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NIGER

Niger: Agricultural Policy and Credit Reforms

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NIGER: AGRICULTURAL POLICY AND CREDIT REFORMS

The gloomy economic climate in Niger has precipitated an interest by the Government of Niger (GON) in reevaluating agricultural policies. This interest is being supported by USAID in a proposal for an Agricultural Sector Development Grant (ASDG). An important element in this is a possible redesign of the current agricultural credit system at the village level.

Background

Starting with a Joint Program Assessment sponsored by USAID/Niger and the GON, in 1982 a National Seminar on Agriculture and Rural Development was held at Zinder. The Zinder Conference produced a series of policy recommendations which have been refined in the Ministry of Rural Development and many have been endorsed by the Council of Ministers. Other recommendations are being implemented as official policy of the GON.

In 1983, two important policy studies were prepared -- a report on cereals pricing and marketing, known as the Berg Report, and a study of the economics of technical packages, known as the Eriksen Study. Both of these were part of the

continuing USAID/Niger-GON policy dialogue under the Joint Program Assessment.

In 1984, an extensive analysis was prepared on institutional and policy constraints on agricultural production. This analysis, known as the Zalla Report, forms the basis for much of the agricultural policy reform currently being proposed. The reforms cover five interrelated areas:

- . Reduction in the cost of distributing and subsidizing agricultural inputs;
- . Relaxation of controls on agricultural prices;
- . Increased opportunities for cooperatives and other private sector participants to produce and distribute agricultural inputs;
- . Improvement in agricultural credit policy and management; and
- . Improve grain and livestock trade with Nigeria.

Many of the recommendations of these reports have been discussed with officials of the GON and are being incorporated into a proposal for an ASDG.

Purpose

The purpose of this report is to review a number of agricultural policy reforms that have been proposed and in the context of the policy environment of Niger to suggest means to monitor progress in implementation and means to measure the impact of policy reforms on agricultural production and GON budget outlays.

Policies related to the availability and pricing of fertilizer, pesticides, and other farm inputs are central to the reform program. This, in turn, places a great responsibility on the current rural credit system, which according to recent audits and evaluations is extremely inefficient and largely ineffective in stimulating the use of such inputs. Thus a second major purpose of this report is to review current proposals for a major study of farm credit at the village level and to make recommendations regarding its implementation.

Agricultural Policy Environment

Before reviewing the specific reforms, it would be useful to review the perspective of the GON and the conditions which led to the present situation. This perspective will influence how readily changes in policy might be accepted and carried out.

The present system of agricultural marketing, pricing, and subsidy policies evolved because of a desire to improve the incomes of politically important groups as much as to gain economic or social objectives. For the farm constituency, this led to programs of input subsidies, readily available credit, and assistance to rural cooperatives. The large urban constituency of consumers benefitted from low prices for important food items. The middlemen in the marketing system were not politically powerful, so government policies were generally limiting and sometimes detrimental to their interests. Most of the funds to support farmers and consumers came from uranium sales and foreign donors.

The agricultural situation in Niger evolved into a complex set of producer and consumer subsidies with a number of restrictions on market participation. Because of perceived evidence of market inefficiency, the GON was faced with two quite divergent alternatives. One was to improve the competitiveness of the marketing system by creating better access for potential participants who might provide marketing services and by providing better information to these participants about factors likely to affect price formation. Another alternative was to provide marketing services directly through agencies of the government. The GON chose the second, including policies of subsidy, pricing, and private sector exclusion.

The perceptions of many people in the GON of inefficient markets and rich middlemen contributed to the present policy situation, and this will have to be considered in implementation of policy reforms. That marketing margins are high is true. But, they are very likely high because marketing costs are high. Roads and communications in Niger are poor, interest rates and storage losses are high, as are costs of maintenance and spare parts for transportation and handling equipment.

Distrust of middlemen has manifested itself in an on-again, off-again policy toward permitting private traders to participate in marketing or export. In some years, private traders are allowed to participate in marketing activities during the OPVN buying campaign and in other years they are not. For example, in 1983 the GON began issuing licenses to private traders to permit them to export cowpeas. The response of traders was overwhelming and the

GON quickly reconsidered the consequences of its actions and suspended the issuance of more licenses.

In response to the concern about alleged high middleman profits, the functions they perform contain high risk, especially in situations of inadequate information. Survival as a middleman requires sharp trading and business skills, and the economic return to these skills is very large so that successful middlemen can have very high incomes when compared to most farmers or consumers. Thus, it is easy to move from the observation that since middlemen are rich to the allegation that the marketing system is inefficient and imperfect, and therefore government intervention is necessary to correct "abuses" of the system.

The GON today finds itself in a situation of trying to perform a number of marketing functions directly. However, as in most other countries that have chosen to have government provide marketing services, the government has not been able to meet the competitive standard of market participants. Continuation of the government's role requires significant budget outlays to cover the high costs. In addition, some private market activities have been restricted to eliminate competition, giving consumers no option but to pay the high costs of operating inefficiency.

In Niger, it is very difficult to distinguish budgeting outlays to cover subsidies for producers or consumers from outlays to cover the cost of operations. There is no free market with which government agencies' performance can be compared. Thus, what has been labelled a subsidy for farmers or consumers seems to include a substantial added cost for inefficient operations.

The agricultural credit situation in Niger has been bad and deteriorating for a number of years. In 1975 the World Bank noted that 29 percent of the portfolio of the Caisse Nationale de Credit Agricole (CNCA) was in arrears. In early 1984, a French joint mission (CNCA/France/CCE/CCIS) found the CNCA with an average annual operating deficit of 115 million CFA, negative balances of 2.61 billion CFA, and loans of 4.1 billion CFA outstanding to various parastatal organizations. A large proportion of the outstanding loan portfolio is in arrears or payments are not being made and, therefore, is of questionable asset value.

The crisis in credit led CNCA to refuse to grant new production credits to cooperatives in 1982-83. Associated with this was a corresponding drop in use of fertilizer and pesticides. It is not clear how much of the decrease in usage is attributable to the cutoff of credit since a number of other administrative and logistical problems existed in the input supply system at the same time. However, the current crisis has led the GON to reevaluate the official agricultural credit program and the role of CNCA.

The joint Nigerien/French mission reported in 1984 that the crisis in CNCA was not simply a problem of structure and administration, but that the basic approach to agricultural credit was inappropriate to Nigerian conditions. The report recommends that the CNCA be liquidated and a new credit system be put in place. The new system envisaged would be based on local credit unions (Associations ou Caisses Mutuelles d'Epargne et de Credit) with farmers actively participating in management, mobilizing an undetermined amount of untapped rural savings, and collecting outstanding loans.

The recommendations of the joint mission were consistent with those made at the Zinder Conference. However, the report also allowed that the new system would take a long time to develop since the creation of autonomous local credit unions may be difficult in an environment geared to a centralized development approach.

Implementation Considerations

As is recognized in the ASDG draft, fuller participation of the private sector in supplying inputs, marketing and storing commodities, providing credit, and other aspects of the agricultural sector requires a policy environment that is conducive to competition and investment. Attracting additional participants with a deeper commitment of resources into the agribusiness sector will result in additional flexibility to adjust to the economic environment and reduce marketing margins. The steps which will lead to this kind of policy environment include:

1. Easing legal and administrative restrictions which limit competition and entry into agribusiness markets;
2. Adjusting subsidies and prices to open opportunities for private sector participation; and
3. Establishing a clear policy for opening agricultural markets to private agribusiness.

Improvement of the policy environment will, of course, increase the capability of the agricultural sector to react and adjust to changes in prices, marketing conditions, procedures, and policies. The input supply and marketing system in Niger now has a limited capability of making such

adjustments to what will amount to be major shifts in agricultural policies as part of the ASDG.

Policy reforms are exceptionally vulnerable to criticism if price fixing, price gouging, periodic shortages, high marketing margins, and other suspicions of abuse are evidenced. Thus, steps should be taken to avoid abuses and to educate policymakers and the general public of the normal consequences to expect of policy reforms.

The primary responsibility for studying the feasibility, monitoring, and evaluating the policy changes to be made under the ASDG will be with the Office of Program and Studies in the Ministry of Rural Development. However, developing the plans, procedures, and schedules for implementing the reforms will require close coordination with the agencies that will be responsible for implementing the reforms.

A number of reviews, analyses, and evaluations will have to be done by this unit as part of its responsibilities under the ASDG. Among these are an analysis of alternative input subsidies, option for setting up a tender system for grain procurement and sale, alternative methods of dealing with grain stocks, structuring a market information system, and testing the premises upon which the restructuring of the agricultural credit system is based. Much of the information and data needed for these analyses has already been developed in the studies mentioned earlier and others that have been conducted in the last 10 years or so. In some cases additional data will be needed.

Input Subsidy Assessments

As soon as possible after the project has been signed, the pros and cons of different means of applying input subsidies need to be explored. This might include:

- . Documenting and assessing the present level, method, and cost of delivering input subsidies;
- . Evaluating the cost and impact of specific input subsidies; and
- . Exploring alternative effective methods of delivery of input subsidies.

The first analysis will be of the delivery system to provide data on how subsidies are determined under present agricultural policy, who receives it, how much, and detail the efficiency and budgetary cost of delivery. The results will be used as a base from which to monitor and verify progress in improving efficiency and reducing budgetary costs as part of the reforms under the project. It will also provide information necessary to set up a monitoring system to track costs, verify quantities of inputs distributed, and provide information necessary for making adjustments in the level of subsidies.

One of the proposed reforms in input subsidies is that prices will be fixed for inputs only after the amount of funding available for subsidies is known and the quantity of the input demanded can be estimated closely. This reform is designed to overcome the current tendency which is to set prices of inputs before the amount budgeted for the subsidy is known. If the amount budgeted later does not correspond

to the set price times the quantity of the input demanded, the government simply rations the amount distributed. This is detrimental to production. To avoid this either the budget or the subsidy, or both will have to be determined more accurately in advance of the season. This requires a sharpening of estimating and production techniques.

Waiting until the subsidy budget is known before setting the price of inputs has its own hazards since the timing and availability of public revenues is not always predictable. Thus without borrowing authority, the price may not be determinable until after the season for usage has passed. This was the case a number of times in Nigeria where cocoa pesticides sat unused in stores throughout the season because the agency had not yet determined the level of subsidy. While farmers could have purchased the input at the full price, they were reluctant to do so expecting that by waiting a few days the subsidy might be announced and the price would be lower. Under these circumstances, it is very likely that pesticide use was lower than it would otherwise have been without the subsidy and the timing of application might also have been less than optimal for maximum effectiveness.

The issues relating to input subsidy determination and input pricing should be analyzed early by the Office of Programs and Studies working with an advisor.

An evaluation of the effectiveness of, and the need for, input subsidies compared to other alternatives for encouraging use of inputs, reducing farm costs, and encouraging farm production would be useful to provide the information base from which the decision can be made to

adjust, maintain, or terminate particular subsidies. The key to such an evaluation is an assessment of the extent to which the input subsidies may have contributed to increased farm output under actual farm operating conditions. This is essential to assess the optimum level of subsidy or whether some other production incentive should be considered.

Some alternative methods of delivering subsidies without an official pricing system and without setting input quotas might include the following means:

- . A rebate system whereby direct input subsidy payments are made to farmers or a local cooperative upon presentation of evidence of purchase of an input for direct use.
- . Issuance of coupons or vouchers direct to farmers or local cooperatives. Registered dealers of the input would be authorized to accept these coupons as partial payment for inputs delivered and be reimbursed by government through the banking system.
- . Credit for the purchase of selected inputs at interest rates below the rate of inflation. This method proved exceptionally effective in stimulating soybean and other crop production in Brazil in the 1970s. The level of subsidy is determined by the amount of the loan, the interest rate, the inflation rate, and other repayment terms. (The availability of subsidized credit is tied to the purchase of selected inputs. It would be desirable to examine also the effects of this tie-in on other factor markets.)
- . Subsidize inputs on a per unit basis at specified warehouses or factories. All government agencies, cooperatives, farmers, or private traders would have access to supplies at the same price and on the same terms and would compete in their ability to deliver to farmers at minimum mark-up. (This

system would be appropriate as long as significant amounts of the input continue to pass through government warehouses or factories.)

Any of the above alternatives, and others which may be considered, should be evaluated in terms of cost, ease of administration, effectiveness for delivering subsidies to the targetted groups, effect on the private sector, and competition in the market. There is no inherent reason that different alternatives cannot be adopted for different inputs in response to different marketing situations.

Tender System for Grain Marketing

A system of sealed bids for tendering the purchase and sale of grain by OPVN is being considered to promote a more orderly market for grain and to encourage competition. Following a brief feasibility and design analysis, a pilot project could be set up for buying and selling 3 or 4 tenders on an experimental or pilot basis. Appropriate documentation of the experiment should be included so that the results can be evaluated and a system developed for adoption. The design should be done either within OPVN or with the collaboration of OPVN to improve the chances that the recommended tender system is ultimately adopted. The pilot would be done over a period of one year to include a buying season and a selling season.

The feasibility and design study might take about 3 weeks with technical assistance provided by someone experienced in such operation, for example, the U.S. Commodity Credit Corporation. Another 2 weeks would be needed to set up, carry out, evaluate the results, and suggest changes, if

any, in the tender procedures. A total of 6 to 10 weeks would be needed in the course of a year for planning and evaluation.

Managing Grain Stock

Establishing a village level grain storage system through arrangements with cooperatives has been proposed to allow a reduction of CPVN-held stocks. As part of the design and implementation, an analysis of the feasibility of alternative arrangements for physical storage, financing, transfer of title, transportation, location, supply, demand, present farm level storage levels, price stabilization, and other factors should be considered. This would have to be done in close collaboration with OPVN, and the German assistance organization, and possibly U.S. expertise.

Some of the alternatives to be considered might include leasing or sale of some OIVN owned storage facilities to cooperatives or private traders, OPVN contracting with cooperatives to store at the village level, and providing financial incentives to encourage private storage of grain.

A non-recourse loan and storage program similar to that operated in the United States is one option that might be examined for application in Niger. Under this program, if the market value of grain in storage exceeds the loan amount, the farmer has the option of repaying the loan and selling the grain. If the market value of the grain stays below the loan amount, the farmer allows the government to take title to the grain as well as responsibility for it. Thus, grain stocks act as a buffer -- under rising prices

they will trigger sales from storage and at low prices more will be put into government stocks.

An analysis of the feasibility of alternative methods of grain storage should take about six weeks.

Market Information Services

A proposed reform is to institute a weekly radio broadcast of market conditions for cereals, legumes, and livestock at the arrondissement level. It will be necessary to review the kind of market information now being collected and for what purpose and to determine what other information is needed. Additional plans need to be drawn up along with a timetable for implementation. This should take about four weeks with outside assistance.

Rural Financial Markets Study

The rather sweeping indictments of the existing agricultural credit system are apt to lead to some harsh measures, such as tossing out the old system and starting over with a new one. Before such actions are taken, a number of questions need to be answered. These include:

1. Financial and economic returns from agricultural inputs applied under actual farm conditions need to be determined to estimate the effective demand for credit at various interest rates. This type of information would be derived from production economic studies and farm budget studies, and should be differentiated by regions and perhaps other important type-of-farming criteria.

2. Operations and management of credit programs must be analyzed to determine strengths, capabilities, and weaknesses and identify interventions which can strengthen the program.
3. Description and analysis of rural financial institutions and customs which are outside of the official government credit programs.
4. If credit unions or cooperatives are to be the vehicle for mobilizing savings, it will be necessary to determine beforehand how much savings exist in rural areas and how much is likely to be mobilized.

The following guidelines recommended by the World Bank include some essential properties of a rural farm credit system.

1. **Accessibility:** the institution(s) responsible for rural credit will have to reach the village level, cooperatives, or small informal groups for contacts.
2. **Packaging:** credit alone is of little value for improving agricultural production if it is not accompanied by proven, profitable new technology and timely supply of inputs.
3. **Distribution in kind:** this technique has proven very effective in many developing countries, especially in areas where local traditions allow access to cash reserves held by family member.
4. **Timing:** credit must be available when needed to purchase inputs.
5. **Selection:** borrowers should be selected on the basis of creditworthiness, and this assessment should be based on reputation of the individual, technical feasibility of the proposed investment, and expected cash flow from the investment.

6. Individual liability and group responsibility: while repayment of a loan is the responsibility of an individual, a village level group which is cohesive can be an important influence in ensuring payment.
7. Control: control of the operations of a financial entity should go as far down as possible while maintaining sound financial management.
8. Flexibility: this is necessary to permit lending practices which are responsive to seasonal needs for liquidity and permit rescheduling in times of crop failure or other unexpected events.
9. Continuity: programs which fail to extend beyond the first year and collect slow repayments encourage poor borrower discipline and eventually undermine the credibility of the entire program.
10. Open-ended approach: programs have to be tailored for local conditions and the credit program must be able to adjust as agriculture and the local economy evolve and change.

The recommendation of the Joint Mission to establish local credit unions introduces a question of the extent of savings and the ability of credit unions to mobilize it in rural areas. Savings mobilization has largely been neglected by the GON. The point is well-worth considering since savings-based credit programs tend to be much less costly than publicly supported credit programs and they lessen the problem of default. Savings when coupled with a credit program have the effect of instilling a financial discipline and reducing the need for outside financial infusions.

In a similar credit situation in Senegal, the development of a savings program was recommended. An account which

would give farmers a discount, equal to accrued interest, on prepurchased inputs was proposed. This means that farmers would effectively earn interest on money in this type of account. A second type of account would require periodic deposits which would accumulate interest and be used in years of poor production and other emergencies.

The diagnosis of the problems and their solutions matches the biases of different professional groups. Economists tend to speak in terms of financial and economic returns, input-output coefficients for physical inputs, interest rate structure, credit utilization, credit availability, pricing policy, and related matters. Management specialists and accountants approach credit programs in terms of operational methods. The U.S. Inspector General's Audit Report of December 1983 on agricultural credit programs in the Sahel typifies this approach. The report stresses the need for improved accounting, internal controls, technical assistance, payment terms, management, and other operational issues. Anthropologists look at credit in terms of behavior and village institutions. While all these points of view are useful for restructuring an agricultural credit system, obtaining complete information on all aspects is costly and time consuming. Priorities need to be established.

The recommendation of this report is that an initial study of informal financial markets be combined with an analysis of the operations and management of formal credit programs at the village level. Special emphasis should be given to making recommendations for interventions which would strengthen both formal and informal credit programs.

(Terms of reference and methodology for such a study is contained in Annex A.)

Following the above study, USAID and the GON will need to give some thought to whether there is a need for a study of returns to agricultural inputs under actual farming conditions. This would help to determine the demand for credit, preferably on a regional or type-of-farming basis. This or a separate study could also probe the potential for mobilizing rural savings.

The foregoing types of studies do not always need to be developed for a nationally representative sample. Much useful information can often be gotten by proper selection of cases from different strata in the rural population. The cases selected may be different for answering different questions.

Other Studies

A number of other studies will be necessary during the course of the project, some of which will require outside assistance. Some of these studies are anticipated to be in pricing of food grains, production economics, regulation of marketing, manpower needs, international procurement, international marketing, transportation needs, taxation, and other topics related to some of the key policy issues. Annex B is illustrative of the kinds of questions which need to be addressed.

Needs Assessment Study

As soon as the ASDG Project Paper has been signed, a Needs Assessment Team (NAT) should be sent to work with the Office of Program and Studies of the Ministry of Rural Development to determine the priority needs of the GON for analysis and for setting up appropriate systems to effectively monitor, coordinate, and evaluate policy changes under the ASDG project. The NAT will assess the strengths, capabilities, and weaknesses of the units in MRD, Plan, OPVN, and others which play a role in implementation of this project. The NAT will identify specific manpower needs, training needs, and assist in developing terms of reference for special projects and studies to be carried out. If a long-term advisor can be in place in the Office of Program and Studies, the work of the team will be simplified and provide continuity.

Since the problems, both technical and institutional, are numerous, there is no end to the number of analyses that could be carried out. Clearly, therefore, the first task of the NAT will be to identify the major constraints to progress in food and agricultural development and to work with relevant officials in the Government, USAID, and other donor agencies to establish priorities for decisions on policy and program reforms and hence priorities for policy analysis. One such vehicle for doing this is to conduct an inventory of policies that affect agriculture. This is simply a listing of all government interventions affecting agriculture ranging from foreign exchange controls through detailed commodity regulations. The inventory would describe briefly how each intervention operates, and would speculate

on their possible impact on a variety of specified food and agriculture objectives. To the extent that this has already been done in Niger, it need not be repeated. It is possible that a simple listing of interventions and what is known about the impact of each will reveal more important gaps and constraints that may have been overlooked. Whatever is done should be done in the first instant with existing information. More intensive study might be conducted later. (Annex B provides an outline for this type of study.)

Pursuant to this overview and prioritization process, assessments might be undertaken to include:

- . Working with the Nigerois to help them decide which units of the GON will play what role in implementing the studies. Part of this task will be to determine what the present policymaking process actually is. There appear to be a number of parallel formal and informal procedures. The team will make recommendations for changes which would help to strengthen the process and improve the flow of information for decision making.
- . Helping the GON to define the terms of reference to develop an agenda for policy studies, monitoring, and evaluations to meet the needs of both the GON and USAID.
- . Determining how to strengthen the capability of the Office of Programs and Studies to do agricultural policy analysis and to define the essential linkages to data collection, economic research, planning, budgeting, and program implementation.
- . Determining the manpower needs and qualifications of specialists to analyze agricultural policy alternatives. The needs for outside assistance in terms of training, seminars, and workshops, short-term and long-term

technical assistance, and in-service training should be spelled out.

The NAT could take up to 15 weeks to complete its tasks. The team leader should be a senior agricultural economist with LDC experience in agricultural policy analysis. A second position would be for a general economist or an agricultural economist with strength in monetary and fiscal policy, foreign exchange controls, and how these affect food and agriculture. Additionally, the services of a specialist in public administration, the management and organization of decision systems, and some expertise in manpower development and training might be obtained for a 4- to 6-week period. All persons, if possible, should be fluent in French and, have LDC experience.

The main focus of the NAT effort will be the Office of Program and Studies of the Ministry of Rural Development. The current director of this office is an ABD from Michigan State University who has the analytical capability to do and supervise much of the needed analysis. However, the work load is heavy. The staffing pattern should be examined for any possibilities of lightening the routine burden to allow more time to be devoted to agricultural policy issues.

The present level of staffing in this office is clearly inadequate to meet the needs of the ASDG. Apparently some new degree holders will soon be returning from their studies in the United States. However, it is not clear whether any of them will be available to work on this project and what areas of specialty or level of expertise they will have. Some locally trained agricultural graduates may be available to work on the needs assessment. The team should use all

available manpower in light of the needs of the project. The potential role of Peace Corps Volunteers or U.S. graduate students funded under Title XII strengthening grants should not be overlooked.

In addition to the NAT it is recommended that a senior agricultural economist, experienced in LDC policy analysis and formulation, be placed in the Office of Program and Studies on a long-term basis. This person would also be a member of the NAT and would provide continuity, leadership, and counsel in the building of a policy analysis capability.

Additionally, the Mission might consider a ribbon relationship with some senior economist to act as an advisor to the Mission and the Government on matters relating to food and agricultural policy. Periodic short visits by such a person (once or twice a year) could be funded under the Agricultural Policy Analysis project.

Monitoring Progress in Reform

The following is meant to be illustrative of the kind of measures that might be considered to verify whether progress has been made on reforms. No time frame has been indicated since in some cases a definite sequence must be followed. In other cases, there are a number of conflicting priorities, and in the final analysis, the reforms to be done under the implementation schedule will depend on agreement of GON and USAID.

The implementation schedule illustrates the suggested strategy of stressing decontrol and deregulation in the early stages of the project to set the stage for later

policy reforms and restructuring. The indicators of progress are not always unequivocal evidence of progress toward achieving the capability for further policy analysis is in place, whether there has been a substantial freeing up of constraints and whether significant policy reforms are in place. They do not provide proof of effectiveness, that usually requires more detailed analysis.

The following is a list of measures and concerns associated with each of the indicated reforms.

Input Supply and Subsidy Reforms

Reform No. 1: Subsidized prices will be fixed and sustained after subsidy funding and available quantity demanded are relatively certain.

Progress Indicators:

- . Procedures have been developed to project with reasonable certainty the amount of input likely to be demanded at different subsidized prices, the available supply of the input, and available resources to sustain the projected subsidy.
- . Assurances are received from fiscal controllers that deficit financing is authorized or additional funds are available if needed to sustain an announced price or subsidy.
- . Farmers in all areas of the country are able to buy all of the inputs they want at the established price. No widespread shortages are reported.

Comment:

- . Spot shortages may develop in certain areas of the country because of logistical problems or because of restructuring of the CA.
- . External factors such as changing input subsidies in Nigeria may intervene.
- . If GON is willing to allocate additional subsidies if demand is underestimated, timing is more important than the actual net price.
- . Delays in announcing prices could lead to non-availability of inputs at critical times and prove to be counterproductive.
- . The exploration and testing of new methods of calculating and delivering subsidies should continue.

Reform No. 2: Develop more efficient and effective means of subsidizing farm inputs.

Program Indicators:

- . GON, in consultation with USAID, prepares a report on alternative methods of analyzing and delivering input subsidies and has determined the comparative cost-effectiveness in stimulating farm output.
- . Report is presented to USAID.
- . GON and USAID discuss conclusions of report.
- . GON develops a plan and timetable for instituting an agreed system for delivery of subsidies.
- . In the interim, subsidies are fixed on a per unit basis.

Comment:

- . Alternative methods of delivery of subsidy may include rebate system, issuing of coupons, reduced interest on loans, and subsidizing inputs ex-factory or ex-warehouse. A mixed system of subsidy delivery could be the most efficient and effective.
- . A related analysis needs to be done to determine which input subsidies should be retained and, if so, at what level.
- . See also reform No. 1.

Reform No. 3: Maximum subsidy on any input will be reduced immediately toward 50 percent.

Progress Indicators:

- . Ministry of Rural Development, following its detailed analysis of the subsidy situation, indicates that the reform has been carried out.
- . Prices paid by farmers are more than 50 percent of the cost of inputs (e.g., f.o.b. port) plus transportation and handling.

Comment:

- . External factors such as sudden shifts of input subsidy policy in Nigeria or changes in world market prices could disrupt an otherwise well-conceived implementation plan.
- . Assumption is that the methodology used to calculate subsidy level is accepted by USAID as valid indicator.
- . A study to determine the farm demand for various inputs at different subsidized prices would provide a better basis for determining subsidy level on selected inputs.
- . See also reforms No. 1 and No. 2.

Reform No. 4: Rate of subsidy will be adjusted toward a maximum average level of 15 percent by the end of the program.

Progress Indicators:

- . Ministry of Rural Development reviews the subsidy situation and develops a plan for adjusting input prices.
- . Results of the review are discussed between USAID and the GON.
- . GON develops a timetable and means of verification satisfactory to USAID.

Comment:

- . Ministry of Rural Development will likely need outside technical expertise to carry out a satisfactory review.
- . A related study to determine which subsidies will be retained at which level and the impact of these subsidies would be useful at some later time.
- . See "Input Subsidy Studies."
- . See also reform No. 2.

Reform No. 5: Implement and maintain a policy environment in support of the proposed restructuring of the CA.

Progress Indicators:

- . Substantial progress is made in reforms 1-4 and 6.
- . The Monitor for the Agricultural Production Support Project is able to report improvement in the policy environment in his report.

Comment:

- . Any discrepancies will have to be discussed directly with the GON.

Reform No. 6: Farmers will be permitted to obtain credit for purchasing partial animal traction and technical packages.

Progress Indicators:

- . The CNCA changes its procedures to reflect the above reform.
- . Significant numbers of farmers are known to receive loans for partial packages.
- . If CNCA is phased out, the successor organization will issue credit for partial packages.

Comment:

- . Should be easy to verify from CNCA records.
- . Nonavailability of credit may make this difficult to verify if there is a fundamental restructuring of CNCA.

Pricing and Marketing Reforms

Reform No. 7: Private traders will be able to participate in primary marketing of grain during official buying campaign as well as other times.

Progress Indicators:

- . Administrative decrees are published which announce the above policy.
- . Restrictive regulations are removed or not enforced.

Comment:

- . Professional licensing and rules conducive to fair practices should be permitted if they do not restrain entry or minimize competition.

Reform No. 8: All restrictions and fiscal impediments on the free movement of grain across all provinces in the country will be removed.

Progress Indicators:

- . No tax or other restraints on movement of grain are in effect within one year of signing the ASDG.

Comment:

- . Emergency food aid distribution is exempted.
- . No reimposition of restrictions on internal trade will be permitted during the life of the project.

Reform No. 9: A system of bidding and tendering will be implemented to encourage competition in the purchases and sales of grain for OPVN.

Progress Indicators:

- . Two experimental tenders to purchase and two to sell are completed in the first year of the project.
- . The experience of the pilot tenders and other information is analyzed to determine the feasibility of developing and institutionalizing a tendering system.
- . Some of OPVN's reserve stock should be replenished by the end of the second year of

the project by tenders from cooperatives and private market traders.

- . Some of OPVN's reserve stock turnover will be sold through a tender system by the end of the second year.
- . By the end of the project, 25 percent of OPVN's stock should be rotated each year using tenders offers and bids from cooperatives and private market intermediaries.

Comment:

- . Technical assistance may be required to study the results of the pilot tenders and to set up and refine a tenders system.

Reform No. 10: Establish and promote village level grain storage through arrangements with cooperatives.

Progress Indicators:

- . With the cooperation of OPVN alternative means of storing grain in villages are explored and reported to decision makers.
- . Agreed plans are prepared by OPVN to implement a storage plan.

Comment:

- . See reform No. 11, also "Managing Grain Stocks."

Reform No. 11: Reduce total OPVN grain stock level in order to reduce storage costs and improve OPVN's financial position.

Progress Indicators:

- . OPVN grain stocks are reduced to less than 100,000 tons by the end of the third buying campaign after the signing of the ASDG.
- . An analysis is completed in cooperation with OPVN to suggest means of reducing storage costs, improving OPVN's financial position, while maintaining adequate emergency stocks in the country.
- . Options are discussed between OPVN and USAID and a satisfactory plan is prepared by OPVN and implemented.

Comment:

- . Some of the stock can be shifted to coops and private traders who store under bond.
- . Might consider using village level storage as part of price stabilization program.
- . See reform No. 10, also "Managing Grain Stocks."
- . The amount of grain stored in private sector bonds at the farm level is not known.

Reform No. 12: Abandon uniform national pricing of cereals at the producer and consumer level.

Progress Indicators:

- . Rules and regulations to hinder the competitive activities of grain traders are relaxed or abandoned.

- . No legal or administrative rules to require regional uniform pricing of cereals are in effect.

Comments:

- . Emergency situations will be excluded.
- . See reform Nos. 7, 8, and 9.

Reform No. 13: Provide market information on prices of cereals, legumes, and livestock to the arrondissement level.

Progress Indicators:

- . An appropriate price reporting system is developed within one year of the start of the project.
- . Weekly radio broadcasts of key market situations and prices are begun.
- . By the end of the program, market information for 75 percent of all arrondissements will be available on weekly broadcasts.

Comment:

- . See "Market Information Service."

Reforms on Border Trade with Nigeria

Reform No. 14: The process for obtaining trading permits and export licenses will be simplified.

Progress Indicators:

- . All required documentations are obtainable at convenient locations such as a department capital or customs border posts.

- . Obtaining permits and licenses is not subject to unreasonable fees and charges.
- . Obtaining required documents does not take an unreasonable amount of time (one day).
- . Information required on applications pertain reasonably to the purposes of the document sought.

Comment:

- . See reform No. 15.

Reform No. 15: Lower barriers to participation by small traders in import and export activities.

Progress Indicators:

- . Licensing fees for livestock and cereal exports are proportional to actual volumes exported.
- . Exporters and importers of small quantities of grain (less than 5 tons) and livestock (fewer than 10 head) are able to obtain licenses expeditiously at border posts.
- . Small traders are free of all trading restrictions except those pertaining to animal health.

Comment:

- . See reform No. 14.

Reform No. 16: Establish and maintain freedom of trade in cowpeas and peanuts.

Progress Indicators:

- . Public sector agencies, cooperatives, and private traders will have unrestricted and equal authority to export cowpeas.
- . Unrestricted and equal authority to export peanuts will be extended to all public sector agencies, cooperatives, and private traders.

Comment:

- . Measures are similar to reforms 14 and 15.

Reforms to Privatize the Marketing System

- . **Reform No. 17: Cooperatives and private businessmen will be allowed to perform the input distribution function.**

Progress Indicators:

- . An administrative decree is issued which authorizes cooperatives and private traders to buy, sell, transport, store, process, or otherwise handle agricultural inputs.
- . No restrictions are placed on cooperatives and private businessmen other than regulations designed to ensure fair competition.

Comment:

- . See Reform No. 7.

Reform No. 18: Free market pricing will prevail in markets for agricultural inputs.

Progress Indicators:

- . GON has taken steps to avoid market collusion and ensure competition.
- . All market participants are free to buy from anyone or sell to anyone at privately negotiated prices.

Comment:

- . Steps to avoid collusion are vague. Would include assuring market access, providing information on market conditions, etc. May have to consider legislation which would provide legal sanctions against market collusion and/or restraints on trade.
- . See "Input Subsidy Assessment."

Reform No. 19: The GON will promote the role and importance of cooperatives in supplying inputs to farmers and marketing of grain and other agricultural products.

Progress Indicators:

- . Cooperatives are given pricing freedom for buying and selling of agricultural inputs, grain, and other products.
- . Cooperatives are allowed to reorganize themselves into more rational units.
- . Cooperatives are encouraged to undertake grain storage either on their own account and/or under contract with OPVN.
- . Credit is given to cooperatives at market rates for financially viable investment and trading activities.

- . Cooperatives are permitted and encouraged to buy, sell, store, transport, process, export, or otherwise participate in commodity and input markets.
- . Cooperative managers and employees are hired and fired by cooperatives.
- . Cooperatives will pay an increasing proportion of the salary of cooperative employees until they are completely financed by the cooperative.

Comment:

- . Cooperatives will not be granted monopoly or monopsony powers by GON.
- . See reform No. 20.

Reform No. 20: The GON will actively promote cooperatives and private traders as intermediaries in primary marketing of grain and other agricultural products.

Progress Indicators:

- . Government decrees authorize participation of cooperatives and private businessmen in buying, selling, storage and transportation of grain and other agricultural products.

Comment:

- . See reform No. 19.

Agricultural Credit Reforms

Reform No. 21: A more effective means of delivering financial services in rural areas will be started and strengthened.

Progress Indicators:

- . A study of rural credit is undertaken jointly by USAID and GON and produces an agreed upon set of system reforms.
- . An agreed implementation schedule is developed and effected.

Comment

- . See "Rural Financial Markets Study" and Annex A.

**ANNEX A. RURAL FINANCIAL MARKETS IN NIGER:
TERMS OF REFERENCE**

Purposes

1. Provide a description of financial services available to farmers from the formal and informal sectors;
2. Assess the strengths, capabilities, and weaknesses of the formal and informal sectors in delivery of financial services to farmers;
3. Identify interventions which will strengthen the ability of the formal and informal sectors to deliver financial services and adapt to changing conditions in rural areas; and
4. Make policy recommendations which will support the development of viable financial institutions and practices in rural areas.

Methodology

1. Review relevant literature on agricultural credit in Niger, Francophone Africa, and the rest of the developing world.

2. Interviews with government officials, representatives of parastatal organizations, USAID officials, representatives of other donor organizations, and other persons associated with formal credit programs.
3. Interviews with selected representatives of farmers, cooperatives, informal financial vendors, and market middlemen.

Survey Emphasis

1. Review and summarize available literature on formal and informal agricultural credit and savings programs which have potential applications in Niger. For formal systems, attention should be given to:

- . Source of loan funds;
- . Loan approval considerations;
- . Levels of interest rates;
- . Merits of interest subsidies;
- . Repayment terms and performance;
- . Credit channels or delivery systems;
- . Provision of complementary services;
- . Terms and conditions of lending; and
- . Costs of credit operations.

For informal systems, attention should be given to:

- . Method of delivery of credit;
- . Types of financial vendors;
- . Terms and conditions of credit;
- . Interest rates; and
- . Purposes for taking out credit.

2. Based on interviews with government officials, representatives of parastatal organizations, representatives of donor agencies, farmers, representatives of co-operatives, and other persons, prepare a report on the strengths, capabilities, and weaknesses of existing formal credit sources in delivery of financial services at the village level. The factors which should be considered include:

- . Program design;
- . Loan approval consideration;
- . Level of interest rates;
- . Management information systems;
- . Loan repayment considerations and reasons for default;
- . Quality and coordination of supporting services;
- . Loan approval considerations;
- . Personnel and training;
- . Procedural matters such as timeliness, transactions costs, in kind, etc.;
- . Management and supervision;
- . Level of credit disbursed;
- . Percentage of farm population covered; and
- . Potential for mobilizing savings in rural areas.

3. Based on interviews with farmers, representatives of cooperatives, informal financial vendors, marketing middlemen, and others, prepare a report on strengths, capabilities, and weaknesses of informal financial vendors in terms of:

- . Description of informal credit system;
- . Estimated levels of credit disbursed;
- . Percentage of farm population covered;
- . Purposes of credit;
- . Procedural matters;
- . Interest rates for loans or savings;
- . Potential for mobilizing savings;
- . In kind versus cash savings and investment;
- . Repayment considerations and reasons for default;
- . Terms and conditions of loans;
- . Relationship between savings and credit;
- . Modalities for individual or group savings; and
- . Transactions costs.

4. Based on the above interviews and reviews of literature, a report will be prepared concerning recommendations for interventions by the GON and/or donor agencies which will:

- . Strengthen the capability of existing institutional structures to deliver needed financial services in rural areas;
- . Strengthen the ability of informal financial vendors to provide financial services in rural areas;
- . Lead to the initiation of activities by new providers of financial services; and
- . Contribute to new financial services being provided.

5. A report will be made to USAID and GON which recommends policy initiatives to strengthen and develop the capability of new and existing financial institutions and individual vendors to provide needed financial services in rural areas.

Methodological Considerations

1. Review of literature. The bibliography contains some of the important studies which should be referred to in the review. The review should include a brief description of the Niger agricultural sector and the role played by formal credit programs.
2. Survey methodology. The villages and farmers to be interviewed should be selected for their particular characteristic rather than to obtain a representative sample. The characteristics might include rainfed versus irrigated agriculture, participation in development projects, amount of credit outstanding, repayment performance, and type of planning.
3. Interview techniques. Trained interviewers who are already personally known to the farmers and have established a measure of rapport will be able to obtain more reliable information. Consideration should be given to doing some work in the productivity project areas where project personnel can be used as enumerators.

It is not recommended that formal question and answer sessions be used to complete questionnaires. Leaving questionnaires with interviewers who are in constant contact with farmers over a period of time can produce more reliable results.

Recall methods to obtain data on transactions are somewhat unreliable. However, for the purposes of this kind of survey, it is probably the preferred method.

The value of additional information which can be derived from revisits and monitoring would not justify the added time and expense involved.

The subject of interest charges will have to be treated with some delicacy in a Moslem culture since interest is forbidden by the Koran. The subject is best dealt with by asking about amounts borrowed, method and amount of repayment, and repayment period. In this manner, implicit interest rates can be calculated without discussing the subject directly.

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Annex B. An Inventory of Policies Affecting Agriculture

- I. **Objective** -- To identify key macroeconomic, sectoral and sub-sectoral policies which influence the supply and demand for agricultural products, including a qualitative assessment of their direct impacts and of the interactions among them. This inventory will provide a framework and information base for future analyses and evaluation of alternative agricultural policies.
- II. **Overall Statement of Work** -- The study will:
 - A. Provide an inventory of Governmental interventions policies affecting agricultural performance at the national (macroeconomic), sectoral (agricultural) and sub-sectoral (commodity) levels. The sub-sectors to be analyzed include: (1) agricultural staples such as basic grains and oils, (2) traditional export crops, (3) fruits and vegetables, (4) animal products and (5) agro-industrial inputs. The functions to be analyzed include all relevant aspects of supply (production, imports, marketing) and demand (consumption, export).
 - B. Identify and describe key policies with respect to their: (1) objectives, (2) instruments, (3) legal and institutional bases, (4) institutional division of responsibilities, and (5) implementation. Both explicit and implicit policies will be examined within the scope of work.
 - C. Assess the approximate impacts of current policies on agricultural objectives. The assessment will include supply and demand impacts at the national, sectoral and sub-sector levels.
 - D. Propose criteria and methodologies for continuing evaluation of the costs, benefits and distributional impacts of policies affecting agriculture. Alternative interventions for achieving agricultural objectives will be explored.

The study methodology will include but not be limited to a review of secondary data, interviews with knowledgeable public and private sector officials, visits to relevant public and private institutions and field visits to agricultural producers, processors and traders (including cooperatives and individuals). The methodology will emphasize investigation of the operation and effectiveness of policy implementation with respect to policy goals and objectives.

III. Suggested Study -- A report on an inventory of policies affecting agriculture will include, but not be limited to:

1. An overview of the agriculture economy including:

A. The role of agriculture in the economy:

- Contribution to GDP by major sub-sectors.
- Agricultural income.
- Agricultural employment.
- Foreign exchange earnings (gross and net).
- Government expenditures related to agriculture.

B. Agricultural performance for the past 10 years:

- Land use, cropping intensity, yield.
- Input utilization (including credit).
- Production.
- Value of production.
- Exports and import levels.
- Reform/non-reform performance.

C. Public sector interventions in agriculture:

- Information and supporting services.
- Economic incentives and disincentives.
- Regulatory functions.
- Direct participation in the provision of infrastructure, inputs, production, marketing and trade through nationalized institutions.

D. Current issues and prospects:

- Constraints to development.
- New developments and trends.
- Five-year outlook.

2. Functions and inter-relationships of agricultural institutions:

A. Identification of public sector institutions responsible for formulation and/or implementation of policies affecting agriculture. Institutions will be identified in terms of legal authority, delivery mechanisms, coverage by sub-sectors and effectiveness. Policy decision-making interactions among institutions will be identified. These will include but not be limited to:

- Information, Research, Extension and support services.
- Regulatory agencies.
- Price/production control agencies.
- Tax authorities.
- Agricultural credit and input suppliers.
- Budget and fiscal agencies.
- Planning groups.
- Data and economic research agencies.
- Other.

B. Identification of private sector institutions and description of their roles in influencing formulation/implementation of policies affecting agriculture. Groups or components may be considered institutions as they are active in influencing agriculture. These include but are not limited to:

- Information and research services.
- Agricultural credit and input suppliers.
- Producers and producer groups.
- Handlers and marketing firms or individuals.
- Private organizations and lobbyists.
- Trade and labor unions.
- Other.

C. Conclude the basic economic and social objectives of agricultural policy as compromised by key participants in advising, lobbying and making decisions. This would include specification of:

- Production objectives.
- Consumption objectives.
- Consumer welfare objectives.
- Producer welfare objectives.
- Income distribution and equity consideration.
- National fiscal and monetary objectives.
- Generation/conservation of foreign exchange.
- Security objectives including food supply and price stabilization.
- Resource use and conservative goals.
- Other.

3. For each of the current set of policies affecting agricultural performance at the macroeconomic, sectoral and sub-sectoral levels describes:

- Objectives, instruments, legal and institutional bases, division of responsibilities, and operational efficiency.
- Targeting strategies and evidence of targeting efficiency.
- Estimated cost and effectiveness with respect to the specified set of compromise objectives.
- Some obvious policy options with respect to alternative means, program levels and objectives.

4. Conclusions and recommendations.

NIGER

**Initial Terms of Reference for Policy
Management Component, ASDG;
Letter of Transmittal for Draft
Papers and Followup
(memoranda)**

Axel Magnuson

July, 1984

MEMORANDUM

TO: Lance Jepson, Tom Olsen

FROM: Axel Magnuson, Abt Associates, Agricultural Policy Analysis Project

DATE: July 27, 1984 (prepared May 19, 1984)

RE: ASDG: Initial terms of reference for policy management component

1. Discussions with GON and USAID officials over the last two weeks have essentially focused on development of implementation plans in the areas of agricultural policy reform. The APAP team has centered on implementation of these policy reforms with the objectives of:
 - a) developing the terms of reference for a study of non-formal rural financial markets policy,
 - b) elaborating a system for monitoring GON progress toward policy reforms, and
 - c) defining the longer-term technical assistance needs in policy analysis and the development of policy analysis capacities.
2. The objective of this memo is to present my particular observations concerning the Development Grant and to develop a set of activities through which the Agricultural Policy Analysis Project could be of assistance to the Mission in the execution of the Development Grant.
3. The GON has moved consistently since the Zinder Conference to move its input supply and credit system toward more effective, market-oriented operations. Its experiences in cooperative reforms, price and marketing liberalization and cross border trade have been less extensive but demonstrate GON willingness to address difficult problems.
4. The Mission and the GON have worked well together in defining the empirical basis for and internal logic of specific policy reforms. The Cereals Marketing work by Berg Associates, the institutional and policy analyses by Tom Zalla, and the program to review the work of the CA are strong bases for the Development Grant proposal to be approved. What is clear now, however, is that AID, the GON, and the wider donor community must more urgently address questions of implementing policy reforms. Accordingly, Weidemann's paper addresses a range of activities that will need to be undertaken to assist the GON. I would also like to address the question, but from an institutional and process perspective.
5. First, it must be acknowledged that GON capacity to disassemble current structures and establish new ones is limited first of all by staffing limitations and secondly by the lack of experience in more market-oriented approaches to sector development. This latter point is a question of perspective, which has indeed been addressed since Zinder, but also it is a practical matter of public administration.

The issue of capacity is among the first things that must be addressed by USAID/Niger as it moves toward reforms. Several important distinctions need to be made in order to create capacity within the government that will really make a difference in terms of making and applying policy.

- 5.1 The first distinction is that of the capacity to do technical economic analyses and the capacity to manage the execution and use of the analysis. Put another way, it's the difference between generating the inputs for policy analysis and the use and comprehension of the outputs of research for policy analysis. What we need to structure initially is the capacity within the GON to choose, design, and use analyses for policy making.
- 5.2 The second distinction is implied in the above but needs to be clearly understood at the outset of implementation of policy changes. There are a number of steps in policy reforms going from initial recognition of the need for some type of reform to formulation to execution to feedback and reassessment of the changes. It helps to see the process as an experiment on the part of the government from which they get an idea of expected impacts and then make choices. The GON's experience in deregulation of niebe marketing and restructuring of the UNCC are the best examples of the process distinctions.
6. From the perspective of the ASGP one of the major goals of the program is to help the GON to follow up on its own initiatives to change policies in five areas; pricing and subsidization of inputs, credit in rural areas, pricing and marketing of commercialized products, cross border trade of agricultural goods and imports, and restructuring of the cooperative movement and private sector to play a wider role in agriculture. In order to attain the policy goals that are necessary to create a more dynamic agricultural sector, the ASGP has set aside some \$2.5 million for technical assistance, training, and institutional support. Part of the ASGP implementation plan should be a description of the steps in building GON capacity in the policy area, not on a general level, but in relation to the agricultural sector policy changes being sought in this program.
 - 6.1 Within the Technical Assistance budget line I would propose two types of activities. First, the execution of studies as already identified in your implementation schedule, the Zalla analyses, the Berg report and summarized in the Weidemann paper. Secondly, the development of a highly focussed capacity to choose, design and use analysis for policy decisions. For short, let's call this the development of policy analysis management capacity which makes it a term bridging the technical processes and the actual policy making process. The rest of this paper will examine this second capacity.
 - 6.2 In all of this the sequence of activities would begin with a review of the GON agricultural policy making process which will get everyone concerned to a common understanding of how policy is currently made. For different policy areas (cooperative reform, private sector liberalization, trade) there are very different sets of factors, information needs, and processes. Currently we know only part of the system.

6.2.1 The objectives of this exercise include determining which parts of the GON will be involved in the policy formulation and policy implementation processes and an assessment of where capacities ought to be reinforced as the GON begins to implement policy changes.

6.2.2 The study would use, as its point of departure, the description of policy-related conditions, precedents, and the policy reform implementation plan which are part of the Agricultural Sector Development Grant. In collaboration with AID and GON officials responsible for the ASDG, the study team would jointly develop a division of organizational responsibility for the individual tasks in each policy change area. For instance, in the group of policy changes related to cereals marketing and pricing the liberalization of interdepartmental trade involves a number of tasks and a number of administrative units in the policy formulation stage alone.

**POLICY FORMULATION
TASKS**

**IMPLEMENTATION
TASKS**

**LIBERALIZATION OF
CEREALS TRADE**

- Determination of resource stock requirements
- Decision on role in cereals market
- Decision on limits to Departmental Authority

- Administrative law limiting controls
- Financing of purchases

SUB-TASKS

**ORGANIZATIONS
RESPONSIBLE**

- Study of existing reserve systems
- Review of transport support

- MDR
- Civil Administration

6.2.3 The break-down into tasks and initial determination of authority will then serve as a means of identifying overall support needs in implementing the policy reforms of the ASDG. Much of this activity will in any case have to be carried out by the Mission with the GON and any consultants involved in this particular step should work in collaboration with the Mission, not independently.

- 6.3 The second part of the activity involves decisions about where to build-in GON capacity to manage the diverse activities in each of the policy areas. The objective of the activity is to create capacities within the GON for linking initial policy changes initiatives with the execution of data gathering efforts, policy debates within the government and the development of plans to implement policies. In the negative sense, we wish to avoid having AID or the donor community manage the process. It is necessary that the GON agencies involved in policy making and execution understand what information is necessary to make specific kinds of policy decisions, have guidelines for commissioning the collection of data and the execution of studies, and be able to inject that data into the policy formulation and policy monitoring process.
- 6.4 It has been the observation of persons contacted on this mission that the GON has limited capacities in these areas. Taken within the context of their stated intent to move away from what have been cornerstones of existing policies in the sector, this is a situation which the GON has begun to recognize as unacceptable. The unstated perception of the problem is that since the impacts of some of the proposed changes are unknown that it will be difficult to attain consensus within the groups most affected by the changes. The experience of the Bank and donors in the Sahel has been that structural adjustment programs revolving around changes in the role of the state in agriculture and food security have not been maintained because they involve a shift in the ways directing an economy the results of which are not easy to anticipate. In each case, the donors have found that the burden of thinking through and building the political base for the changes has fallen on themselves. Building that base, through data, analyses, and pressures of conditionality has been extremely labor intensive for the donors while sustained movement toward structural adjustment has been limited. Of the first round of SALs by the bank none can be said to have been a success. While demand for structural adjustment loans is high, capacities to manage them is stretched thin.
- 6.5 Working from this perspective the rationale for USAID's heavy involvement in policy management capacity building is clear. Taking the analyses of the decisionmaking systems implicated in the various policy change areas, USAID and the GON should consider where they would want to install this capacity. While it is evident that such capacity must be placed in the Ministry of Rural Development, one should not exclude the possibility that there are either points within the GOS that could benefit as well. The initial study will begin to indicate where those other points are.
- 6.6 The form of the capacity building assistance will need to be considered carefully. Previous experience in effectiveness of planning and evaluation cells in Ministries has not been positive in the sense of policy management as we have used it here. The efforts here and in other countries should be inventoried and quickly evaluated. This part of the study should consider, as a strategic point, that the ability of decisionmakers to synthesize data and analyses into an idea of impacts of prospective policy reforms is

one of the central limiting factors in making policy change go forward. The study should assess where there are constraints in acquiring and managing data for policy analysis, in evaluating that data and in structuring policy decisions. On that basis, recommendations should be made concerning what assistance can be given to build that capacity in the GON.

6.6.1 It should be noted that while this suggested program is predicated on the policy initiatives embodied in the ASDG that these efforts could certainly stand on their own or even around one set of existing policy initiatives such as the liberalization of copper trade.

7. In summary then I feel it is necessary that AID acknowledge the necessity of building GON capacity to manage the policy reform and execution process to ensure that the reforms and the adjustment perspective become more widely internalized. The process of building that capacity would center around the implementation plan proposals in the five policy change areas within the ASDG. First there should be an assessment of how policy change and implementation would proceed within the existing systems of the GON in each of the policy areas. This diagnostic would be done after the signing of the Grant and would serve to indicate where there would be weaknesses in terms of data acquisition (and have a need for technical assistance) but most importantly it would break out the policy-making processes to indicate where to build policy management capacity. Policy management capacity is held to be the ability to move from the initial decision to change a policy to the determination of data needs, the analysis of data, the presentation of analyses to policy makers and the establishment of situations or environments in which changes can be fully reviewed and decisions made.

The second part of the process would assess the existing limits of this capacity within the context of ASDG implementation and propose where, and in what form, this capacity should be built.

M E M O R A N D U M

TO: Lance Jepson, ADO, USAID/Niger

FROM: Axel Magnuson, Abt Associates, Agricultural Policy Analysis Project

DATE: July 18, 1984

RE: Letter of Transmittal for Draft Papers and Followup

1. Attached are draft copies of three papers: (1) "Terms of Reference for a Study of Rural Financial Markets in Niger," by Ted Cook; (2) "Initial terms of reference for policy management component, ASDG," by Axel Magnuson; and (3) "An implementation progress monitoring program," by Wes Weidemann.

2.0 Summary of Activities. Discussions with you, Peter Benedict, Tom Olsen, Abbe Fessenden, Jim Lowenthal and Kiert Toh over the last week focussed the team's efforts to three objectives. First, developing the terms of reference for a study of non-formal rural financial markets. Secondly, elaborating a set of indicators for monitoring GON progress toward policy reforms agreed upon in the Agricultural Sector Development Grant. Third, defining the longer term technical assistance needs in policy analysis and the development of policy analysis capacities.

2.1 Ted Cook developed the financial markets of reference from the bases of the work of Tom Zalla and the request for assistance in this area from the GON.

2.2 The monitoring indicators and definition of longer term needs in policy areas were developed through a process of expanding the implementation program in the Agricultural Sector Development Grant to identify component tasks required to reach the stated policy objectives. It was agreed that for the purposes of establishing compliance with the conditions set out in the grant that progress indicators should be established to monitor movement toward policy objectives. The identification of subactivities also permitted more detailed elaboration of technical assistance needs in the areas of studies and analyses and institutional support.

2.2.1 In the process of delineating activities in the policy implementation area the team initiated a review of the grant project paper in several meetings with the Mission providing, at the same time, comments on substantive issues in the paper. (A member of the team also attended a joint USAID and World Bank meeting to discuss USAID policy proposals.) A list of persons contacted is provided at the end of this report.

3.0 Further Development of the Papers. I have said that I will be responsible for providing literature references on Senegal's non-formal financial market studies and advise on the elaboration of the survey methodologies that could be employed in the research project. This will be done by cable from Dakar. I will also circulate the TOR for comments among APAP staff. The

Weidemann paper will be reviewed by APAP staff and presented in final form shortly after my return to the U.S. (May 31). Both Weidemann and myself will expect comments on our drafts and will attempt to be responsive to those comments. We shall also be available to talk with Mission staff on TDY in AID/W to present the Project Paper (phone contact points appended).

3.1 The needs for technical assistance to support the implementation of policy reform in the ASDP are identified very broadly. They range from assistance in setting up a subsidy level study to reviewing GON policy toward the private sector. Weidemann's paper does not limit itself to considerations of how the APAP project could assist the USAID/Niamey program. I propose to draft another memo on that separately. I am attaching a copy of the APAP terms of reference for your information, however. A later section of this memo will also deal with future contacts with APAP.

3.2 The Mission should note that the policy progress indicators in the Weidemann report are only indicative and must remain so until an agreement has been made with the GON concerning the implementation program. We have, however, identified the major policy formulation tasks and actors and provided a tentative calendar of activities. We would strongly urge USAID/Niamey to develop the implementation plan at the earliest possible moment. It should be viewed as a document to identify how to assist the GON carry out policy reforms.

4.0 Major Recommendations. From the team's perspective there are two major recommendations that are important to draw out of the individual papers. First, it is apparent, despite GON agreement in principal to pursue specific policy reforms, that the means to implement them are yet to be thought out. Moreover, in several policy areas, particularly cereals trade, it is clear that there has been only a partial assessment of consequences of some of the reforms. Acknowledging that there has been important momentum created by AID in moving with GON policy initiatives it is important that AID and the donor community maintain the current dialogue. If the CIP jeopardizes the implementation of the ASDG this year a fallback position ought to be adopted to keep the process moving. Donor coordination, smaller scale policy efforts (niebe deregulation), conferences or workshops (the Berg report on cereals), etc. would be worthwhile examining. As the GON has requested the Bank's assistance in a Structural Adjustment Loan, USAID should use its already intensive work in agricultural policy to assist the GON from the Mission/Bank meeting of 17 May that both parties would welcome AID's continued efforts to sharpen the dialogues about policy reform in the GON. The point is that the momentum not be lost.

4.1 The second recommendation is that AID begin to break ground in the area of increasing GON capacity to manage policy change. Even if the ASDP doesn't clear AID/W, the lack of capacity to direct and cope with the consequences of policy change will remain a serious problem for the GON. And, all the more so, if one considers the wider range of policy changes which would undoubtedly come from a SAL, should the ASDP be approved, AID will need to consider the capacity issue quickly if it is to avoid having to manage the whole policy reform process itself with all of the political and administrative costs that would entail. The experience of other Missions in this regard has been that policy reform has proven to be extremely labor intensive. If one considers USAID Mission capacities to deal effectively in very detailed

policy contexts the importance of moving policy management into GON hands is clear. The proposal included in this set of appears should be given consideration almost as a condition precedent.

5.0 Agricultural Policy Analysis Project Resources. In my discussions within the Mission I have mentioned a number of services that the APAP can provide. We are able to provide the Mission direct policy analysis services such as that called for in the development of policies delineating market intervention in cereals. We are also able to provide assistance in the design of policy related projects. While demand for services to missions greatly exceeded our expectations (8 missions in 6 months, while 5 had been projected for Year 1 of the APAP), the core staff has been augmented with additional economists and procedures clarified. The APAP will be presenting its first policy analysis workshop later this year in Liberia. It will be aimed at creating policy analysis management capacities.

The APAP is set up to be able to provide informal assistance on finding policy specialists and identifying other mission's experiences that bear on your efforts. The experience of the core staff covers Africa, South and Central America and Asia.

5.1 I would propose that I informally develop some of the ideas generated over the last week into more concrete form for your consideration. In the meantime I am leaving some APAP materials with you. I would like to thank you and your staff for their very high level of assistance and energy in working these themes out during the last two weeks. I hope that we have helped you in your upcoming presentation of the PP.

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