCA by GON requesting their assistance and counsel

Means: Letter from AID to GON setting out requirements in such a way that acknowledgement constitutes commitment.

4. Decision on Maradi Rural Development Project "Caisse d'Epargne" sites.

Status: GON Department of Agriculture - has decided on the fate of the five sites where development activity occurred in 1984/85 (i.e. whether or not to cede these sites to the credit union project.)

Means written communication from GON with approval of all interested parties (M.R.D.P. donors).

B. Six Months After Start of Project

1. No direct or indirect interference.

Status: Either there have been no incidents of attempted interference or control or any such incidents are being resolved to the satisfaction of project personnel.

Means Report of Chief of Project.

No interest rate subsidies.

Status: There have been no new GON programs with subsidies loan rates and none where GON can exercise effective control.

Means: Report by Chief of Project and AID monitoring.

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2. Interim legal status for credit unions:

Status: Credit unions are able to be registered.
- Enter into and enforce contracts.
- Project officials can require adherence to laws of Niger, issues and enforce orders for the purpose of protecting the interests of credit union and their members.

Means: Written evidence in project hands that the above condition is now if effect or will irrevocably be in effect when triggered by some mechanism in project control. Such status to continue in effect until there is a credit union law as described in A.3 and Appendix G. Chief of Project will report regularly.

3. Credit Union Legislation

Status: A first draft containing the appropriate provisions has been prepared by joint GON/ACCOSCA effort and is reviewed by WOCCU and USAID.

Means: Presence of written documents to the effect of the above status.

C. End of Year 1

1. No direct or indirect interference.

Status: Either there have been no incidents of attempted interference or control or any such incidents are being resolved to the satisfaction of project personnel.

Means Report of Chief of Project

No interest rate subsidies.

Status: There have been no new GON programs with subsidies loan rates and none where GON can exercise effective control.

Means: Report by Chief of Party AID monitoring.

2. Interim legal status for credit unions:

Status: Credit unions are able to be registered.
- Enter into and enforce contracts.
- Project officials can require adherence to laws of Niger, issues and enforce orders for the purpose of protecting the interests of credit union and their members.

Means: Written evidence in project hands that the above condition is now if effect or will irrevocably be in effect when triggered by some mechanism in project control. Such

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status to continue in effect until there is a credit union law as described in A.3 and Appendix G. Chief of Project will report regularly.

or

Verification: credit union legislation is now in place and all existing credit unions being duly registered.

3. Credit Union Legislation

Status: Credit union law is either in place or is in draft form.

Means: Text of appropriate draft or adopted laws in hand.

End of Year 2

1. Assurance of no interference.

Status: A credit union law has been proposed. There are no unresolvable issues of interference by GON or para statal organizations.

Means: Copies of legislation on file and WOCCU report of Chief of Project.

No subsidized interest rates.

Status: No interest rate subsidies.

Verification: There have been no new GON programs with subsidized loan rates and none where GON can exercise effective control.

Means: Report by Chief of Project and AID monitoring.

End of Year 3

END OF PROJECT

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VIII. Baseline Data Studies and Project Monitoring

The goal of the project as enunciated in the logical framework analysis is "to provide for a system of financial intermediation to rural Niger that will meet the savings-safekeeping and credit of the target population and -- in due course -- contribute towards a more complete national financial cycle".

A statistical base as well as methodologies and procedures to measure the impact of credit unions on the economic and social lives of the target populations already exists thanks to the work already accomplished by the Ohio State study. What must be established from the beginning of the project are the means to gather and synthesize credit union financial and statistical information on a regular and on-going basis. It will then be possible to monitor certain key credit union indicators, such as rates of savings and membership growth, credit granting and repayment rates, income/expense ratios and overall profitability, etc. It will be possible to feed this financial and statistical information into a larger data pool and begin to draw some conclusions about the effect of credit unions on individual and family savings and credit practices and to impact on their lives.

Formal statistical gathering systems can easily be set up in each credit union by assuring that pertinent personal and financial data are recorded and kept. These can be compiled and analyzed regularly to yield desired impact information.

At the time of joining the credit union certain personal information can easily be obtained. Application for membership forms can be designed to facilitate this. The following should be included as a matter of routine:

1. Name
2. Age (date of Birth)
3. Gender
4. Marital - Legal Status
5. Number of dependents and their ages
6. Occupation.

Subject to possible reticence on the part of applicants consideration could be given to the following additional questions:

7. Number of income earners in household
8. Level of household income
9. Level of personal income
10. Value of goods owned
    Amount of debts;
    Net worth.

Credit union records should be established to provide, on demand, the following data:

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1. Number of members - Adult male
   Adult female
   Minor male
   Minor female.

2. Total credit union assets/liabilities
3. Total credit union loans/outstanding
4. Total number of loans/outstanding
5. Total number of loans granted in the period
6. Total value of loans granted in the period
7. Breakdown of purpose of loans granted by number and amount in each period
8. Breakdown of purpose of loans outstanding by number and amount at a particular point in time.

NOTE: For ASDG purpose -- Sub-categories will be kept in No. 6 and 7.

The two sets of data above can be manipulated to yield valuable information:

- Number of people using what services and how often
- Percentage of target group affected
- What loans being extended and purpose and to what type of borrower
- Rate of repayment by type of loan and/or type of borrower
- Average loan per borrower and rate of change over times
- Average savings held by type of saver, frequency and rate of turnover
- Rate of growth of the credit union versus the others -- the banks
- Rate of growth of certain services by certain types of members.

From USAID/ASDG point of view, measurements would be wanted of the amount of agricultural credit used by number of people and specific type of loan (e.g. - seed - equipment - fertilizer), rates of repayment and default rate. The first of these and the last two can be determined from permanent credit union accounting records. The others would be recorded by requiring the recording of this information on the application for loan form.

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IX. COORDINATION PLAN TO FACILITATE COLLABORATION BETWEEN CREDIT UNION DEVELOPMENT PROJECT AND OTHER ASDG COMPONENT ACTIVITIES

USAID/ASDG needs to be satisfied that the credit union project makes a positive contribution towards the development of Niger's agricultural sector. At the same time, the credit union project must not be subjected to the same kind of forces which caused the eventual downfall of the CNCA. Specifically we refer to the following quote from page 60 of the Ohio State Study "in a young financial institution specialization by sector is more likely to reflect a lack of concern for the development of financial skills and institutions per se. This early specialization tends to create a financial institution that becomes a more administrative support function in favor of other predefined development goals." .

The Niger credit union movement is intended but not restricted to making available a vehicle for mobilizing savings toward useful and productive loans in rural areas. Therefore to the agricultural sector it would seem necessary to have a mechanism that would ensure that the need for agricultural credit remained a constant priority in the activities of the Credit Union Development Project. This could be accomplished by having the project staff report on a pre scheduled basis the progress of credit union development as it relates to the start and scope of lending activities. A priority item in credit union training, once initial orientation is completed, will be to design tools and training programs for credit committees to help them learn to evaluate loans intended for agricultural and other related productive purposes in addition to those intended for useful purposes whose impact on the agricultural economy will be indirect but no less real.

Since it is not anticipated that such activity would commence until towards the end of the first year the following schedule is recommended:

A. At Start-Up

Meeting of Chief of Project and ASDG staff to brief Chief of Party on ASDG programs and to begin to identify areas where credit union activity is complementary to other ASDG activities and to explore possibilities for collaboration.

B. Six Months After Start-Up

Meeting of same people where Chief of Project will brief ASDG staff on anticipated start of operations and anticipated number and locations of first credit unions.

C. Nine Months After Start Up

Meeting of same team where Chief of Project will brief ASDG staff on:

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- Anticipate start of lending
- Anticipated number of credit unions involved in lending start up.

D. One Year After Start

Meeting of above coordination team with same agenda plus:

- Anticipated amount of funds available for credit
- Anticipated demand by type of loan.

E. Quarterly Thereafter

Meeting and/or written report of above information with additional precision or break down of credit by agricultural/other with detail on the agricultural lending operations (see Baseline Data).

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