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NIGER ECONOMIC POLICY REFORM PROGRAM

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EVALUATIVE ASSESSMENT

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TABLE OF CONTENTS

LIST OF TABLES, FIGURES AND ANNEXES

TABLES:

FIGURES:

ANNEXES:

FOREWORD

The authors wish to thank the many people whose close cooperation made their task of evaluating the Niger Economic Policy Reform Program not only feasible, but informative and, indeed, enjoyable. (A list of persons contacted is included as Annex A.) We benefitted from the experience and insights of members of the official American community (including many Nigerian employees) who shared not only their professional but also their personal understanding of the country and its people. In the short time available for the evaluation, they helped us place NEPRP in the context of Niger's economic crisis and its remarkable political dynamism. They gave us some sense of the Nigerian people's frustrations, but also of their achievements and aspirations. We also appreciate the cordiality with which officials of the Government of Niger received us and provided us with information useful to our undertaking, as well as the spirit of cooperation shown us by representatives of other foreign donor agencies.

A word about the team that conducted the evaluation. The team comprised: (a) Benjamin H. Hardy (Policy/Regulatory Reform Analyst and Chief of Party), a former U.S. government official with private business experience in Africa, (b) Mori Diané (Export Marketing Analyst), a naturalized American businessman born and raised in the Republic of Guinea and educated in the United States, and (c) Maurice Seri Gnoléba (Tax Policy Analyst), a citizen of Côte d'Ivoire who for thirty years served his country at the ministerial level in economic policy-making positions, and who in retirement now has time to devote full attention to his agribusiness interests. Thus, several kinds of African experience as well as technical skills were brought to bear on our work. In the complex effort to generate and sustain economic progress, qualified Africans have much to share with their neighbors in Africa.

Each team member drafted sizeable portions of this report, concentrating on his own specialty. Although we have edited the resulting document in an effort to make the whole internally consistent, its parts still reflect the very different perspectives each member brought to the evaluation. For the team members, the sharing of attitudes and insights among ourselves has been an important part of this project. The give-and-take of ideas, and the development of shared conclusions about NEPRP, was an experience each of us will value in the years to come. We believe our diversity made a positive contribution to the final result and, to the extent we were successful, perhaps the Embassy and USAID will seek similar diversity for future projects.

EXECUTIVE SUMMARY

The Niger Economic Policy Reform Program (NEPRP) was implemented in 1988 to stimulate economic activity in Niger's rural communities through policy and institutional reforms that would promote agro-pastoral exports. It aimed at the following results:

- increased and diversified exports;
- increased production of export crops;
- higher farm incomes;
- a shift of trade into official channels; and
- greater fiscal revenues for the Government of Niger.

Initially a $15 million program, NEPRP offered $13.3 million of non-project funds in three consecutive annual budgetary subsidies to the Government of Niger (GON), in exchange for a number of changes in economic policy, the first and most significant being elimination of tariffs on agro-pastoral exports. The balance of the money was allotted to program support, mainly technical assistance and monitoring. Originally intended to last three years (and to expire on December 31, 1991), NEPRP was extended for another two years and program support funds were increased.

At the time NEPRP was designed, it was recognized that the policy changes envisaged would be slow to produce economic effects. As a result, the monitoring schedule called for evaluations eighteen months (June 1993) and three years (December 1994) after the program was completed. In 1991, however, USAID/Niger was authorized to add a final, non-project resource transfer. The present evaluation is intended to help the Mission decide how to amend the NEPRP grant agreement to provide suitable new resources to the GON in exchange for appropriate additional economic policy reforms.

As the table of contents shows, the report contains three sections:

I. **BACKGROUND OF NEPRP** includes an examination of Niger's political, economic, and fiscal environment.

II. **EVALUATION OF NEPRP** examines the existing program (as amended earlier), reviews technical compliance by the GON and USAID/Niger with commitments under the grant agreement, and appraises the underlying assumptions upon which NEPRP was based. It then demonstrates a quantitative method, to be used when and if the necessary data become available, for evaluating the effect that NEPRP's main condition precedent (elimination of export tariffs on agro-pastoral products) had upon achievement of the program's stated objectives.

III. **RECOMMENDATIONS FOR AN AMENDED NEPRP** provides suggestions for program modification in connection with the anticipated amendment and final resource transfer. These involve a variety of economic policy reforms that the GON might be asked to undertake in exchange for further subsidy funding.

I. BACKGROUND OF NEPRP

During NEPRP's initial three years, a great deal happened in Niger. The political system was transformed through citizen participation; the one-party state was swept away, to be replaced by a transition government charged with responsibility to oversee successive popular votes that will ratify a new constitution and elect a chief executive, a national legislature, and local officials. A new republic, based upon multiparty democracy, is scheduled to come into being at the end of January 1993.

The United States and other donors are delighted, but they (and many Nigeriens) are aware of serious threats to political order: active ethnic conflicts, unrealistic economic demands from special interest groups, a severely depressed and constrained economy, and an administrative apparatus unable to collect revenues sufficient to maintain itself, much less provide useful services. Although Niger is critically dependent upon foreign aid and thus, in principle, the donors should be able to exact sweeping reforms as a condition for further support, the government is so weak and the economic situation so tenuous that both sides are looking for ways to get through the transition period without seeing the country's social fabric unravelled.

Niger's gross domestic product (about $2.3 billion a year, or $ 290 per person) varies with the amount of rainfall, the price of uranium, and the exchange rate between the CFA franc and the Nigerian naira. As nuclear power programs were cut back in industrial countries, world market prices for uranium plummeted. Even with a substantial subsidy built into the purchase price by France, Niger's main customer, foreign exchange earnings have declined dramatically. During the period NEPRP has been in effect, rainfall has been about average, but an economic recession in Nigeria has distorted Niger's traditional market for agro-pastoral exports.

The political and economic conditions of the past three years have overwhelmed Niger's archaic and poorly administered revenue collection system. The government's inability to meet its obligations--notably by paying public service salaries--has given concrete form to the people's suspicion that the existing political system is unable to cope with their very real economic and social ills. In turn, the collapse of public confidence in formal institutions of government has created a widespread abandonment of civic responsibilities, evidenced by strikes, a military mutiny for back pay, and a refusal to pay taxes. It is fair to say that most private sector operators find the tax system too complicated for small and medium sized firms. Businessmen in the modern, formal sector believe the government hits them hardest because they are the most visible victims. There is a general trend toward escape from the formal sector into the informal.

II. EVALUATION OF NEPRP

Non-project funds under NEPRP were disbursed in three tranches accompanied by conditions precedent (CPs). The principal CP to disbursement of the first tranche was elimination of tariffs and certain other taxes on agro-pastoral exports. However, the GON continued to collect a "statistical tax" computed at 3 percent of the *valeur mercuriale*, ostensibly to defray the government's cost of obtaining essential information on exports. Prior to NEPRP, certain agro-pastoral exports had been taxed at rates as high as 20 percent.

Having achieved a major policy reform at the beginning of NEPRP, USAID sought to maintain progress by requiring the GON to meet more numerous (eight each for the second and third tranches), but less significant conditions. In general, the CPs for the second tranche required the GON to take some specified policy decisions, while those for the third tranche required action to implement them. None of the later CPs had the potential impact of the tariff elimination measure, none was quite so clearly defined, and none was so easily met.

The success or failure of NEPRP needs to be measured by more than the fulfillment of conditions precedent. More important for future program design (including design of the NEPRP amendment) is the consideration whether basic assumptions underlying NEPRP were realistic or unrealistic. The evaluation makes the following points:

1) Assumptions about the GON's political will to carry out economic policy reform were over-optimistic. Although there are public officials in Niger who understand the need for economic policy reform and are working hard to achieve it, the control mentality usually associated with central planning prevails.

2) A word of caution is appropriate about the impact measurement criteria identified in the PAAD. Some of these criteria should not be viewed as systematic evaluative measures of the success of NEPRP. They are likely to be subjected to many other economic and social factors. Rather, they should be evaluated in conjunction with other evidence as corroborating a general trend about the potential impact of the reform policies.

3) Evaluators should bear in mind that it was highly unlikely that NEPRP could have generated in such a short period of time enough economic activity to replace the revenues lost through elimination of tariffs on agro-pastoral exports, especially given the breakdown in the GON's fiscal administration. Therefore the timeframe of three years, following completion of the NEPRP, allowed for producing measurable economic results was too short and seemed unrealistic. In general, donors must adjust their time horizons to take account of the long delays before sustainable improvements become noticeable.

4) Probably no economic policy reform program alone will persuade informal sector operators to enter the formal sector, particularly, when the cost of operating in the latter far exceeds the benefits derived in the former. Self-interest and tradition give the informal sector strong advantages. Indeed, the tendency today is to abandon the formal for the informal sector for these very reasons.

5) Given point (5), an evaluative assessment conducted in the first half of 1992 has limited chance of providing conclusive evidence of NEPRP effectiveness.

6) During three years of NEPRP's operation, economic conditions in Niger deteriorated sharply, diminishing the GON's ability to provide the annual baseline data called for in the program grant agreement. Without this data, the full-scale evaluation envisioned by USAID/Niger will remain impossible.

Nevertheless, it is possible to provide a procedure for evaluating NEPRP, should the data eventually become available. Using the five objectives of NEPRP, we provide an evaluation through the following steps:

i) identification of measurable data relevant to each of te criteria;

ii) evaluation of changes in the data;

iii) an attempt to identify and evaluate non-NEPRP events that might have accentuated or negated the expected NEPRP effect;

iv) a qualitative judgment confirming or refuting a causal relationship between NEPRP and the changes observable in the data, in light of (iii).

On the basis of preliminary analysis, using admittedly incomplete data, we find that most of our indicators point in the same direction. This gives us the courage to make a qualitative judgment: *NEPRP is achieving what it was intended to achieve.*

III. RECOMMENDATIONS FOR AN AMENDED NEPRP

Our recommendations for further reforms under an amended NEPRP are divided into three categories:

1) Fiscal Reforms

- simplification of taxes on small and medium sized firms
- promulgation of a *Code Général des Impôts*
- administrative reorganization of the fiscal services
- abolition of the Economic Police
- in-service training for Customs Service agents
- tax education and training for business operators
- change in the law governing forfeiture of security

2) Other Governmental Reforms

- revision of the *Code de Commerce*
- privatization of the *Chambre de Commerce*
- elimination of unnecessary road checks

3) <u>Agro-pastoral Promotion</u>

- undertaking of an onion production and marketing project

Given the urgency of the transition government's needs and the desire of the United States to sustain the movement toward multiparty democracy (and to persuade the GON to return as quickly as possible to the process of structural adjustment), any conditions precedent to disbursement of the final resource transfer under NEPRP should fulfill, to the extent feasible, the following guidelines:

- Be quickly accomplished.
- Involve a maximum of two tranches.
- Involve no loss of revenue or increase in spending implications for the GON.
- Reduce government interference in private economic activity, including (but not limited to) agro-pastoral exports.

On the basis of these guidelines, we recommend the following to serve as conditions precedent:

<u>First Tranche</u>:

1) Eliminate the economic police.
2) Promulgate a unified tax code.

<u>Second Tranche</u>:

1) Revise the law governing forfeiture of security.
2) Revise the Commercial Code.
3) Reorganize the *Chambre de Commerce*.

I. BACKGROUND OF NEPRP

Customarily, evaluation of an A.I.D. program would begin with a brief summary of macroeconomic conditions in order to provide a framework for discussion of program specifics. Because USAID/Niger has been authorized to amend the Niger Economic Policy Reform Program (NEPRP) grant during FY 1992, and this evaluative assessment is therefore intended to complement the amendment process, the first section is longer and more detailed than might have been the case had its audience been restricted only to Mission personnel in Niger and those officials of A.I.D./Washington who are thoroughly familiar with the country.

In the case of NEPRP, the framework is incomplete without some discussion of recent political events, which have considerably affected the environment upon which the program's design assumptions were based. Since policy reform is the heart of NEPRP, political constraints are of its essence. Accordingly, any evaluation of NEPRP without reference to politics would risk overlooking important factors bearing on program performance, compliance with conditions precedent by the Government of Niger, and opportunities to achieve economic and political development objectives in Niger during the next phase of the program.

As this evaluation is written, Niger has a transition government whose structure is in flux. Many relationships between the government and various economically significant sectors of society have changed (or at least have become less determined) during the time NEPRP has been in operation. The *Conférence Nationale* that greatly broadened popular participation in Niger's policy making processes took upon itself authority to abrogate the existing constitution and to establish interim institutions leading to a new republic based upon a multiparty democracy. It is difficult today to guess what new political relationships, either formal or informal, will accompany the establishment of successor institutions.

The country's new political direction is welcomed by the United States and other members of the international donor community. At this point, however, the political changes are more potential than real; moreover, neither Niger's underlying sociopolitical forces nor its severe economic disabilities have changed much as a result.

A. Political Framework

Niger's indigenous population traces its origins to a series of migrations over many centuries, bringing groups with distinct language and other ethnic characteristics into regular contact with each other. Like Mali to the west, Niger has long been a crossroads of transport and communications between Sub-Saharan Africa and northern Africa, the Sahara desert serving as both barrier and link. Like Chad to the east, Niger has been a place where warriors, traders, and producers have lived in contentious proximity. Internal conflict is still a serious problem, especially in the desert region.

The arrival of the French in 1899 was motivated more by military objectives (security for other parts of French Africa) than any grand design for establishing political or economic hegemony. Fighting continued in the desert marches for decades, but more mundane civilian tasks became more important with the gradual extension of military control. The colony of Niger was established in 1922; economic attention focused first on helping the colonial administration pay for itself, and later on providing markets for products from the *métropole*. Political reforms following World War II led to local self-government and, in 1960, to independence.

Hamani Diori, Niger's first head of state, adopted an autocratic style of government that suppressed expression of political differences. His government, widely resented in Niger as corrupt, proved ineffectual in dealing with the drought of 1968-1973. President Diori's military chief of staff, Lt. Col. Seyni Kountché, was a strict moralist not tolerant of weaknesses in his subordinates nor, as it turned out, in his superior. Following his successful military coup (1974), Col. Kountché and his subordinates suspended the constitution of the first Nigerien republic and created a Conseil Militaire Suprême (CMS) that undertook to improve distribution of food aid.

Col. Kountché's coup came at a fortuitous moment, inasmuch as the drought was coming to an end, the first global oil shock was driving up uranium prices, and the French government proved amenable to renegotiating ownership of the uranium mines, giving the government of Niger a 33 percent share (see Section I.B., "Macroeconomic Framework", below). With uranium revenues swelling the treasury, the CMS raised government workers' salaries, cementing its popularity in Niamey, and undertook a variety of investments in infrastructure, including the paving of roads linking major towns. This pleased the people in the countryside.

The good times lasted only about five years, however. In 1979, uranium prices began a steep decline, President Kountché implemented a severe austerity program, and political repression became pervasive. Tentative measures in the early 1980s to restore constitutional government came as the president's health began to fail. Renewed drought, further erosion of uranium prices, and a severe economic recession in neighboring Nigeria disrupted Niger's economy.

When President Kountché died in Paris in 1987, the acting head of state, Col. (now Brig. Gen.) Ali Saïbou was confirmed as chairman of the CMS. A career soldier who presented himself to the people as a simple man of modest educational attainments, he cultivated popularity through good-humored self-deprecation and by softening the tone of national politics, removing much of the harshness that had pervaded President Kountché's character and executive style. His goal, President Saïbou said, was to *décrisper* (unclench) life in Niger. He called for the drafting of a new constitution and created a one-party state; both were approved by referendum and elections held in 1989, which led to promulgation of the second republic.

These steps occurred at a time when the Nigerien government was forced to wrestle with renewed economic decline and related social dislocations that embittered various elements of society. In 1988, students at the University of Niamey boycotted classes for twenty-two days in protest against reductions in their stipends. Another outbreak came in June 1989, when merchants at Niamey's main market rioted after customs agents tried to collect taxes on undeclared imports. Next, reform of school system payroll administration caused a three-day teacher strike in October 1989; the government backed down.

On February 9, 1990, the military government passed a point of no return, security forces fired on university students who were protesting the end of automatic recruitment of graduates into the civil service. In June, the country's labor union confederation, the *Union des Syndicats des Travailleurs du Niger* (USTN) carried out a successful 48-hour general strike.

Thereafter, public demands for political change became incessant. In November, President Saïbou proclaimed a multiparty system, thereby sanctioning the political ferment already under way; in an effort to preserve national cohesion, the government prohibited associations based upon ethnicity or geography. A wide variety of political parties and special interest organizations (including human rights groups) sprang into being. The establishment of several new, private newspapers and other periodicals created forums for policy debate and criticism of the government. In April 1991, the government revised the existing constitution to provide for a National Conference that would address Niger's pressing political, economic, and social issues.

The *Conférence Nationale* that opened on July 29, 1991 brought together some 1,200 delegates from all sectors of Nigerien society, in what quickly became not only a national political catharsis, but also a self-conscious, determined effort to transform existing institutions. Instead of briefly airing their differences as expected by the government, the delegates met for more than three months, during which time they (a) suspended the existing constitution, (b) dissolved the national legislature, (c) abolished the apparatus of the once-unique political party, (d) dismissed the existing ministerial cabinet, (e) elected a new prime minister, (f) adopted a basic law organizing public powers during a transition period, (g) elected a committee to serve as an interim legislature, and (h) formed a transitional cabinet to direct the routine tasks of government.

The period of transition toward the third republic of Niger is intended to run from November 1, 1991 until January 31, 1993, during which time the main institutions will be the *Présidence de la République* (chief of state, still President Saïbou); the *Haut Conseil de la République* (national legislature); the *Gouvernement de transition* (interim administration); and the *Cour Suprême* and *Haute Cour de Justice* (judiciary). The transition period will be used to organize a national referendum on the draft constitution (June 1992), presidential election (October), legislative elections (November), and local/municipal elections (date to be determined).

Political change is not occurring in a social or economic vacuum; there are issues of ethnicity. Each of Niger's nine major ethnic divisions finds most of its members living in some other country; thus, to the extent anyone owes loyalty to a larger community (beyond family and village), it lies outside the boundaries of the modern state. Four groups account for 95 percent of the population:

Ethnic Group	Percent
Hausa	53
Zarma	21
Tuareg	11
Fulani (Peul)	10

The realignment of political power and the reduction of state intervention in the economy have implications for power sharing among ethnic groups, notably the Zarma and the Hausa. The Zarma, whose traditional territory includes the capital at Niamey, are among Niger's political, administrative, and military elite, having sought European-style education and participation in modern institutions since early in the colonial period. Consequently, they have been numerous and influential in Niger's post-independence governments. The Hausa, who comprise the country's largest ethnic group (slightly more than half the population), have dominated commerce for centuries in what is now southern Niger, and are likely to take a leading role in building the private economy sought by the donors through such programs as NEPRP. Thus, economic policy reforms considered politically neutral by the donors may have disturbing political and social implications for officials in the Nigerien government, many (if not most) of whom come from the Zarma ethnic group.

In addition, a serious conflict involving the Tuareg ethnic group in the northern part of the country threatens not only to undermine the social harmony sought during the *Conférence Nationale*, but also to drain scarce resources into essential efforts to maintain security. The Tuareg problem has roots in Niger's distant history, making it unlikely to be resolved easily or soon: the Tuareg are nomads who traditionally lived by controlling resources and trade routes in the Sahara, exacting tribute and occasionally raiding sedentary communities in the south to seize cattle, goods, and slaves. Thus, ethnic distrust between nomad and settler is a sensitive issue. During the severe drought of 1968-1973, Zarma and other officials in the south profited from suffering among nomadic groups and treated the Tuareg as outcasts from Nigerien society. Although the bulk of Niger's foreign exchange earnings come from uranium exploited in territory traditionally ruled by the Tuareg, relatively little of the income has been spent on social services to nomads. The presence of Tuareg populations (and similar political/security problems) in neighboring Mali, Algeria, and Libya complicates efforts to contain and resolve this difficult ethnic issue within Niger.

On the macroeconomic front, the *Conférence Nationale* debated divergent viewpoints on a great many aspects of life in Niger. In the process, it drew up a *Cahier des Charges* (book of tasks), effectively the interim government's marching orders. Many foreign and Nigerien observers are aware that the *Cahier* demands everything for everyone of a government whose resources are extremely thin; nevertheless, on balance it represents a great deal of enthusiastic support for laudable objectives: human rights, economic liberalization, education, social services, environmental protection, and the like.

Within the donor community, criticism has focused on the *Cahier's* demands that the government continue to pay student stipends and that it maintain both the number of civil service positions and the aggregate level of civil service salaries. Taking their lead from the IMF and the World Bank, bilateral donors have argued that structural adjustment and economic policy reform must perforce override these policy guidelines; however, they are also looking to offer programs (with appropriate conditionalities) that will help the government shift its existing resources and refocus its energies on providing needed services in ways that have (at worst) a neutral effect on funds and personnel. While striving to fulfill the objectives outlined in the statement of work for the NEPRP evaluation, the evaluators have tried to bear this important provision in mind. In addition, they have tried to find ways to increase the government's revenues without restricting or discouraging those private business activities so desperately needed for economic development (see Section I.D., "Fiscal Overview", below).

In preparation of the NEPRP amendment, however, it is important to bear in mind that following a brief period of prosperity, Niger has been in fairly steady economic decline, leaving the government with ever fewer resources. Despite the *Conférence Nationale's* encouraging and entirely laudable efforts to establish new, effective democratic institutions, the government is in perilous condition, its constitutional basis shaky, its authority questioned on every hand, its ability to serve the people severely limited, its cherished power to interfere in economic and social activity rapidly eroding, to the point where villagers in remote areas are organizing themselves to meet local needs without reference to the central authorities. This is a government that has seized up, its wheels unable to turn for lack of an essential lubricant, money. The government, having little to spare on substance, concentrates on maintaining itself in existence, and does that poorly. At the time this report was drafted (April 1992), the government had just succeeded in paying civil service salaries for February, but was discouraging speculation that it could catch up completely any time soon.

In such circumstances, the imposition of demanding conditions precedent is tempting, given the government's weakness and desperate dependence upon the donors. On the other hand, conditions precedent that presuppose effective administration and accurate information are beyond the government's capabilities in the current situation.

B. Macroeconomic Framework

1. National Accounts

Like its Sahelian neighbors, Niger ranks among the poorest countries in the world. Prospects for growth depend upon discovery of additional mineral resources, over and above uranium, and upon improvements in agro-pastoral production, processing, and marketing, especially for export.

Progress everywhere in Niger depends fundamentally on improvements in education, including all kinds of technical training. From education may come increased productivity in farming and livestock raising, higher levels of hygiene and public health, lower birth rates as well as lower infant mortality, and better management of productive enterprises and government.

Niger's gross national product has been stagnant since the beginning of the 1980s, when falling global demand for uranium reduced export revenues, while global recession (especially severe in neighboring Nigeria) disrupted Niger's usual markets for its agro-pastoral exports. After rising because of ample rainfall in 1988, gross domestic product declined by 3.5 percent in 1989 and by 4.5 percent in 1990. The country's trade balance is chronically in deficit, its payments balance even more so because of transportation and other external costs. For fiscal year 1992, the government's finances are in crisis, inasmuch as a falling economy has eroded the fiscal base and political turmoil over the past two years has reduced both revenue collection capabilities and efficient management of expenditures. (See section I.D, Fiscal Framework.)

The government relies heavily upon foreign aid funds to meet its financial needs (the donors supply nearly 50 percent of the recurrent budget and all of the investment budget), and on foreign technical assistance to promote increases in productivity. (See section I.E, Foreign Aid.)

2. Environment and Resource Base

Geography and Climate

Niger, the largest state in West Africa, covers an area of 489,191 square miles (1,267,000 sq. kilometers). Its major bodies of water are the Niger River and Lake Chad. Where and when it rains enough in the south, local flooding can occur near intermittent streams and lakes, which are used for agriculture until they evaporate as the dry season advances.

There are two climatic zones: hot and dry in the south, hotter and drier in the north. In the extreme south of the western panhandle, annual rainfall can exceed 800 millimeters a year, but northward the rate decreases rapidly. There is a narrow band (about 100 miles wide, running along Niger's southern border with Nigeria between Birni N'Konni and Zinder) that receives 500-600 mm. of precipitation a year, just enough for rain-fed agriculture. This gives way to a broad expanse (150 miles wide) of Sahel, in which rainfall of 200-500 mm. allows grass and scrub to grow; these provide forage for the country's economically important livestock. North of the Sahel, about two-thirds of the country lies within the Sahara desert, where small, scattered oases provide the only environment hospitable to agriculture. In the course of both recent major droughts (1968-1973, 1983-1984), the Sahara expanded southward, further reducing areas available for herding and farming.

During such droughts, which occur perhaps one to three years out of fifteen or twenty, forage for livestock disappears, decimating the herds, and production of food grains falls sharply. For most Nigeriens, drought means their livelihood ceases to exist. If herdsmen, they trek south from the rangelands into the towns, losing animals to thirst and starvation as they go. If farmers, they become refugees on their own land.

Natural Resources

Aside from uranium, which is still a mainstay of the economy, although not the bountiful source of wealth it was during the 1970s, Niger is exploiting very few minerals, currently only limestone and aggregates for cement (consumed in Niger), coal to generate electricity for the uranium mines, cassiterite (tin ore), and gold, the latter two exploited by artisanal miners using labor-intensive methods. There has been some exploratory oil drilling in Kaouar, northwest of Lake Chad. Gypsum, iron ore, and phosphates have been identified but not developed; the latter two involve major ore bodies (650 million and 207 million tons, respectively), but iron ore development awaits improvement in world prices, and the phosphates lie under the country's largest national park/wildlife preserve (a tourist attraction), posing an environmental dilemma.

Since most Nigeriens are involved in agro-pastoral production, land fertility is critically important to the economy. In addition to the climatic problems mentioned above, Niger suffers from extremely fragile and nutrient-poor soils. As a result, any attempt to increase the productivity of marginal territory, either as range or farmland, is liable to produce environmental degradation within a few years. The increase in population is now pushing farmers to encroach more and more on lands that traditionally supported only livestock. Niger's use of fertilizers, whether locally available manures, domestic phosphates, or imported chemicals, is among the lowest in the world.

Human Resources

Niger's most recent census, completed in mid-1988, recorded a total population of 7,250,000. By far the majority of Niger's people live within 100 miles of the Niger river or the border with Nigeria, as these are the areas where agro-pastoral production is most feasible.

Given an estimated rate of population growth of 3.3 percent, one of the highest in the world, Niger's population should be about 8 million by year-end 1992. At this rate, over half the population is under twenty years of age. Given also a high infant mortality rate, the average life expectancy in 1988 was forty-five years; this compares with thirty-eight years in 1970. High infant mortality puts a social premium on a large number of pregnancies in each family. Married women in Niger produce, on average, seven children.

These figures explain why social services (housing, utilities, health, sanitation, schooling) and job formation lag far behind population growth. Although free education is in principle compulsory from age seven to fifteen, only about 18 percent of school-age children were in classrooms in 1988, again a considerable improvement over the 1970 performance, which was 8 percent. However, illiteracy in Niger remains above 85 percent (80.6 percent for men, 91.4 percent for women). Among Nigeriens of secondary school age, only 6 percent attend school.

In 1988 there were just under 370,000 primary school pupils and about 59,000 in secondary schools. At the primary level males outnumber females by nearly two to one; at the secondary level the imbalance increases to more than three to one. In 1988 there were 3,541 students at the

University of Niamey, a secular institution with faculties in liberal arts, science, technology, economics, and law. There is also an Islamic university at Say, near Niamey, that draws Muslim students from much of West Africa.

3. Infrastructure

The government used revenues during the uranium boom years to improve communication and transportation at key places, i.e., in the south where population is concentrated, and at the mines. However, water and energy services are inadequate over large areas outside the main towns (Niamey, Maradi, Zinder, Tahoua, Agadez).

Transportation and Telecommunications

Being landlocked, Niger lies at the end of very long and hence expensive lines of transportation. Since it is a large, sprawling territory, transport to remote areas (where the uranium mines are located, for example) is difficult and time consuming. However, the majority of the people live in the southern-most region of the country. The principal means of transport is the road network, as there is no railway and that part of the Niger River system within the country's borders is navigable only for short distances.

There are about 12,000 telephones in Niger; most are in Niamey. Service between towns has improved as a result of new equipment. International service is relatively good because of satellite links.

Energy

For most Nigeriens, energy needs are met by firewood and charcoal, both available from forests in Niger, although increased consumption and insufficiency of reforestation mean that supplies are depleting rapidly. In principle, all petroleum supplies are imported by the state energy monopoly; in practice, gasoline is smuggled from Nigeria and sold through informal markets. Since Niger does not produce enough electricity to meet all its own needs, it buys power from the Kainji hydroelectric station in Nigeria.

4. Production and Trade

Niger's economy is typical of Africa: most of the population still engaged in subsistence farming in rural villages; rapid population growth, with young workers migrating from the country into the towns in search of higher incomes; dependence upon one product (uranium) for most export revenues; reliance upon government spending and state-owned firms to produce goods and services and to generate economic growth (although the number of state-owned firms has diminished as a result of structural adjustment); a lack of management skills to organize people and to use technology to improve productivity.

The principal causes of variation in Niger's gross domestic product are (in order of importance) the amount of rainfall, the price of uranium, and the exchange rate between the CFA franc and the Nigerian naira. In the discussion below, uranium will be treated first because the other two components, agro-pastoral production and export trade in agro-pastoral products (principally with Nigeria) are central to USAID's objectives in Niger and to the NEPRP. Accordingly, they are treated under part C of this section (Sectoral Framework: Agro-pastoral Exports).

Uranium

Since its discovery (1959) and exploitation (early 1970s), uranium has dominated the mining sector, becoming the main source of Niger's foreign earnings. National reserves are estimated at 210,000 tons, about 8 percent of the world total making Niger the world's third-largest producer. The mines, located west of the Aïr mountains near Arlit, are owned by three Nigerien companies, SOMAIR, COMINAK, and SMTT. Their shares, in turn, are held by international consortia that include the Nigerien government's minerals holding agency, ONAREM, and an array of foreign uranium purchasers (notably in France, Japan and Spain). The Nigerien government has no plans to reduce its ownership share in the firms operating the mines.

Foreign shareholders are the Nigerien uranium mining companies' preferred customers, the investors' original intention having been to establish reliable supplies. However, world uranium prices have fallen as a result of cutbacks in nuclear power programs in industrial countries, largely due to environmental concerns. France has undertaken to support the Nigerien uranium sector by buying most of the output, and by paying prices at a premium over the spot price on the free market. During recent years, owing to the extreme decline in world demand, the subsidy has risen sharply. In 1989, the subsidy alone amounted to more than 250 percent of the spot price and accounted for more than 50 percent of Niger's export revenues.

The Role of the Informal Economy

In reality, Niger has two economies, one operating on modern principles of legal rationality and fiscal accountability (the formal sector), and another operating according to tradition (the informal sector). The formal sector is small (employing only 3 percent of the people) and concentrated, but inefficient in comparison with industrial countries; it embraces government services and state enterprises (the mining sector and public utilities, for example), as well as some transport and some commerce. These accounted for about 28 percent of GDP in 1990, down from 36 percent in 1980.

The informal sector, by contrast, is large, diffuse, and vibrant in places, consisting not only of the peasant majority but also a vast array of small service and craft activities. In 1990, agro-pastoral activities accounted for 38 percent of GDP, down from 41 percent in 1980, while informal sector enterprises (goods and services) provided 34 percent, up from 23 percent in 1980. Thus, Niger has been undergoing a steady "informalization" of the economy, a trend that appears to have accelerated during the past two years.

Many private producers remain in the informal sector because they lack the knowledge to participate in the formal sector. In addition, most are illiterate and few have any knowledge of written accounts. Impeded by its own inefficiency and lack of political will, the government has taken few successful steps to convince informal sector operators of the social objectives and economic benefits of formal sector participation.

Informal sector operators often find modern economic practices in conflict with traditional social and economic responsibilities. Moreover, by remaining informal they gain adaptability and responsiveness to market changes. They also evade taxes, record-keeping, and other costs that impede formal sector growth.

However, operating in the informal sector does not mean escape from the government; small informal sector operators in particular already pay substantial sums in market and other official taxes, plus countless illicit fees and bribes that supplement the incomes of participants (particularly government employees) in the formal sector. In addition, they find themselves under obligations to traditional authorities, including larger informal operators. The largest informal operators are perhaps best placed to prosper in Niger, inasmuch as they can use their wealth to increase their traditional authority, which they use in turn to protect and increase their wealth; tax evasion is only one means to these ends.

Some donors continually press the government of Niger to increase its tax revenues, and thereby reduce its budget deficits, by extending collection efforts into the informal sector. This can be useful only if it reaches those informal operators best able to pay--the largest among them. However, the largest also have the most political power, and governments in Niamey lack the political will to enforce collections. It is worth noting that informal operators, large and small, survive and grow under economic conditions that have ruined the formal sector. As a result, more and more formal sector operators are slipping into the informal sector where they can compete on a more equitable footing. Thus, one of the premises underlying NEPRP, that economic policy reform should encourage informal operators to gain efficiency by entering the formal sector, appears to be unjustified by recent business experience.

The assumption that taxing the informal sector more effectively should be a target of economic policy reform appears equally out of place. If aggregate economic development is the donors' main objective in Niger (development being defined here as increasing capacity to add value), then the donors might best encourage informal sector operators to be as competitive and productive as their efforts can make them, and encourage the government to tax them as lightly as possible.

C. Sectoral Framework: Agro-pastoral Exports

1. Agro-pastoral Production

Farming and herding are the heart of Niger's traditional economy; more than 80 percent of the people are engaged in this sector. Farmers generally concentrate on millet and/or sorghum. Maize, rice, cassava, groundnuts, and off-season vegetables are also grown for domestic consumption or local trade. Cotton, cowpeas, and onions are export cash crops; the government is trying to encourage the growing of garlic, peppers, and potatoes for export as well. Livestock herding involves mostly cattle, sheep, and goats, although asses, horses and camels are also important. Most agro-pastoral goods are consumed locally, usually by the family that produces them.

Virtually all subsistence farming employs traditional methods that consume intensive hand labor and produce low yields. The Government of Niger's efforts to add value by processing agro-pastoral products and manufacturing food products in state-owned enterprises led to chronic losses and a heavy drain on the country's financial resources; as a result, many of these firms have closed.

Recently the country enjoyed several years of good rainfall, yielding substantial crops of grain and other foodstuffs, and providing livestock owners time to rebuild their herds after the 1984 drought (see Table IV and Figures II for data on agro-pastoral production).

There is limited, local cross-border trade in millet, sorghum, and maize, the staples of both Nigeriens and their African neighbors. Irrigated rice has had some success along the floodplains of the Niger River and its tributaries, although largely subsidized; almost all domestic rice is consumed within the country, and there are substantial imports of foreign rice, most of it from Asia.

Niger also exports cowpeas and onions. The 88 million Nigerians living next door are by far the largest market for Niger's livestock, grains, and cowpeas; onions are exported to neighboring francophone countries, notably Côte d'Ivoire. There is fishing in the Niger River and its tributaries, and in Lake Chad. The government has vigorously encouraged production of off-season fruits and vegetables to supplement the basic Nigerien diet of millet and sorghum.

2. Trade with Nigeria

The Nigerien rural economy is extremely sensitive to events in Nigeria. This is natural, inasmuch as Niger's people have traditionally gained some of their livelihood trading surplus livestock and crops to the more than 88 million Nigerians. During Nigeria's civil war (1967-70), shipment of goods from the coast to northern Nigeria was extremely difficult. This led to the growth of Niger's livestock and grains exports, as well as a lively transit trade in which imports were brought into ports such as Cotonou and Lomé and forwarded to Niger, whence they crossed the long frontier at points close to the major cities of northern Nigeria. The years of Nigeria's oil boom (1973-1982) roughly coincided with good rainfall and good uranium sales in Niger, which created rewarding economic conditions on both sides of the border. Similarly, the end of Niger's uranium boom coincided with the collapse of oil prices and a sharp drop in Nigeria's income.

The World Bank's structural adjustment program for Nigeria included steep devaluations of Nigeria's currency, the naira, to about 10 percent of its 1984 value. With the floating of the naira early in 1992, it has now fallen to less than 5 percent of its 1984 value. Naira devaluation has made transit shipment of goods to northern Nigeria unprofitable for virtually all items except those prohibited entry into Nigeria, such as cigarettes, liquor, rice, and wheat flour. While Nigeria had been a major importer of livestock, crops, and transit goods from Niger, today it is a major exporter to Niger--of refined petroleum products, textiles, metalware, plastic products (building materials as well as housewares, sandals, etc.), paper products, and transit items such as rice, consumer electronics, audio and video tapes, and the like.

Two factors support continued active trade between Niger and Nigeria, despite the instability of the naira. First, some Nigerian traders price and sell their merchandise in Niger or other countries of the franc zone primarily in order to receive CFA franc banknotes, which they then smuggle out of Nigeria to Europe and other flight capital havens. Second, there is strong barter trade between the two countries. For example, a trader from Niger may sell cattle in Nigeria for naira, only to spend the money immediately to buy gasoline for export to Niger; since petroleum product imports are a parastatal monopoly in Niger, this trade is illegal and not recorded in official statistics.

3. Agro-pastoral Exports

Agro-pastoral products now represent less than 10 percent of total export earnings. Nevertheless, in the absence of major mineral developments or other unforeseen economic windfalls, these products offer the best prospects for increasing and diversifying Niger's export earnings. Where they have found themselves in a position to exploit competitive advantages, Niger's traditional farmers and herders have succeeded in developing sizeable markets in neighboring countries (livestock and cowpeas in Nigeria, onions in Côte d'Ivoire). The institutional reforms obtained through NEPRP appear to be contributing to a further expansion of these markets. However, the program's more lasting benefit, assuming the reforms remain in effect, will come with the diversification into additional agro-pastoral production and exports.

Crop diversification is occurring at a time when the rural economy is becoming increasingly monetized and rural tastes are being affected by the availability of new products. Thus far, the new diversity is more evident in production than in exports. However, a number of off-season cash crops were only introduced to farmers and consumers within the past decade. Consumer tastes change relatively slowly in traditional, rural communities, but it may well be that past acceptance of new products (tomatoes, onions, peppers, carrots, etc.) will make it easier to adapt to future introductions, so that demand will increase more rapidly. (Cabbage may be the latest such product to attract Nigerien producers and consumers.)

Livestock, long the largest producer of export earnings after uranium, is steadily giving way to the growth of agricultural products. From 1981 to 1990, the share of livestock in total export revenues has decreased from 13 to 4 percent, while that of agricultural products has risen from less than one to 5 percent. One cause of the fall in official livestock exports was the 1983-84 drought, which decimated national herds. Because reconstitution of herds takes several years, lingering effects continue to affect exports which, although increasing, have not yet returned to 1981 levels.

Although production of grains and cowpeas has increased during the past several years of adequate rainfall, their exports have been little affected. Conversely, the growth in agricultural production resulting from increased cultivation (much of it irrigated) of off-season crops such as onions, tomatoes, and sweet potatoes (which, although consumed locally at times, are planted primarily as cash crops) has seen a parallel increase in the export of onions. This is evident in Table I on the following page , which shows that the export revenue share of cowpeas, a consumption staple, scarcely changed between 1985 and 1990. By contrast, the export revenue share of onions has steadily increased from less than 0.5 percent in 1981 to almost 2.5 percent in 1990.

Niger's largest non-African trading partners are France (59 percent of total export revenues), Japan (20 percent), and Spain (5 percent), all shareholders in the uranium mines and purchasers of their output. By comparison, the country's two largest African trading partners, Nigeria (9 percent) and Côte d'Ivoire (1 percent), provide relatively small markets. However, these are figures for official exports, and for Nigeria they include transit goods; probably, total exports (especially those to Nigeria) are much higher than recorded in GON statistics due to myriad small transactions carried out by informal sector traders. The major share of Niger's onion exports is destined for Côte d'Ivoire which acts as distribution center for the rest of the region.

D. Fiscal Overview

1. The Economic Policy Environment

Niger currently faces the gravest financial situation in its history as an independent nation. Recent budget estimates show internal fiscal receipts are sufficient to cover only 65 percent of current expenses, a proportion certain to be lower when actual receipts and expenditures become available for comparison. As a result, the multilateral financial institutions and bilateral donors have proposed measures intended to stabilize the financial situation and prepare a basis for economic recovery. The government, while adopting structural adjustment and economic policy reforms in voluntary recognition of their efficacy (and also in order to obtain essential external resources and technical assistance), is also trying not to neglect social conditions, notably employment and training. In February 1992, it announced its own economic and financial

Table I: Niger's Exports

(in CFA millions)

YEAR	TOTAL EXPORTS	URANIUM		LIVESTOCK		AGRICULTURE	
		VALUE	% TOTAL	VALUE	% TOTAL	VALUE	% TOTAL
1980	119,523	-	-	-	-	-	-
1981	123,589	98,090	79.37%	15,715	12.72%	568	0.46%
1982	109,124	90,750	83.16%	4,682	4.29%	1,331	1.22%
1983	113,896	94,192	82.70%	4,524	3.97%	6,234	5.47%
1984	133,030	100,539	75.58%	18,075	13.59%	1,892	1.42%
1985	116,538	90,956	78.05%	11,813	10.14%	3,768	3.23%
1986	109,645	90,706	82.73%	1,746	1.59%	817	0.75%
1987	93,863	85,343	90.92%	649	0.69%	3,312	3.53%
1988	85,941	74,928	87.19%	3,770	4.39%	2,014	2.34%
1989	77,710	65,324	84.06%	3,466	4.46%	3,691	4.75%
1990	76,939	63,706	82.80%	3,265	4.24%	3,853	5.01%

YEAR	TOTAL EXPORTS	LIVE CATTLE		COWPEA		ONION	
		VALUE	% TOTAL	VALUE	% TOTAL	VALUE	% TOTAL
1980	119,523	-	-	-	-	-	-
1981	123,589	14,485	11.72%	-	-	538	0.44%
1982	109,124	3,565	3.27%	625	0.57%	691	0.63%
1983	113,896	4,026	3.53%	5,651	4.96%	579	0.51%
1984	133,030	16,828	12.65%	322	0.24%	1,477	1.11%
1985	116,538	9,256	7.94%	1,982	1.70%	1,622	1.39%
1986	109,645	181	0.17%	51	0.05%	628	0.57%
1987	93,863	331	0.35%	295	0.31%	1,245	1.33%
1988	85,941	3,125	3.64%	573	0.67%	1,063	1.24%
1989	77,710	2,614	3.36%	928	1.19%	1,413	1.82%
1990	76,939	1,965	2.55%	1,369	1.78%	1,802	2.34%

SOURCE: "Direction de la Statistique, Ministere de l'Economie et des Finances" recovery program, whose principal objectives are the following:

- Restructuring of public finances and management of the public and parapublic sectors, including:
  - Reduction of the budget deficit;
  - Elimination of internal arrears;
  - Elimination of external arrears (interest and principal);
  - Reimbursement of treasury depositors.

- Improvement of the institutional environment through more appropriate regulation of economic activities.

- Recovery of economic activity, emphasizing:
  - Protection and diversification of national production;
  - Organization and energizing of economic activity, especially in the private sector.

- Improvement in national economic efficiency, and hence competitiveness.

- Protection of the most vulnerable groups in the society.

Earlier negotiations with the principal donors produced a rescheduling of foreign debt to both public and private creditors, establishment of various credit facilities with the International Monetary Fund and the World Bank, and a substantial structural adjustment program. Pursuit of the structural adjustment program was interrupted before the *Conférence Nationale* and has been dormant since. However, since a major share of foreign financing is tied to this program, it is likely to be a high priority for the government that takes power under the third republic; indeed, the transition government itself has continued negotiations with the IMF, the World Bank, and other donors.

The objectives of the government are not much different from those recommended by the International Monetary Fund, namely reduction of public spending and an increase in tax receipts at least to the point of covering current expenditures. However, government performance in these areas has deteriorated steadily for several years.

2. The Budget

For the past two years, the Republic of Niger has faced a budget crisis of disaster proportions. The situation is both a cause and a result of the political ferment that has swept the country during the same period. The government's inability to meet its obligations, notably by paying public service salaries, has given concrete form in the people's suspicion that the existing political system is unable to cope with their very real economic and social ills. In turn, the collapse of public confidence in formal institutions of government has created a widespread abandonment of civic responsibilities, evidenced by strikes, a military mutiny for back pay, and refusal to pay taxes.

The budget figures in Table II on the following page, pertain to 1992, the only full year the transition government is expected to be in office. The numbers reveal the extreme weakness of this government; plainly put, if the donors do not carry Niger through the transition, the government will collapse for lack of funds. Fiscal prospects for future years are not much brighter.

The deficit from current operations in 1992 is anticipated to be 80.1 billion CFA francs. The budget for recurrent transactions is itself in deficit, since total receipts fall short of current expenditures by 8.1 billion CFA francs. It is likely that the expected deficit will be even larger than anticipated, given that budget approval was delayed until April and that most civil servants are having second thoughts about paying the *impôt de solidarité.*

The government intends to finance a portion of the 1992 budget deficit by raising a total of 30.8 billion CFA francs. This financing includes 27.8 billion from external sources and 3 billion from local banks. This would still leave a total financing gap of 49.3 billion:

TOTAL DEFICIT

Foreign Financing	27.8
Local Borrowing	3.0
Financing Gap	49.3
TOTAL DEFICIT	80.1

The funds expected from external sources are largely bilateral gifts and multilateral loans (IMF, IBRD, CCCE, EDF), which are subject to conditionalities tied to the GON's agreement to a new structural adjustment program.

3. The Tax System

Niger's fiscal regime is similar to that in other francophone countries of West Africa, all heirs to the French colonial system. It is worth remembering that years ago the training of their tax, customs, and treasury agents took place in France at schools operated by the major fiscal agencies.

During the colonial period, the taxes paid by the modern sector of the economy were rigorously identical to those in effect in metropolitan France. These were based primarily upon economic activity (turnover taxes, fees, licenses), on business revenues (*impôt général sur le revenu, impôt sur les bénéfices industriels et commerciaux, impôt sur les bénéfices non commerciaux*, etc.), and on

Table II: Government of Niger, 1992 Budget

(in billions of CFA francs)

RECEIPTS				
A. Fiscal Receipts				
1. Taxes on consumption		26.3		
2. Taxes on goods and services		8.5		
3. Taxes on net revenues and profits		16.5		
4. Other		3.5		
Sub-total fiscal receipts			54.8	
B. Non-fiscal receipts			8.4	
C. Receipts on budget annexes			0.5	
D. Receipts on special accounts			2.0	
E. Contributions to national solidarity fund			5.0	
TOTAL RECEIPTS				70.7
EXPENDITURES				
A. Current Expenitures				
1. Goods and services				
a. Wages and salaries	38.7			
b. Materiel	17.2			
Sub-total goods and services		55.9		
2. Interest on public debt				
a. Foreign debt	10.0			
b. Domestic debt	1.6			
Sub-total interest on public debt		11.6		
3. Subsidies and transfers		9.3		
4. Road fund		2.0		
Sub-Total Current Expenditures			78.8	
B. Repayment of BDRN debts			-3.0	
C. Budget annex expenses			0.5	
D. Special Account expenses			2.0	
E. Capital expenditures			43.9	
TOTAL EXPENDITURES				122.2
DEFICIT ON CURRENT OPERATIONS				-51.5
ARREARS				
A. Foreign arrears			-18.6	
B. Internal arrears (identified)			-3.5	
C. Salaries			-3.5	
D. Other arrears (not yet identified)			-3.0	
TOTAL ARREARS				-28.6
TOTAL DEFICIT				**-80.1**

consumption (drinks, tobacco products, alcohol, etc.). Value added taxes were not in effect within the colonies. With respect to the informal or traditional sector, various local taxes were created for small commercial activities (market taxes, *cercle* or *arrondissement* taxes, taxes on public events) and on individuals--the head tax. These diverse taxes, both in their levying and in their recovery (collection), gave rise to numerous control measures and obligations that made them unpopular and even odious. However, the spirit of control is built into the French fiscal system, given that the Latin spirit is fundamentally at odds with any voluntary payment of taxes.

Fiscal systems evolved in the various francophone states as a function of economic development and modernization of production. (Nevertheless, the head tax, which symbolized the colonial system, was abolished everywhere.) Moreover, modernization of the economic environment has not occurred in the same way in all these countries. Despite the fact that Niger could have opted for a liberal policy at independence, it chose major state intervention in the economy. To all practical purposes, the country's economic history dictated this decision in 1960. Apart from its geographic situation, Niger had the least developed economic base of the eight former colonies of French West Africa (Afrique Occidentale Française, or AOF), given the absence of roads, railroads, water supplies, electricity, and other energy. In addition, its productive infrastructure was at best embryonic. Outside of the large French firms, few Nigeriens participated in wholesale commerce, industry, or services.

There did exist, of course, a class of wealthy traders involved primarily in the collection and commercialization of agro-pastoral products, but their activities were almost wholly in the informal sector and contributed in no substantial way to supporting the budget of the colonial government or its independent successor. This impelled the government, in the early years after independence, to try to create the institutions necessary for promotion of a modern economy. Private initiative being nonexistent or insufficient, it established large state-owned firms in all sectors, including commerce, distribution, banking, and industry. Thus, a powerful state sector, benefitting in many cases from monopolistic powers, competed with the private sector. At the same time, the government pursued a policy intended to put Nigerien private economic operators on an equal level with foreign-based firms that had been established prior to independence. This policy produced mixed blessings because the political powers often interfered with economic activity. The end result was an environment that prevented achievement of a true modern private sector, paying its taxes and creating modern jobs.

Thus, Niger experienced a proliferation of state-owned firms whose management often left much to be desired, weighing as a result on the state budget by virtue of larger and larger subsidies needed to service debt or redress bad management. Parallel to this was the growing political power of an informal sector whose revenues escaped most taxation. These simultaneous developments led straight toward today's economic crisis, aggravated though it may be by global economic factors.

Niger participates in the franc zone by virtue of membership in the West African Monetary Union (*Union Monétaire de l'Ouest Africaine*, or UMOA). This union links seven states of the former AOF (Bénin, Burkina Faso, Côte d'Ivoire, Mali, Senegal, Niger, and Togo) through a common central bank, the *Banque Centrale des Etats de l'Afrique Occidentale*, or BCEAO, which issues their shared currency, the CFA (*Communauté Financière Africaine*) franc. Membership in UMOA creates a certain rigidity in using monetary policy to solve problems of structural adjustment. With other member states, Niger is required to pursue a joint economic policy insofar as management of foreign assets and maintenance of exchange rates are concerned. The exchange rate is determined by a fixed parity rate of 50 CFA francs to one French franc; the latter's value on world markets determines the value of the CFA franc outside the franc zone.

Niger's array of fiscal instruments includes taxes collected for the central government and those collected for local entities:

<u>Central Government Taxes</u>

1) Revenue taxes:
    - General revenue taxes
    - Tax on industrial or commercial profits
    - Tax on noncommercial profits
    - Scheduled taxes on wages and salaries
    - Minimum fiscal tax

2) Direct taxes:
    - Apprenticeship tax
    - Real estate tax on developed property
    - Tax on rental value of buildings
    - Tax on landholdings by nonprofit (e.g., religious) entities
    - Fees and licenses
    - Firearms taxes
    - Control taxes on firms with mixed ownership
    - Automobile registration fees

3) Indirect taxes:
    - Value added
    - Alcoholic beverages
    - Tobacco and cigarettes
    - Petroleum products
    - Minerals
    - Registry taxes
    - Stamp taxes
    - Customs duties:
        - Tariff duties
        - Fiscal duties
        - Statistical taxes

Local Entity Taxes

Certain central government taxes have been transferred to local entities, which are empowered to collect them within their territories. This is the case for the real estate tax on improved property and for fees and licenses. There are also other specific taxes that are collected directly by local agents and spent by local governments. These include the following:

- *Arrondissement* taxes
- Market taxes
- Road taxes
- Taxes on public events
- Taxes on rental value of professional offices

Most of Niger's taxes are of relatively ancient origin, except for the value added tax, adopted in 1988 to replace the former tax on business turnover. The value added tax is intended to avoid penalizing enterprise as such, but rather to tax as neutrally as possible while offering a relatively easy way to make the tax an integral part of the price of goods and services. In rare cases it is almost impossible to measure value added, but usually this is a simple tax on consumption and is easily handled. However, collecting it is sometimes difficult in cases of multistage production, where small firms bear the brunt of it due to inelasticity of demand.

In the absence of analysis of disaggregated statistics on tax collections which would help in judging the utility of value added taxes or any other type, it is difficult to evaluate the revenue implications of any fiscal policy change, including the elimination of taxes on agro-pastoral exports that was the major condition precedent of NEPRP. It is equally difficult to make recommendations concerning further tax reforms that will stimulate private business activity, encourage entry into the formal sector, or improve the government's revenue position.

However, it is fair to say that most private sector operators find Niger's tax system too complicated for small and medium sized firms. An opinion frequently voiced is that it taxes the same revenues repeatedly. For example, for an industrial or commercial firm belonging to a sole proprietor, the salary he pays himself is taxed according to schedule, the firm then pays tax on its profits, and finally the profit he pays to himself is taxed again.

Other criticisms concern the collection of estimated BIC taxes by agents at the customs frontier, or prepayment of TVA by some small businesses when they make purchases. Misunderstanding of fiscal regulations may lead some businessmen to bear taxes that should be shifted to others (ultimately, to consumers) through inclusion in the price of products resold following processing. On the other hand, some businessmen include in the sales price certain taxes on which they could receive refunds (for example, BIC collected at the customs frontier).

Lastly, the policies for targeting taxpayers receive criticism from businessmen in the modern sector, who believe the government hits them hardest because they are the most visible victims. This sentiment has been strengthened by the practices of the Economic Police. (See section III.A., "Fiscal Reforms".)

One solution to these problems would be to work with taxpayers, in particular entrepreneurs and managers, to inform them better about the purposes and benefits of the fiscal system. This would require the creation of a sense of collaboration and mutual confidence between the government and businessmen; this is unlikely to occur without basic changes in attitudes on both sides.

E. Observation Notes on Public Finances

Niger's public finances have deteriorated considerably during the past several years. It is symptomatic of the situation that all the budgetary forecast which form basis for various economic development plans and programs of the government have been consistently revised downward since 1987. The latest forecast is that of the interim economic and financial reform program that was developed in February and adopted by the government and the HCR (*Haut Conseil de la République*) in April 1992.

For example, Niger's economic and social development plan for the period 1986-1987 forecast the following financial results:

BUDGET FORECAST, 1986-1992
(in Millions of CFA Francs)

	1986	1987	1988	1989	1990	1991	1992
Budgetary expenditures	133,800	145,400	156,508	165,833	177,766	189,073	201,522
• Current expenditures	71,200	75,000	78,708	80,533	82,866	84,763	868,718
• Operations	54,900	56,700	61,180	65,400	69,635	73,817	77,902
• Interest on debt	16,300	18,300	17,518	15,132	13,232	10,947	8,969
Investments	61,400	67,300	76,400	84,700	93,100	102,410	112,651
Other expenses and net borrowing	1,200	3,100	1,400	1,600	1,800	1,900	2,000
Receipts	73,200	81,200	81,100	90,600	98,600	107,400	117,800
Current balance	2,000	6,200	2,392	10,067	15,734	22,637	30,929
Deficit	-60,600	-64,200	-75,408	-76,233	-79,166	-81,673	-83,722

For the entire period, the forecasters assumed that current expenses would be covered by current budgetary receipts, essentially tax receipts. They estimated that government receipts would grow by 8 percent a year between 1986 and 1991. This optimism was based essentially upon expectations of considerable growth in the modern sector, mainly by the transformation of informal sector enterprises, and also by the creation of new activities. As is well known, such a scenario did not ensue.

The 1986-1991 Five-Year Plan took into account anticipated effects of the structural adjustment programs concluded with the IMF and the World Bank. Even so, it was overly optimistic because it anticipated large external financing requirements compared to Niger's low GNP and limited domestic resources.

Over time, lower uranium prices, drought, diminished net external capital transfers, the country's debt burden, and severe recession in Niger increasingly forced the government to abandon the Plan.

Finally, in the recent 1992 provisional budget, the government could only forecast 70.7 billion CFA francs in domestic fiscal receipts in comparison with the amount of 117.8 billion previously anticipated. Of the 70.7 billion, only 54.8 billion are collected through fiscal contributions, namely:

- taxes on consumption 26.3
- taxes on goods and services 08.5
- income taxes 16.5
- other taxes 03.5

During the three years covered by NEPRP, there was no growth in fiscal receipts. Rather, receipts declined substantially, especially in comparison with the forecasts in the 1986-91 Plan, as well as with annual estimates for each budget, which were considerably smaller than those in the Plan. This reflected the need to take into account various unexpected events, the most important of which was the uranium crisis which caused purchasing power in Niger to decline. This, in turn, caused a major decline in tax receipts. Revenue from taxes on consumption fell by 1 billion CFA francs in 1990 and by 4 billion in 1991. Receipts from income taxes fell by 3.7 billion CFA francs in 1990 and by 100 million in 1991. The table below shows the condition of fiscal receipts, forecast and actual over the period 1989 through 1992.

NIGER'S FISCAL RECEIPTS, FORECAST AND ACTUAL
(in Billions of CFA Francs)

	1989	1990		1991		1992
	Collected	Forecast	Billed	Forecast	Billed	Forecast
Total Receipts	71.7	77.3	66.4	78.3	53.6	70.7
Fiscal Receipts	56.8	62.0	51.8	62.8	45.6	54.8
• Taxes on Consumption	24.7	26.8	25.6	31.0	21.6	28.3
• Taxes on Goods and Services	12.6	13.8	10.1	12.3	8.3	8.5
• Income Taxes	17.2	18.4	13.6	16.4	13.5	16.5
• Other Taxes	2.3	3.0	2.5	3.1	2.2	3.5
Non-Fiscal Receipts	12.6	11.8	10.8	12.0	5.5	8.4
Budget Annex	2.3	3.5	4.9	3.5	0.5	0.5
Special Accounts	-	-	2.9	-	2.0	2.0
National Contribution (solidarity tax)	-	-	-	-	-	5.0

If the decrease in receipts from consumption taxes and income taxes is traceable to the decline in general economic activity, the fall in receipts from taxes on goods and services has different causes. These arise from ineffectiveness in tax collection administration. For instance taxes on goods and services include: real estate taxes, taxes on non-profit organizations, and taxes on rental properties. The following table shows recovery of direct taxes for 1991:

RECOVERY OF DIRECT TAXES, 1991
(in CFA Francs)

	Billed	Collected	Uncollected	Percentage Collected
Tax on Industrial & Commercial Revenue	4,776,732,559	3,584,326,787	1,192,405,772	75%
Tax on Non-Commercial Revenue	21,174,945	14,216,829	6,958,116	67%
Tax on Salaries	1,910,514,668	1,843,929,490	66,585,178	96.5%
General Income Tax	3,147,431,678	2,009,772,812	1,137,658,866	70%
Real Estate Tax	576,904,188	216,597,150	360,307,038	37.5%
Tax on Non-Profit Organizations	525,289,725	168,450,970	356,838,755	32%
Tax on Rented Properties	1,084,770,150	204,719,076	880,051,074	18.8%
Contributions to Training Fund	305,321,184	203,133,994	102,187,190	70%
T.F.G.	176,213,339	164,217,319	11,996,020	93.1%

The overall rate of collection for direct taxes is 68 percent, a rate that might appear reasonable at first sight. However, more careful analysis reveals that recovery rates are high only for those taxes withheld at source, notably those on wages and salaries collected by employers (96.5 percent), taxes on profits such as the BIC and the BNC (75 percent), and those on revenues such as the IGR (70 percent) retained by the employers for both public service and private sector salaries, and apprenticeship taxes paid by employers. By contrast, if one examines those taxes imposed by withholding, for whose recovery the Treasury services are responsible, one finds the rate of collection to be quite weak (30 to 40 percent, if not lower). This problem arises from two causes:

- the organization of the tax collection agencies;
- the inappropriateness of the taxes themselves.

1. Tax Collection Agencies

In Niger, the Treasury services are obsolete. Their agents follow practices dating to the colonial period; most are not held personally liable as is common for agents involved in tax collection work in other countries. A structural reform of Niger's tax collection services is essential, and the responsibility for collection must not rest with the Treasurer himself, but delegated to special agents. Well-qualified supervisory accountants in sufficient numbers are needed in Niamey and in the major centers around the country. These agents would also need qualified staff support and adequate tools (material and judicial) to ensure better rates of collection. The draft plan which is now in preparation for reorganizing Niger's Treasury, appears inadequate to stimulate better performance.

2. The Appropriateness of the Taxes

In Niger, the bulk of taxes have to do with taxes on goods and services (e.g., on real estate, on non-profit and other landholding, and rental values). Taxes on real estate are assessed on the actual values of the buildings, which very often exceeds the revenues available to the property owner who often cannot pay an assessment based on the capital itself. It would be more equitable to impose it only upon rents actually received, which would avoid the current situation in which vacant properties are subject to taxation even though the owner has no other sources of revenue. This aspect of tax law needs thorough study leading to realistic reforms.

Similarly, the tax on principal residences which was recently reintroduced after having been abolished for some time, will soon create the same recovery problems. Although the rich and those who have some money can pay readily, it will be very hard for the vast majority of people in poor urban neighborhoods who build their own houses by hand from scrap materials.

F. Foreign Aid

Foreign economic assistance is essential to the Government of Niger because it provides nearly half of the annual operating budget. According to the United Nations Development Programme, some $1.66 billion had been pledged toward foreign aid projects in progress, of which $310 million was scheduled to be disbursed during 1990 (latest available figures). Of that amount, 50 percent was provided by bilateral donors; the ten largest donors active in Niger during 1990 were the following:

Donor	Disbursements ($ millions)
France	45
European Community	40
World Bank	38
Germany	23
African Development Bank	18
United States	18
Japan	16
Canada	13
Italy	11
UNDP	11

During 1990, 60 percent of disbursements were devoted to investment projects, 15 percent to non-investment technical assistance, 14 percent to budgetary subsidies, 8 percent to investment project-related technical assistance, and 3 percent to food aid. In terms of budgetary subsidies, USAID/Niger was the third largest donor (after France and the World Bank) with $9.4 million, of which NEPRP amounted to $4.3 million. Eighty-one percent of total aid was concentrated in six sectors:

Sector	Amount ($ millions)	Percent
Transportation	54.1	17
Agric./Forestry/Fisheries	49.6	16
Environment	47.4	15
Economic Management	37.2	12
Regional Development	33.4	11
Human Resources	27.7	9

The UNDP report states that another 2 percent ($4.4 million) was devoted to international trade; presumably this was NEPRP.

1. The World Bank/IMF

Beginning in 1983, the Government of Niger implemented a series of stabilization and structural adjustment programs under International Monetary Fund and World Bank auspices. The Fund provided four successive stand-by arrangements, two annual structural adjustment facilities, and one disbursement under an Enhanced Structural Adjustment Facility. The World Bank has provided a structural adjustment credit and a public enterprise sector restructuring program. With technical and financial help from the Fund and Bank, the Government of Niger undertook steps to begin liberalizing the economy in order to stimulate private sector growth; reduced price and marketing distortions in agriculture; attempted to strengthen public investment management; restructured the public enterprise sector; and undertook monetary policy reforms focusing on bank credit and official debt.

Although the structural adjustment program was adversely affected by the 1983-1984 drought, which caused annual decreases in GDP of 9 percent in each of those two years, the country recovered between 1985 and 1988, averaging annual real GDP growth of 4.4 percent. Beginning in 1988, however, a combination of worsening economic conditions (i.e., uranium revenues continued to fall) and difficulties in government administration resulted in increasing failures to meet program parameters. Already in fiscal year 1987-1988, tax revenues had slipped well below targets and, according to the World Bank, this was the result of tax reforms introduced without accompanying improvements in tax administration. During 1988-1989, the combined shrinkage of economic activity and delays in effective tax implementation caused total revenue to fall 7.2 percent below the levels programmed. At the same time, government expenditures increased sharply because of rapid increases in the size of the civil service.

These difficulties increased during 1990 and reached critical levels during 1991, when continuing economic recession was compounded by the political crisis which paralyzed the government's ability to collect revenues, manage its operations, and provide services to the citizenry. As a result of the government of Niger's noncompliance with IMF conditionalities, two of the three tranches planned under the Fund's Expanded Structural Adjustment Facility were not disbursed. Major donors, including the World Bank, adopted a wait-and-see attitude with respect to new programs, although projects and technical assistance already programmed continued in most instances. At the end of February 1992, a joint IMF-World Bank team reviewed the transition government's interim economic program and established performance targets preliminary to IMF Board of Directors review of the situation scheduled for May 1992. In the meantime, the *Haut Conseil de la République*, which is functioning as Niger's interim legislature, adopted a budget for 1992. A key measure, the imposition of a special surtax (the "solidarity tax") on all salaries, is an extremely touchy political issue given the government's inability to catch up on arrears in paying civil service salaries.

2. The European Economic Community (EEC)

The EEC is Niger's most important trading partner supplying 50 percent of all its imports and taking as much as 90 percent of all its exports. Besides, the EEC and its member states provide over half of Niger's external development aid and other assistance. Given this background, the EEC has over the past 30 years responded to Niger's priority needs in the development of infrastructure, desertification and soil degradation control, agricultural development and programs to achieve food self-sufficiency. The main channels for EEC assistance are the European Development Funds (EDFs), the European Investment Bank (EIB), non-governmental organizations (NGOs), programs for food aid, emergency assistance and several special schemes such as the rehabilitation and recovery plan (also known as the Natali Plan) and the EEC special import programs.

During the period 1960-64 and under the 1st EDF program, EEC assistance was concentrated on the development of Niger's road and educational infrastructure, water engineering and rural development. However, other efforts were directed at providing emergency food aid and other assistance to meet special needs caused by drought during this period.

Under the 4th and 5th EDFs, in 1975-1985, the EEC provided support to GON plans and other donor efforts to promote food self-sufficiency and rural development. Since 1985, the thrust of the Community's aid has been on measures which would further facilitate implementation of the structural adjustment program and promote rural development with emphasis on private enterprise activities.

Overall EEC development assistance to Niger since 1960 is estimated at ECU 600 million. Seventy-five percent of this total is in the form of grants, ten percent consists of loans granted through the EIB and another fifteen percent has been provided in support of regional projects, NGO activities and special operations such as the Natali Plan and the import programs.

In terms of project areas, 35 percent of the Community's program aid has gone into integrated rural development, including 7 percent for livestock, 33 percent for the development of road infrastructure, 11 percent for training, another 11 percent for water engineering involving modernization of traditional wells and the construction of new concrete structures, and 10 percent for public health.[1]

Other EEC involvement in Niger has been in the areas of public resources management and public enterprise reform. The Community is actively engaged in the restructuring of the Niger Food Products Board (*Office des Prouits Vivriers du Niger* - OPVN), the Rice Board (*Riz du Niger* - RINI) and in agricultural policy reform. The EEC is also assisting with the decentralization program in Niger in order to streamline administrative processes for effective public sector management and also support programs to foster grassroots participation in development and private enterprise promotion.

3. The United Nations Development Program (UNDP)

Under various technical assistance programs including NER/82/013, NER/85/002 and NER/88/014, the UNDP has provided assistance to the Ministries of Planning, Finance, Agriculture, Education and Labor, among others. The objective has been to strengthen GON capacity for economic and social policy planning, analysis and effective management through training for better national accounting, accurate economic forecasting and realistic determination of GON development priorities.

In order to achieve this important goal of capacity building, UNDP assistance in human resource development and training has been effected either by providing funds to other agencies for program implementation, or attaching consultants to key GON beneficiary institutions for training purposes.

The UNDP has also provided technical assistance through the United Nations Industrial Development Organization (UNIDO), for various studies conducted by the *Office de Promotion de l'Entreprise Nigerienne* (OPEN) and the *Centre Nigerien de Commerce Extérieur* (CNCE). In the case of the CNCE, assistance was provided for the development of and export promotion plan, rationalization of import operations and techniques, and the establishment of a pilot commercial information system. Other UNDP-sponsored studies have been in the development of livestock support industries such as treatment of hides and skins, poultry farming and production of animal feed as well as in cassava processing and onion storage.

The UNDP's program in Niger also focuses on agricultural diversification and increased production to generate higher rural incomes. Currently, the UNDP is implementing a 5-year program with emphasis on private sector promotion in rural enterprises, as well as in small and medium-size businesses.

[1] David, Dominique. 1989. "Niger-EEC: early 30 years of Development Cooperation." The courier No. 116, July-August 1989: page 33. EEC Publication.

4. The International Labor Organization (ILO)

The ILO acts as implementing agency for organizations like the UNDP by providing training and technical assistance to identified groups of people and local organizations with funds allocated be those other international bodies. For example, under the Training and Assistance to Artisanal Enterprises project, the ILO is presently providing technicians to work with artisans in the Dosso region to train them in the use and adaptation of new technologies to suit local conditions and needs. Other collaborative training activities by the ILO are in the development of management systems for small business enterprises from both the industrial and service sectors.

Once again, it is noted that all these activities are complementary to those envisaged under the Project Assistance component of NEPRP. They should therefore help to advance the program objectives of USAID and other donors involved in Niger's economic reconstruction.

5. Bilateral Donors

France, Germany and Italy are the key bilateral donors in Niger's adjustment efforts with objectives similar to those of the multilateral donor agencies. These countries have therefore focused their assistance on sectors and projects which have the greatest potential for both medium and long-term effects particularly, in policy reforms dealing with restructuring of the public enterprise sector.

For example, through the *Caisse Centrale de Coopération Economique* (CCCE), France has been the major contributor to the rehabilitation program and financial restructuring of key public enterprises such as the Department of Posts and Telecommunications (*Office des Postes et Telecommunications* - OPT) and the Niger Food Products Board (*Office des Produits Vivriers du Niger* - OPNV). France is also involved in the rehabilitation of Niger's coal mining company (*Société Nigerienne de Charbon* - SONICHAR) and is lending 335 million francs CFA towards the modernization of a textile plant as well. It is also noted that over the period 1983 through 1987, France contributed as much as 20 percent of all the official development assistance estimated at $271 million per year which Niger received from non-communist countries and multilateral agencies. Furthermore, in September 1990, the French government canceled debts totalling 80,000 million francs CFA, thus reducing Niger's external debt by about 18 percent.[2]

Through food aid and various technical assistance programs, Germany is also providing support to OPVN reform programs aimed at reducing GON subsidies for agricultural inputs while promoting food security. Similarly, Italy has made substantial contributions in providing funds for a $29 million FAO project to prevent soil erosion and to increase food production in the Keita valley while financing a program to drill artesian wells in other parts of the country.

[2]Hodgkinson, Edith. "Niger Economy" in Africa of the Sahara 1992, 21st Edition: p. 748, Europa Publications Limited 1991.

Each of the examples shown above lend additional weight to various individual USAID projects ranging from increased agricultural production and promotion of food security to private sector development through policy reform and restructuring of Niger's public enterprises. Consequently, the objectives of the bilateral donors are indeed complementary to those of USAID under NEPRP and other related projects.

II. EVALUATION OF NEPRP

A. Program Goal and Objectives

Some 80 percent of Niger's people engage in farming or livestock raising; perhaps another 10 percent are involved in related activities (commerce, transport, artisanal processing, etc.) in rural areas. In an effort to achieve significant economic and social progress in Niger, therefore, USAID has chosen to help increase and diversify food production, and to increase rural incomes. The Mission concentrates its efforts on agriculture through activities such as its Agriculture Sector Development Grants (ASDG I and ASDG II), which bring improvements in farm technology to bear on problems of production. It links its other programs, such as education, health, family planning, and economic policy reform, directly to rural people's needs.

Consequently, the Niger Economic Policy Reform Program (NEPRP) was intended to complement the Mission's work in agriculture by seeking "to promote policy and institutional reforms which will foster increased export of agro-pastoral products, particularly through official channels." The Program's specific targets were to promote:

1) Fiscal reforms, primarily the elimination of export taxes on agro-pastoral products.

2) Easing of regulations and controls that frustrate users of official export channels; in that respect, the mission encouraged the Government of Niger to simplify livestock trading procedures, ease licensing requirements for trade, and avoid creating new monopolies.

3) Trade stimulation through more effective penetration of neighboring markets, especially Nigeria, whose very large population has traditionally provided Niger its best customers. Unfortunately, the implementation of NEPRP coincided with a severe economic recession in Nigeria, where efforts to respond to the crisis have included steep devaluations of the naira and efforts to restrict trade, including prohibitions against certain imports and occasional closing of the border. These steps have so distorted trade patterns that measures under NEPRP (such as the posting of a professional Commercial Attaché at Kano, the institution of a reporting system for commodity prices and foreign exchange rates, and efforts to negotiate improvements in trade relations) have produced only limited benefits.

From the outset, USAID/Niger sought long-term improvements and correctly anticipated that the program would have only a moderate impact over the medium term. It aimed at the following results:

- increased and diversified exports,
- increased production of export crops, and
- higher farm incomes.

As the costs of and impediments to formal, modern trade decreased, the preceding results would promote:

- a shift of trade into official channels and
- greater GON fiscal revenues.

B. Funding of NEPRP

As Table III on the following page shows, the original NEPRP budget was composed of two elements, non-project and program support assistance; the Mission spent some NEPRP funds on monitoring and evaluation of the program itself as it progressed.

1. Non-project Assistance

The non-project assistance fund, totaling $13,300,000, was a budgetary subsidy to cover Niger's revenue losses anticipated as a result of eliminating export tariffs on agro-pastoral products; A portion (8 percent, or $1,064,000) of this money was deposited in a trust fund used by USAID to finance local program costs. The remaining $12,236,000 was disbursed to the GON in three tranches, each governed by conditions precedent (see section II.C., "Attainment of Conditions Precedent", below).

Although uses were not specified beforehand, USAID allocated the trust funds primarily to pay the expenses of its private sector activities, underwrite studies on economic policy reform, and to collect information about the private sector in Niger, especially that part involved in production, transport, and trade in agro-pastoral products.

2. Program Support

Program support (i.e., project assistance) totaling $1,700,000 (later increased to total $2,970,000), was intended primarily to help the GON implement economic reform measures. By isolating program support funding, USAID sought to insulate short term technical assistance from the conditions precedent governing disbursement of the three non-project support tranches.

The funds were allotted to five activities:

1) Technical Assistance: Resources were provided which allowed the Customs Service to hire six data entry operators to eliminate a backlog in export records. In addition, computer and training specialists visited the Customs Service to determine equipment and software needs and recommended procurement and training programs.

2) Studies: The Mission conducted rapid appraisals of agricultural products (hides and skins, livestock and meat, and onions) and contracted a study of trade and customs

Table III: NEPRP Budget

	INITIAL OBLIGATION	FIRST AMENDMENT	TOTAL OBLIGATION	TOTAL EARMARKED	BALANCE
NON PROJECT ASSISTANCE					
[GRANT] (683-0259)					
TRANSFER	12,236,000	0	12,236,000	12,236,000	0
TRUST FUND	1,064,000	0	1,064,000	1,064,000	0
TOTAL GRANT	$13,300,000	0	$13,300,000	$13,300,000	0
PROGRAM SUPPORT ASST.					
(683-0263)					
TECH. ASSIST.	225,000	60,000	285,000	60,961	224,039
STUDIES	495,000	363,000	858,000	393,494	464,506
TRAIN. & SEM.	430,000	302,000	732,000	327,584	404,416
SUPPLIES	50,000	350,000	400,000	278,000	122,000
EVALUATIONS	450,000	195,000	645,000	612,445	32,555
AUDITS	50,000	0	50,000	0	50,000
TOTAL ASSISTANCE	$1,700,000	$1,270,000	$2,970,000	$1,672,484	$1,297,516
TOTAL BUDGET	$15,000,000	$1,270,000	$16,270,000	$14,972,484	$1,297,516

practices on both sides of the Niger-Nigerian border.

3) Training and Seminars: The Commercial Attaché assigned to the Nigerien Consulate General in Kano, Nigeria received training in the United States; the Mission completed export trade workshops on cowpeas and on hides and skins, and has plans for similar workshops on livestock (June 1992) and onions (September 1992).

4) Supplies: The Mission ordered computers and related training materials for the Customs Service, procured a fax machine to help the Commercial Attaché at Kano transmit information to Niamey, and plans to purchase computers and software for the *Chambre de Commerce* and for other offices at the Ministry of Finance and Plan;

5) Evaluations: A grant to the International Food Policy Research Institute provided resources to create a database on household production and consumption in fifteen villages in the department of Dosso in southwestern Niger. Field work for data collection was carried out mainly in 1990 and 1991, and the project's final report is due in June 1992. It is unclear to what extent the voluminous data on rural income levels and economic behavior of families can be linked to the reforms implemented under NEPRP.

One noteworthy program monitoring and evaluation tool established by the Mission has been the Private Sector Working Group, an informal committee comprising representatives from each of the Mission's offices. Its members, both American and Nigerien, have provided oversight and suggestions from a variety of economic and social development perspectives.

C. Existing Amendments to NEPRP

In September 1990, USAID/Niger and the Nigerien government amended NEPRP to extend the program for two additional years, until December 31, 1993. Under this and a second amendment (signed in April 1991), program support assistance funding was increased from $1,700,000 to $2,970,000. As indicated in Table III above, almost $1.3 million remains unobligated and available for current and future NEPRP program support activities.

These amendments affect the schedule for evaluating the results of NEPRP, inasmuch as the original PAAD recommended assessing the program's effectiveness only after the reforms achieved had been in effect long enough to produce measurable results. Thus, the PAAD envisioned evaluations eighteen months and three years after expiration of the program in December 1991 (i.e., mid-1993 and end-1994).

However, in August 1991, A.I.D./Washington approved USAID/Niger's plan to amend the NEPRP grant in FY 1992 to add a final resource transfer and increase funds under the project assistance component. This report is intended to help USAID/Niger design the grant amendment so as to incorporate the experience of three years under the existing program and to take into account political, social, and economic conditions in the Republic of Niger. As a result, it is neither a mid-term nor a final evaluation of NEPRP. Rather, Mission officers have chosen to call the process resulting in this report a mid-term evaluative assessment. The evaluation team's findings will be discussed below (see Sections II.C., "Attainment of Conditions Precedent" and II.D., "Overall Evaluation of NEPRP").

The evaluators agree with USAID/Niger that another amendment offering further non-project support is warranted by recent political changes in the country (which offer some promise of greater future, if not present, flexibility in Niger's economic policies), and by the continuing economic crisis now threatening those political gains the Nigerien people have achieved during the past two years. Section III, "Recommendations for an Amended NEPRP" of this evaluation presents an argument for a second amendment to the NEPRP to provide additional non-project funds, and recommends both conditions precedent for their disbursement and potential program assistance activities in further support of NEPRP objectives.

D. Attainment of Conditions Precedent

Non-project assistance under NEPRP was divided into three disbursements, each carrying its own set of conditions precedent (CPs) listed under Article IV of the Program Grant Agreement between the GON and USAID. At the time the program was implemented, USAID/Niger created a file in the General Development Office to hold the GON's evidence of fulfilling each CP. This file also contains copies of letters from the Mission to the GON formally acknowledging fulfillment of individual CPs and, with the completion of each phase of NEPRP, notification of the Mission's intention to disburse non-project funds held pending fulfillment of the relevant set.

The following review summarizes the GON's steps to meet the conditions precedent, and USAID/Niger's acceptance of them. Clearly, however, a proper evaluation of NEPRP covers more than a test of whether the GON met USAID's conditions precedent in the strictest sense. Therefore, a more comprehensive evaluation of NEPRP follows as section II.D., "Overall Evaluation of NEPRP".

1. First Disbursement

For the first disbursement, four of the five CPs involved administrative matters, while the fifth concerned a major policy reform measure:

1) Names and specimen signatures of those authorized to act on behalf of the grantee. Fulfilled by letter of December 15, 1988.

2) Account number of the U.S. bank where the grants were to be deposited. Fulfilled by letter of February 22, 1989.

3) Establishment of special accounts for the deposit of local currency equivalents. Fulfilled by letters of January 13, 1989 and February 13, 1989.

4) Formal designation by the GON of the entity empowered to monitor policy reform measures under the program. Fulfilled by letter of February 15, 1989.

5) Evidence that export taxes on agro-pastoral products had been eliminated. Fulfilled by letter of February 16, 1989.

This last CP constituted the most important single policy reform measure under the program. The GON accomplished this through the *Loi de Finance* (the annual budget resolution) for fiscal year 1989, accompanied by a circular listing of those products which would henceforth be exempted; in addition, hides and skins, which were not listed, were given a special exemption if produced in Niger. The GON reported that simple exports (a term covering agro-pastoral products, including hides and skins) would be exempted from the 2 percent BIC withholding tax normally imposed on exports by customs agents at the border.

Loath, however, to lose all control over and revenue from a major economic activity in the traditional sector, the GON proposed, and USAID accepted, the collection of a "statistical tax" of 3 percent on agro-pastoral exports, computed on *valeurs mercuriales*. The rationale for this tax was that the revenues collected would defray the government's cost of collecting and processing useful economic information.

On March 3, 1989, USAID/Niger informed the GON that all CPs for disbursement of the initial tranche had been met.

2. Second Disbursement

Having achieved a major economic policy reform by eliminating, in a single stroke, an array of export taxes, USAID used the leverage provided by further disbursements as a means to encourage the GON to take additional, if less sweeping, steps to improve the business climate for exporters. Under the second phase of the program, the NEPRP Program Grant Agreement (Section 4.2.A) called for the government to provide evidence that it had undertaken the following eight improvements:

1) "*Instructed government personnel throughout the country on the proper formula for estimating value of livestock (cattle) for purposes of fixing patente costs. Simplified licensing (patente) procedures for export of livestock.*" Satisfied by a circular letter from the Directeur Général des Impôts to all Sous/Préfets and tax officials, dated May 11, 1990, which reminded all recipients of existing procedures for calculating the livestock values relative to imposing the *patente*, and admonishing them to apply the rules rigorously. An earlier letter (dated October 21, 1990) had provided guidance on these procedures.

2) *"Begun preparation of a charte des contribuables (businessmen's bill or rights), to include establishment of the position of arbiter between business and government."* Satisfied by letter of September 24, 1990, from the Ministry of Finance, which pointed out that GON was in the process of drafting a *Code Général des Impôts* embodying revisions to the general tax code and specifying the rights and duties of taxpayers under the law. The new code, the letter continued, would provide for a commission on direct taxes and taxes on business revenues, comprising two representatives each from the ministries of commerce and finance, as well as four representative taxpayers. This commission would be empowered to resolve differences between taxpayers and the tax service, thus satisfying the requirement for an arbiter between business and government.

3) *"Appointed a commercial attaché (from the Ministry of Commerce) to the consulate in Kano. Established a line item in the national budget for this purpose. (In case of delay in Nigerian acceptance, establishment of line item will suffice for this tranche.)"* Satisfied by *Arreté* dated October 24, 1990 issued by the Ministry of Foreign Affairs, creating the position, defining its duties, and specifying its funding source (the Ministry of Commerce). USAID rejected the GON's initial proposal to name an employee of the Ministry of Foreign Affairs.

4) *"Initiated good faith contacts with the Government of Nigeria in order to establish bilateral commercial accords aimed at resolving the problems of convertibility of the Naira and import duties on Nigerien agricultural products."* Satisfied by a list of commercial contacts between Niger and Nigeria, supplied by the Ministry of Plan on April 13, 1990. Although most of the contacts listed had to do with economic activities other than bilateral commerce, one dealt specifically with the issue of currency convertibility.

5) *"Undertaken commercial missions in neighboring countries with mixed government and private representation."* Satisfied by a list of commercial missions submitted September 20, 1990, but USAID's letter of acceptance warned the GON to confine its evidence of compliance under the upcoming third tranche to missions in countries of West, Central, and North Africa, and to undertake activities other than just trade fairs.

6) *"Issued Action Plan for improvement of livestock export practices (implementation of Ministry of Animal Resources and Hydrology report)."* Satisfied by Ministry of Plan letter of October 31, 1990. The report, prepared by an American economist under USAID contract, listed more than a dozen minor steps intended to eliminate government controls or make it easier to meet local level requirements. The ministry's letter indicated compliance with most of the recommendations.

7) *"Has not granted any new trade monopolies."* Satisfied by letter of October 3, 1990 from the Ministry of Plan, assuring that no new monopolies had been accorded since the implementation of NEPRP.

8) *"Has not discontinued, reversed, or otherwise impeded any action it has taken in satisfaction of any previous condition precedent."* Satisfied by letter of October 12, 1990 from the Ministry of Plan. In acknowledging fulfillment, USAID appreciated clarification

concerning exemption of Niger's hides and skins from the 7 percent tax otherwise applicable. It also noted that, "the fact that the 2% BIC is not applied to exports or imports of businesses which maintain financial records is an added incentive to the private sector to develop management systems needed for operating through formal channels. As such, it is a profits tax levied on certain businessmen via customs operations."

On November 16, 1990, USAID/Niger informed the GON that all CPs for disbursement of the second tranche had been met.

3. Third Disbursement

The eight conditionalities of NEPRP's third tranche were closely modeled on those of the second. In effect, they constituted attempts by USAID to pursue implementation of economic policy reforms beyond the stage of simple acquiescence and formal statements. Prior to disbursement, GON would have to show that it had carried out the following:

1) "*Promulgated the charte des contribuables and created the post of arbiter ('interlocuteur unique').*" Satisfied by letter of May 3, 1991 from the Ministry of Finance to the secretary general of the Chamber of Commerce, requesting that the Chamber distribute the enclosed charter to businessmen. The secretary general subsequently informed USAID that the chamber had printed the charter and mailed it to members. Under the section dealing with *taxes forfaitaires* (estimated or prepaid taxes), the charter mentions a procedure for resolving disputes between taxpayers and the authorities; the commission created for this purpose includes (as stated by the GON in its response to CP-2 for disbursement of the second NEPRP tranche) representatives of the ministries of finance and commerce, plus private taxpayers.

2) "*Established a system of collection and dissemination of data on prices of agro-pastoral products and on exchange rates at Kano.*" Satisfied by letter of April 24, 1991 from the Ministry of Economic Promotion to the commercial attaché at Kano, requesting weekly transmission of data on prices and exchange rates. The commercial attaché informed the evaluation team that he sends weekly reports by radio to the *Presidence* (prime minister's office), which operates the civil government's internal radio network and forwards messages to appropriate ministries. The Ministry of Commerce reported that it receives the weekly reports and distributes them to the Chamber of Commerce. The secretary general at the Chamber asserted that the Chamber has received regular information on business opportunities for trade between Niger and Nigeria, but only one report on prices and exchange rates.

It appears doubtful that the presence of a commercial attaché at Kano generates much in the way of market information unknown to Hausa merchants in major Nigerien towns along the border, inasmuch as they have excellent business relationships and frequent communications with merchants in Nigeria. By contrast, getting the commercial attaché's timely market information to farmers might help them negotiate better prices when they sell their goods to Nigerien traders, thus serving the NEPRP objective of increasing farm incomes. Perhaps the GON could be persuaded to create regular news programming for farmers via the *Office de Radiodiffusion-Télévision du Niger*, using information provided by the Commercial Attaché through the *Chambre de Commerce* under the auspices of the Ministry of Commerce.

3) "*Eliminated the professional card (carte professionnelle) for vendors of livestock. Simplified and clarified licensing requirements for traders in skins and hides, so as to prevent the development of monopolies or monopsonies.*" Satisfied by letter of April 23, 1991 from the Ministry of Plan, explaining that (a) the card had never been required of livestock traders, and (b) the licensing requirements for livestock traders posed no particular barriers to entry. The GON had already eliminated the state-owned hides and skins firm's legal monopoly over the trade. As part of an understanding between USAID/Niger and the GON that the CP had been met, USAID/Niger agreed to undertake a study of the regulations governing livestock trade, and the GON agreed to consider implementing its recommendations.

4) "*Posted commercial attaché to Kano after receipt of Nigerian approval and training of individual.*" Satisfied by the Arreté of January 21, 1991 issued by the Ministry of Foreign Affairs naming Hassane Garba as commercial attaché at Kano. Under NEPRP, USAID financed commercial training in the United States for M. Garba.

5) "*Continued good faith negotiations with the Government of Nigeria on trade relations.*" Satisfied by letter of April 8, 1991 from the Ministry of Plan, which enclosed a list of meetings of the Mixed Niger/Nigeria Commission on Cooperation. Like the list provided to satisfy CP-4 for the second tranche of NEPRP, this list cited meetings not only on a variety of economic and social issues not related to trade, but also mentioned one meeting on methods for assuring payment of trade transactions between the two countries.

6) "*Undertaken additional commercial missions, as described under second tranche.*" Satisfied by letter of April 30, 1991 from the Ministry of Plan, providing names and occupations of participants (including a few private business representatives) at trade fairs in Africa after the disbursement of NEPRP's second tranche.

7) "*Reviewed jointly with A.I.D. the progress achieved in implementing the export promoting policy reforms with special attention to the identification of additional policy constraints which are affecting export growth; and is taking measures to address any constraints thus mutually identified which reflect agreement on research and analyses needed to identify specific corrective steps.*" Satisfied by letter of April 30, 1991 from the Ministry of Plan, citing three joint GON/USAID technical meetings to discuss constraints on agro-pastoral exports.

8) "*Has not discontinued, reversed or otherwise impeded any action it has taken in satisfaction of any previous condition precedent.*" Satisfied by letter of April 30, 1991 assuring USAID

that no regressive measures had been taken, but pointing out that the 1991 *Loi de Finances* provided for an increase in the *taxe statistique* to 4.5 percent (from 3 percent) computed on *valeurs mercuriales* (assessed values). The ministry attached a draft decree intended to rectify the matter by exempting agro-pastoral products from the increase in the statistical tax; the file contains no indication whether such a decree was issued. However, the file does contain an *Arreté* establishing *valeurs mercuriales* for agro-pastoral products for fiscal year 1991; it is not clear from this document whether assessed values were decreased, or, if so, whether the decreases were enough to offset the 50 percent increase in the statistical tax.

4. General Conclusions about Conditions Precedent

As stated earlier, the most important CP attached to NEPRP was the requirement that export taxes on agro-pastoral exports be abolished. This condition had the virtue of clarity: the GON knew what it had to do, did it, and presented evidence of its actions. Thus, the major reform under NEPRP was attained before the first non-project aid tranche was disbursed. The additional CPs to disbursement of the second and third tranches lacked the clarity of the first, as well as its impact on the rural economy. Because later CPs were somewhat ill defined, the GON repeatedly asked USAID for clarifications.

E. Overall Evaluation of NEPRP

1. Factors to Consider

The policy reforms enacted under the NEPRP occurred at an unusual time for Niger. First, the political, social and economic organization in this country, as in many other African nations, do not necessarily respond to policy stimulus in a fashion expected under classical economic thinking. Second, several socio-political changes have been in process in Niger. These considerations necessarily have a profound impact on the policy reforms enacted under NEPRP. An evaluation of the program ought to be carried out against the background of these factors. It is therefore important for evaluators to keep the following facts in mind:

1) Although there are public officials in Niger who understand the need for economic policy reform and are working hard to achieve it, they are yet to overcome the mentality prevailing among decision makers used to managing centrally-planned economies. The system of public administration remains almost wholly oriented toward controlling economic activity rather than encouraging productivity. Despite the *Conférence Nationale*, a free press, and other laudable and encouraging signs of change, the political philosophy is that of a country dedicated to the existence of the government rather than the other way around.

2) A word of caution is appropriate about the impact measurement criteria identified in the PAAD as providing the basis for future evaluation of NEPRP success. All the criteria identified are correlated to the policy reform; they should consequently experience an appropriate variation as a result of the policy implementation. Some of the variables, however, would be affected only after a substantial time lag, the consequence being that several other factors are likely to blur the effect of the reform on the criteria. These criteria should therefore not be considered as rigorous measurement tools for gauging the success of the NEPRP. Rather, they should be evaluated, in conjunction with other evidence, as corroborating a general trend about the potential impact of the policies.

3) It is unrealistic to expect that over the course of a three-year NEPRP, the increased economic activity made possible by elimination of taxes on agro-pastoral exports (and by fulfilling other CPs) would provide the GON with substantial new sources of revenue. Thus, we disagree with the assumption expressed in Annex E of the PAAD which states: "*The Government of Niger has identified other fiscal measures which should more than compensate for the losses after the end of the program....It is conservatively estimated that the Government can increase fiscal receipts by 3 billion FCFA a year with a modest tax collection program.*" The compensatory fiscal gains are likely to be influenced by many other variables including the overall macroeconomic performance, the participation of businesses in (or flight from) the formal sector, the efficiency of the tax collection system etc...

4) Probably no economic policy reform program alone could persuade informal sector economic operators to enter the formal sector. For two reasons, such a shift will occur in small steps, and rarely all at once. First, private economic activity is motivated by self-interest; informal sector business is more profitable, and government interference has discouraged formal sector operation. Business operators will enter the formal sector when, and only when, it becomes demonstrably more profitable to do so, i.e. when the cost of formal sector participation is less than the expected gain from informal sector operations. This appears to have been the case when elimination of taxes on agro-pastoral exports made onion exporting via official channels more attractive than smuggling. Second, the informal sector operates according to tradition, not modern rationality. The traditional system is old, large, familiar, compatible with existing culture, and naturally resistant to change, while the modern is new, small, foreign, technology-dependent, and volatile. Transformation is therefore most likely to be gradual and stimulated by education and increasing contact with the outside world.

5) The original plan to evaluate NEPRP *ex-post* and in-depth, in two stages -eighteen months and three years respectively after its expiration, on the assumption that it would take that long for economic effects of the program to appear, was very optimistic. Results are likely to take longer than three years to become observable and sustainable. Experience elsewhere in the developing world, especially in Africa, suggests that the donors must adjust their expectations to include much longer delays before improvements become noticeable.

6) Given the point just made, it would seem unrealistic to expect clear evidence of NEPRP's effectiveness to have emerged by the beginning of 1992, when the Mission sought this evaluative assessment. Consequently the goal of our assignment should not, perhaps, have been to establish a definitive conclusion based upon rigorous analysis of available evidence, but rather to design a methodology for future, more thorough assessment which would benefit from more reliable, time-tested, information at a future date.

7) Future evaluations would benefit a great deal from generating the annual baseline data called for in the program grant agreement. These data are critical to an accurate assessment of the effectiveness of NEPRP. The following information were identified in the PAAD as those to be collected from Customs, Exterior Commerce, and *Contributions Diverses*:

<u>Customs</u>:

1. Quantities of agro-pastoral products registered as exported through customs, in particular cattle, cowpeas, skins and hides, and onions. This information should be in standard, uniform quantities (i.e. tons of onions, etc., not irregular measures such as "sacks of onions");

2. The number of different firms or individuals exporting, by product, through official customs channels;

<u>Exterior Commerce</u>:

1. The specified number of licenses issued for export of each of the four principal products (cattle, cowpeas, onions, skins/hides);

2. The total quantities listed on those licenses, by product, in a standard form of measurement;

3. The total value of the goods listed on those licenses, by product; and

4. The number of different firms requesting licenses to export these products, by product.

<u>Contributions Diverses</u>:

Produce an annual statistical report on tax collections which shows the progress achieved in replacing, on a permanent basis, the hitherto lost tax revenues.

2. A Procedure for Evaluating NEPRP

In light of the observations made above, what follows is this team's evaluation of the impact of the NEPRP on Niger's economy, as outlined in the terms of reference. We begin with a note of caution, best expressed by the following quotation:

> *"The problem with monitoring policy reforms is that, unlike project evaluation, there are no well-established methods to do it. Ideally, the monitoring system should provide information on the nature and magnitude of a particular change in the economic system caused by a particular change in the policy regime. The difficulty is that rarely is there a clear correspondence between a given economic variable and a single policy intervention. In general, the anticipated consequences of a policy change can be offset, reversed or exaggerated by events unrelated to the specific policy change...."*[3].

The statement above illustrates some of the problems of appraising the impact of policy reform programs. These difficulties mentioned are especially important in the case of our "evaluative assessment" because several other factors of a non-economic nature mask the impact of the policy reforms. Despite the handicaps posed, we outline below a recommended procedure which may be used for such an evaluation at the appropriate time.

The Program Assistance Authorization Document (PAAD) identified five specific criteria to be used in gauging success under NEPRP. These criteria which we have used to appraise the extent of the impact of the policies are:

- increases in and diversification of exports;
- increases in export crop production;
- higher farm incomes;
- a shift of trade into official channels;
- higher GON revenues.

These criteria can be used as endogenous variables measured against exogenous factors such as specific policy measures, climatic conditions or other natural phenomena with direct impact on the expected outcome, in a general model to assess NEPRP impact. A statement of such a general model can be expressed as follows:

$$I = f(P, C_1, C_2, C_3, E)$$

where: I representing any of the impact measurement criteria identified above, is the endogenous variable;

and the exogenous variables are:

[3]Niger: Monitoring the Effect of Policy Reform, Abt Associates, Inc. for USAID Agricultural Policy Analysis Project, Phase II, 1989, pp. 1-2.

P representing a measure of the policy reform under scrutiny. For the purpose of this evaluation, we only consider the export tax repeal, since it is the only NEPRP policy likely to produce measurable effects upon the economy;

C_n representing the commodity specific factors such as rainfall, Naira/CFA exchange rate, drought; and

E representing the unexplained portion of the variation.

To the extent that the policy impact is quantifiable, the model above would capture all the variations in the measurement criteria, and identify the relative impact of the different exogenous variables. In essence, the model suggests that an increase in any of the measurement criteria, namely export, diversification and production of crop, farm income, formal trade and GON revenue, can be explained by:

- the incentive inherent in export tax repeal; and
- the other factors which can either mitigate or diminish the increase, namely:
  - factors which have a bearing on specific agro-pastoral commodities; e.g. rainfall (for cowpeas, sorghum, millet), drought (for cattle, skins and hides), availability of water pumps (for onions) or the deterioration in the Naira/CFA exchange rate (for goods traded in Nigeria); and
  - elements which cannot be systematically factored into the equation.

Building a model such as the one identified above would require analytical tools and techniques which are outside the scope of the present evaluation. Aside from the numerous questions surrounding the predictive power of econometric analysis, it requires a certain amount of time series data which is not available for this evaluation, principally since only three years of post-NEPRP data has been compiled. But an even greater impediment to the formulation of the model rests with our inability to quantify some of the variables which constitute the equation.

What we have done, however, is to use the economic reasoning contained in this type of analysis to conduct a reasonable assessment of the impact of NEPRP vis-a-vis the impact measurement criteria identified by the PAAD. Our methodology consists of the following steps:

i) an identification of measurable data relevant to each of the criteria;

ii) an evaluation of changes observable in the data;

iii) an attempt to segregate and weigh non-NEPRP events that might have accentuated or negated the expected NEPRP effect;

iv) a qualitative judgment confirming or refuting a causal relationship between NEPRP and the changes observable in the data, in light of (iii).

Although this method clearly falls short of establishing a rigorous, quantitative correlation between NEPRP and subsequent changes, it still provides a useful qualitative indicator of NEPRP's success or failure in achieving its objectives.

A word of caution about the data. As was pointed out in a study for USAID, both the data collected and the analytical methods employed by the GON's office of statistics and national accounts are questionable.[4] However, our purpose is not to establish a fine measurement, but rather to indicate general trends in production and trade. We are therefore concerned less with precision than with gross indications and some inaccuracy should not necessarily invalidate our conclusions.

Increases in and Diversification of Exports

Table IV on the following page shows the historical trend in the export of four agro-pastoral commodities: cowpeas, onions, cattle, and skins and hides. Figure 1 plots the tabular data.

Cattle trading increased remarkably in 1983, 1984, and 1985, apparently because herders were anxious to dispose of animals rather than lose them to drought. Between 1986 and 1988, there was very little export of livestock through official channels, presumably because during those years herders were reconstructing the decimated herds. Notwithstanding these environmental influences, cattle exports increased noticeably from the low of 1987 through 1990, the latest year for which we have data. Over that time span, recorded exports of cattle increased more than ten-fold. Skins and hides trade followed a similar pattern, although more moderate in intensity and with a slight time lag. It is worth noting that these increases occurred despite the strong negative influence of a devalued naira on Niger's exports to Nigeria, the traditional destination for these exports. The existence of this positive evidence seems to suggest, at least, that the elimination of the export tax had some beneficial influence on cattle exports.

The evidence further suggests that the rise in recorded export trade is not only induced by the increased incentive to export cattle, but also because of a noticeable shift from informal to formal trade patterns. This indication is corroborated by the testimony of the Customs Service which reports fewer attempts to smuggle agro-pastoral goods across the border.

[4] Agricultural Data and Databases in Niger, Abt Associates, Inc. for USAID Agricultural Policy Analysis Project, Phase II, 1991.

Table IV: Exports of Agro-pastoral Products

(in thousand tons)

YEAR	COWPEAS	ONIONS	SKINS AND HIDES	CATTLE
1981	2	13,074	2,151	33,680
1982	2,296	13,834	943	17,715
1983	15,818	11,387	1,315	48,263
1984	4,793	16,703	924	41,639
1985	6,025	17,894	2,859	33,645
1986	5,282	7,130	1,583	992
1987	4,532	12,472	304	150
1988	6,266	21,262	566	2,283
1989	17,852	28,265	857	9,060
1990	32,062	60,494	924	16,649

AVERAGE	COWPEAS	ONIONS	SKINS AND HIDES	CATTLE
1981-87	5,535	13,213	1,440	25,155
1985-87	5,280	12,499	1,582	11,596
1986-87	4,907	9,801	944	571
1988-90	18,727	36,674	782	9,331
1989-90	24,957	44,380	891	12,855

Figure 1: Exports of Agro-pastoral Products

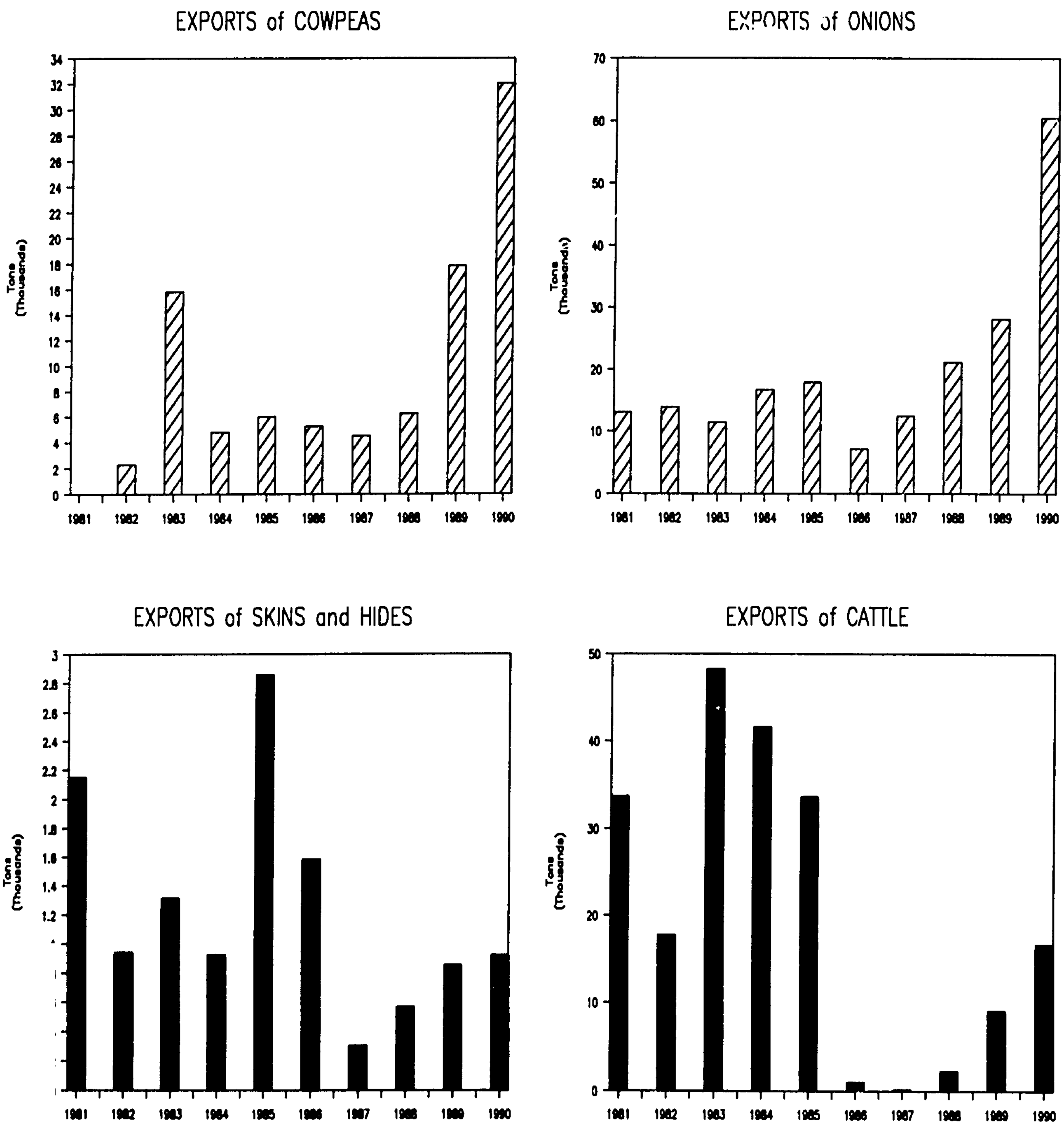


Figure 1 also plots, over time, the export volumes of two representative agricultural products, cowpeas and onions. Traditionally, cowpeas are grown both for subsistence and commercial sale. As the figure shows, exports of both grew between 1987 and 1990. If the data for each product is averaged for the periods 1981-1987 and 1987-1990, it shows that exports of cowpeas increased five-fold, and onions, three-fold.

In the case of onions, elimination of the export tax had a double impact on exports:

i) revenues from onion exports increased, inasmuch as the export tax represented between 50 and 100 percent of the ex-farm price at certain times during the growing season; the resulting decrease in purchase cost (farmgate price plus export tax) is likely to have increased demand from foreign traders for Nigerien onions;

ii) there is anecdotal evidence (from the Customs Service) that after the export tax repeal little onion trade occurred through informal channels, wholesalers in onions having formed a habit of using official routes.

We understand diversification of agro-pastoral exports to entail expansion into nontraditional commodities. Available data give no clear indication that Nigerien trade has been diversified since the repeal of the export tax. Although the data show that export volumes have risen for both traditional crops such as cowpeas, cattle, and skins and hide as well as for nontraditional crops such as onions, there are no disagregated export data on new, off-season products. There are data showing increases in off-season crop production, but none on how much is being exported.

Increases in Export Crop Production

In order to gauge the impact of the export tax repeal under the second criterion, we choose two groups of crops. The first includes millet and sorghum, both rain-fed crops produced mainly for consumption, although in good years some excess production is exported. The second set comprises cowpeas (rain-fed) and onions (irrigated). Although cowpeas and onions are consumed locally, they are also produced in substantial quantities for export markets.

Millet and sorghum production shows no particular link with the export tax repeal; rather, it shows a strong correlation with rainfall. The 1984 drought led to a considerable decrease in harvested volume for both. Conversely, 1988 was a bumper crop year because of heavy rainfall. In 1990, production of both was not significantly different from levels reached in 1983. It appears that elimination of export taxes on agro-pastoral goods had no meaningful impact on production of these two rain-fed crops.

Cowpeas production occupies a special domain. A rain-fed crop, consequently affected by Niger's susceptibility to wide variations in seasonal rainfall, cowpeas is also a major export item subjected to regional market forces. The combination of these two elements has influenced cowpeas production, which fell during the drought years of 1984 and 1985, and rose in 1988 and 1989 (following the export tax repeal), to fall again in 1990.

By contrast, onion production increased steadily between 1985 and 1990, following a drought-related decrease between 1983 and 1985, when production dropped by more than fifty percent. Several factors might have contributed to the expansion of onion production thereafter. Other things being equal, repeal of the export tax should have translated into higher profit margins for *commerçants*; consequently, they bought more, which stimulated production. We lack data upon which to determine whether increased demand caused prices to rise; perhaps farmers benefitted from sales of larger volumes rather than higher prices, a point to which we shall return shortly.

Onion wholesalers are, in general, Nigerien traders living abroad. Having exercised firm control of the entire distribution system for many years, they have gradually developed a credit system through which they loan funds to onion farmers in exchange for an option to purchase a share (or all) of his future crop. This system appears to have stimulated onion production; for example, it makes possible the purchase of inputs (especially seed) and even household items by onion growers.

Another growth stimulus is the variety of extension projects directed at onion production. This market has attracted the interest of a number of donor agencies and NGOs. For instance, a small-farm irrigation project, operated by the European Development Fund since 1988, has financed the cost of digging communal wells, as well as the purchase of motor pumps by onion producers. Several other projects, including CARE's USAID-funded microenterprise project, have also focused on helping onion farmers.

Higher Farm Incomes

There is no systematic effort within the GON to compile data pertaining to income levels in rural areas. It is therefore very difficult to assess changes in farm income accurately.[5] The only assessment we make is an inference based on expectation of microeconomic behavioral pattern, emanating from the policy considered.

The population of onion farmers is large, comprising several hundred growers, perhaps more than a thousand. The price of the crop is dictated by factors beyond their control, they therefore take whatever price they can get. In economic terms, the supply for onions thus has very nearly perfect elasticity, a situation implying that individual producers must sell at or below market prices. Under such circumstances, all of any price decrease (resulting from repeal of an export tax, for example) will be captured by purchasers who, in turn, will be inclined to buy larger volumes. Ultimately, this creates an opportunity for the producer (farmer) to sell more for the same low price. In theory, therefore, elimination of the export tax on agro-pastoral products should stimulate an increase in farm incomes.

[5] The villages studied by IFPRI are outside the main onion growing region.

In the absence of other farm income data, this proposition can be tested by interviewing a large sample of onion farmers. Such an exercise, which is beyond the scope of the present evaluation, would provide USAID a reliable monitoring tool for inferring the impact of NEPRP on farm incomes. Although in our opinion the objective of the PAAD to correlate export tax repeal to increased farm income is difficult to accomplish.

Table V and Figure 2 on the following pages show the annual production of millet, sorghum, cowpeas and onions over the years 1983 through 1990, as well as the average production of these crops over specific periods.

A Shift of Trade into Official Channels

One clear proof of a shift in trade patterns towards official channels would be a measured decrease in the amount of unofficial trade in the face of observed increases in production. In the nearly complete absence of data on informal export trade in agro-pastoral products, however, our method for deriving unofficial trade data consists in subtracting the following shares from figures on total production:

- i) official exports;
- ii) local consumption;
- iii) spoilage;
- iv) seed requirements.

Unfortunately, there are also no recorded data for the last three categories. The *Direction de la Statistique et Comptes Nationaux* instead uses fixed coefficients, which have not been modified for the last eleven data years. The data generated using these coefficients are of doubtful utility in finding any genuine trend in unofficial exports.

Patterns in onion trading, however, offer a clear indication of a shift to formal official channels. In 1988, total onion production increased by 20 percent (from 88,000 tons in 1987 to 104,000 tons the following year), whereas exports virtually doubled (from 12,000 tons in 1987 to 21,000 tons in 1988). In 1989 production increased by another 20 percent, while exports rose 40 percent. Although the absolute increase in production is considerably larger than that in official exports, the difference in rate of change suggests a growing propensity for traders to rely on formal channels.

The testimony of the Customs Service remains the best anecdotal confirmation of a shift from unofficial to official channels. According to the Customs Service, the recorded number of attempts to smuggle agro-pastoral goods has decreased considerably since the repeal of the export tax. In some areas, it is even claimed that smuggling has disappeared altogether.

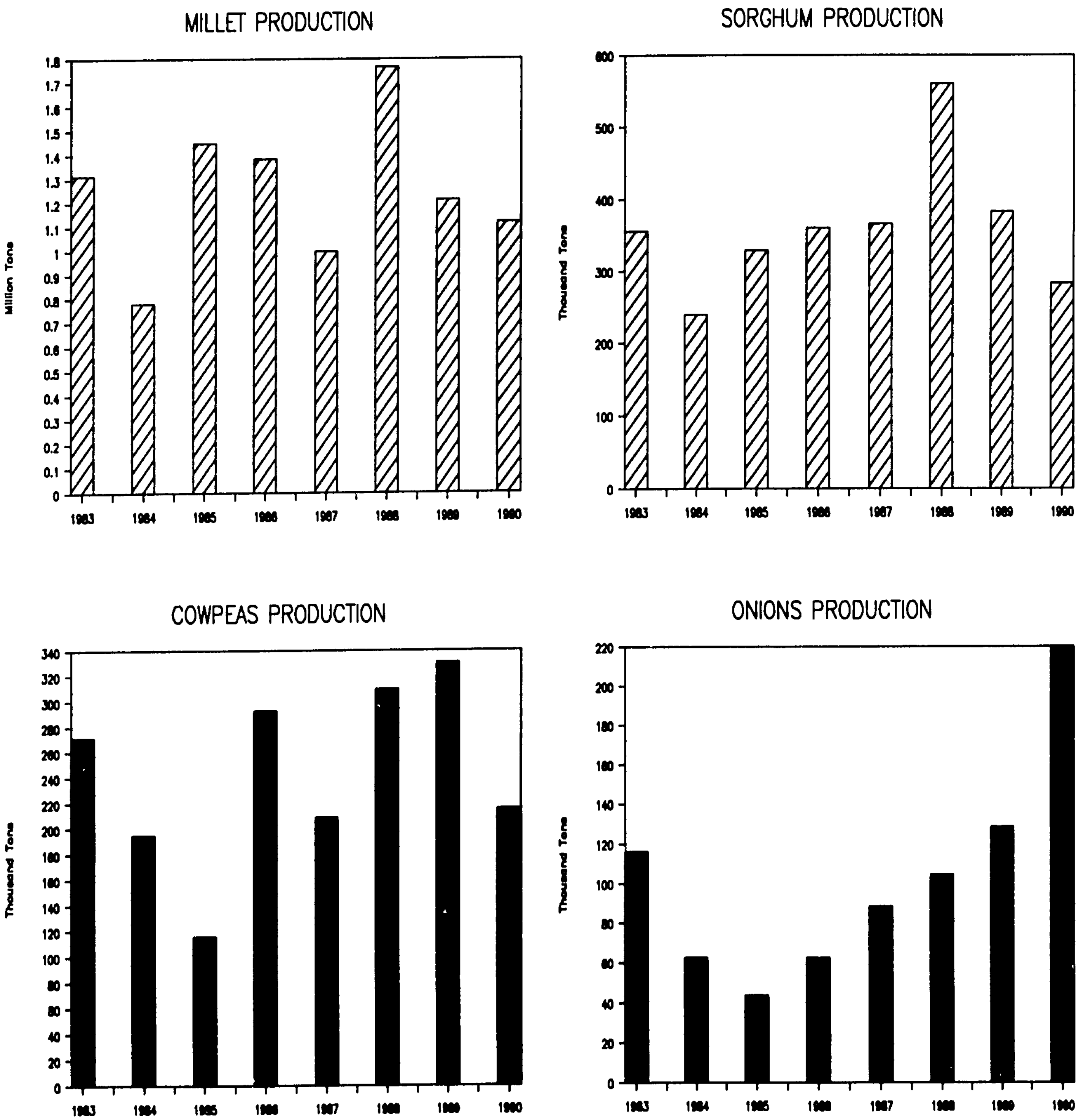
Table V: Production of Agro-pastoral Products

(in thousand tons)

YEAR	MILLET	COWPEAS	SORGHUM	ONION	TOMATO	SWEET POTATO
1983	1,313.0	271.3	355.4	116.0	12.5	22.3
1984	779.2	194.8	240.1	62.8	22.7	23.4
1985	1,449.9	115.3	329.2	43.9	25.2	68.4
1986	1,383.4	292.9	360.2	62.8	22.7	38.2
1987	996.7	208.8	365.8	88.4	21.4	38.2
1988	1,766.3	309.8	560.2	104.5	43.4	20.5
1989	1,213.3	330.5	382.9	128.4	76.1	33.2
1990	1,119.9	215.4	283.5	220.0	90.9	119.0

AVERAGE	MILLET	COWPEAS	SORGHUM	ONION	TOMATO	SWEET POTATO
1983-87	1,184.4	216.6	330.1	74.8	20.9	38.1
1985-87	1,276.7	205.7	351.7	65.0	23.1	48.3
1986-87	1,190.1	250.9	363.0	75.6	22.1	38.2
1988-90	1,366.5	285.2	408.9	151.0	70.1	57.6
1989-90	1,166.6	273.0	333.2	174.2	83.5	76.1

Figure 2: Production of Agro-pastoral Products



Higher GON Revenues

Attempts to quantify this criterion were also undermined by lack of data, or at least by the difficulty in obtaining them. However, officials of the Customs Service claim that elimination of export taxes on agro-pastoral products has cost the GON about one billion CFA francs in lost revenues each year. We have no information about how this figure was calculated.

Measures such as the repeal of the export tax, which affect the GON's ability to meet revenue requirements, are extremely sensitive matters to the fiscal agencies concerned. For the first three years of NEPRP, the annual budget showed USAID's non-project support tranches as part of the Customs Service's contributions to revenues--a way of getting the Customs Service off the hook for the loss of revenues from export taxes on agro-pastoral products.

With the elimination of both import and export licenses in July 1990, the government (in part through the *Chambre de Commerce*) put in place a substitute set of procedures that all exporters of agro-pastoral products have to follow. Exporters must:

i) pay a statistical tax of now 4.5 percent of the *valeur mercuriale* of the goods being exported;

ii) submit a *fiche d'enregistrement* in either two or three copies (depending on the foreign exchange implications of the export), with each copy carrying a stamp tax costing 3,000 CFA francs;

iii) show proof of payment of the *patente*, a business activity fee calculated on gross revenues realized the previous year, or show proof of registration with the office collecting the *patente*;

iv) show proof of being listed on the *Registre de Commerce*, the equivalent of obtaining a tax identification number.

v) show proof of having paid dues to the *Chambre de Commerce;*

vi) show proof of having paid dues to the *Conseil National des Utilisateurs de Transport;*

vii) if foreigners, show government authorization to engage in the specific activity.

[Note: Items (iii) through (vii) are required only once a year.]

Although these procedures have fiscal as well as control purposes, they are considerable hindrances to the growth of private economic activity, which should be Niger's prime objective. The GON might wish to abandon them altogether rather than clutch them tightly for whatever revenue they may bring in.

This highlights the point that issues related to GON revenues need to be analyzed from both short and long term perspectives. In the short term, the critical issue for the GON is to raise enough revenue to balance the budget. The Mission should be prepared to address such concerns in negotiations for the NEPRP amendment, despite the fact that it is in the long term that the real benefits of policy reform are most evident, inasmuch as the objective is to stimulate economic growth, thereby providing the GON a larger and more dependable revenue base.

The long term revenue gains are harder to quantify, but the effort should be made. Information provided by the *Direction Générale des Douanes* supports our conclusion that elimination of export taxes on agro-pastoral products has been effective. Since 1988, the level of economic activity in the sector has increased considerably. In some cases producers, operating through cooperatives, have undertaken export of their own goods. Quantities registered at customs stations also increased. For example, official livestock exports increased from 150 tons in 1987 to 16,000 tons in 1991; onion exports increased from 12,000 tons in 1987 to 28,000 tons in 1990, and preliminary figures for 1991 suggest as much as 60,000 tons.

The full benefits of NEPRP's main condition precedent are unlikely to have appeared as yet, since they will depend upon a gradual increase in the overall level of business activity in rural areas. They probably also await further fiscal policy reforms of the type advocated in the next part of this evaluation (III.A., "New Policy and Regulatory Reforms"), including simplification of taxes for small informal sector operators.

3. Conclusions

Although we are quite confident of our method for evaluating NEPRP effectiveness, since we are also aware that much essential information is missing and the country's economy is full of exogenous variables, we can only be modest about the conclusions reached. Nevertheless, we are satisfied that most of our indicators seem to be pointing in the same direction, which give us the courage to make a qualitative judgment. In the most general sense, we consider that the NEPRP has achieved its stated objectives.

The Mission ought not to rest there. The project assistance component of NEPRP will continue for nearly two years, during which time the economic effects of elimination of export taxes may further reveal themselves. Given that the current evaluation is merely an "evaluative assessment," USAID should use some of the remaining program support funds to plan and carry out future evaluations involving more detailed data collection and more rigorous analysis of the five criteria established in the PAAD. We hope such studies will bear out our present optimistic judgment.

III. RECOMMENDATIONS FOR AN AMENDED NEPRP

The key to success with NEPRP is change in the behavior of four kinds of actors in the Nigerien economy: private producers, private intermediaries, government policy makers, and government administrators. The evaluation team believes positive changes in behavior have occurred as a result of the program, but also that the amendment to NEPRP must address a number of needs if change is to be sustained and extended in coming years. We are looking for ways to:

- Continue building confidence among agro-pastoral producers that they can produce and sell more, especially through exports.

- Bring private intermediaries (i.e., *commerçants*) into greater compliance with the GON's fiscal system.

- Persuade policy makers to lighten control and to give meaningful, active support to private economic operators (both producers and intermediaries);

- Improve administrative efficiency and reduce corruption among officials who regulate private economic activity.

The effectiveness of NEPRP depends upon:

- Non-project assistance, primarily an anticipated final resource transfer requiring appropriate conditions precedent that will require the GON to undertake real reforms that promote private sector economic activity.

- Program support, primarily technical assistance, to help the government understand the nature and utility of private sector activity, reduce its interference in the economy, and improve its administrative efficiency in executing essential economic measures. (Program support can also stimulate private economic activity directly).

In Section III.A., "New Policy and Regulatory Reforms", below, we focus in part A upon needed reforms, commenting as pertinent on applicable program support. In Section III.B., "Recommended Conditions Precedent for an Amended NEPRP", we list potential conditions precedent.

A. New Policy and Regulatory Reforms

Our recommendations for further reforms under an amended NEPRP are divided into three categories: fiscal reforms, other reforms to governmental institutions, and support to the agro-pastoral sector.

1. Fiscal Reforms

As mentioned above, we have tried to avoid reforms that tend to diminish Niger's revenue potential. The government cannot afford them, even if they are occasionally accompanied by budgetary subsidies, since they leave the country particularly vulnerable and dependent. However, it appears to us that the government ought to give serious and reflective study (after the current political turmoil passes) to creating a more appropriate and better coordinated fiscal system. Such a system could help modernize the economy, attract Nigeriens into formal sector activity, and above all, provide a place for small and medium enterprises alongside the few remaining large firms.

In the time allotted for the NEPRP evaluation, it is impossible to propose much in the way of specific reforms. However, attention might focus on the following, which will be expanded upon below:

- Simplification of taxes on small and medium sized firms.
- Promulgation of a *Code Général des Impôts.*
- Administrative reorganization.
- Elimination of administrative harassment, beginning with abolition of the economic police.
- In-service training for customs service agents.
- Tax education and training for businessmen.
- Change in the law governing forfeiture of security.

Simplification of Taxes

In the background section on Niger's fiscal system (Section I.D., "Fiscal Overview"), we mentioned that small businessmen face a multiplicity of taxes, such as IGR (general revenue tax), BIC (tax on industrial or commercial profits) or BNC (tax on noncommercial profits), and the ICTS (tax schedule for wages and salaries). It should be possible, without changing the amount of tax each businessman has to pay, to tax net revenue in some simple, practical way easily computed by the average taxpayer. The sheer variety of existing taxes is a common reason for tax evasion.

Similarly, the current basis for calculating the minimum fiscal tax (IMF) makes it much more a levy on gross income than on net revenue. In cases of evident intent to commit tax fraud, it should be possible to examine the businessman's lifestyle or other indicators that will permit some judgment about net revenue. On the other hand, in cases where lack of business activity prevents the entrepreneur from achieving positive results, it seems illogical to tax the firm's already negative cash flow. This is no way to encourage business growth. A system combining several taxes into one might yield definite benefits to Niger's Treasury through making it easier for taxpayers to comply.

By contrast, however, the prepayment of taxes at time of purchase or at customs service border posts appears to create difficulties that generate unanticipated results, such as refund claims even though the firm actually owes the tax.

Promulgation of a Unified Tax Code

One way any government can stimulate investment (foreign or domestic) is by creating a simplified, quickly understood tax code and a revenue collection system whose procedures and results are clear. Virtually every francophone country has developed a unified tax code (*code générale des impôts*) that brings together all aspects of the fiscal system. In the process of drafting and promulgating such a code, many contradictions and redundancies come to light. Procedures for dealing with disputes can be brought up to date.

Niger has not yet done this; even if a draft code exists (as has been reported to us), it has not been promulgated. The lack of a unified code makes time-consuming research necessary in order to penetrate the existing system's arcane details. Given that a unified tax code for Niger has been under study for several years, it appears wise, not to say urgent, to proceed to put it into effect.

Administrative Reorganization

One important reform effort should focus on administrative reorganization, primarily to adapt structures to achieve better coordination among the three principal revenue services:

- *Direction générale des impôts*
- *Direction générale des douanes*
- *Trésorerie générale*

It will be best to maintain the traditional separation between those who impose the taxes and those who collect them. Efficient control of the fiscal system presupposes that those involved in the search for revenue sources not have responsibility for developing effective means of collecting the taxes due. This separation provides a second advantage, namely, that of checks upon each other. However, this also allows for constant communication in order to evaluate the effectiveness of one type of tax or another.

It is not necessary, for example, that this separation of functions should require any physical separation. In fact, it would be quite practical, from the perspective of the taxpayer as well as the government, that the payments office be located in the same building as the office levying the tax. The separation arises from the fact that the agent who collects the tax obeys the regulations governing public accounts, while he who levies the tax obeys those of the *Direction générale des impôts*.

With respect to restructuring of the Treasury, it is our view that reorganization should be pursued to the point of eliminating any irregular use of public monies by special agents of the government administration.

In order to accelerate tax collections, agents should be charged with personal financial responsibility for them; this will go a long way toward increasing their diligence.

Elimination of Administrative Harassment

Both the Revenue Service (*Direction générale des impôts*) and the Customs Service (*Direction générale des douanes*) employ two levels of agents--those who verify returns to detect errors or false statements, and those who audit incorrect or suspect dossiers.

Thus, the Revenue Service, which is divided into several sections dealing with direct and indirect taxes, examines tax submissions at two levels. First an assessment by an ordinary agent; and in most cases, the tax liability becomes effective at this stage. However, a second verification is carried out in order to audit the work done by the first agent in those cases where any error or fraud has been detected. Given the special character of various taxes, such as the IGR, TVA, etc., there is a staff of highly trained tax return auditors who undertake an overall review of suspect returns and make any necessary adjustments in the amounts due.

Similarly, within the Customs Service there are two levels of officials, ordinary agents and auditors, who process customs declarations submitted by traders. Customs Service auditors verify declarations by physical inspection of the goods and then apply the relevant tariff rates. Such investigations prevent any collusion between customs agents and traders.

The economic police, whose proper designation is Judicial Police Service Responsible for Investigating and Suppressing Crimes and Misdemeanors of an Economic Nature, is composed of police officers, tax agents, customs agents, and officers of other agencies. This service was intended to collect evidence in criminal cases of an economic nature, but it quickly became a third level of auditors investigating tax returns and customs declarations. This is a waste of effort and a source of annoyance to agents of other fiscal services.

However, the worst effect has been on those citizens of good faith, subject to review of their accounts by the government, who have suffered the frequent and disquieting arrival of a succession of official agents, all deaf to protests. It has become clear that the economic police now achieve little of real value to their formal objective (collecting evidence of economic crimes and misdemeanors); in fact they leave this to the regular fiscal services. The police officers involved would be better employed as experts in judicial cases involving clearly established crimes and misdemeanors. Furthermore, there is no reason why the judicial police could not investigate such cases in collaboration with the revenue services.

The existence of the economic police is a symbol of the economic control mentality within the GON, because it serves as a reminder to economic operators that they may be subject to arbitrary investigation at any time. Abolishing the economic police, therefore, would carry an important message to the private sector that the government is serious about reducing interference in the economic life of the country. The officers currently assigned to the economic police could simply be reassigned to other functions. According to information provided us by the Ministry of Finance, there are fewer than twenty-five officers currently assigned to the economic police, and their workload is relatively light. In fact, although several countries in francophone Africa operated economic police services for some years, many have abolished the function for the reasons just cited.

At the lower levels, there are serious problems concerning probity of officials in positions of authority--abuse of power and corruption. The powers of the economic police should be handed over to the revenue agencies, especially the tax and customs services. What is really needed, however, is a strengthening of the inspector general's office (*Service de l'inspection des administrations de l'Etat*), uniting elements of all the financial services and given real powers of investigation, whose officials are authorized to operate throughout the government and whose sanctions are real enough and forceful enough to discourage abuses and punish corruption. This refocus of sanctions on governmental dereliction of duty rather than on private misconduct is an essential element of true economic policy reform in Africa.

In-service Training for Customs Agents

Studies of Niger's customs operations by outside consultants, including those funded by USAID, have indicated that the legal and regulatory foundation is sound, and that basic training for customs agents produces entry-level personnel who understand the technical and complex aspects of customs work. Nevertheless, the anecdotal evidence offered everywhere in Niger by economic operators who engage in foreign trade is that, in practice, customs agents are often slow, arbitrary, inconsistent, and in some cases corrupt.

Where there is corruption, it arises to some extent because the value of goods and the taxes levied are large in proportion to an agent's salary. However, this is true around the world, but many countries have better records for probity at the customs station. In part, the corruption arises because customs agents on the other side of the frontier, notably in Nigeria, are reported to have a tradition of venality. We are therefore unable to verify this allegation.

However, given such influences, it is hard to maintain professional standards. Moreover, customs stations are physically far away from the beneficial influence of senior officials who might be expected to believe in and practice the highest standards of their profession. This distance has the additional disadvantage of making it harder for field agents to keep up with changes in law or procedure, and to understand the purpose of such changes in order to apply them intelligently to specific cases as they arise. Under the circumstances, frequent in-service training sessions would go a long way toward strengthening professional standards, pride in the customs service, and correct application of the laws and regulations.

To achieve these objectives, the customs service should establish a traveling training team (2 or 3 senior officers) to visit border posts and conduct refresher training. The team should inform customs agents of changes in applicable laws and regulations, instill professional pride and rectitude, inspect customs facilities, and intervene with the *Service des Douanes* in Niamey to obtain needed support for agents at field posts. Ideally, the team would make annual or semiannual trips from Ayorou to N'Guigmi, stopping for a day or two at each post along the border, plus interior posts (Tahoua, Agadez, etc.). The project assistance component of NEPRP could be used to provide financial support for the training team (vehicle, equipment, etc.) during its initial period.

Tax Education and Training for Businessmen

Although there are quite a few businessmen who deliberately commit tax fraud, and who for that reason choose the informal sector in preference to modern, legal and rational administrative institutions, the vast majority of small economic operators remain in the informal sector out of ignorance. Small craftsmen, merchants, and newly launched entrepreneurs are unfamiliar with the legal avenues available to them for the conduct of their affairs. Moreover, they have little idea of the purpose of taxes imposed upon them. There is an opportunity, therefore, for the government to take an active part in training such business operators to understand fiscal matters. As part of a tax training program, USAID might consider paying the cost of printing legal texts and brochures explaining the regulations that apply to various branches of economic activity.

Change in the Law Governing Forfeiture of Security (*Réalisation des Gages*)

Efficient tax collection is one of the most dependable ways to reduce fiscal burdens, whether general or specific. In order to accomplish this, once direct taxes (and indeed various other taxes) are calculated and payment is due, they are accorded special privilege under the law, taking precedence over other financial rights and obligations. The extraordinary power this confers on the Treasury to appropriate property in lieu of payment greatly facilitates all phases of tax proceedings under civil law, from the seizure of goods to their sale to satisfy tax obligations.

In Niger, however, the procedure for seizing real property is time-consuming and burdensome for the enforcement agencies. While it is necessary to protect citizens and to avoid discouraging real estate investment, the present law is excessively protective. Existing law, which dates from before independence, makes it difficult for investors, banks, and the state to foreclose on property at an acceptable cost. The law should also be amended to facilitate sale of property that has been seized in satisfaction of obligations to the state.

This modernization of the law could be extended to facilitate recovery of debts owed to the Banque de la République du Niger (BDRN). If rehabilitation of the banking sector should impose responsibility upon the GON for collecting the BDRN's debts, the tax privilege could be a powerful tool for moving against delinquent borrowers, if the political will exists to use it.

According to Nigerien officials, a draft law on forfeiture of security already exists. If this is true, and it if meets the objectives just discussed, it remains only for the government to enact and promulgate the necessary legislation. The Mission should obtain a copy of the draft and discuss it with a local legal consultant. If USAID concludes that changes to the draft are required, the consultant should be asked to prepare a report substantiating the changes which can form the basis for enactment and promulgation. After an appropriate period, USAID might then follow up with a study on how the law has been applied and evaluate the fiscal results.

2. Other Governmental Reforms

Apart from the government's fiscal activities, there remain a number of areas where reform could stimulate private activity and economic development.

Revise the Code de Commerce

Nigerien economic operators complain of the complexity, contradictory nature, and misapplication of laws and regulations governing commercial activity. There is at present no uniform commercial code, only distantly related holdovers from earlier legislation, plus an accumulation of decrees and regulations, some intended to deal with transitory situations long forgotten. Many of Niger's commercial practices are governed by French statutes dating from the nineteenth century, recodified during the 1920s, and ill adapted to the realities of a traditional economy struggling with the need to operate in an increasingly technical and sophisticated world.

Although Niger has never created its own commercial code, studies were undertaken during the late 1980s to review existing laws and regulations governing both interior and exterior commerce. In the case of the study of external commercial laws and regulations, at least, the draft of a revised, uniform code was submitted to the Ministry of Commerce for review. Were the recommendations contained in both these studies to be implemented, to all intents and purposes Niger would have a new Commercial Code. Given sufficient incentive, it appears the GON could review these studies, revise their proposals as necessary, and enact them. The Mission could provide technical assistance via a local legal consultant to help speed up the process.

Privatize the *Chambre de Commerce*

Chambres de Commerce in most francophone African countries are similar to those in France: they are mixed public-private entities whose authority is delegated by the local government. Their financial resources are obtained through quasi-taxes levied on economic activities in addition to mandatory dues paid by members who are private business operators. Thus, they are quite dissimilar to American chambers of commerce, which are entirely private. In francophone countries, the key institution found wholly in private, independent hands is the *Patronat*, organized and led by business owners with its resources coming from contributions by the members. Generally speaking, the *Patronat* represents the economic and political interests of business owners and executives, as opposed to employees and workers.

The *Chambre Nigerienne de Commerce, de l'Industrie, de l'Agriculture, de l'Artisanat, et du Tourisme* is somewhat modeled on *Chambres de Commerce* in France. However, although the president of the *Chambre* is elected, the *Sécrétaire Général* and his staff are civil servants seconded by the GON. It is therefore hard to make a case attesting that the staff, in their capacity as civil servants, are loyal foremost to the business community. In practice, the *Chambre de Commerce* in Niger (as in some other African countries), acts primarily as a government agency.

Considering the importance of developing a vibrant private sector in order to promote economic growth in Niger, the need exists for an organization that represents and advocates all private business interests, not just those of industrial firms in the formal sector or of powerful traders from the traditional commercial class. In addition there will have to be an effort to include young economic operators, including those from small and medium-sized enterprises. The *Chambre de Commerce* will have to shed its image as being a bastion of commerce alone. Given a broad membership base, however, such an institution could fulfill a number of useful functions:

- Monitor legislative activity, inform members about the expected consequences of laws and regulations under consideration, and mobilize the membership to act in concert to make its views known to members of the national assembly and the government. These may take the form of visits to deputies by constituents; letters to officials; letters, articles, announcements, and advertisements in the public press.

- Collect and disseminate economic and business information for the members, including news concerning formation of new enterprises, opportunities to invest in new or existing firms, promotions and other changes in management, tenders, contracts, legal announcements, etc.

- Provide services to members, including round tables, seminars, trade missions, product or service fairs, liaison with other professional organizations, employment services, etc.

In countries of francophone Africa where there is a growing private business sector, the chief executive and governing body of the *Chambre* are elected by the membership; the president, in turn, appoints a secretary general, who hires the employees and manages the organization's activities. Financial resources come from membership dues and from business service operations owned by the *Chambre* (such as bonded warehouses).

The transformation of the *Chambre* will take time; therefore, conditions precedent for disbursement of NEPRP funds logically belong under the second tranche. However, the first tranche might require as CP that the *Chambre* hold free and fair elections to choose its board of directors and president from among the membership.

Under the second tranche, we envision the following possibilities:

- Redefinition of the *Chambre's* objectives and restructuring of its organization, resulting in promulgation of a new charte.
- Identification and mobilization of financial resources.
- Appointment of a secretary general and recruitment of appropriate staff.

Since draft proposals for restructuring of the *Chambre de Commerce* are already under study, USAID may wish to focus its attention instead on direct support to organizations that represent the interests of private economic operators. According to information made available to us, there are now thirteen such associations (*syndicats*). The Mission might provide technical assistance to help these organizations create a strong umbrella institution to disseminate information and coordinate their relations with the government in much the same way as outlined above for the *Chambre de Commerce*.

Eliminate Unnecessary Road Checks

For years, private economic operators have complained of the inconvenience, delay, and opportunities for malfeasance created by the large number of government roadblocks. The GON, with considerable justification, argues that road checks are essential to the maintenance of public order because Niger has such a long and poorly patrolled border with neighboring countries. Not only ordinary commercial contraband, but also illegal imports such as weapons and drugs can be brought across the border at points remote from official stations. Once in Niger, illegal or fraudulently imported goods can best be detected through spot checks near population centers. Since different administrative services are responsible for detecting various types of goods and activities, roadblocks are usually manned by agents from the national police, the gendarmerie, and the customs service. In principle, this operates to check the temptation of individual officials to extort bribes and/or harass legitimate travelers. In practice, where all three are in collusion, the illegal acts are multiplied at least threefold.

In order to protect Niger's legitimate security interests, a certain number of road checks need to be maintained. We estimate that, ideally, road checks should exist only at frontier posts and on the main road entrances to major towns--say, the administrative centers for departments. However, the GON may have reasonable arguments for additional points, especially given the deterioration of security in the northern two-thirds of the country. The GON should, however, seek to have all other road checks eliminated, in particular freelance roadblocks operated by government employees acting outside of their official capacities.

Achievement of this objective will require prior study to answer the following questions:

How many legitimate road checks are there?
Where are they located?
What is their administrative purpose?
Which ministries are responsible for manning them?
What does it cost to have them?
How effective have they been?

Since the road checks require coordination among quite a few ministries, notably interior, defense, and finance, the necessary regulations are very likely already on the books. With the passage of time the temptation to increase the number of checks and the complexity of processing has proved irresistible. In the aftermath of a *Conférence Nationale* that laid special emphasis on transparency and accountability of public servants, renewed effectiveness of implementation should prove popular, at least in secure areas. USAID could easily monitor progress, inasmuch as U.S. government personnel travel frequently throughout the country, and can detect and report any backsliding fairly early.

3. Agro-pastoral Promotion

Onion Production and Marketing Project

USAID should develop a strategy and implement a project to encourage better marketing of Nigerien onions. The expansion of this market can, among other benefits, alleviate the country's vulnerability to foreign exchange risk by diversifying at least a portion of Niger's export expansion away from Nigeria and its weak currency.

The project would achieve two objectives: (1) consolidate Niger's market share through consumer awareness in order to protect the country's existing comparative advantage in the regional production of onions. Unfortunately, if the supply of onions in Niger does not expand rapidly, existing prices will make it economically feasible for other countries to enter the market and undercut Niger's advantage. (2) Help shift some of the profits in the onion market from traders to farmers, through the development of farmer support groups that will be able to market for themselves.

The project would concentrate on developing the following kinds of activities:

i) Alleviating the large price fluctuations. There are considerable seasonal variations in the producer price; typically from a low farmgate price of CFA 2,000 just following one harvest to a high of CFA 30,000 per bag just prior to the next, by which time the same bag can fetch as high as CFA 100,000 in wholesale markets in Abidjan. Producers being naturally averse to price risk, they tend to cultivate below optimal quantities, as a hedge against price uncertainty. Whenever faced with stable prices, growers respond by expanding production.

Commodity prices can be stabilized by assuring continuous availability to satisfy consumption demand. Shortages of stock and the ensuing inability to meet demand causes speculation which is partly responsible for price variations. The way to smooth out fluctuations is to increase storage capacity; this insures consumers against shortages and deflates speculative demand.

There is, therefore a great benefit to be gained from developing efficient storage facilities at or near farm sites--i.e, at the village level. These facilities should be entrusted to communal ownership by owners of surrounding farms.

ii) Develop farmers' bargaining power. The structure of the market today is such that a few wholesalers face a multitude of small producers, either directly or through middlemen. This takes bargaining power away from the many competing producers and consolidates it in the hands of a few merchants. In addition, a portion of the profit from onion trade is retained by a layer of brokers.

Construction of larger, regional storage facilities to pool the output of several communities would strengthen farmers' bargaining capacity and thus lead directly to higher farm incomes. Ideally, such storage facilities should also be jointly owned by farmers, although given Niger's traditional social structure, they are much more likely to be owned by traders. At these facilities, a farmers' marketing organization could undertake a number of steps to add value prior to long distance transport, such as weighing, sorting, packing, and labeling. Since farmers would visit such centers fairly frequently, they would become useful points for providing extension services such as information on technical developments and market conditions, including prices. However, their main function would be that of providing wholesale markets, bringing producers and wholesalers into direct contact with each other.

B. Recommended Conditions Precedent for an Amended NEPRP

In view of the urgency of the transition government's needs, the U.S. government's desire to sustain the movement toward multiparty democracy under way in Niger since 1991, and to persuade the GON to return as quickly as possible to compliance with the spirit of structural adjustment, the conditions precedent should be designed along the following four guidelines:

1) Be quickly accomplished.
2) Involve a maximum of two tranches.
3) Involve no loss of revenue or increase in spending implications for the GON.
4) Reduce government interference in private economic activity, including (but not limited to) agro-pastoral exports.

We consider that the five conditions precedent described below are those best suited to meeting the guidelines. Three can be executed with minimum delay, while the other two can be accomplished within the time frame of the transition government. Accordingly, we have divided our recommended conditions precedent into two tranches.

First Tranche:

1) Eliminate the economic police.
2) Promulgate a unified tax code.

Second Tranche:

1) Revise the law governing forfeiture of security.
2) Revise the Commercial Code.
3) Reorganize the *Chambre de Commerce.*

Annex A: Observations on the Treasury Reorganization

61

OBSERVATIONS ON TREASURY REORGANIZATION

- LETTER TO THE TREASURER GENERAL -

Niamey le 23 Avril 1992

Monsieur le Trésorier Général,

Je vous remercie très sincèrement pour l'accueil que vous avez bien voulu me réserver à vos bureaux dans le cadre d'une mission que je conduis dans votre pays sous l'égide de l'USAID. Vous avez bien voulu à cette occasion susciter mes réactions personnelles sur un projet d'arrêté en préparation pour la réorganisation des services du Trésor en République du Niger.

N'ayant pas une connaissance pratique du terrain, je ne peux que vous donner des impressions sur la pratique en Côte d'Ivoire, mon pays, et aussi sur l'expérience personnelle que j'ai reçue en tant que Trésorier Payeur Général de mon pays.

L'objet du texte que vous m'avez communiqué est de si grande importance pour les services du Trésor qu'il me parait plus ressortir du décret que d'un simple arrêté ministériel. Aussi me permettrais-je de vous suggérer de proposer une modification du décret de 1973 relatif au Trésor Public en République du Niger. Ce décret portera d'emblée création du réseau comptable dans son ensemble à savoir:

I. **TRESORIER PAYEUR GENERAL OU TRESORIER GENERAL** comme vous voudrez, quoique les deux fonctions ne soient pas totalement assimilables. Le Trésor Général, dans le cadre des anciens territoires de la France d'Outre-Mer était certes, comptable supérieur, mais simplement centralisateur, chacun des territoires disposant d'un Trésorier Payeur qui rendait un compte de gestion séparé. Pour la situation actuelle de nos pays, le terme de Trésorier Payeur Général devrait être préféré, avec la plénitude des fonctions de comptable supérieur du Trésor, d'Agent Comptable Central de l'Etat.

II. **DES TRESORIERS DEPARTEMENTAUX** dans chacun des départements du Pays, comptables supérieurs du Trésor dans le département, mais comptable subordonné du Trésorier Général. Dans un premier temps leurs opérations seront intégrées au compte de gestion du Trésorier Payeur Général, mais par la suite, le rôle du comptable supérieur du Pays pourrait s'arrêter à un simple rôle de centralisation, le Trésorier départemental rendant lui-même un compte de gestion distinct pour les opérations de l'Etat.

III. **DES RECEVEURS-PERCEPTEURS ET DES PERCEPTEURS** dans les arrondissements et auprès des collectives locales décentralisées et de certains établissements, publics d'importance: Municipalité, Hôpitaux, Universités, grandes Ecoles, etc.

68

IV. Par ailleurs, il conviendrait, pour plus de souplesse et de rapidité dans l'encaissement des droits, de créer **DES AGENTS COMPTABLES SPECIALISES** qui seraient des receveurs des régies financières, soumis aux règles de la comptabilité publique, notamment en matière de prise en charge comptable des émissions et aussi et surtout de l'utilisation de leurs disponibilités par le Trésorier Général. Ainsi les chèques remis à leurs guichets seraient tous libellés à l'ordre du Trésor Public au moment du recouvrement et déposés tous les jours pour encaissement au service "comptabilité" de la Trésorerie Générale ou même directement à la BCEAO et les bordereaux de remise de chèques déposés à la comptabilité. Dans la situation de crise aigue de trésorerie que connait actuellement le pays, cette procédure serait de nature à accélérer la mobilisation des disponibilités publiques.

V. **POUR LA VILLE DE NIAMEY** qui centralise plus de 80% des recettes par voie de rôle, le Trésorier Général ne devrait pas avoir un rôle direct de percepteur. Il serait plus expédient de multiplier les perceptions de quartiers qui sont plus proches des contribuables.

Mais la solution qui me parait à envisager avec sérieux est la création d'un poste de Receveur Général des Finances ou des contributions qui n'aurait pour seule charge que de suivre le recouvrement des impôts émis par voie de rôle ou dont le recouvrement contentieux incombe au Trésor comme les droits de Douane. Ce comptable, subordonné au Trésorier Général, serait véritablement celui qui pourrait permettre de surveiller toutes les diligences à entreprendre pour le recouvrement des impôts et mettre en oeuvre toutes les actions de poursuite.

Ainsi les services de la Trésorerie Générale joueront pleinement leur rôle de contrôle des dépenses publiques et procéderont à leur règlement.

Je vous demande donc de prêter une attention personnelle à la possibilité de création de ce poste de Receveur Général des impôts auprès de vous même et des services qu'il pourrait rendre dans l'efficacité du recouvrement compte tenu de l'importance de la région de Niamey dans la masse des impôts émis par voie de rôle.

VI. **POUR L'ORGANISATION INTERNE DES SERVICES**, je suggère que le service que vous avez baptisé cellule d'étude et de contrôle soit un véritable service d'inspection des comptables publics, doté en moyens matériels et surtout humains. Dans la première phase d'installation des percepteurs et des agents comptables des collectivité et établissements publics, les inspecteurs vérificateurs auront un rôle déterminant à jouer. Ils devront avoir eux-mêmes une formation très poussée, avoir une expérience de l'administration du Trésor et surtout être de véritables pédagogues pour assumer la formation sur place des comptables surbordonnés et de leurs agents. Ce service pourra, en plus de ce rôle de vérification, avoir des missions d'étude et participer à toutes les études d'organisation et méthode au sein du Ministère des Finances. Les premières études à entreprendre dans ce cas étant celles liées à l'informatisation des opérations comptables de l'Etat notamment en liaison avec les services d'émissions.

VII. **POUR LES POURSUITES EN MATIÈRE DE RECOUVREMENT** des impôts, le Trésor devra disposer d'une véritable brigade d'agents de poursuites assermentés pour l'exécution de toutes les procédures en conformité avec le Code de Procédure Civile et le Code Civil Nigériens. Le chef de ce service devra être un juriste confirmé, capable d'être le véritable chef de service du contentieux du Trésor.

Voilà quelques observations que m'inspire la lecture rapide du texte que vous avez bien voulu me communiquer. Mes observations sont tout simplement fraternelles et je souhaite qu'elles enrichissent la réflexion actuellement menée dans votre pays sur l'efficacité des services fiscaux et principalement du Trésor, relativement à l'Impôt. Des réflexions plus poussées devraient à mon sens être menées pour donner au Trésor public un rôle plus actif et même plus directif dans le choix des politiques fiscales du Pays.

En vous remerciant de l'accueil reçu dans votre pays et auprès de vous-même, je vous prie d'agréer, Monsieur le Trésorier Général, mes sentiments les plus distingués et très cordiaux.

Maurice Seri Gnoleba

Annex B: Persons Interviewed

PERSONS INTERVIEWED

Abidjan, Côte d'Ivoire

Abdouramane Cherriff, Niger Lending Officer, African Development Bank

Washington, DC

Emmanuel MBi, Niger Lending Officer, The World Bank
Sarah Keener, Research Assistant for Niger, The World Bank
Willem Van Eeghen, former Economist for Niger, The World Bank
Pierre Lazare, Lending Officer, International Monetary Fund
Norbert Toe, Executive Office, International Monetary Fund
Stephanie Sullivan, Niger Desk Officer, Department of State
Nancy McKay, Niger Desk Officer, Agency for International Development

Niamey, Niger

Jennifer C. Ward, U.S. Ambassador
Mara Teckach-Ball, Economic Officer, American Embassy

USAID/Niger:
George T. Eaton, Mission Director
Valerie Dickson-Horton, Deputy Mission Director
Beatrice Beyer, Chief, Program Office
Michael McCarthy, Mission Economist, Program Office
Hararou Djibo, Program Assistant, Program Office
George Taylor, Chief, Agricultural Development Office
Gregg Baker, Head, AE&P, Agricultural Development Office
Cdt. Moussa Saley, Senior Program Specialist, ADO
Richard Macken, Chief, Program Development Office
Souleymane Aboubacar, Program Development Office
Helen Soos, Chief, General Development Office
Michael Sullivan, General Development Officer
Oumarou Kané, Health Development Office, GDO
George Callen, Consultant on International Commerce, GDO
Sidi Mohamed Iddal, General Development Office
Jane Hopkins, Research Fellow, IFPRI

Alix Barstow, Peace Corps Volunteer

Other donors:
Whitney Foster, Resident Representative, The World Bank

Francis Mody, Economist, The World Bank
Henry B. Sprietsma, Economic Counselor, European Development Fund
Jacques Benoit, Consultant, Small Irrigation Project, FED
Bernard Sirvain, Director, Caisse Centrale de Coopération Economique
Francis Frey, Deputy Director, CCCE

Government of Niger:
Dieter Robert, Economic Advisor, Secretariat General, Prime Minister

Laoual Chaffani, Minister of Finance and Plan
Ide Niandou, Secretary of State, Ministry of Finance and Plan
Mamane Saidou, Secretary General for Finance
Youba Dially, Deputy Director, Customs Service
Koussou Ibrahim, State Treasurer

Moussa Mahamed, Minister of Commerce
Barhouni Maliki, Secretary General, Ministry of Commerce
Maina Ari Adji Kirgam, Secretary General, Chamber of Commerce
Idrissa Seydou Magagi, Director of "Guichet Unique." Chamber of Commerce

Ouhoumoudou Mahamadou, Minister of Mines, Industry, and Artisanat

Nigerien businessmen:
Ali Alidou, President, Syndicat of Young Entrepreneurs

Annex C: Documents Reviewed

14

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15

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"NEPRP Conditionality Proposals," USAID internal memo (Mike Sullivan/Helen Soos), March 6, 1992.

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