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NIGER

PRIVATE SECTOR ASSESSMENT

Prepared for:

Office of Private Enterprise
Bureau for Africa
Agency for International Development
(Contract No. AFR-0438-C-00-5037-00)

Prepared by:

International Science and Technology Institute, Inc.

Washington, D.C. 20036

October 1987

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Prepared by:

Jean De La Giroday
Bene M'Poko

International Science and Technology Institute, Inc.
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October 1987

Mr. Michael Kerst
USAID Mission
Niamy, Niger
C/o Department of State
Washington D.C. 20520

October 12, 1987

Re: Private Sector Assessment

We have reviewed with great interest the comments contained in your memorandum dated August 14, 1987 which was addressed to Bud Munson and we are offering below our comments. We are sorry for any delay in responding to your memo but this is due mainly to our heavy travel schedule.

Where appropriate, we have made the necessary corrections within the body of the report itself. As you very well know, our stay in the country was so limited (three consultants for 3 weeks with two of them out in the field for the entire week) that we did not have adequate time to collect all the relevant statistics such as the number of the agribusiness and the division of their activities in the country (your comment 23), quantified impact of the informal sector (comments 27 and 29), the profile of the 24 units located in the industrial free zone (comment 22) etc....Other comments such as the definition of the formal and informal sectors were not specifically responded to because we feel that these two terms have been sufficiently discussed and placed, where appropriate in their respective context therefore it was not necessary to offer one global/all encompassing definition. Yet, other comments are a matter of opinion (such as your comment 45) therefore we see no need to change our assertion.

We have added an executive summary section which summarizes the constraints we identified in the report, our recommandations with respect to the USAID mission's private sector strategy and the areas requiring further studies. In writing up the summary, we have taken into account the concerns and the overall comments raised in your aforementioned memorandum. We hope the final product is satisfactory to the mission.

Sincerely

Bene L M'Poko

The Niger Private Sector Assessment

EXECUTIVE SUMMARY

The private sector in Niger is going through a period of adjustment and restructuring. The GON has publically opted for the private development and has courageously undertaken a series of major reforms to back up its private sector development policies. Three major documents have been issued to that effect:

1. Le Programme Significatif de Relance (Economic Recory Program)
2. The Five-Year Plan
3. Le Programme d'Appuyi aux Initiatives Privees (A private Sector Support Program)

These documents identify various constraints and suggest possible solutions and alternative courses of action for private sector development in the country. We believe however that unless some of the major constraints are either removed or adequately dealt with, it is going to be very difficult to hope to attract private investments into to productive sectors of the economy.

MAJOR CONSTRAINTS.

Physical and Geographical: Land locked country, limited natural resource base and severe weather conditions. There is nothing that can reasonably be done against the forces of mother nature therefore these constraints are taken as constant.

Human Resources: Niger has one of the highest illetracy rate in Africa (80 %) therefore the country suffers greatly from a lack of trained and competent people to run both the government and businesses. The obvious solution is the establishment of adequate and appropriate training programs but this is a long winded effort which takes time, energy and resources. Both GON and donor agencies have various programs catering to this area and what is required urgently is the professionnel training for mid-management levels of both private and public sectors. The limited number of the currently trained Nigeriens for the most part prefer to work for the government leaving the private sector mainly to the hands of less trained managers and workers. The public sector, throughout the colonial era has always been considered as the most prestigious sector

Administrative: The oversized public sector and the bureaucratic procedures are slow and cumbersome. A number of administrative reforms have been introduced but their implementation for the most part is lagging behind due mainly to the lack of skills and experience to carry them out. The expansion of the private sector will undoubtedly have a positive impact on the public sector as it will absorb excess manpower and hence lessen the burden and the undue pressure on the public sector

Legal: All banks interviewed informed the consultants that securities and collateral taken as guaranty against loans are hardly reliable as banks have great difficulties enforcing them. It takes years to have a collateral dispute case settled and at the end the ruling can go either way.

Fiscal: The revenue collection system and the various tax rates are cumbersome and a study is required to simplify the system and set the tax rates (especially the TVA) that are compatible with the overall economic objectives of the GON.

C/

Institutional: A private sector development requires the backing of key institutions such banks and development agencies. Unfortunately the commercial banks in Niger are not at this point financing medium to long term projects for reasons identified in the report and the only development bank BDRN has enormous financial difficulties. Sound reforms are therefore required to make these institutions more responsive to the development needs of the country.(See recommandations summary).

RECOMMANDATIONS SUMMARY.

The report makes specific recommandations in terms of the removal of the major constraints that constitute a real empediment to the development of the private sector in Niger as well as the specific USAID mission's private sector strategy. The following is a summary of the key recommandations for the mission's consideration.

Financial Institutions Reforms

GON is very concerned about integrating the informal sector into the formal structure. This process must happen gradually and sponteneously as a result of an evolutionary process. The informal sector must be given adequate incentives for it to want to join the formal structure. Initially the interaction between the two systems must be enhanced through commercial dealings and transactions and the financial institutions such as banks can play a catalystic role through the financial intermediation and financial advisory services. For instance, the productive formal sector i.e the manufacturing sector, can effectively utilize the informal sector for the distribution of their products but there is a need for the financial institution to play the linking role. USAID mission therefore can play a role in the following areas:

ℓ'

a) Overall restructuring of the banking system : a study is needed to determine how to restructure the banking system so it can be more responsive to the medium to long term financing needs of the private sector. Banks also need the necessary motivation to set up branches outside Niamy.

b) BDRN: The long term financing is a special domaine of the development banks and BDRN needs to be restructured and recapitalized so that it can become a viable development institution

c) Creation of a Special Development Finance company : this institution, if well structured and well managed can be given the responsability to manage the financial aspects of all the development projects financed either by the donor agencies or by the GON.

d) Equity Capital Company: As mentioned above we believe that the private sector can be developed in Niger at this point only through the development of small and medium size enterprises using simple and appropriate technology. But the capital mobilization and the financing are the impeding constraints therefore we are recommanding that the mission look into the possibility of helping create an Equity Capital company. This is a concept which has been implemented with a lot of success in a number of developing countries and it can be applied here as well. Unlike the U.S.venture capital companies that focus on high return and high risk ventures, the equity capital concept first identifies the lead investor in a given country (Sponsor), usually a blue chip type company or a highly regarded individual in the country and selects the appropriate business focus or sector of the economy which the equity company will specialize in.

A business plan is elaborated and prospectus which evaluates and structures the first set of business ventures with appropriate technology, suitable financing package and relevant managerial structure is published. The Sponsor typically will recruit other investors to the various ventures and arrange, with help of the financial institution, equity syndications.

This of course requires outside technical assistance to set it up and USAID can play a decisive role in spearheading such an innovative approach which undoubtedbly will have a tremendous impact on the development of the private sector in Niger.

Short-Term Credit Facilities: The establishment of the short credit facility with a revolving fund features as it was done in Morocco would provide the financing base for the small and medium size enterprises in Niger. It could greatly benefit the equity capital ventures described above.

Promotion of Mutual Guarantee Associations: The mission can also encourage and help create collective trade group such as coops and so on.

REFORMS

All these suggestions will require adequate technical assistance and if well implemented can have a positive impact on the private sector. But a prerequisite condition is the continuation of the reforms program and the mission can guide the GON through the policy dialogue and the conditionalities attached to the assistance programs to keep the reforms going.

NIGER

PRIVATE SECTOR ASSESSMENT AND STRATEGY DEVELOPMENT

September 1987

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NIGER

PRIVATE SECTOR ASSESSMENT AND STRATEGY DEVELOPMENT

The USAID mission in Niamey sought consulting assistance with three purposes in mind:

1) "review, organize and orient the existing information base so as to provide a focused and useful tool for private sector strategy and program planning;

2) fill the information gaps with specific reference to private sector profiling and a market-oriented identification of business opportunities which could be addressed by private sector operators with greatest potential efficiency and profitability; and

3) draw conclusions and make concrete recommendations or objectives, reducing government intervention and participation and supporting private sector initiatives."

The foregoing, therefore, were the terms of reference of the consulting team composed of:

Mr. Jean B. De La Giroday (team leader)

Mr. Bene L. M'Poko and

Mr. Marcellin Mouskoura (a Nigerian consultant)

which was in Niger from May 25 to June 14, 1987.

INTRODUCTION

The Republic of Niger is one of the largest state in West Africa, covering an area comparable to that of four of its neighbors combined: Mali, Libya, Chad and Nigeria. With a population of only 6.6 million it is also one of the poorest countries in the world (per capita GNP of US $190 in 1984), beset

by a landlocked position and an arid climate with the recurring threat of drought.

Despite the latter disadvantage, the country is predominantly agricultrual. Niger has traditionally been self-sufficient in food production (except during the drought periods) and a small exporter of livestock and crops. The rural activity is concentrated along a narrow belt of arable land in the valley of the river Niger, where the majority of the population lives.

Niger belongs to the West African Monetary Union, which operates a common central bank (the BCEAO) and has a common currency, the CFA Franc, fully convertible into French Francs at a fixed rate. In effect, therefore, the CFA Franc can, through the French Franc, be converted into any other major currency. The countries of this monetary union also have common interest rates.

Ever since independence in 1960, the State has deliberately played a predominant role in the economy, as is typical in all developing countries in Africa. In Niger, however, this predominance, already quite noticeable in agriculture, was even further accentuated by the uranium boom in the late seventies. During those two decades (the sixties and seventies) the private sector experienced a relatively modest development. The 1968-1974 drought and then the sudden end to the spectacular uranium performance in 1981 followed by a severe drought in 1984 caused a substantial economic deterioration. This, in turn, forced the country back into a subsistence rural economy, resulted in severe financial imbalances and brought out its structural weaknesses.

Throughout this period the state was omnipresent in all facets of the modern or formal sector economy. Given the dismal over-all results of such a State dominated economy, a new policy has recently been slowly emerging according to which the State will "disengage" itself of many econmic activities notably through privatization. The corollary is an expressed policy by the Government to promote the private sector and encourage it to play a more significant role in the economy.

The purpose of this mission is, therefore, very timely since, through its assessment of the private sector, it will attempt to answer two basic questions:

1) whether the Government really wants the private sector to play a more important role and, if so, how effective will be the steps suggested by the Government in that respect; and

2) to what extent the private sector is capable of accepting the challenge of a larger role and become more bouyant and flourishing, given the difficult Nigerien context.

We propose to divide this report into three main parts:

PART I - The Economic Background

PART II - The Private Sector

PART III - Recommendations of a strategy for the USAID mission in Niamey.

PART I - THE ECONOMIC BACKGROUND

I - ESSENTIAL FEATURES

A) Physical Environment

1) Geography

One of the factors that have the most profound influence on the economy of Niger is its landlocked position. It is completely surrounded by seven countries and the nearest seaport is Cotonou in Benin 1060 kilometers away. This inevitably increases the cost and complication of international trade other than the active cross border trade with Nigeria. It also makes it vulnerable to the risk of one of the countries that must be crossed to get to the sea imposing a tax on goods traveling to or from Niger. This is precisely what recently happened when Burkina-Fasso imposed such a tax.

2) Climate

One of the hottest places in the world, recurring droughts put an enormous strain on the its predominantly rural economy. Rainfall is inadequate either in total amount or in its distribution. In the last decade the sub-region seems to be passing through a marked cycle of dry weather which could lead to irreversible desertification in numerous places. Excessive deficiencies in rainfall have also reduced the potential forage which, in turn, has led to a reduction of livestock.

B) Human Resources

1) Small Population: Niger's population estimated in 1985 at 6,600,000 grows at the fast rate of about 3% per year which appears to be gradually accelerating. Approximately 90% of the 1,398,000 workforce is employed at least part time in agriculture. Since the serious current economic crisis began in 1982 the private sector has not been generating employment and there has been a simultaneous trend towards reducing the workforce in the public sector and putting the lid on employment. As of 1985 the Government has ceased its automatic hiring of all university graduates.

2) High Rate of Illiteracy: By far, the most serious handicap of Niger's population is that it has one of the lowest literacy rates in the world. Depending on the definition, between 5.5. and 10 percent of the adult population is literate. The formal education system is very limited in its coverage and is geared to producing government employees for a francophone administrative system rather than the development of the private sector. As astounding as it may be, there is no national policy on literacy. While there theoretically is a policy for adult education in local languages, programs are not coherent and use different approaches. Local and foreign literacy efforts have favored mass literacy compaigns rather than programs integrating literacy and numeracy into training for specific basic tasks (such as elementary bookkeeping) needed to conduct any kind of business. There have been a number of such programs, however, in co-operatives.

3) Acute lack of competence: It is not surprising, therefore, that the lack of competence at all levels typical to all developing African countries is particularly acute in Niger. The severe lack of well qualified high and especially mid-level personnel in key fields imposes a severe constraint on absorptive capacity. In agriculture, livestock and other rural development fields, personnel responsible for extension, research and cooperative development activities are often technically and administratively underqualified. In the few cases where they are not so, they still have not received appropriate training in communication and pedagogy to facilitate the technological transfer and exchange of ideas with the non-literate population. The same handicap applies to agriculture as to any other private sector activity.

What is a matter for concern is that no signficant policy changes have been conceived or promulgated by the Government nor have operational revisions with in the educational structure been analyzed or discussed. Although Niger receives considerable assistance in education and training from international donors, the Government has had to cut back its program.

C) Natural Resources

1) Uranium

Niger has substantial uranium deposits which until 1981 was the main mineral resource sustaining the country's economic growth. The uranium production doubled from 1978 to 1981 and accounted for 15% of the GNP in that year while exports

rose from 40% to 80% of total exports in that period. However, with the sharp fall in the world demand and prices for uranium, this industry's outlook for the foreseeable future is not good. As a result all expansion plans in Niger have been cancelled.

2) Other minerals

A fairly large coal deposit (about 10 million tons) was discovered near Agadez right in the middle of the country. The first stage of a power generation project based on this deposit has been completed and helped reduce somewhat oil imports.

The other large mineral deposits discovered are phosphate (500 million tons) and iron ore (650 million tons), both of which are in ample supply in several African countries.

There are small deposits of tin, and manganese and oil was struck near the Lake Chad area.

3) Agricultural Resources

Cash crops, especially peanuts and cotton, and livestock have been the traditional agricultural resources before and after independence until the end of the sixties. During that period, subsistence food crops (mill and sorgum) were relatively less important. As a result of several droughts, the cash crops have to a certain extent been replaced by subsistence food crops while livestock raising continues to be active.

D) Trade

The Nigerien economy is trade dominated. The Nigeriens have traditionally been very trade minded people, internally exchanging (originally through barter) food crops and livestock for locally made consumer products and externally exporting cash crops and importing European made consumer goods. As in many other Sahel countries, the prevailing mentality is typically one of trading, focusing on an immediate profit and not one of an entrepreneur/investor willing to be more patient to make a profit.

II - ECONOMIC DEVELOPMENTS IN THE SEVENTIES AND THE FIRST YEARS OF THE EIGHTIES

A) First Half of the Seventies

Niger's economy was typical of that of Sahel countries, therefore deficient in the exploitation of its natural resources. Consequently, emphasis was put on raising both cash crops (peanuts and cotton) and subsistence food crops (mill, sorgum and cowpeas) and on livestock.

A series of droughts from 1968 cut down considerably this rural production resulting in a reduction of 15% of the GNP.

A reduction in total exports was avoided by the surge in uranium exports.

However, during that first half rural production continued to be predominant in the economy.

B) Second Half of the Seventies

The economy experienced a spectacular recovery thanks to a good rainfall and to a sharp rise in the world demand and price for uranium. This resulted in:

(a) an average annual increase of 7.5% of the GNP and of 10% of exports;

(b) a considerable increase in Government revenues and in public investments;

(c) a relatively more important role of the formal private secotr, notably in construction, transport and trade;

(d) a sharp increase in the number of parastatal companies of which accounted for more than 50% of total employment; and

(e) a proliferation of public projects most of which were ill-conceived, poorly carried out and incompetently managed. However, a good internal communication system and road network are important legacies of this period.

During that second half, the role of the rural sector became relatively less important in the overall economic picture.

C) The Crisis of the Early Eighties

In 1981 economic prosperity suddenly came to an end as a result of the sharp decline in the world demand and price for uranium.

A period of drought from 1982 and especially in 1984 caused a stagnation and then a reduction of agricultural production, although cash crops prices tended to be higher.

These two developments had the following economic consequencies:

(a) Substantial budgeting deficits began to emerge;

(b) In spite of a considerable drop in its revenues, the State did not cut its spending;

(c) The financing of these deficits, and notably those of parastatal companies, caused an exaggerated credit expansion and serious difficulties for the banking system, in particular the Banque de Development de la Republique du Niger (BDRN) and the Caisse Nationale de Credit Agricoli (CNCA), both being State banks; and

(d) A major increase in the external debt (which amounted to 54% of GNP in 1983) and 77% of which was accounted for by the Government and in the debt service.

III - RECENT EVENTS

The rapid deterioriation of economic conditions forced the Nigerien Government to take from 1983 drastic steps towards reducing the serious domestic and external financial imbalances.

A) The Stabilization Program

Four successive standby arrangements were worked out with the International Monetary Fund, the last of which was approved in November 1986.

1) Its Objectives:

(a) improve the tax effort;

(b) cut down the growth of current expenditures;

(c) reduce and restructure investment expenditures;

(d) cut down Government arrears;

(e) improve the financial performance of parastatal companies that will remain in the Government's portfolio and privatize the others;

(vi) reduce foreign borrowing;

(vii) limit domestic credit expansion; and

(viii) liberalize pricing and marketing policies.

2) Its Results

They have been on the whole satisfactory:

(a) The budgetary deficit and the balance of payments deficit were substantially reduced in 1983/84 and 1984/85 fiscal years.

(b) domestic credit is under control;

(c) important improvement in capital inflow and in reducing the external debt;

(d) the relative improvement in the performance of a few parastatal companies thus alleviating their burden on the Government budget.

However, there was a reduction in public revenues in spite of the steps taken.

B) The Structural Adjustment Program

1) Amount

IDA extended a total credit of $243.7 million to Niger between 1979 and 1985. In February 1986, an additional $60 million tranche was approved.

The BCEAO (the Central Bank) is responsible for the accounting and for handling withdrawal requests. The liason between IDA and the Government is handled by a Structural Reform Committee of 12 ministers headed by the Minister of Planning.

2) Its Objective

Its essential objective is to make sure that the purposes of the above-mentioned Stabilization Program are met through policies that maximize growth. Such policies are notably to:

(a) increase the productivity of existing investments;

(b) ensure the productivity of future investments; and

(c) improve policies for the strengthening of the national human and physical resources.

3) First Phase

The first phase of the program pertains to those areas where inefficiency is the worst and where improvement in policies will have the greatest impact on the budgetary deficit and the balance of payments deficit, i.e.:

(i) public funds management;

(ii) parastatal companies reform; and

(iii) agricultural policy

4) Second Phase

Relates to reforms in other areas, notably:

(i) industrial and commercial policy;

(ii) financial sector;

(iii) forestry industry;

(iv) livestock; and

(v) energy.

IV - STRUCTURAL PROBLEMS

The prospects of reaching an acceptable budgetary and balance of payments situation and of establishing the foundation for future economic growth are very seriously limited by the structural weaknesses of the economy.

Those weaknesses are notably:

1) An inefficient management of public resources;

2) An oversized and inefficient para-public sector;

3) A weak resource base:

(a) limited economic resources;

(b) the landlocked geographical position of the country;

(c) high rate of population growth;

(d) high rate of illiteracy; and

(e) a subsistence rural sector which will continue to be the predominant factor in the economy for the foreseeable future; and

4) A modern (formal) private sector constrained by the following:

(a) a very little developed formal private sector;

(b) a miniscule industrial sector;

(c) a small market spread out over great distances and lack of raw materials;

(d) government policies which so far have not been favorable to priate enterprise or to industrial or trading activities;

(e) in addition to adverse climatic conditions, an agricultural products pricing policy that often discourages initiatives towards low cost production; and

(f) over-cultivated and over-grazed land resulting in a decrease in soil fertility, its erosion and desertification.

With the foregoing general economic background in mind, we may now have a better understanding of the private sector and of the role it plays in the economy.

PART II - THE PRIVATE SECTOR

I - ITS DEVELOPMENT OVER THE YEARS

A) Traditional Transsaharian Trade

The caravan trade, which has been very active long before the arrial of the French (at the end of the 19th century), dominated the Nigerien economy at a regional level more than at a national level. Even though such caravans sometimes crossed long distances to and from neighboring countries, the trading of the goods as far as Niger was concerned was very local, notably in and around the trading towns of Mazadi and Zinder.

B) The Colonial Era

Upon their arrival the French decided to promote the economy by encouraging the establishment of several private French trading companies. The colonial trade which resulted quickly gave those companies control of both the import from Europe and distribution of manufactured consumer goods and the export of peanuts.

This two-way trade as well as the growing of peanuts by the Nigerien farmers were, therefore, totally private. The European firms began to work more and more with the famous Nigerien big traders, the "EL HADJIS." Their main activity, centered around the towns of Maradi and Zinder, first was to gather peanuts from farmers and to distribute the European products in the back country through their own informal distribution system. They then over the years took on other activities, such as transport (trucking), construction and leather and skin trade and cola nut trade.

Thus, the private sector was already divided into a formal sector (the European trading companies-mostly French) and an informal sector (the Nigerien farmers and the El Hadjis). As independence was approaching both sectors were active and prosperous.

C) The Post Independence Era (1960 to 1982)

During the years that followed independence, the State was confronted with several under-development problems:

1) the disparity between available resources and the basic needs of the population;

2) a weak and antiquated basic infrastructure;

3) the total lack of a class of national entrepreneurs; and

4) the hesitation, and in many cases the refusal, of foreign private capital to make new investments, except in uranium mining.

For these reasons, the State felt the necessity to act directly on the economy and to intevene in all its sectors. This explains why over the years a public and parapublic sector grew continuously to the point of dominating not only fields that are the typical domain of the State but also other sectos, such as production and trade.

In the Nigerien context of a very narrow national market and rare investment resources, this marked trend for the State to "fill the vacuum" and to regulate everything had a direct effect on slowing down the development of the private sector.

On the other hand, the existing private sector was also not very dynamic because of its own characteristics, notably:

1) a "modern" formal sector mercantilistic by nature represented by the European subsidiaries and branches (mostly of French trading companies) focusing on satisfying the needs of local urban markets in imported consumer goods and on exporting cash crops, and not very perceptive of needs for long-term development and industrial development; and

2) a traditional informal sector essentially represented by the El Hadjis (those major individual traders) specialized in informal speculative trade, and also not perceiving long-term development needs, but oriented exclusively towards a fast profit goal.

The most obvious manisfestation of the emerging strong State intervention was the formation by it soon after independence of four key state companies all designed to control the trade channels. These are:

1) SOHARA (to handle peanut exports);

2) COPRO-NIGER (to handle the sale of imported manufactured goods and the purchase of domestic food products);

3) UNCC (Union Nigezienne de Credit et de Cooperation) -- for the development of mutual credit and cooperation among the rural population; and

4) OPVN (Office des Produits Vivziers du Niger) -- to handle the sale of grain.

The operation of these state companies had the following effects on the private sector:

1) The European trading companies

One objective of the Government, which became increasingly clear, was to cut down the global activities of the trading companies. This is exactly what happened gradually.

2) The El Hadjis

Their trading activities were first encouraged by the Government. Their number and importance grew especially during the seventies when trade with Nigeria began to intensify. However, the above described UNCC started competing increasingly with the El Hadjis. This was the expression of the fact that the new political and bureaucratic class began to oppose the class of merchants more and more. There was a growing divergence between the interests of the State and those of the merchant class. While the former was focusing on the control of the whole economy and on keeping the private sector from speculating on basic food crops, and thus antagonize the masses, the latter was motivated only by the systematic search for maximum profit.

D) The Economic Growth of the Seventies

Most of this decade was prosperous. This caused the State to be somewhat better disposed towards the private sector and to take some steps that were favorable to it:

1) A new investment code was passed in 1974;

2) The State encouraged bank credit for private enterprises and supported the growth of these by awarding contracts for public projects;

3) Combined with the uranium boom, which benefited directly companies within the private sector, these steps stimulated the formation of new industrial units and encouraged construction and commerce;

4) The El Hadjis traders of Maradi and Zinder, became more active than ever. Their business shifted from a regional and national level to an international one. They began importing (notably cigarettes) from Europe and selling them in Nigeria. Their economic power became increasingly dominant; they controlled more than ever the trade on both sides of the Nigerian border.

E) The Crisis of the Eighties

The economic crisis resulting from the uranium crisis from 1981, the 1984 drought and the closing of the Nigerian border in April 1984 accelerated the drop in public revenues. The ensuing reduction in private investments caused the private sector to take a back seat considering the potential of the national economy and the more important role it could have played in it.

F) The New Attitude of the State Vis-a-Vis the Private Sector

Given the deteriorating internal and external fi-

the State of the failure of so many parastatal enterprises and given the pressure from the World Bank for major economic reforms, including a disengagement and privatization policy, the State seems to be changing its attitute towards the private sector. It seems to have become more aware that its policy of the last two decades of dominating the economy, while attempting to relinquish the private sector to a secondary role, has not worked and that it attempted to become active in overall business fields for which the private sector is better suited.

Although the Government had already recognized the problems previously, it expressed a greater consciousness of the numerous constraints which impede the private sector and has suggested solutions to lift them. Three different documents were issued by the Government containing those solutions, expressing a general desire to promote the private sector, and, thus, confirming a general trend which started well before. They are:

1) "Le Programme Significatif de Relance" (The Major Program for Economic Recovery) issued in October 1986 by a special interministerial committee with representatives from the private sector;

2) The Five-Year Plan (1987-1991) issued in May 1987; and

3) Le Programme d'Appui aux Initiatives Privees et a la creation d'emplois" (PAIPCE) (The Program to support private initiative and job creation) issued in June 1987 by the Ministry of Planning.

Before we can examine the constraints which handicap the private sector and the solutions suggested by the Government, we must first have an accurate notion of the composition of the private sector itself.

II - ITS COMPOSITION

A) A Modern or Formal Private Sector

This sector is essentially oriented towards local industrial activities and/or international trade activities principally carried on by foreign operators (mostly French), although also by a small group of Nigerian businessmen and by the Lebanese community. It currently accounts for less than 8% of the GNP. The manufacturing industry within the formal sector is less than 2% of GNP. The other components of the sector: mining, commerce, banking, transport, construction and various services account for the balance of about 6%. Formal Commerce by itself represents about 5% of GNP and yet at the time of independence it dominated the economy. As a whole, the formal sector employed 10,100 persons at the end of 1986 against 32,600 employed by the Government and 12,700 by the parastatal companies.

The evolution of the formal sector was strictly linked to the mining industry and to the condition of public finances. Thus, after having experienced a good growth between 1976 and 1981, the formal sector quickly was out of breath as a direct result of the uranium crisis and that of the decline in public revenues.

1) The Manufacturing Industry

The manufacturing industry is very limited in its range of activities: textiles, cement, batteries, biscuits. Its products are often not competitive with similar imported products, notably from or through Nigeria. It has been directly affected by the drop in personal income caused by the economic crisis since 1982. The most common complaint of this industry concerns the various constraints which affect it. (These constraints will be examined in detail from page 29 on). A significant fact is that there used to be some 24 different manufcturing units operating in the industrial zone of Niamey. Only 6 are still operating. Two other factors that have also contributed to this situation are the general depression of the local industry and an over-valued CFA franc.

The industrial component of the formal sector is also very dependent on:

(i) the Government and urban consumers which are its most important clients;

(ii) export of consumer goods because of the narrowness and spread out nature of the domestic market;

(iii) the high cost of imported inputs and of transport of both such inputs and of finished products for the export markets; and

(iv) the efficient competition of the informal sector for the marketing of products in export markets especially the Nigerian market, and sometimes in the domestic market as well.

2) The Agri-Business Industry

A few companies are involved in agri-business, such as tanning of cattle, goat and sheep skins and milk processing. However, these activities are very limited.

3) The Trading Component

This is represented mainly by European trading companies (mostly French) which used to play a key role until the independence in the export of cash crops and the import and distribution of consumer products. They have now concentrated on urban centers which they supply as wholesalers in imported products, notably hardware goods, European consumer products and less and less in automobiles, trucks and spare parts.

4) The Bank Component

There are six private banks: The BIAO and BICI (subsidiaries of two major French banks BIAO and BNP), BALINEX (an Arab Libyan bank), DMI, BCC (subsidiary of the Bank for Credit and Commerce group) and CITIBANK. They all have excess liquidity, not being able to find sound enough projects to finance or promoters who can offer satisfactory collateral. They are almost exclusively confined to extending short-term overdrafts and to import financing.

5) The Other Components

These are mining, transport, construction and various services. They also have been very dependent on the uranium industry and partially on the Government policy of supporting national businessmen through bank credit extended mostly

by the BDRN (the State Development Bank) and the CNCA (the State Agricultural Credit Bank). This is why, after the good period between 1977 and 1981, these activities deteriorated sharply because of the uranium crisis, the reduction in public revenue and the very serious difficulties of both the BDRN and the CNCA.

The possibilities for the formal sector -- in its present condition -- to contribute to an economic recovery are relatively limited. The industrial component is not well integrated within the overall domestic economic environment in that it is more oriented towards the outside as a result of very limited domestic sources of raw materials and an equally limited domestic market scattered over a vast territory. Yet competing in export markets with a high production cost and low productivity is most difficult.

The trading component is fighting an up-hill battle because it cannot compete effectively against the informal traders with regard to clandestine imports and in some cases exports. These imports range from cigarettes to textiles and the exports are mainly cattle and textiles.

The banking component could become considerably more active if it could find sound projects to finance. As we shall see later on in this report, concrete solutions are available to this problem.

In addition, the whole formal sector is impeded by constraints. It operates within a legal framework and is subject to all the typical rules and regulations affecting

business in a modern economy with regard to all forms of administrative procedures, the payment of taxes, accounting, etc. All of this constitute a serious handicap especially when compared to the informal sector which is free of all such limitations.

B) A Traditional or Informal Private Sector

The informal sector plays a crucial role in the Nigerien economy. It is by definition very difficult to develop any accurate information on its turnover, the size of its investments or the active population it employs. It is well known, however, that the thousands of units of this sector are a major source of work and activity for the working population and that there is no sector of the economy which is not affected by it. According to informal estimates as much as 70% to 80% of the economy is in the hands of the informal sector, especially if agriculture is included.

This traditional sector is characterized by its lack of structure, it extreme fluidity, fleetiness, versatility, resourcefulness, and ingenuity. It is conducted only by individuals, not corporate units, who are usually illiterate. It proverbially escapes all the rules and regulations which affect the formal sector and never pays any taxes, with the exception of a "patente" or license tax . . . in principle.

The role played by the informal sector is all the more important for the economy that it in effect fills a gap which the formal sector is unable and/or unwilling to fill. The

informal sector in Niger is the epitomy of private enterprise, however loose and unregulated as it is.

This sector comprises may distinct activities:

1) Agriculture

Practically all rural activities belong to the informal sector. Whether such activities are performed at the individual level, the village level or the cooperative level it is always informal. The farmers are a dynamic and hardworking group which, in spite of all the severe handicaps, manage to ensure national food sufficiency in periods of good rainfall. Although such dynamism has not generally been directed to an economic and efficient management of their farms, the farmers are remarkably adept and versatile; they usually take up other activities during the off season in a number of small industry areas peripheral to farming. Given their low cash returns and high production risks, they do about as well as can be expected.

2) The Major Trade

The essential characteristics of this major informal trade is its exclusive focus on immediate profit, a lack of interest in investments in productive activities (because of the longer waiting period for the return on the investments), and its small contribution to tax revenues and to the financing of the economy in general. In the region of Maradi and Zinder, however, there seems to be early signs of a certain curiosity, if not yet a willingness, on the part of some big traders, the El Hadjis, with regard to the possibility of getting involved in industrial activities, as the big traders in Nigeria have done.

Here again, it is very difficult to evaluate with any degree of accuracy the exact impact of this informal trade on the economy, because of a complete lack of data. It is known, however, that this impact is major, based on the volume of imports through the El Hadjis, based less on exports volume because of their clandestinity, based on estimated turnover and on the distribution volume of products and finally based on the "social" standing of those big time traders in the absence of information on their economic and financial standing.

It would appear that, as a result of "arrangements" between them, the El Hadjis tend to carve up the market into cartels with a few big traders for each category and that independent competition is not encouraged.

This component of the informal sector is itself composed of several layers of operators who are as a rule very dynamic and illiterate. No books are kept; all the figures are "in their head" and on the whole remarkably efficiently.

Those big traders deal with commercial banks only for one of the following transactions:

(a) to finance imports through conventional documentary credit;

(b) to make a foreign remittance; and

(c) when they need a bank guaranty in order to participate in some Government project.

Those traders always tend to self-finance their operations, which now include more and more investments in

transport facilities (notably trucks used in connection with large transit operations, especially the transport through Niger into Nigeria of such goods as cigarettes imported from England), some real estate and some agriculture. It is quite possible that this trend may continue and could gradually involve more substantial investment in industrial and agri-business activities. The younger generation of El Hadjis seems to be more open to such departures from the traditional exclusive trading business of their fathers.

However, this does not change the possibility that this informal major trade sector, although highly efficient and profitable, may now have reached the point where, because of the increasing complexities of the business, a little "formality" and organization (such as minimum bookkeeping) may be to its advantage. This may be a way to have a better grasp of what helps the business and what is detrimental to it. Of course, any attempt to "formalize" this sector so far is automatically resisted by the older generation of El Hadjis who perceive it as a threat to their proverbial independence (financial and general) and a risk of opening the door to taxation and other administrative impositions and vexations. They may well be right and one can understand the lack of motivation for them to accept readily any change along those lines.

Here again, the young generation, the sons of the El Hadjis (who still run their business) are more likely to be literate. Very few of them may even begin to attend

university. They tend to be somewhat more open-minded than their fathers and the sophisticated ones are becoming conscious of the vulnerability of depending to much on trade often in only a few products and in only one geographical area: both sides of the border with Nigeria. They are likely to become more open to changes at the same time the channel of such changes.

3) Heterogenous Production Activities

Such activities are carried on by a great variety of "artisans," small units, small industry operators of all kinds (mechnical repair shops, hardware and home utensil makers, etc.) who, with different levels of training, but permanently faced with an under-employment problem, have a remarkable will to work. They also demonstrate through spontaneous initiatives their need to acquire know-how and to get organized in order to succeed.

This component of the informal sector comprises a large number of small enterprises, and accounts for a high percentage of employment, in and of the gross production of, the whole private sector. It has its own characteristics concerning its organization, the simple equipment and technolgoy it uses and the types of products, it makes. As can be expected, in this component of the informal sector there is no division of labor nor a clear approach to methodology.

However, those activities seem to have much development potential to the extent that the levels of training are generally very low and the possibilities of improving such

training limited. Yet, they play an important role in helping to reduce unemployment and in the production, or distribution of a variety of goods and services needed by the population. For instance, it was estimated that this component of the informal sector gives work to 22,150 persons in Niamey alone, without taking into consideration all other direct or indirect unaccounted for odd jobs obtained through social or family contacts. This is equivalent to the labor force employed by the whole formal sector at the national level.

In conclusion, contrary to what one may think, the informal sector of the economy is on the whole well organized after a fashion and efficient, particularly its major trade component. It likes its "traditional" characteristic, especially since the action strategies of its operators and the wealth accumulated by some of these are not "in harmony" with the rules and regulations enacted by the State. These rules and regulations automatically put the whole informal sector in an illegal position.

III - ITS CONSTRAINTS

The constraints affecting the private sector have a different impact or the formal and informal sector, although some are common to both. Physical and geographical constraints and some structural constraints obviously concern the whole private sector and result in a low degree of attraction for private capital to be invested in Niger. Such constraints are in general a major deterrent because they cannot be changed by men, or

because they imply radical, long-term and expensive changes in the policies of the State.

Other constraints are merely dissuasive or limitative and can be lifted through appropriate measures.

A) Categories of Constraints

1) Physical and Geographical Constraints

(a) The landlocked position of Niger

(i) From a national viewpoint

Niger has some 30 towns of various sizes scattered over great distances in a country covering 1,200,000 Sq. Km,, a road network which is grossly insufficient but improving. The Government is taking action on transport infrastructure and road maintenance. Domestic air service is poor and expensive but the Government tries to rationalize Air Niger. There is no railroad.

(ii) From an international viewpoint

Niger is surrounded by seven countries, the nearest seaports being Cotonou in Benin (1000 Km. from Niamey) and Abidjan (1500 Km. from Niamey). But Lome is in fact more important as a port to Niger than Abidjan.

(b) Climatic constraints

Niger has a rough and hostile climate:

- insufficient and unpredicatable rainfall;

- an alarming expansion of the desert; and

- frequent and severe droughts over the last 15 years.

Recommendations made by the Government

In none of the three Government documents: the Programme Significatif de Relance (PSR), the Five Year Plan and the Programme d'Appui aux Initiatives Privies et a la Creation d'Emplois (PAIPCE) is any recommendation made regarding this constraint.

Our Recommendation

Even though little can be done to lift this constraint imposed by nature, some steps could be taken towards alleviating it. The focus should be on a systematic long-term program to extend the basic road infrastructure and to improve airline communications. This should apply particularly to the road leading to Cotonou in order to facilitate the transport of goods for export as well as that of imports. However, the roads to Abidjan and Lome are paved.

With regard to the export of perishable goods (meat and vegetables) a study should be done of economical ways of using freight facilities on current scheduled international flights and eventually of starting an all-freight airline service to such points as Abidjan, Lome, and Europe. Specially equipped trucks is another alternative which deserves being studied. Such possibilities are subject, of course, to establishing the reality of a market in those places for such products.

(c) A narrow and scattered domestic market

Every attempt to manufacture any product in Niger has been thwarted by the narrowness of the market due to the small population and the fact that it is so spread out over a large territory. The distribution of imported goods faces the same problem. Agricultural products are also affected by this constraint.

Recommendations made by the Government

The only recommendation made by the Government on this point is contained in the PSR document to the effect that steps should be taken to ensure a more aggressive distribution of Nigerien made products and that these must be adequately priced. This recommendation is obviously too vague and general to be useful.

Our Recommendation

Given those severe limitations of the domestic market, to the extent possible, and taking into consideration among other factors the degree of competitiveness of Nigerien products, a systematic effort must be made to find new export markets, develop existing ones and to investigate the possibilities of new export products.

Thus, to France, still the most important export market, the main exports are uranium and tanned and other leather products and skins. Feasibility studies should be undertaken to investigate the possibility of exporting certain vegetables (notably green beans, tomatoes, etc.) during the (European) winter

season, although this is already a very competitive field. Other European markets must also be investigated.

Red onions have alredy found a market in the Ivory Coast. It is known that better packaging and transport facilities would reduce the spoilage and help increase the tonnage sold. What about other African markets such as Benin, Togo, Senegal, Gabon, Cameroon and North Africa. Here again, an investigation must be made by a competent expert.

Argentinian beef is imported in the Ivory Coast. Would it not be worth studying the possibility of exporting frozen beef from Niger to that market?

(d) The "leaking" boarder with Nigeria

Nigeria is Niger's second largest trading partner (after France) for both exports and imports, but actual volumes both ways are far greater than the official statics show because of the overwhelming importance of the informal or clandestine exchanges. This parallel market, which is very difficult to quantify, is a very efficient competitor to the official trade and it introduces an element of speculation which is damaging especially to the "regular" imports.

Recommendations made by the Government

In the PRS document it is suggested that customs duties be imposed on manufactured goods imported from Nigeria so that their price would be equivalent to that of similar or identical products made in Niger. It is also suggested that the customs authorities be more vigilant and efficient in order to control

clandestine imports. These two recommendations are repeated in the PAIPCE document. For the following reasons the first recommendation may well be inappropriate while the second one is not realistic.

Trade bewteen Niger and Nigeria is of a special nature. By far the most important part of it is informal. Traders on both sides of the border are of the same tribe (Hausa), speak the same language (Hausa) and in many cases are relatives. Trade methods are archaic, based on memory of the traders and faithfulness of the customers rather than on anything written, figures or accounts of any sort.

Goods exported from Niger to Nigeria are: livestock on hoof, cowpeas, millet, sorgum, textile and clothes, onions, dates, rudimentary agricultural equipment, soap and handicraft.

Goods imported from Nigeria include: fruits and vegetables, candy, condensed milk, spices, wheat flour, cement, soap, soft drinks, fruit juices, hardware, spare parts for bicycles, motorcycles and automobiles, paint, gasoline, kerosene, radios and cassette players, plastic and enamated fowls and basins.

Transit goods, which represent substantial volumes, are mostly cigaretts (imported from England), rice, ox-tail soup cubes, matches and dry/salted fish imported by the El Hadjis and re-exported to Nigeria. It is estimated that the transit trade going through Maradi alone represents about CFA.F2.50 billion (US $170 million) a year. The importation and distribution of all these products are forbidden in Nigeria. The biggest El Hadjis have acquired their wealth mainly through this trade.

Several points should be observed here:

(i) Relatively few imports from Nigeria are produced in Niger

If one examines the above-mentioned list of goods imported from Nigeria, one finds that with the exception of cement, biscuits, soap, wheat flour and soft drinks, these goods are generally not produced in Niger.

(ii) A relatively small amount of customs duties is collected

It would appear that a relatively small amount of customs duties is actually collected by the Nigerien authorities, all the more so that customs officers are sometimes accommodating. Yet, it is estimated that 80% to 90% of products sold in Maradi, Zinder and Konni are from Nigeria. Actual payment of customs duties, in those cases where it occurs, is based on a bill typically established by the Nigerian seller of the goods at a declared price between one-third and one-half below the official price in Nigeria. That applies to many items.

The customs authorities, in Niger, however, seem to refuse more and more to accept such under-stated values as a basis for applying tariffs and tend to use prices on similar products imported from sources other than Nigeria. This gives rise to constant controversy between the customs authorities and the large traders of the informal sector.

(iii) Difficult border to police

Except for the three main ports of entry of Maradi, Zinder and Konni, it is physically impossible to police efficiently a 1,000 Km. long border which is criss-crossed by "unofficial" tracks and paths actively used for clandestine trade of goods (carried by porters, donkeys and other animals) without great value as well as high value large tonnage products, such as wheat flour, cement, reinforced bars, fertilizer, gasoline, etc. for which an official import license is theoretically required.

(iv) The volume and type of imports are dictated not only by supply and demand of goods but by the value of the Naira

The important devaluation of the Naira last year has had a substantial influence on goods imported from Nigeria by making them considerably cheaper. The rate of exchange on the parallel market is also very important. For instance, when the Nigerian traders buy from Niger goods in transit (notably cigarettes imported from England), the parallel rate of exchange is immediately affected. This is due to the fact that the sellers in Niger demand to be paid in CFA Francs, which in turn forces the Nigerian buyers to look for CFA Francs, which in turn increases the value of the latter.

The reverse occurs when traders in Niger want to buy large tonnages of cement or other products from Nigeria.

In general, this parallel currency market has a negative effect on the economy of Niger, because it makes it possible to acquire equipment goods and consumer goods from Nigeria

at a price about one-third average cheaper than official prices posted in Niger for the same items. It is true, however, that in some instances Niger benefits more than it loses in this market. Thus, cheap machinery and capital production goods help the producer get more profit and cut costs.

Our Recommendation

Based on the foregoing observations, which, because of the time constraints of this mission, could not be verified, one may wonder about the advisability for the Government of Niger to continue imposing customs duties on goods imported from Nigeria. Subject to further investigation, it appears at first sight that such imports may not harm the manufacturing industry in Niger and that the total amount of duties actually levied is relatively small. Furthermore, given the notorious laxity of customs officials and the great difficulty of policing such a long and porous border, the question deserves to be asked as to the possibility of declaring the whole border with Nigeria a free zone over a period of, say 3 to 5 years. This would have the following possible effects:

(i) dimystifying the whole trade between the two countries;

(ii) allowing the forces of supply of, and demand for, goods to regulate freely their flow on either side of the border;

(iii) discourage the protection of inefficient and uncompetitive manufacturing industries on both sides -- (We realize that this is a very controversial subject); and

(iv) these results could presumably be achieved at the cost of a relatively small loss of revenue for the Government of Niger.

We recommend, thereore, that this matter be investigated by experts in order to determine the best course of action.

(e) Human Resources Constraints

(i) Illiteracy

Probably the most serious impediment to the development of the people and the growth of the economy is the astoundingly high rate of illiteracy. This is particularly true of the whole informal sector.

It is most surprising that none of the three policy documents of the Government even mentions this fundamental problem at all. This is symptomatic in that it reflects the lack of a national policy on literacy. Numeracy seems to be more important in people's mind than literacy, because it is essential for managing enterprises beyond a limited size. Mass literacy programs do not seem to be effective.

A Commission on Educational Reform has existed for some time and the need to establish appropriate educational systems for development purposes and national human resource planning is recognized clearly in many quarters. Realization of this goal, however, has yet to be reached.

The World Bank study of human resources planning and financial consequences provides information which can be useful in developing a long-term human resources model.

However, no significant policy changes have been promulgated, nor have operational revisions within the educational structure been analyzed or discussed.

Although Niger receives considerable assistance in education and training fields from donors, the Government of Niger has cut back its ambitious plan targets for the education and training programs. More than 95% of he education budget goes to perpetuating the formal system. Niger is now training more graduates in certain fields, notably law and economics, than it has demand for, especially since the Government has put an end to automatic hiring of university graduates. Consequently, little or nothing seems to be done to help the informal sector out of literacy.

Our Recommendation

This would suggest the advisability that the international donors consider jointly financing a "functional literacy" program which would combine practical skills and wider leaning, especially when coupled with numeracy. Success has already been achieved through this type of practical program elsewhere.

(ii) Lack of competence at all levels

Particularly in a country with such a high rate of illiteracy, it is not surprising to observe a seious lack of qualified manpower in all fields and at all levels.

Recommendations Made by the Government

In the Five-Year Plan, reference is made to the necessity to determine the training needs of management level executives and of the operators within the informal sector.

The PIR document mentions the need for training programs for rural cooperatives and for intensifying efforts to train economic operators. To that effect the document suggests establishing a systematic training program and demanding a minimum level of training in order to have access to certain professions. Such program could be financed by the World Bank.

This is less vague and general than the usual recommendation but still it is not specific enough.

The third document, (PAIFCE) refers to the need for training in very general terms without including any specific recommendation.

Our Recommendation

Top priority should be given by the Government to designing, structuring and implementing a detailed systematic and extensive middle to lower management training program. This should be undertaken only with the technical assistance of independent, international experts and with the financial assistance of the international donors. It is indispenable that the latter coordinate their respective action in order to avoid duplication and waste.

Consideration might be given to the management training program having three components.

(a) Sending every year a number of university graduates and young executives with some years of experience "on the job" to attend the excellent Business Management School called "CESAG" in Dakar for a one-year course. This would be relatively less costly and more accessible than similar schools in Europe or North America.

(b) Encourage the efforts made by the "Centre National de Perfectionnement a la Gestion" (CNPG) formed 3 years ago by the Chamber of Commerce, of Agriculture, of Industry and of "Artisanat" of Niger. Its essential purpose is to offer elementary, medium and advanced level management. Courses are offered over a 12 or 18 month period to young men already engaged in private sector activities and women while they carry on with their present job with enterprises in the private formal sector. The encouragement should also include making sure that the overseas visiting teachers as well as the local teachers are of high quality and that the approach of the training offered is essentially practical and even pragmatic. The objective must be to turn out competent entrepreneur businessmen, not academics. The World Bank and UNDP are already financing this effort; it should be intensifed.

(c) A third teaching technique should be used in conjunction with the CNPG type of training. This concerns extensive use of video tape courses in accounting, marketing, etc. which can supplement conventional teaching by a teacher.

(d) A similar program as (b) and (c) might be considered for strictly technical disciplines, such as agronomy, small industry techniques workshops, etc.

(iii) A trader's mentality as opposed to an investor's mentality -- A Government employee's mentality as opposed to an entrepreneur's mentality

As we have already mentioned, the Nigeriens tend to have by and large a trader's mentality and not an investor's mentality. The former wants an immediate profit whereas the latter is willing to be more patient to reap his profit. It is difficult to shift from one to the other and yet it is necessary in order to avoid the certainty of a fiasco when a trader tries to run an industrial enterprise or any other medium to long-term investment venture.

Given the very large number of Government employees in Niger and given the recently announced policy to encourage such employees to go into private business (and thus contribute to cutting down Government expenses), the shifting from a Government employee's mentality to that of an entrepreneur is a timely subject.

The Government's Recommendations

None of the three Government documents mentions at all the first constraint. Only the PAIPCE deals with the second constraint, in connection with the voluntary departure of government employees who would spontaneously want to go into private business and with the placement of new university graduates in

private companies. This is a new program to create a "new category of Nigerien entrepreneurs." It is proposed to give a severance pay (pension plus an indemnification) to the employees leaving the administration, which is meant to help set them up in private business.

Our Recommendation

A good deal of the problem of switching from one mentality to another can be solved through extensive management training. The three approaches to training suggested in the foregoing pages should all be utilized in that respect. However, the process will be a long and difficult one because it is not simply a matter of teaching management techniques, however, important such transfer of technology may be. The necessity goes beyond that. For instance, a trader or a civil servant must learn that, without financial discipline (systematic accurate bookkeeping, for instance), without acquiring a sense of responsibility for his actions (paying back a loan on time, for instance), an entrepreneur cannot last long. The cold realities of business are quite different from the easy, quick profit habits of the trader and from the sheltered, security guaranteed environment of the public administration.

Similarly, a young university graduate needs to be molded into a businessman by taking appropriate business management courses. The fact that such a graduate has a university degree does by itself not give him the required background for private business, especially if he studied such disciplines as

social sciences instead of marketing and accounting. In other words, relying on the fact that a young man or woman has a university degree is a dangerous fallacy. A solid practical management training is a must.

Furthermore, a future entrepreneur cannot learn from a training course that the essence of private enterprise is the willingness to take risks and that autonomy is the corollary of responsibility for one's decisions.

There is no ready-made, fast answer to this fundamental necessity. It can only be a long, slow process. That is the reason why it must be started now.

(f) Structural Constraints

(i) The small formal private sector

Niger's formal private sector is very poorly developed. Its industrial sector is very small by any standards, being handicapped by the limited size of the market, the lack of raw materials and the land-locked position of the country. In addition to these impediments about which little can be done, government regulatory and incentive policies have not been conducive to the development of viable activities in the industry and trade sectors. Pricing and marketing controls have contributed to smothering private initiative. Investment incentives have focused more on promoting investment per se than on the long-term economic viability of projects. Investment decisions were made without prior complete feasibility and market studies. As a result, investment projects often have at best not

been in line with the country's comparative advantages, have used capital inefficiently and have provided only limited employment opportunities. They have often been a complete fiasco. Moreover, incentives have discriminated against export and small-scale industries and have given the Government excessive control over private investment.

(ii) The predominance and inefficiency of the agricultural sector

Ever since the 1968/74 drought, the Government has adopted a rural development strategy aimed at attaining food self-sufficiency. This strategy, which was supported by the majority of Niger's donors, determined the Government's investment program. This included five regional productivity projects to extend a standard technical package to all farmers and a program to bring 1,000 hectares per year under irrigation.

The weak technical base on which the productivity projects were founded explains in large part their lack of success. The standard technical package was not appropriate for Niger's climatic conditions and the country's weak resource base imposed further limits on the use of modern technology to raise productivity. Since the standard packaage provided only marginal economic and financial return to the farmers, the rate of adoption was poor and default rates on credit exceeded 60% nationwide.

In irrigation, the small size of many schemes, relying on the Niger river as the only major source of surface water and the poor water retention of soils increased investment costs and jeopardized operational viability. While small irrigation using ground water appeared technically feasible, its development was constrained by the remoteness of the most promising regions and the low efficiency of traditional water raising technology.

(iii) Other structural constraints

Expensive credit, expensive electric power, inefficient seasonal production of agricultural products are additional structural constraints. Time did not allow our mission to investigate these issues, except credit which will be dealt with later in this report.

The Government Recommendations

The three Government documents merely mention some of all the foregoing constraints without offering any solutions.

Our Recommendations

To the extent that those structural constraints are caused by ill-advised Government policies, poor planning and incompetence, something can be done about them. Most, if not all, of the solutions go through an extensive training program for the private sector as well as for the public sector. But such a program can only be a long-term one and will bear fruit only some time in the future. In the meantime, Government policies directly affecting the private sector must be altered, notably the

regulations, incentive policies, investment incentives, etc. This cannot, and will not, happen without technical assistance program along the lines of the World Bank structural adjustment program which must be co-ordinated with similar efforts by other donors. This would suggest that the actual implementation of such a program by the Niger Government must be made a condition to the availability of financial assistance from the same donors.

(g) Institutional Constraints

(i) Lack of reliable sources for the study of projects

The only institution formed and available for doing feasibility studies of projects is the "Office de Promotion de l'Entreprise Nigerienne" (OPEN). It was set up by the Government and by the Chamber of Commerce for the general purpose of promoting private enterprise. Any private entrepreneur who has a new project may request OPEN to do a study to assess its feasibility and soundness.

The performance of OPEN has been dismal. Its studies show an alarming degree of incompetence. Investments costs are underestimated, the financial engineering is unreliable, the choice of equipment is bad and projected sales are grossly overestimated. This is due to the level of "competence" of the human resources of this institution.

It is not surpising, therefore, that OPEN has lost all credibility with the commercial banks.

The Government's Recommendation

Being aware of this serious problem, the Government recommended in its PSR and its IAIPCE documents that OPEN be converted into a half government half private independent company with a new structure, a new organization and a new program.

Our Recommendation

For the following reasons we have strong doubts that the Government's suggestion will work.

(a) If OPEN were to be converted to a new status at all, it should be entirely private.

(b) That alone is not a guaranty for the qualify of feasibility studies, due to the difficulty of staffing it with good analysts. As long as inexperienced people will continue to be responsible for doing studies, the result will continue to be the same.

(c) Feasibility studies in a developing country like Niger are best done by competent consultants who are totally independent from all government influence as well as from the promoters of a given project.

We, therefore, recommend that OPEN be liquidated and that promoters approach qualified consulting firms for their feasibility study needs. There are no such firms for the time being in Niger. However, several of them, already based in Abidjan and in Dakar, are very active in other franco-phone African countries, knowledgeable about the local context, and are likely to be interested in extending their network to Niger. In a first

stage, representatives of those firms could make regular visits and in a second stage, once the volume of business would warrant it, a small local office could be set up in Niamey. They could also make joint-ventures with worthy local consultants as and when these begin to emerge.

Of course, the next practical question is "who is going to pay for those studes"? A number of formulas are possible. Perhaps one, which might be the most satisfactory and which ought to be considered, is that the cost should be born equally by the promoter, the Government of Niger and a special fund set up by international donors. This will have the additional advantage of compelling the promoter to be responsible for one-third of the cost of the study, which, in turn, will immediately eliminate those who lack seriousness of purpose.

We realize that this will not help the entrepreneur with small and micro business proposals. Perhaps the Government could subsidize a larger percentage of the consultant's fees in thos cases.

(h) A Privatization That Failed

At the behest of the World Bank, the Government of Niger decided in 1983 to privatize its parastatal companies. Of a total of 52 such enterprises, the Government decided to retain 25 in the parastatal sector and to privatize fully or partly 22 corporations. Those of the 22 corporations, that cannot be privatized because they are not viable, will be liquidated.

Unfortunately, the same mistakes were made in Niger as in many other African countries. Instead of first preparing, with the help of qualified outside technical assistance, an over-all plan of action including the successive steps which must be taken in a fairly strict chronological order, the Government in an un-coordinated, helter-skelter fashion started looking around for private sector buyers. They, thus, transferred to the private sector four enterprises (SONITAN, CMAN, SOTRAMIL and SNCP).

We visited all of them except CMAN. In each case we learned the following:

(i) The private sector buyers (all Nigeriens) accepted the price established by the Government without requesting an valuation of the assets made by independent accountants chosen by them. We could not determine whether this was the result of laxity on the part of the buyers or of some other factor.

(ii) The buyers were required to pay 50% in cash immediately and the remaining 50% between 3 months and 2 years later. The new shareholders were told at the time of the transaction that they could expect to receive working capital financing from the BDRN (the State Development Bank). The BDRN has not come forth with any kind of financing, because of its own financial difficulties.

The buyers, having invested all they owned in the 50% downpayment, now find themselves with neither

working capital for their newly acquired enterprise, nor funds to pay for the remaining 50% of the purchase price. Consequently, those privatized companies find themselves in an alarming financial situation.

(iii) Furthermore, those companies are unable to get rid of the excess workers without having to pay them severance compensation retroactive to the date of their original hiring by the companies. This, of course, amounts to an excessive burden which the companies cannot possibly assume.

We understood that, of those four enterprises of which the Government has divested itself completely, SNCP (the company for tanning and selling skins and leather) is the only one which may not have quite as serious financial difficulties as the others).

Moreover, three hotels have been leased to the private sector under a management contract.

The Government has also defined a program for reducing its participation in nine enterprises of mixed public-private ownership. Nothing has been done yet in that respect.

The Government Recommendation

In none of the three Government documents is privatization mentioned more than in passing. Not even a general suggestion is made as to a possible future course of action.

Our Recommendation

(i) Unless a parastatal company is already profitable or could be turned around fairly quickly as a result of fresh capital injection and a new competent management, it should be removed from the list of companies to be sold to the private sector.

(ii) If there are any parastatal companies that can be privatized based on this criterion, each must be studied by an independent and competent consulting/accounting firm in order to determine its fair market value. That value should be the only basis for negotiation of the final price. The financing of the acquisition by the private sector must be prepared prior to the transaction with the technical asistance of experts. Otherwise, the same serious mistake outlined above will be repeated.

(iii) Those parastatal companies, that the State perceives (rightly or wrongly) as being of public interest or of national strategic importance and, therefore, that it wants to retain, should be restructured. In all cases, a study should be made as to whether their management could not be turned over to a private management company instead of continuing to be managed by the Government, even if restructured.

(iv) All other parastatal companies should be liquidated as soon as possible. Should any one of them still have a valuable asset, that asset alone should be sold to the private sector without burdening the latter with all the liabilities.

(v) It is suggested that the World Bank, as part of the structural Adjustment Credit, continue to put pressure on the Government of Niger not only to get on with their privatization program, but also not to make the same mistakes as heretofore for the rest of the implementation of the balance of the program.

(c) Sources of Financing

(i) Bank Credit in General

A widespread observation which the members of our mission heard in government circles in particular, but also from the private formal sector, was that commercial banks in Niger do not come forth with the financing of projects because, being over prudent, the banks can find very few bankable projects. And yet banks are very liquid since deposits continue to be made by their customers.

Meetings with the five main commercial banks (BDRN, BIAO, BICI, BCC, CITIBANK) and with the Central Bank indeed confirmed both their very high liquidity and the fact that total bank financing, after a substantial increase between 1980 and 1983, dropped from 96 Billion CFA FRS at the end of September 1984 to 83 Billion CFA FRS on year later, due to the lack of good projects. The banks activities are almost exclusively in trade financing and overdraft facilities. This, in turn, has adversely affected their profitability.

There are very good reasons which explain why the banks have not been financing more projects.

(a) Although entrepreneurship does exist in Niger, promoters are usually inexperienced, do not have the proper business management training (if at all) and have only a vague notion of the formalities and security required by banks for financing.

(b) As a result of the lack of reliable sources for feasibility studies which are professionally done, also because of the lack of sound projects themselves and finally because of the fact that, even when a good project occasionally is submitted, the promoters are usually incapable of offering satisfactory collateral, the commercial banks very seldom find a truly bankable project.

(c) There is a tax levied on the sale, or the take over, by banks of mortgaged real estate put up as collateral by defaulting borrowers and a very long procedure is involved.

(d) In case a bank must sue a defaulting borrower, it must pay in advance, another tax at the rate of 17% on what it hopes to collect as a result of the judgment. This obviously is a considerable hindrance which causes the banks to hesitate suing.

(e) There is a special tax on time deposits of less than 180 days.

(f) Commercial banks are not welfare institutions. Too few Nigerien entrepreneurs quite understand that fact of life. Especially because banks very often lend to

their customers funds which they themselves have borrowed, they cannot lend indiscriminately and without exercising prudence. This is not very clear to the Nigerien businessmen who still have a vivid memory of the recent past when the two state banks readily made "easy" loans (sometimes as a result of cronism) without paying too much attention to the ability (. . . or the willingness) of the borrowers to reimburse their loan on time, if at all. As a consequence, the BDRN is in serious difficulty (an indebtedness of some 25 to 30 Billion CFA.FRS. is rumored) and the CNCA (Agricultural Credit Bank) is in liquidation.

The Government's Recommendations

Both the Five Year Plan and the PSR make recommendations towards inducing the banks to increase their financing of projects. The recommendations are:

(a) Reduce interest rates.

This could help the small to medium size borrowers who currently pay between 8% and 10% plus the Value Added Tax (17%) on short and medium term credit. For all other credits (except agricultural credit) the rates are between 9.5% and 14.5% plus Value Added Tax.

However, first a reduction in rates by banks to their customers necessarily implies a corresponding reduction in the applicable discount rates which the Central Bank charges the banks. Second, this solution is meaningless unles sound projects are presented by creditworthy promoters for bank financing.

(b) Rehabilitate the BDRN.

It is obviously necessary to rehabilitate this major State Development/Commercial Bank which is the largest unit of the Nigerien banking system. However, such rehabilitation will be ineffective unless drastic steps are taken to make sure that the same mistakes are not repeated by the same people. This means designing and strictly implementing rigorous procedures for the making and monitoring of loans and launching an extensive management training program in order to improve substantially the level of competence. The financial effort implied is already being made by international donors, notably by the World Bank and the Caisse Centrale, which so far have financed a capital increase of CFA.FRS.5 billion and the cost of the technical assistance needed.

Even though such rehabilitation is necessary, in and by itself it will not help generate better projects to be financed by the bank. But a healthier BDRN will be in a better position to finance among other things the Government portion (1/3) of feasibility studies, as we recommended earlier.

(c) Increase the branch network of commercial banks

Our meetings with the major commercial banks brought out that, except for Citibank which plans to open a branch in Maradi, none of the others have any network expansion in mind. Their reasoning is that, given the current economic crisis in addition to all the other constraints (notably the lack of good projects) that affect the banking system, they could not justify the cost of such expansion in the foreseeable future.

Here again, the commercial banks are rightly cautious, even though they are all very hungry for new sound projects. The mere branch expansion will not solve the problem of the absence of good projects, nor the corollary problem of a lack of sources of professional feasibility studies to determine the quality of projects.

(d) To channel credit to productive projects and profitable economic activities.

This is begging the question. Again this is another broad and vague statement which the Government documents tend to make. Another one is to encourage savings and give priority to certain sectors of the economy.

(e) To reduce the tax on the sale or takeover of mortgaged real estate put up as collateral by defaulting borrowers

This is a realtistic recommendation, even though it is not specific enough. Unfortunately, we do not have any information on the present rate of that tax. Whatever the rate is, it should not be higher than on an ordinary sale of real estate.

(f) Remove the tax on time deposits of less than 180 days.

This also is a good recommendation. The mere idea of such a tax is a complete banking aberration.

(g) Increase the maximum credit allowable for a small to medium size enterprise (PME-PMI) from CFA.FRS.30 million to 100 million

This is valid in that it will raise by that much the credit ceiling. Any credit beyond the ceiling requires an authorization from the Central Bank.

(h) Reduce the VAT (Value Added Tax).

There is a 17% VAT tax imposed on bank credit. The client must pay such tax on top of the interest rate. The Government recommendation is to reduce it to 15%. We would recommend its elimination altogether. Interest rates are penalizing enough as they are not to add this choking burden.

(i) The banks should contribute to FIPMEN

FIPMEN (the Small or Medium Size Enterprises Special Fund) was created in 1983 to take equity paticipations in small and medium size enterprises, offer debt financing, guarantees and the financing of feasibility studies. Because of the lack of funds being granted to it, FIPMEN was never operative.

Since FIPMEN is supposed to be managed by CPEN (of which we have already recommended the liquidation) and since neither of these two institutions have had qualified people to run and staff them, we would also recommend the liquidation of FIPMEN.

Commercial banks, if liberated from their constraints and if given the proper incentives, can be a reliable source of financing.

Our Recommendations

In addition to those just made in connection with our comments on the various Government's suggestions, we will make the following specific recommendations:

(a) An efficient mechanism for short-term credit facilities

USAID tried very successfully in a few countries, but especially in Morocco, a mechanism for short-term financing which would be quite appropriate for Niger. It would consist in a local commercial bank guaranteeing loans made by its French correspondent bank to local small and middle size enterprises. Such loans are in turn counter-guaranteed by funds placed by USAID Washington out of their Revolving Fund into a collateral account with the New York subsidiary of the same Fench bank. In Morocco, for instance, $2.5 million dollars thus put up by USAID Washington generated over a two year period a total of $10 million in loans to some 75 small and medium size enterprises without a single default. The loans were used in this case exclusively to pay for imports. This experience was most successful since every player directly benefitted from it.

We discussed this concept with the Central Bank in Niger as well as with the commercial banks. The positive reaction was unanimous. The Central Bank said that it would approve the use of such a mechanism and all the commercial banks expressed a keen interest in it.

The essential advantages would be:

-- small to medium size enterprises would have access to additional credit which may not be available otherwise.

-- the borrowers will be severely screened by the local commercial banks as to their creditworthiness, which would avoid any default.

-- the fact that the local commercial banks would not be the lenders but the guarantors of the loans would remove the whole operation from the credit restrictions applying within UMOA (the West African Monetary Union) and to Niger, notably the credit ceiling.

-- the interest rate paid by the borrower will be cheaper than the rates applicable within UMOA.

-- a condition that a percentage of the loans (say, 50%) be used by the borrower to purchase raw materials, or semi-finished or finished products used in the manufacture (or cultivation) of export products might stimulate exports.

-- the impact of this mechanism would be much wider than a conventional loan since it would be directly beneficial to the borrower, to the local commercial bank, to the French correspondent bank, to the local USAID mission and to USAID Washington.

Given its flexibility the same mechanism could be used for medium-term financing.

In either case, the technical assistance of specialized consultants would be required to design, structure, put

in place and monitor such credit facilities, with the cooperation of the local USAID mission (but necessarily with its active involvement, if it does not have the staff available).

(b) A new development finance company

The Government of Niger is concerned about the lack of financial management coordination among the development projects which are mainly funded by the donor community. Typically, each project puts in place its own financial management structure which is not only costly, but usually withdrawn at the end of the project. This generally results in jeopardizing the successful continuation of the project subsequently.

We, therefore, recommend the formation of a Development Finance Company (not a bank) initially funded by the donor and international agencies and run as a private institution. The Government of Niger could participate, but for no more than 10% of the capital. The initial capital could be the equivalent of U.S. $5 million.

Its essential purpose would be to manage on an on-going basis internationally financed projects for a fee. It would be responsible to a Board of Directors composed of representatives of the donors involved and one representative of the Government.

USAID has used independent financial institutions elsewhere to manage the finances of USAID funded projects. (In Senegal, for instance, USAID contracted with Citibank to manage a revolving line for an APS project. US Treasury Regulation

121D only requires that such an institution be independent (non-governmental) and fulfill the Comptroller's auditing and reporting requirements.)

This institution will be very lightly structured, with as low overhead as possible but run initially by expatriate competent personnel who will gradually train Nigeriens. The main source of income will be the above-mentioned fees for the management of the various projects.

Another useful role which this institution could play could be to organize and manage the local banks loan syndicates for private projects.

(c) The formation of mutual guaranty companies

In view of the difficulty of the commercial banks finding creditworthy promoters, even when a sound project is occasionally presented, the formation of mutual guaranty companies ("Societies de Caution Mutuelle") by groups of promoters or trade associations would be very useful. The basic principle is simple; the members of a group of promoters or farmers or builders or of whatever trade association all contribute to a common pool of funds which can be managed by a commercial bank. When a member of the group borrows from a bank, the common pool is used as a guaranty for his loan.

This is an efficient and relatively inexpensive system which is successfully used elsewhere in francophone African countries, notably in the Ivory Coast.

(ii) Agricultural Credit

One of the major problems encountered by the rural populations in Niger is the serious lack of credit to finance rural activities, whether agricultural or other. The official rural credit institution, the CNCA (Caisse Nationale de Credit Agricole) -- which was the only on-going domestic source of credit -- ceased its activities in 1984 due to its disastrous financial situation. The other sources of credit are limited to the multiple and diverse interventions of different development projects in Niger.

The Government of Niger seems to be aware that this lack of a viable and dynamic agricultural credit system is a major obstacle to the reorganization and growth of farming. They also realize that the viability of such a credit system depends not only on an efficient management but also on the creation of conditions conducive to debt repayment by farmers and to mobilizing private savings.

The Government's Recommendation

Of all three Government documents only the PSR mentions a possible solution but in very vague and general terms. For instance, it merely suggests making it possible for agricultural cooperatives to use the financing by the Central Bank of agricultural products marketing, without specifying under what conditions, nor how to enable the cooperatives to be better able to reimburse their debt.

USAID's Solution

In an effort to solve that problem, the credit component of USAID's Agricultural Production Support Project came up with an innovative idea: to induce the private commercial banking system to participate in the financing of the rural sector. Since the rural sector is not a sector in which commercial banks intervene, some inducement had to be found in order to convince a bank to participate. This inducement is a guarantee fund deposited by USAID with the participant bank during the program.

This new program was conceived around cooperatives and aimed at assisting them to develop into viable business enterprises. It focuses not only on providing credit to buy agricultural inputs, but also to finance other economic activites that can generate profits for the cooperatives. This also enables cooperatives members to benefit from training and experience in loan requests, relationships with banks and management of credit. This is, therefore, a rural credit system based on the private commercial banking system.

The operation of the guarantee fund is very simple. This fund consists of monies physically deposited by USAID into a time deposit at the participant bank and blocked in favor of that bank. These funds serve as a cash collateral guarantee to the bank and enable it to make loans without incurring any financial risk. In case of a loan default, the bank can reimburse itself by debiting the guarantee fund account according to the procedure established in a financial agreement. This is not an current

account but an interest bearing time deposit account, the interest of which accrues to the Government of Niger at an annual rate of 6%. These funds being a grant by USAID to the Government of Niger, the interest accrues to the latter. The guarantee fund provides the bank with 100% risk coverage. The ratio of cooperative loans to guarantee fund coverage is 89%, taking into account an interest provision of 11%, which is the annual interest rate charged the cooperatives.

The selection of the commercial bank depended in part on its having a branch network in the interior of the country, since the project has national coverage. The only private commercial bank meeting this requirement was the BIAO. An agreement was, therefore, entered into on October 7, 1985 by the National Cooperative Business Association (CLUSA), BIAO and USAID.

The actual budgeted amount by USAID for guarantee funds over the life of the project (3 years) was but limited to $200,000 for the first two years. These are counterpart funds.

Twenty cooperatives participated in the program, each having opened its own bank account with a BIAO branch. The following activities were financed through this mechanism: cooperative stores, collective fields, agricultural inputs, millet and cowpea marketing, seed multiplication, onion marketing, herd fattening, herd reconstitution and firewood marketing.

The Results:

(a) As of February 1987, and after the first sixteen months of lending activity, total cummulative guarantee funds used amounted to approximately $150,000, total loans made $170,000. Of the total loans made 55% have already been repaid and of the total lines of credit with definite repayment dates 68.2% has been reimbursed. Three coopeatives, having some financial difficulties, have negotiated repayment delays with BIAC to give them more time to collect funds.

(b) Over 400 cooperative members have been trained to conceive and manage business activities, to manage banking relationships. This has created a working forum for the members and,thus, has infused life and vitality into the cooperative structure.

(c) In addition to the training benefits, the economic activities contribute to the economic well-being of the cooperatives and provide a new incentive for the members. Once the cooperative begins to generate profit from activities which have been properly organized, managed and financed, it can begin to function in a truly independent manner.

(d) The serious attitude taken in general by the cooperatives is most clearly evident in the assiduity they have displayed in reimbursing their loans. To date the guarantee fund program has not experienced a single default.

(e) From BIAC's viewpoint, the initial benefit is not financial since its spread on the loans is only 5%. However,

it is gaining valuable experience in rural financing which will enable it to be well positioned for future expansion in that field. The success of this novel source of financing in an area as critical as the rural sector enhances the BIAO's image with the Central Bank and the Government.

(f) The program has directly contributed to the fulfilment of the Government's rural development objectives which are based on the development of cooperatives as autonomous and viable entities.

Our Recommendation

Although the overall success of the program is undeniable and it should be expanded further, there are a number of problems which must be corrected.

(a) The program mechanism requires commercial banks to have branches in order to participate. This limits the field to BIAO and BDRN. Yet all the other commercial banks are interested. There is no ready solution to this problem.

(b) A second problem is to find an appropriate institutional home for the guaranteed fund. At the moment, the National Cereals Program is the institutional home. However, that program's life is limited and a long-range solution must be found. Our recommendation is that instead of a global fund, each cooperative could set up its own fund along the lines of the mutual guarantee ("caution mutuelle") which we have already recommended in connection with general collateral for commercial bank financing. The cooperatives could also give the bank other types

of guarantees, such as liens on inventory. These two solutions would have the additional advantage of keeping the program a private sector initiative.

(c) Until such privatization solution is implemented, we definitely recommend that the Ministry of Plan should not continue to be the ultimate signator on the financial agreement with BIAO nor to control the funding. It should remain at the level of the individual cooperative and, thus, in the private sector.

(d) Another alternative is that USAID do not use funds that come from counterpart funds and that are granted to the Government of Niger, but rather use dollars which are U.S. Government owned and which, when deposited in the collateral account, will generate interest for USAID.

(e) Still another alternative is the following: instead of USAID putting funds in such collateral account, it could match every dollar which a cooperative would put into its own capitalization, thus enlarging considerably the latter's capital stock.

(f) Perhaps the most important change we would recommend to the existing mechanism is that the BIAO or any other commercial bank in the future bear part of the responsibility for the guarantee of the loans. There is some element of danger in the present mechanism whereby the bank may be tempted not to be too concerned in case of default of a cooperative in view of the unconditional guarantee of USAID. It would be preferable to adopt the same guarantee and counter-gurantee features as in the

above-described short-term credit facility successfully used by USAID in Morocco, for instance. The loans would then be made to the cooperatives by the French correspondent bank of the local commercial bank in Niger (in most cases, it would be its parent bank), guaranteed by the local bank and counter-guaranteed by the USAID funds in the collateral account.

We realize that this is somewhat more complicated and that unfortunately it will be more difficult to persuade the BIAO to change to this new system which imposes an obligation on it which it does not have under the present mechanism. It is unfortunate that USAID did not consult a banking expert initially.

(d) Other institutional constraints

A number of additional institutional constraints must be mentioned.

(a) The price of some agricultural products is set by the Government;

(b) There is a complete lack of fundamental statistics in every area;

(c) Although it has improved lately, in part thanks to their innovative financing from the USAID and BIAO, the organization and management of cooperatives is still deficient.

(d) Lack of storage and preservation facilities for some agricultural products.

We are aware of these additional constraints. However, time did not make it possible to gather information on them.

5) FISCAL CONSTRAINTS

(a) The VAT (Value Added Tax)

The VAT system was put in place in Niger on January 1, 1986. Within a few months it became obvious that the impact of its rates (15%, 25% and 35%) caused an average increase in prices of more than 10% across the board. This, in turn, resulted in many cases in a sharp deterioration of the purchasing power of consumers.

The unfairness of the tax became more and more apparent depending on which part of the private sector was subject to it (the formal sector) or not (the informal sector). In spite of the alleviating measures taken on May 15, 1987 by the Government, many gaps remain.

The Government Recommendations

The PSR is the only Government document which addressed the TVA issue. It suggests two changes:

(i) the liability of the food distribution companies (wholesale and retail) to the VAT would be optional. In case no choice is made, the companies would be subject to a 3% local tax; and

(ii) certain specific products would be exempted, notably a list of farm equipment and of medical supplies.

It also suggests that a study be made on, and answers be given to, the applicability of the VAT to:

(i) export sales;

(ii) companies to which the Investment Code is applicable; and

(iii) the financing of inventory.

The foregoing recommendations will help but they do not go far enough to have a real impact on the economy.

Our Recommendations

(i) In addition to the foregoing, VAT rates should be reduced to 5%, 7% and 15% from the present 10%, 15% and 25%.

(ii) A flat low rate of, say 5% should be paid by the informal sector instead of the VAT.

(iii) The importation of raw materials and of packaging used as inputs by local manufacturing companies carries a VAT rate between 15% and 40% which obviously favor the importation of the finished end product.

The export of agricultural products is subject to the export tax at rates varying between 6% and 27% to which must be added a 3% statistics tax.

We recommend that (i) the VAT on the import of raw materials and packaging be reduced by 75% so as to re-estblish a balance in relation to the imported finished end product; and

(ii) that the VAT be abolished altogether on exports of agricultural products and that only the 3% statistics tax be maintained.

(b) Direct Taxation

(i) The Tax on Industrial and Commercial Profits

The Constraints

-- The taxable basis is unrealistic since it either excludes the deductibility of certain basic business expenses or it limits them to a maximum.

-- The rate is too high (50%) in Niger in relation to other African countries: Benin 48%; Togo 40%; Senegal 33.33%, Burkiva Fasso 35%.

-- The Tax Law of 1984 imposes a prepayment of the tax equivalent to 50% of the tax paid the previous year and the balance of 50% within 3 months only. This heavy prepayment occurs at a time in the fiscal year when the generation of profits is still low.

Our Recommendation

Given the very negative impact of this tax on investments, we recommend:

-- that gifts, voluntary contributions and entertainment expenses be deductible up to a limit of 0.05% of the turnover;

-- reduce the rate to 40% in order to encourage investments and share ownership; and

-- that prepayment of the tax be made quarterly.

(ii) The IMF ("Impot Minimum Fiscal")

If a company shows a loss for the fiscal year, this tax replaces the tax on industrial and commercial profits. It must be paid even by a new company, except for the first year if it is a trading company and for the first two years if it is an industrial company.

We recommend that this tax be abolished as it is a fiscal aberration to impose a tax (in lieu of a profits tax) on a company that shows a loss.

(iii) The Tax on Over-head Expenses

The 1984 Tax Law introduced a tax on over-head expenses at a rate of 30% of the following expenses:

-- gifts;

-- entertainment, seminars, etc.;

-- fringe benefits for top management, such as automobiles, houses, 1st class air fares.

This tax cannot be deducted when calculating the taxable base.

We recommend that the tax rates be reduced as follows:

-- gifts: 0.05 of the turnover or the total amount of gifts, whichever is lower;

-- entertainment: same rate as for gifts;

-- maximum tax CFA:FRS. 1,000,000.

(iv) Real Estate Taxes

	Basis	Rate
- Tax on buildings (CFPB)	60% of the rental value	25%
- Tax on unbuilt real estate (CFNB)	80% of rental value for bare land; 50% of rental value for fenced and planted lots	between 3% and 20% depending on number of years owned
- Rental value (TVL)	Rental value	12%
- Tax on unimposed unbuilt lots	Difference between purchase price and the theoritical value of building	10%

There have been a number of cases where several years after a private owner had purchased real estate, he was arbitrarily forced to pay additional taxes on the alleged ground that the previous tax assessment was incorrect. This is obviously unfair and unacceptable.

We recommend, in order to reduce taxes that do not encourge investments:

-- abolition of the TVL tax (Rental Value tax) on buildings used by the owners and

-- abolition of the tax on buildings (CFPB) on empty not rented buildings.

Even if justified the tax authorities cannot claim back taxes if not within 6 months from a real estate transaction.

(v) Taxes on Agricultural Production

We recommend the abolition of any form of tax on agricultural production given the national objective of food self-sufficiency and the difficult climatic conditions.

(vi) VAT Tax on Bank Deposits

This tax introduced in 1986 at a rate of 25% and subsequently reduced in May 1987 to 17.5% is a banking aberration, particularly in a country where cash is scarce because of the low per capita income ($190) and because of climatic conditions.

We, therefore, recommend its immediate abolition.

6) ADMINISTRATIVE CONSTRAINTS

(a) The permit to exercise a business activity

As of January 1983 the formation of any company in Niger even by the Nigeriens requires three authorizations:

-- one by the Prefect (or Governor) of the District;

-- one by the Minister of the Interior; and

-- one by the Minister of Commerce.

This implied investigations which lasted between 3 months and one year and the validity of the permit once obtained was limited to 2 years.

The recommendation was made in the PSR to extend the validity from 2 to 5 years for a business activity and to 10 years for an industrial activity.

Our Recommendation

This is another aberration in a country which so desparately needs new investments. It should, therefore be abolished at once.

(b) The exercise of a business activity by a foreigner

A permit is required and is given for 2 years, renewable. This applies to such entities as a foreign owned trading or industrial or service company. The examination by the authorities of the application for renewal could take several months. This is why the PSR recommended that permits be granted for a longer period and that the administrative investigation be limited to 30 days.

Again, this is another inconsistency in a country which is starving for foreign investments. We, therefore, recommend its immediate abolition.

(c) Administrative Harrassment

The Customs, price control department, economic police and hygiene department intensified their investigations, often totally unjustified, to the point where, especially from 1982 to 1985, the ensuing harrassment caused some companies to consider folding up. The slightest incident or the most trivial infraction were penalized by extremely heavy fines out of all proportions with the alleged violation.

What made this situation all the more intolerable and unfair was that the formal sector was the only one

which ws hit by it because it keeps books and follows the rules. By contrast, the free wheeling informal sector was never affected by those administrative irrational practices; since it does not keep any books at all, there could be no bookkeeping violation.

We recommend that, instead of having to deal with four or more different administration departments on the same issue, the economic operators have only one interlocutor with authority to make a final decision.

7) JUDICIARY CONSTRAINTS

The slowness of the judiciary process, although by no means peculiar to Niger, is particularly bad here. What is even worse is the almost condoning attitude of judges with regard to debtors in default of an obligation even when guaranteed by a legal document. This, of course, encourages dishonesty and the lack of financial discipline which, in turn, hinders the development of true entrepreneurship and is a serious constraint to the growth of the private sector. Although this would need to be further documented, we heard this complaint from many sources during the course of our mission.

Not a word is mentioned about this in any of the Government's documents.

Our Recommendation

Young law graduates should be encouraged to take up a judiciary career in order to alleviate the apparent shortage of judges. The Government must make an effort to improve their compensation so as to attract good elements to this profession and

organize special seminars for practicing judges aimed, for instance, at emphasizing the importance for a creditor to be able to rely on a legal document (like a loan guarantee agreement) which gurantees his rights and to be able to rely on an efficient and practical implementation of a fair judgment. The notion of Nigeriens judges of the practical consequences on doing business of a fair, realistic and pragmatic judiciary seems to be confused and needs sharpening.

8) LABOR LEGISLATION CONSTRAINTS

The outdatedness of the labor legislation, some of which goes back to 1962 notably the Labor Code, or to 1972 for the inter-professional collective agreement, is a handicap with regard to hiring and firing. Enterprises must pay heavy severance compensation, for instance, and approval by the authorities may take several months.

The Government documents are also silent on this issue.

Our Recommendation

Until those legal texts are revised, we recommend the following:

(a) give complete freedom to all employers to choose their staff according to their own criteria and to their own needs;

(b) applications for authorization to fire employees must be dealt with by the administration within a maximum of 15 days; and

(c) Work contracts with foreigners for a period of 3 months or less should require no authorization. For contracts beyond 3 months, the administration should give its approval within 15 days.

B) The Effects of the Constraints on the Private Sector

As already indicated, the constraints affecting the private sector have a very different impact on the formal and informal sector, although some are common to both.

Physical and geographical constraints and some structural constraints obviously concern the whole private sector and result in a low degree of attraction for private capital to be invested in Niger. Such constraints are in general a major deterrent because they cannot be changed by man or because they imply radical, long-term and expensive changes in the policies of the Government.

Other constraints, notably those of a human resources, institutional, fiscal, administrative, judiciary and labor legislation nature are merely dissuasive or limitative and could be lifted if appropriate measures were taken.

1) Their effects on the formal sector

The formal sector bears the brunt of constraints, which explains why it operates under very difficult conditions. Yet the small and medium size enterprises, which account for most of that sector, are an ideal vehicle for the economic development of Niger and should be a source of socio-economic balance thanks to its ability to create employment and

to make optimum use of the limited domestic raw materials available. However, results of the formal sector are disappointing to a large extent because of the effects of the long list of serious constraints analyzed in this report.

2) Their effects on the informal sector

(a) On the rural sector.

Some of the constraints of the rural component of the informal sector are peculiar to it, whereas it shares most administrative and institutional constraints with the heterogenuous productive component. In the first category are the deficient cooperative organizations, the problem of credit, the price control of agricultural products and the disappointing results of attempts to solve the irrigation problem. We attempted to review them briefly and generally earlier in this report. Because of our time constraint it was not possible to investigate them more thoroughly. This must be done.

(b) On the heterogenuous Productive Component

This component of the informal sector, because of its above-described characteristics, is either not at all affected by the constraints that can be changed by man or is little affected by them. However, operators in that component are well aware of those constraints which, in turn, cause them to refuse to become "formal" when they could do so or even when the expansion of their activities would require it.

Labor legislation does not concern these operators who are by definition individuals and who hire only family members or outsiders by the day. There is no formal or written methods of training, even at the level of "master artisans," since both the trainers and trainees are illiterate. Neither labor unions nor employers unions succeed in recruiting members among these operators. The cost of energy does not allow those individual enterprises to use a more efficient electrical equipment, which in turn accounts for the low product quality and for the lack of possibilities to progress and grow. Their financial situation is very limited. Their turnover often amounts to a daily sale on which they depend for their subsistence needs. Very often there is nothing left over to renew raw materials inventory.

(c) On the major trade component

The same comments just made with regard to the heterogenuous productive component are applicable by and large to the major trade component. However, constraints have a special impact on those El Alhazis.

As we know, most of the operators in this sector have reached a substantial financial position and have acquired a wide business experience which explains their success. The legal, fiscal, institutional and administrative constraints are those most likely to scare them the most; given:

(i) their focus on immediate profitability;

(ii) the variety and flexibility of their activities;

(iii) their desire to keep up their position in the social structure, position through which their individual enterprise is conceived, born, organized, and develops in accordance with strong family ties; and

(iv) their obligation to distribute part of the wealth they made within their social structure.

Another factor to be considered is the close correlation between the expansion of the El Alhazis' businesses on the one hand and acess to bank credit, the divesification of activities and the involvement in new areas of activity, on the other hand.

IV. ITS POTENTIAL

Now that we have examined the various serious constraints that impede the development of the private sector we may review its assets and the necessary changes which the Government must make so as to bring out the full potential of the economy in general and that of the private sector in particular.

A) Its Assets

Niger has a number of assets which, if properly used, may to a certain extent compensate for the nefarious effects of its very unfavorable environment on the private sector.

1) Potential Stability

Niger enjoys a relatively high degree of political stability, which might -- under the right circumstances -- induce investments.

2) International Financial and Technical Assistance

Niger receives a relatively large financial and technical assistance from international donors, which makes it possible to pursue its policy of investments in its infrastructure under the helpful and watchful guidance of the World Bank, the IMF and USAID.

3) The Apparent New Government Policy

The Government seems decided to adopt a more liberal attitude towards the private sector and to promote private initiative.

4) The Disengagement of the State

The corollary policy of the Government is to privatize parastatal companies and to open the door to private investments (with the definite limitations pointed out earlier).

5) The Labor Force

Nigerian labor is relatively cheap and hard working.

6) The Private Enterprise Spirit

Although still undeveloped, there is a certain enterpreneurship among a still small group of entrepreneurs from the formal sector who come up with new projects and in a few cases willing to risk some of their own capital. The informal

sector, and notably the El Hadzis, have a strong, independent, entrepreneurship spirit which epitomizes private enterprise.

7) Agricultural and Livestock Resources

There are substantial agricultural and livestock resources which, if properly managed, could -- subject to some fluctuations in drought periods -- not only assure self-sufficiency, but also make it possible to develop a substantially greater agribusiness potential for exports.

8) Young Population

The population is a predominantly young one which may gradually even though slowly become more open to literacy, training and a change in mental attitude. The young generation, however, entails an employment generation problem.

9) Mineral Resources

The mineral resources are fairly substantial, although it is not likely to be a major source of revenue in the foreseeable future as a result of international industrial and energy conditions.

10) Relatively Good Communications

Niger has a relatively good network of roads and reliable telecommunication facilities which continue to be improved.

11) The Influence of the International Donors

The World Bank through its structural adjustment program, the International Monetary Fund through is stabilization program and the USAID through its Agricultural Sector Development

Grant and its African Economic Policy Reform Program can have a considerable influence on the Government of Niger to ensure the timely enactment and implementation of specific measures. Those, measures either already recommended by the Government itself or recommended in this report, must be taken in order to lift the constraints discussed earlier. It is, thereore, indispensable for the donors to monitor them constantly and to attach a related conditionality to future financial assistance.

The various assets would be relatively meaningless if necessry measures are not taken by the Government to promote the future growth of the private sector.

B) Necessary Measures To Be Taken To Promote the Private Sector

1) General Measures

The Government must change what has been a seriously restricting atmosphere for private enterprise into a positive and encouraging environment conducive to promoting and rewarding private initiative. The only hope for the Nigerien economy to get out of its present crisis is to make it possible for the private sector to be capable of fostering development and growth.

The Government must, with the technical assistance of international donors, conceive, define and implement a long-term economic policy which establishes coherent sectorial strategies with a view to injecting dynamism into the private sector which typically is the main source of national wealth. This is the key purpose of this report.

It is important that more Nigerien entrepreneurs be imaginative, tenacious, and successful. They must be helped by an extensive program of operational information availability. Such a program could be designed and implemented by such an institution, as the Chamber o Commerce, which is focused on the promotion and development of the private sector.

A new legal framework must be designed to define clearly the new respective roles of the State and of the private sector in the national economy. Such legal framework, however, must be simple, flexible, coherent and suited to the Nigerien context so as to induce a greater transparency of the informal sector and to facilitate its evolution.

The Government must understand that an economy that does not invest is doomed, that the right of ownership is an essential condition to saving and to investing, that innovation is one of the conditions of growth, and that a corollary to innovation and growth is the development of a free, competitive market in which decisions are motivated solely by economic profit.

The Government must begin by giving top priority to implementing the appropriate recommendations to remove all the constraints which, as we have seen, have a pervasive ad compounding effect on the whole economy.

2) Specific Measures

Of all the recommendations actually made by the Government itself in its PSR document in October 1986 -- 9 months ago -- very few have been implemented so far and they are of relatively minor significance. These are:

(a) The abolition of the prior authorization to form a company (Decree No. 87-009 dated March 12, 1987);

(b) The increase of the validity of permits for a business activity from 2 to 5 years and to 10 years for an industrial activity. (We have already pointed out the incongruity of such limitation in a country which so desparately needs new investments and we have, therefore, recommended its immediate abolition.)

(c) Since December 1985, the list of products under price control was reduced to those products considered as basic for the population.

(d) Industrial companies are now free to increase their prices up to 7% per year.

(e) The list of luxury products was reduced from 200 to 64 and profit margins allowed are between 35% and 50%.

(f) Applications for work permits for foreigners must be processed within 30 days and applications for firming employees to 15 days by the Administration.

(g) On May 14, 1987, a 30% reduction was enacted on import taxes, the VAT, the tax on cigarettes and tobacco and the tax on oil and petroleum products.

All the other recommendations made by any one of the three Government documents (the PSR, the Five-Year Plan and the PAIPCE) are still being "studied".

What worries us is a remark we picked up during one of our meetings at the Ministry of Planning in Niamey to the effect

that the reason why no more measures had actually been taken other than those just listed is that within the Government no one knows exactly who is responsible for doing what in that respect. This suggests to us that the various recommendations may continue to be "studied" for a long time unless the international donors take active steps to ensure their prompt implementation. This applies a fortiori to recommendations such as those made in this report which will have first to be understood and then accepted by the Government of Niger -- which implies more delays.

(a) Specific Measures Concerning the Formal Sector

Since it is the formal sector which is the most directly affected by the various constraints examined in this report and which at the same time suffers the most from the competition from the informal sector -- especially with regard to imports -- and from the current economic crisis, efforts must first be concentrated on such formal sector.

(i) The lifting of constraints

Top priority should be given by the Government of Niger to implementing the recommendations contained in this report towards lifting as soon as possible the constraints reviewed earlier. Both those recommendations whose impact could be felt quickly (such as those concerning the institutional constraints, the fiscal constraints, the administrtive constraints the judiciary constraints and the labor legislation constraints) and those which by their very nature will take longer to be

effective (such as the physical and geographic constraints and the human resources constraints) must begin to be implemented as fast as possible.

To that effect, we recommend that a clear and specific time table be prepared within 3 months by the Ministry of Planning setting dates for the enactment of decrees or for whatever legislative or administrative steps must be taken in order to implement the appropriate changes for each constraint. The international donors, notably the World Bank and the USAID, could usefully monitor the progress of the Government efforts along those lines and put the necessary pressure, if and when needed, for timely concrete results.

Although all the constraints are important, if one had to be singled out as being the most crucial and the most pervasive, we would suggest the human resources problem. Their solution: literacy, extensive training programs at all levels and the change in mentalities (from trader to investor/industrialist and from civil servant to entrepreneur) all need unfortunately long-term efforts whose effects can be felt only gradually over a fairly long period. It is all the more necessary, therefore, to start now.

Although the lifting of constraints is likely to alleviate at least in part the formal sector's handicap vis-a-vis the informal sector as far as those constraints are concerned, this is not sufficient by itself to help the formal sector become efficient and competitive enough to experience

satisfactory growth. It also needs additional help from the Government to obtain outside technical assistance to distinguish between the growth activities of the future and those industrial or agricultural activities which have no future in the Nigerien context.

(ii) Outside technical assistance

Outside technical assistance is needed to guide the private formal sector in two areas:

-- Growth activities of the future

At a time when, in accordance with the new attitude of the Government, the private sector is called upon to play a greater role and when means to promote an economic recovery are being sought, it would be very helpful for the formal sector to be guided as to which economic activities are likely to be profitable in the future. It would undoubtedly be worthwhile to stimulate existing enterprises and to encourage the formation of new ones in fields which have a potential for productive development.

One must always keep in mind the fundamental fact that the domestic market is too narrow and scattered over long distances and that -- as a result -- an industrial activity cannot be profitabl unless it is also aimed at the export market.

Thus, the Niamey based company, "Moulin du Sahel," was formed in 1982 to build and operate a flour mill. Among its several major problems, it was conceived

to produce flour only for the domestic market and its capacity is much too large for that market. It cannot export to any of the neighboring countries, especially not to Nigeria which produces its own flour which in fact is illegally imported into Niger. Such an industrial activity could hardly be considered a growth industry for the future.

By contrast, the "Societe Nigezienne d'Industrie Alimentaire" (SONIA) manufacturers biscuits and, in addition to supplying the domestic market, has just begun to export to Mali and to the Ivory Coast. Such current efforts are very difficult because its productivity and efficiency suffer from the burden of the various constraints. Once these are lifted, its products will become that much more competitive on those export markets which the company will then be able to tap more profitably.

Diagnostic Studies

Existing companies would be immensely helped out of their present difficult situation, if outside experts were to make a diagnosis of their "ailments" and prescribe the appropriate solutions towards greater efficiency, productivity and profitability. Such studies would include a detailed market study. Those companies, that carry on a growth activity, will then be better equipped to take advantage of all the opportunities of the domestic market and especially of the export market.

The Government will make a very good investment in funding, with the help of international donors, such studies. The concrete recommendations which would result from these could be the basis of a restructuring and recovery program for private companies. In addition, the Government would hopefully collect more revenue in the form of profits tax from companies that would have become more profitable.

Such funding could use the special lines of credit granted the Government of Niger by IDA (the World Bank affiliate) and the BAD (African Development Bank) through the BDRN (the State Development Bank) on very soft conditions. The actual utilization of these lines of credit has been limited since 1984, for lack of sound projects. We suggest that these lines be renegotiated with the two donors so as to make them usable for the above purpose.

(b) Specific measures concerning the informal sector

Any strategy with regard to the informal sector necessarily implies pragmatic and long-term efforts. However, given the Nigerien context, it seems that four main considerations should guide any measures:

(i) take into account the existing production channels and the social organization of this sector which, after all and after a fashion, has some kind of method adapted to its own peculiar situation;

(ii) aim at the improvement of the external framework in which this sector operates (protective measures, product promotion measures, infrastructures, etc.);

(iii) the measures would be based on an effort towards stimulation and motivation of the sector, having regard to its potential, the current activities and the expectations of the operators in that sector; and

(iv) the measures should be aimed particularly at certain specialties or areas in view of their existing importance on their potential contribution to the Nigerien economy.

Recommended Measures

(i) Undertake a Study. The informal sector has existed for centuries in Niger and has remained so far untouched by the modern world for reasons explained earlier in this report. It is, therefore, not surprising that it is little known indeed. The few attempts made to study it have met with the typical problems of definitions and description of the various activities of this sector, and of the impossible task of undertaking an exhaustive or even significant census. What seems to be needed now is to know more about its mechanisms, its motivations, its various problems and potential.

We recommend that a complete study be undertaken to that effect. We understand that the Ministry of Planning has just begun such a study. It should be followed closely.

(ii) Better Organization. The objective should not be to "formalize" the informal sector, but to induce it to evolve gradually

-- using its own dynamism -- towards a certain level of organization and of management that would prepare it for its future inclusion into the formal modern economy circuit. Although the absence of financial records protects the informal sector from the tax authorities, it nevertheless exposes its operators to various risks, such as fraud, losses, unprecise knowledge of amounts owed, of inventory count and a limited accessability to bank credit.

(iii) Increase the Professional Groupings of Informal Sector Operators. There are some 28 employers unions many of which have members in the informal sector. Those members belonging to the informal sector are not well organized in trade groups. Such groups must be more clearly divided by trade and this would facilitate the formation of mutual guarantee systems ('cautions mutuelles") which we have already recommended when discussing bank financing.

(iv) Launch a Linguistic and Technical Training Program. This would aim at causing the informal sector to become more aware of its crucial role in the economy and to bring out a spontaneous desire for organization and restructuring and, thus, naturally lead them little by little to adopt modern business management practices. Appropriate seminars will be very useful in that respect. Such seminars would teach in a simplified way the principles, meaning and usefulness of modern management tools (accounting, inventory management, supplies, personnel, etc.). The result would be greater efficiency and the creation of jobs.

A practical training program should also be aimed at the small industry, small "artisan" production, small repair and maintenance shops in order to teach new technologies, rationalize existing ones and, thus, improve both products and services of this component of the informal sector.

Such training programs could be financed by the Government of Niger using those soft conditions credit lines available from IDA and the African Development Bank.

(v) Measures concerning the Big Trade Handled by the El Hadzis. As we know, the big trade component of the informal sector is totally in the hands of the El Hadzis, an extremely powerful and wealthy group of merchants who have acquired most of their wealth through the importation and distribution in Nigeria of products the importation of which is forbidden in that country (such as cigaretts, textiles, magic cubes and dry/saled fish). These products are imported first to Niger where they are in transit.

The success of this big trade is totally dependent on trade with Nigeria and on the fact that the import of some goods in Nigeria is forbidden in order to protect the local Nigerian industry which apparently is incapable of satisfying the local demand either in terms of quality or quantity.

There is an obvious vulnerability in this dependency due to a number of imponderables, such as the possibility of closure of the border of Nigeria (as it occurred in 1985) and the fluctuations of the exchange rate of the Naira. Consequently, in addition to the desirability for the whole informal sector of

being gradually initiated to the tools of modern management, it would be very appropriate for the big trade component to think in terms of diversifying their activities. Such diversification could beneficially be directed towards productive investments, notably in agriculture, agribusiness and a few specific healthy industrial projects.

Some El Hadzis have already begun buying and running a few farms but their objective was essentially to ensure a source of grain supply for their own consumption and that of their families and people who work with them. We are recommending investments in farming on a larger scale, as well as in such agribusiness as slaughtering livestock and exporting the frozen meat, and the tanned skins and leather. The industrial fields selected for investment will have to be export oriented.

Obviously such recommendation implies what, as already mentioned, will be a slow long-term process of changing the mentality of the El Hadzis from that of traders to that of investors. The best hope of doing so is through the younger generation which will gradually tend to be more and more literate and even to acquire an increasing education and, thus, be more open to change.

This effort must be backed up primarily by the Chamber of Commerce which must design, with the assistance of qualified experts (financed by the Government and international donors), a carefully prepared program.

(c) Interchange Between the Formal and the Informal Sector

During our mission to Niger we repeatedly heard complaints from the formal sector operators that many of their woes are caused by the informal sector. The clandestine trade transactions continuously carried out by the informal sector (notably the El Hadiz) across the Nigerien border) are blamed for unfair competition of illegally imported goods, but also for unauthorized exports of livestock, for instance. It is undeniable that such practices hurt the formal sector, particularly with regard to goods manufactured in Niger which cannot compete with illegal imports. As a result, the informal sector is considered somewhat as an "enemy" by the formal sector, a perception reinforced by the fact that the latter bears the brunt of many constraints whereas the former is unaffected by them.

It is necessary to make the activities of the two sectors, which exist side by side, complementary. For instance, the formal sector could utilize the tremendous distribution network of the informal sector to market both the locally manufactured goods and the imported merchandise.

Furthermore, a close intersectorial cooperation could be utilized as a means of basic technology and information transfer from the formal to the informal sector. This cooperation could also be used as a mechanism through which rural savings could be mobilized for productive investment purposes. From time to time the Government has requested wealthy El Hadjis

to invest in either public or private projects. The El Hadzis have, thus, bought shares in the BDRN (the State Development Bank). Unfortunately this investment, as many others in public projects, have produced no return because the companies involved have known worsening financial difficulties.

It is obvious that their funds would be much better invested if they were channelled towards well conceived sound private projects which the formal sector will promote, if the recommendations of this report are implemented. These recommendations pertain to the necessity to have projects evaluated by independent and competent consultants and to adopt new means of financing such projects.

Finally, an excellent field in which the formal and informal sectors could meet and be mutually helpful is financing. Commercial banks would welcome the possibility of a closer collaboration with the informal sector. As the the latter becomes gradually better organized and equipped with the tools of modern management, the already existing but still vary limited relationship between the banks and the informal operators, particularly the big traders, is bound to be amplified and mutually profitable.

Such an interchange between the two sectors will be directly affected by the degree and efficiency of the lifting of constraints on the formal sector on the one hand and by the success of the changes recommended for the informal sector on the other hand. The removal of the constraints on the former

and the modernization and organization of the latter are likely to establish a better balance between the two sectors than has been the case so far. The resulting greater "equality" between them can only facilitate the interchange advocated here and make it more fruitful for both.

However, all the foregoing necessary changes in the components of the informal sector imply an extensive, sustained and coordinated effort on the part of the Government, the Chamber of Commerce and the international donors. These efforts must be aimed primarily towards literacy, education and ultimately technical and modern business competence. As already mentioned, they must also have another goal, that of changing mentalities. All of this represents a formidable task and challenge for all concerned and the difficulties ahead must not be underestimated.

3) <u>The Special Case of Agriculture</u>

When one talks about the potential of this largest coponent of the informal sector, one must take into account the fact that the choice of strategies here is severely limited by the very nature of the constraints pertaining to agriculture. Some of these constraints cannot be influenced by the Government (rainfall, type of soil, availability of surface water) while others can be alleviated in the long run through a sustained investment effort, the results of which are necessarily of uncertain (notably research to improve technologies in agriculture and in integrated agricultural -- livestock -- forestry systems).

Bearing in mind those limitations, there is a clear consensus -- as expressed in the Five-Year Plan (1987-1991) -- within the Nigerien Government on the important role of agriculture to serve as the engine of growth and development in the process of revitalizing the Nigerien economy. The Government has also set the broad objectives of Niger moving towards a market economy, which would go beyond food self-sufficiency and recognize the possibility of exports and imports of agricultural products, and finally of reducing the role of the State and emphasizing a greater role for the private sector.

To what extent is the rural sector able to take these challenges and opportunities? Certain measures must be taken in order to enable the sector to respond positively to that question.

(a) The lifting of general constraints

To the extent that the various constraints that affect agriculture can be lifted or alleviated, appropriate action must be taken as quickly as possible by the Government.

(b) Priority Actions to Improve Performance

A well thought out plan of action should be prepared to pinpoint specific impediments of progress, raising and discussing the issues and maintaining a continuous dialogue between the Government, the international donors and the rural sector in order to promote understanding of the issues and find pragmatic solutions to the problems. It is indispensable, in that respect, that the international donors coordinate their

respective efforts. Currently, the World Bank is collaborating with the Government of Niger and the French Central Bank of Economic Cooperation ("Caisse Centrale pour la Co-operation Economique") in carying out a sectoral study.

USAID through its Agricultural Sector Development Grant (ASDG) is conducting an analysis of various policies as part of the reform program.

A coordination between all these programs and the studies carried on as a result must take place continuously in order to avoid duplication, waste and confusion.

The following areas must receive priority with a view to improving efficiency:

(i) Reduce the subsidy level on fungicides;

(ii) Collect data on all fertilizer imports, consumption and yield respnses to fertilizer application;

(iii) Monitor the transfer of the CA (Supply Center) and the workshops to the UNC (National Cooperatives Union);

(iv) Improve the operating procedures and practices of the tender and bid system;

(v) Institute a tender and bid system for selling;

(vi) Eliminate floor price as a basis of purchase;

(vii) Assess the strength and the limitations of the cereals bank program to determine its proper role in designing food strategy;

(viii) Re-establish the freedom of livestock exports;

(ix) Improve policy analysis capability, such as the management and supply of information and statistical data;

(x) Improve donor coordination; and

(xi) Design efficient export promotion programs.

This latter issue seems particularly important to us and, therefore, calls for the following observations:

(i) Export of rural products is already the most important after uranium. Given the depressed condition of world demand and prices for the latter for the foreseeable future, the generation of foreign currencies for the Nigerien economy will depend more than ever on exports of rural products.

(ii) Consequently, studies by international experts must be undertaken immediately to determine which rural product exports can be increased or initiated and towards what market. USAID currently has a specialist on a mission to Niger for that purpose. The results of this study must be closely examined.

(iii) Subject to a complete market study (including specialized means of transportation and appropriate distribution network) specific vegetables (such as green beans, tomatoes) could perhaps find a market in some European countries during the winter months. Similarly, the already successful export of red onions to Nigeria and the Ivory Coast could perhaps be exported to other countries.

(iv) Subject to a complete market study there might be an interesting market for frozen meat in such countries as the Ivory Coast (which imports beef from Argentina) and Algeria. This will have the obvious additional advantage over exporting cattle on the hoof to Nigeria of creating employment and increasing the value added.

(v) The logical corollary to the increase in slaughtering locally cows, sheep and goats is the export of skins and tanned leather. There are good prospects in several export markets which should be investigated further.

(c) Role and Impact of Donor Activities on Policy Reform Objectives

Donor funds are by far the most important component of total gross fixed capital formation in Niger in general and are the livelihood of all agricultural reform projects. The contribution of foreign funds (loans and non-refundable assistance) to total public investment in the rural sector was 92% in 1985 and about 97% in 1986. The four major funding sources according to 1985 figures in decreasing order were the World Bank, USAID, the French Central Bank for Economic Cooperation and the European Investment Fund.

It is vital that this effort on the part of international donors be sustained.

CONCLUSION

We mentioned at the outset of this report that the essential question to which it will attempt to find an answer is the following:

Given the new policy orientation of the Government of Niger, under which it would welcome a greater role being played in the economy by the private sector, is the private sector capable of taking up this challenge?

Under present conditions, it seems hardly realistic for the private sector to take on fully this responsibility. The formal sector is far too seriously impeded by the various constraints analyzed in this report. The informal sector, although very active, is too unorganized and empirical in its methods of operation and also too vulnerable because of its somewhat narrow scope of activities to be in a position to respond to up the challenge.

However, as and when constraints are removed -- even though, as we know, this will entail a slow process for some of them -- the formal sector is likely to become stronger as a result. Similarly, the gradual organizing of the informal sector will make it that much more efficient. This dual development is essential for the private sector in Niger to be in a position to take over successfully from the State the latter's business activites and to be more directly responsible for bringing about a satisfactory growth of the economy.

None of this can happen, however, without the close monitoring by the international donors, in particular the World Bank and USAID, of progress made Such monitoring, in turn, can be efficient only if two conditions are met. The first is a conditionality being imposed on future funding under existing programs based on the actual and timely implementation by the Government of measures suggested in this report to lift constraints allow the private sector to reach its full potential and, thus, ensure a satisfactory economic growth. The second is a much closer coordination of both their technical and financial assistance programs by the World Bank and USAID. There have been duplication of efforts, waste and confusion between those donors (and others) in the past. Any serious attempt in Washington as well as in Niamey towards such coordination is likely to be rewarding for all concerned.

PART III - A STRATEGY FOR USAID

A) PRESENT USAID OBJECTIVES IN NIGER

USAID efforts are concentrated on two areas: agriculture and health/population. As far as agriculture is concerned, the long-term objective is to increase food production towards self-sufficiency and to improve and diversify rural income. In order to achieve this objective, USAID considers that the current structural adjustment agenda must first be implemented.

Consequently, USAID "will concentrate on supporting policies which are conducive to structural changes necessary to alleviate the constraints." (Country Development Strategy Statement, Niger, AID, FY 1988 page ix).

Their broad long-term objective is implemented through three main programs:

1) ASDG (Agricultural Sector Development Grant) -- Annual allocations varying between $7 million and $12 million have been made to the Niger AID mission to help implement policy reforms of structural adjustment, and notably the alleviation of constraints.

2) AEPRP (African Economic Policy Reform Program). This is a large fund in Washington for which the various AID missions in Africa compete.

3) Direct Project Assistance with four sub-programs:

(a) Agricultural Production Support (APS);

(b) Integrated Livestock Production (ILP);

(c) Niger Cereals Research (NCR); and

(d) Niger Applied Agricultural Research (NAAR).

One of the key elements of AID's structural adjustment and agriculture sector strategy is a deliberate movement away from the government sector toward the private sector and the co-operatives. The corollary to this is to discourage direct government regulatory intervention and to encourage competition and the resulting open market equilibrium.

Another essential element is to favor non-project sector assistance instead of project assistance. In view of the Government of Niger financial constraints and its commitment to structural adjustment and economic development, this is a more practical and effective approach because the project assistance mode cannot easily adapt itself to the execution of policy reforms and budgetary resource allocation.

The foregoing objectives of AID's policy in Niger and the programs to implement them are generally appropriate. In view of the recommendations contained in this report, however, i would be helpful to suggest specific elements of the future strategy of the Niger AID mission.

B) SUGGESTED STRATEGY FOR THE NIGER AID MISSION

1) Lifting of constraints in general

It would be appropriate for the AID mission to bring its full contribution to the removal of constraints affecting the private sector in general and those affecting the rural sector in particular. We refer to the specific recommendations already made in this report.

2) Lifting of the illiteracy constraint

This issue is dealt with separately here first because of its vital importance. The second reason is that, as a result of a reduction in the staff of the local USAID mission, it postponed indefinitely the planning of a bilateral project to strengthen adult literacy and numeracy for the development of self-sustaining organizations. This is most unfortunate.

Any effort of the AID mission to transfer technology in agriculture will be thwarted, as it has been in the past, because of the inability of farmers and other Nigeriens involved at a lower echelon to read or write. Similarly, those at a higher level who are literate but still lack the minimum training to understand the rudimentary elements of agricultural research and technology will also cause great difficulty in implementing a given project.

Literacy and numeracy are essential to develop another AID priority, i.e., the self-managed cooperative. It must be noted here that AID has made tremendous efforts with regard to literacy and numeracy in its cooperative training.

3) Self-Managed Cooperatives

AID has already done a considerable amount of excellent work to help the cooperative effort in Niger. This is extremely important as it is the only way for farmers to get leverage financially and otherwise. This AID activity should be further emphasized in every way possible.

In particular, AID should reinforce the role of technical assistance through training programs. Training should be intensive, long-term, accessible to a large number of cooperative members and founded on village-based activity with the objective of self-management.

Perhaps most important of all is the financing of cooperatives.

4) The Financing of Cooperatives

As already pointed out in this report, the financing mechanism put in place by the AID mission using the BIAO bank as a source of financing and a special AID fund as collateral has been a success so far. This first attempt must be amplified to involve more cooperatives and possibly the State Development Bank (BDRN) and Citibank (when its first branch in Maradi becomes operational). However, we have already explained the appropriate modifications which should be brought to the system in order to make it more efficient.

5) Providing Short-Term Credit Facilities

We have already indicated how successful the Revolving Fund loan of AID has been in Morocco, for instance. We believe that the same mechanism to provide short-term financing to small and medium size enterprises in Niger could be very fruitfully implemented. It would provide credit which would otherwise be either inaccessible or much more costly; it would be beneficial to the local commercial banks (or banks) in Niger, to their correspondent bank in France (a correspondent bank being a

key player in the mechanism), to the AID mission in Niger (for which it will be a nice feather in its cap) and finally to AID Washington which will earn interest on the funds set aside by the Revolving Fund.

The Niamey mission should not be concerned about the fact that it may not have the manpower available to design, structure and implement such a mechanism. Specialized experts intimately familiar with it and are able to provide complete technical assistance in that respect. This would put the local mission in the nice position of taking the credit for putting this facility in place without doing any of the work involved.

It should be noted that, even though this credit facility is described here for short-term financing, it is also applicable to medium-term financing.

We have already discussed with the Office of Investment-PRE-USAID in Washington the procedure which would be appropriate for a local AID mission to follow so as to apply for funds from the Revolving Fund and initiate the process. We would be happy to inform the mission in Niamey accordingly.

6) <u>The Promotion of Mutual Guarantee Associations</u>

As we know, one of the major reasons why the commercial banks in Niger have rightly refused to finance many projects is because the promoters are unable to offer satisfactory collateral or guarantees. A pragmatic and efficient solution to this problem is the formation by trade groups (agricultural cooperatives, builders, and other group involved with possible

investment projects) of "cautions mutuelles" or mutual guarantee associations. These guarantee collectively obligations incurred by one of their members.

Since this facility will greatly facilitate a decision by a commercial bank to finance a project -- provided it is sound -- the AID mission should systematically encourage the availability of such guarantees, particularly as far as agricultural cooperatives are concerned.

7) The Promotion of Agricultural and Agribusiness Products Exports

Given the crucial importance for the whole economy of Niger to increase exports of agricultural and agribusiness products -- the main export prospect -- the AID mission should pay special attention to the promotion of such exports. To that effect efforts already started by it should be amplified to have studies undertaken as soon as possible by the best available experts to determine the production of which products could be efficiently increased or initiated in view of specific export markets. A complete market study must first be made to determine whether Nigerien products could satisfy the needs of identified markets and, if so, under what conditions. Specialized means of transportation and distribution systems in the export markets must also be carefully examined. The success of any such export program will depend on the thoroughness of its preparation, including necessarily all these various elements just mentioned.

The AID mission could play several eminently useful roles with regard to such programs:

1) It could finance (or eventually co-finance with the World Bank) such studies.

2) It could make them available to the appropriate Ministries in the Government, to cooperatives and to responsible entrepreneurs (national and foreign) willing to take the risk of investing in the pertinent productive facilities.

3) By using one or more of the various financing mechanisms recommended in this report, it could make a meaningful contribution to the partial financing of such investments.

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The World Bank intended to sent their own mission to Niger to investigate the same subject at the same time as our mission. We convinced them (both in Washington and in their Miamey Representative Office) to postpone their effort in order to avoid duplication and waste. It was orally agreed that the USAID team would complete its mission and write its report. Being already aware that this report has many gaps due to the time constraints faced by the team while in Niger, it was also suggested that, once the report would have been read by the World Bank, perhaps they together with the USAID team would identify those gaps. In a second phase a joint World-USAID team could fill the gaps and, thus, complete the assessment of the private sector in Niger.

This is only a suggestion which the authors of this report think is worth pursuing. But, of course, it is up to the USAID and the World Bank.