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MAPS NIGER-PHASE V: PRIVATE SECTOR STRATEGY RECOMMENDATIONS

FINAL REPORT

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EXECUTIVE SUMMARY

Introduction

The following document, MAPS Phase V: Private Sector Strategy Recommendations, constitutes a summary of findings, considerations and recommendations to be pursued by USAID for private sector development in Niger. Previous MAPS documents (Phases I-IV) included an assessment of existing USAID private sector strategy, review of the role of the private sector in the Nigerien economy, a private sector diagnostic survey of the formal and informal sectors, and ongoing dialogue with the Government, private sector operators, and donor and NGO representatives. The MAPS team consisted of Michael Borish, Team Leader (J.E. Austin Associates); Karen Hendrixson, Policy Analyst (The Services Group); and Richard Vengroff, Survey Manager (University of Connecticut). The team received enormous support, most notably from USAID, the Government's Ministry of Economic Promotion and *Direction de la Statistique et de la Démographie*, and the University of Niamey's *Faculté de Sciences Économiques et Juridiques*.

Key Strategic Considerations

Any institution engaged in private sector development in Niger should recognize a number of constraints and considerations before formulating and implementing strategy. Some of these include the following:

1. **Niger is a conservative, traditional, risk-averse society with an agro-pastoral and commercial trading orientation, conspicuous absence of manufacturing, weak purchasing power, and limited value added.** Approximately four out of five people work in the rural economy, and most others are engaged in petty commercial trade and the provision of informal sector services. There is a limited manufacturing tradition in Niger, almost entirely artisanal, and this limits productivity and skill sets. As a result, most Nigerien "enterprises" are actually individuals, making the scale size of Nigerien firms small by most every measurable standard.

2. **Niger's business and investment climate is characterized by general uncertainty, local investor risk aversion, bureaucratic complexity, civil service suspicion of private sector activity, weak local purchasing power, and limited distribution in the accumulation of capital.** All of these factors, combined with an exceptionally difficult physical environment, make Niger one of the least attractive economies in the world. The cost of land, labor and capital are all distorted by inappropriate and contradictory regulations, outright corruption, and an overvalued currency. The Government's traditional suspicion of and hostility towards the private sector has been a major factor in keeping Niger's economy informal and less efficient than it might otherwise have

become. This has been a major reason as well for the lack of domestic and foreign investment in Niger.

3. In addition to factors cited above, **Niger suffers from a multitude of production and marketing constraints in the private sector.** Niger is burdened by the existence of monopsonies and monopolies in the procurement and distribution of goods, limited participation of women in the marketing of goods and services, and a regressive tax system at local levels that creates a disincentive to market activity. All of this adds to the distortion of resource allocation, pricing, and general economic development in Niger.

4. **Human resources are viewed as a constraint to formal private sector development, and small-scale enterprise development to some degree.** Niger's formal economy is hindered by lack of professional management and technical skills, largely resulting from limited access to higher education and technical schools, a small manufacturing base, and general absence of industrial traditions.

5. **Financial intermediation is low in Niger, and this will not change in the near term.** Most Nigeriens have limited access to cash or other assets, and therefore savings are low. Credit in the past was thoroughly mismanaged and abused, resulting in a large percentage of bank credit portfolios becoming non-performing. Losses in the formal sector undermined bank equity, leading to negative net worth (technical default and insolvency) in Niger's largest institutions. The result is a stymied formal banking system with a limited branch network, limited capital, and risk-averse policy of credit allocation. The alternative is the informal sector, where credit costs are high and savings are generally held for security and not invested. The result is a financial sector that does little to generate economic growth.

6. **Niger will need to create more than one million jobs by the end of the century to avoid a serious, urban-oriented unemployment crisis. This represents a 50% growth in jobs required between 1988-2000.** Niger's population growth rate is currently an annualized 3.4%, and urbanization is at 8%. In 1988, 2.3 million people were employed out of a potentially economically active population of 3.5 million (about 68%). Projections indicate the number of Nigeriens aged 15-64 will be 5.1 million by 2000. To maintain the 68% status quo, Niger will have to have 3.5 million jobs, a <u>net increase of 1.2 million</u> between 1988 and the end of the century. Given the limited absorptive capacity of the rural sector, most of these jobs will have to be found in the manufacturing and service sectors of the urban areas. To meet these needs, the Government will have to scale down its own controls and bottlenecks, privatize many of the existing functions of Government (e.g., telecommunications, power), and stimulate private sector activity to the <u>maximum</u> degree possible to absorb the looming unemployment crisis and affordably broaden the tax base.

7. **Partially due to a lack of representative private sector institutions, there is a significant difference in public and private sector perceptions that will have to be addressed for economic growth and social stability.** The Government remains critical of the private sector while the latter has no confidence and trust in the Government. Business associations are either controlled by the Government (Chamber of Commerce), or prevented from operating in a free and effective manner (smaller, specialized organizations). While private sector perceptions are certainly not always correct or tantamount to good public policy, there appears to have been limited communications between the public and private sectors. Lack of representative private sector institutions is one of the reasons.

8. **Informal and formal sector enterprises share many similar characteristics, and are unified in viewing the Government as the most significant constraint on private sector growth.** Informal operators pay an array of legal and illegal local taxes to register with local authorities, set up a market stall or more permanent premise, and satisfy public sector representatives for transport and other public "services". While the informal sector does not observe legislation concerning the SMIG or social security benefits, it does pay taxes and registers some of its 300,000 non-agricultural enterprises to local authorities. The formal sector is constrained by having registered, identifiable physical premises that make them the target of high and arbitrary tax assessments that are progressive in nature and damaging to operations and cash flow. In response, the formal sector has in some cases engaged Government and Customs authorities to reduce such tax assessments. In addition, bookkeeping and accounting techniques have sometimes been employed to reduce turnover and income figures and, effectively, lower tax payments. While different from the techniques used by the informal sector, the formal sector has been forced to operate in as "informal" a manner as possible to be competitive. When this has failed, it has not been uncommon for formal sector enterprises to close down and enter the informal sector.

9. **Land tenure is a serious problem in Niamey, and serves as a brake on formal enterprise formation and housing-related construction.** Land ownership in Niamey is a problem due to Government controls over ownership which drives up costs, limits access, and deters investment. Not only are prices distorted in relation to national income flows, but many of the associated charges are off the books to assist with "processing". In the end, real estate speculation is corrupted by unproductive activities and useless charges that limit investment, thereby reducing incentives for businesses to invest in plant and equipment and employ urban dwellers.

Recommended "Success" Criteria for USAID Private Sector Strategy

The following criteria are recommended to USAID in determining feasibility and prospects for success:

1. **GON Support, Donor Reinforcement, NEPRP Complementarity and Overall "Comparative Advantage".** USAID should support and reinforce elements with which it is in agreement concerning the Government of Niger's stated private sector development objectives and donor activities focused on structural adjustment. USAID should also complement existing private sector activities to address weaknesses and achieve synergies, and stress areas in which it has demonstrated success in the past relative to other donors.

2. **Development of Institutional Capacity and Emphasis on Long-Term Sustainability.** USAID should focus on building local institutional capacity to support private sector development and economic growth in Niger, with long-term sustainability as a key criterion.

3. **Financial Resources.** USAID should only undertake projects for which it will have sufficient financial resources. To the extent it identifies interventions that exceed such resources, it should pool resources with those of other donors. To the extent that there is limited support for such interventions, USAID should not pursue these projects.

4. **Human and Management Resources.** USAID should only undertake projects for which it can access needed human/management capabilities. If these are not to be found in-house, they should be sourced from local institutions, on-site NGOs, and consultants/NGOs from abroad as a last option. Focus should be on feasibility of and local support for the project, accessibility of needed human resources, and reinforcement of local institutional capacity in the development of human and management resources.

5. **Monitoring and Evaluation.** USAID should be able to monitor and evaluate progress of each intervention by establishing baseline data and indicators consistent with broader goals and objectives. These data should stress USAID's highest priorities, and be as precisely measurable as possible to assess project impact.

Proposed USAID Support for Policy and Regulatory Reform

It is recommended that USAID, in concert with local private sector representatives and other donors, focus on the following policy and regulatory reforms to stimulate private sector development and economic growth. This is not a complete list of problems affecting the economy, but policy and regulatory issues the MAPS team believes USAID can be effective in addressing.

1. **Remove unnecessary impediments to the free flow of goods and services in the economy.** Particular bottlenecks are found in the transport and livestock export sectors, the Labor Code, and activities of the Economic Police. In these four areas, the introduction of policy reforms to reduce regulatory and administrative barriers and

production costs, as well as to increase the "transparency" by which decisions are made, will remove what are currently substantial barriers to the free flow of goods and services, thereby increasing competition and improving economic efficiency.

2. **Facilitate and promote business formation, registration and investment.** Policy reform efforts should be directed at both a simplification of the procedures governing investment and business registration, as well as an improvement in the administrative implementation of such procedures. Until these reforms are achieved, the current business registration and investment process will continue to deter enterprise formation and formalization. The objective of such reforms should be the introduction of procedures which are clear and simple, and by which approvals are automatically granted -- or denied -- according to clearly defined criteria. By introducing such "transparency" into the investment process, the Government of Niger will not only make the investment process more equitable and simpler, but it will also remove current obstacles which deter firms from operating in the formal sector.

3. **Encourage development of an efficient, service-oriented "guichet unique".** The establishment of a "guichet unique" for trade and investment may be an effective means by which simplified business registration and investment procedures can be implemented. Although a "guichet unique" has recently been established, this office applies only to importers and exporters; establishment of a second "guichet unique" is currently under consideration as part of the new Investment Code. It should be noted that a "guichet unique" is not a panacea for improving investment procedures. Rather, such an office symbolizes the principle of what should be achieved: simplified and transparent investment and business establishment procedures. Many so-called "guichet uniques" actually just establish another layer of bureaucracy. Should the "guichet unique" be expanded in Niger, it is important that foundation of such an agency be predicated on the simplification of investment and other procedures as outlined above.

4. **Assist with civil service reform.** In order to overcome the problems of poor implementation of public policy in promoting private sector development, a number of measures can be introduced. One is making clear to civil servants the level of government commitment to the proposed changes. If central government authorities appear ambivalent about proposed reforms to aid the private sector, it is unlikely that lower-level civil servants will effectively implement such measures. Improved communication and dialogue between the government and private sector representative groups can be extended to include civil servants in order to sensitize them to the needs and concerns of private business. In addition, seminars can be held for selected groups of civil servants so that they can better understand the need for certain reforms -- for example, the need to simplify business registration and investment approval procedures -- and why such reforms are important to businesses.

5. **Promoting tax reform, simplification and efficient resource use.** There are a number of areas where tax policy reform is needed, and where such reform can encourage

enterprise formalization. These include a more transparent tax collection system, simplification of tax assessment procedures and rates, and greater use of tax revenues for the provision of valued public services.

Recommended USAID Project Interventions

While there are many private sector development areas USAID might pursue, the following represent a broad consensus of options the MAPS team has determined are most feasible for USAID support.

1. **Help in establishing representative private sector business associations that can be an effective policy voice for members, and provide a wide range of services for members' business growth and development.** One of Niger's most conspicuous institutional weaknesses is its lack of effective, representative private sector associations that are directed, managed and financed by members. Assistance should be geared to improving or providing the following: a) data gathering, analysis and dissemination; b) institutional development required to be an effective private sector representative and policy voice with real influence on public policy; c) provision of services to members that include help with business registration procedures, information on products, markets, investment and trade missions, job offerings and requirements, savings and credit, and current Government policy and regulatory requirements; and d) training and seminars in conjunction with other organizations and institutions that will promote member business growth.

2. **Promote financial market development to address the serious vacuum that exists between the paralyzed banking sector and the costly and inefficient informal financial sector.** To address financial sector constraints, it is proposed that USAID build on its existing interventions through NGOs (CARE, WOCCU) to encourage "semi-formal" financial intermediation that will promote savings, and increase access to and lower costs of credit. It is believed that such an approach, intensively managed and with a medium- to long-term institutional perspective, can have a major impact in urban and rural enterprise development in Niger. The following areas should be addressed in promoting financial market development: a) savings and credit mobilization through NGO-managed schemes; b) liberalized interest rates on both savings and credit; c) technical training to encourage proper cash management and client creditworthiness; and d) formation of groups to facilitate credit allocation, administration and collection.

3. **Test existing cooperative movement models with a pilot that is more focused on developing one success, rather than attempting to transform the weak cooperative movement within a matter of a few years.** This pilot should focus on or consist of the following: a) on-site management presence to successfully launch a cooperative enterprise; b) emphasis on intensive training to build a cadre for self-management within two years; c) the necessity of share capital, in cash or kind, as a reflection of

responsibility, commitment, and active involvement; and d) an enterprise orientation that is based on market-oriented principles, and not perceived solely as a community obligation or social organization.

4. **Support training at various levels and institutions to address human resource constraints.** This should address the following: a) technical skill levels in various manufacturing and service sector activities; b) basic business management requirements at commercial training institutes; and c) more specialized, professionalized types of formal sector business management training at the university and through business associations.

5. In concert with other donors, **promote establishment of a private enterprise research bureau at the University of Niamey** geared to business and private enterprise development, market research and analysis, and outreach programs in which students and professors would share findings and test theses with the private sector. Such a facility would be a useful source of information for private sector operators and business associations, as well as a bank of information and data for the Government. These capabilities would also serve as a useful partner in the development of commercial training institutes around the country, as discussed above.

Prospects for U.S. Investment in Niger

Prospects for U.S. investment in Niger are limited. This is due to the following: a) limited product opportunities that exist in Niger; b) weak local demand due to limited purchasing power; c) high factor costs of production; d) a generally difficult business environment, reflecting a traditional tendency towards Government control and intervention rather than promotion of private investment; and e) language barriers. With the exception of the mining (other than uranium) and petroleum/natural gas sector, few other strong investment opportunities are currently available. Tourism, air transport, and telecommunications offer potential investment opportunities to prospective U.S. investors. Telecommunications services, for example, will require substantial levels of new investment in upcoming years, and privatization of the provision of these services could provide opportunities to attract U.S. investment. Similarly, privatization of domestic air travel could provide opportunities for U.S. investment. Investment in these sectors would require significant changes or liberalizations in Government policy, however, which do not currently appear to be forthcoming.

Prospects for Nigerien Exports to the U.S. Market

There is only limited potential for Nigerien exports to the U.S. market. The factors constraining this potential include the following: a) limited economies of scale, variable product quality, and the highly substitutable nature of Nigerien exports; b) Niger's difficulty in accessing the U.S. market given traditional non-involvement, and the lack of U.S. investors in Niger who might

otherwise help Niger link up with the U.S. consumer market; and c) high factor costs of production which not only drive up production costs, but also add to shipment costs that make Nigerien products uncompetitive. Niger is more likely to penetrate the regional market as it has in the past (e.g., cowpeas, onions, hides and skins, textiles), and in some cases "niche" European markets (e.g., hides and skins).

I. INTRODUCTION

A. Background to MAPS-Niger

The purpose of the MAPS exercise in Niger has been to study the strengths, weaknesses, opportunities and constraints of the local private sector, and to assess the role it could potentially play in reviving the depressed Nigerien economy. While many studies of the local private sector have been conducted, it is believed the MAPS documents collectively provide the largest single source of comprehensive data on the private sector available in Niger.

As explained in other documents, MAPS is a five-step process which has involved a series of research, analysis, dialogue, presentation and review. The current volume, Phase V: Private Sector Strategy Recommendations, is the fifth step and represents a distillation of options that USAID may wish to pursue to advance the private sector's ability to promote economic development. (Recommendations include only those thought particularly feasible and manageable for USAID, and do not include those that might be more appropriately pursued by others).

Previous MAPS phases have included the following: 1) Phase I: Articulation of USAID Strategy, in which the team analyzed donor community activities, USAID's inventory of projects and programs, and USAID private sector strategy and disbursements; 2) Phase II: Private Sector Description, in which the private sector's role in the economy was studied, characterized and quantified from more than 100 secondary data sources; 3) Phase III: Private Sector Diagnostic Survey, in which the MAPS team and local sub-contractors interviewed nearly 300 informal and formal private sector enterprises to gather and review their perceptions of resource and policy constraints, investment and market opportunities, and the performance of business associations; and 4) Phase IV: Private Sector Dialogue, in which the MAPS team interviewed dozens of private sector operators and officials in the Government, donor and NGO community, and presented findings to representatives of these varying groups. These five phases took place from April-June, 1991, and included 14 person weeks in Niger.

B. Government of Niger-USAID Dialogue

The MAPS exercise was conducted largely as a result of discussions between the Government of Niger (GON) and USAID concerning bilateral trade and investment. The GON was particularly interested in pursuing a strategy of increased exports to the U.S. and U.S. investment in Niger. Nevertheless, it was also felt that insufficient data existed in these areas to pursue an effective strategy. The MAPS exercise represents a beginning in assessing Niger's business climate, production and operating capabilities, market prospects for investment and exports, and general level of competitiveness. Given the comprehensive nature of MAPS, discussion of specific investment or export opportunities is limited (see Chapters VI and VII).

Specific opportunities will require follow-up study. What MAPS does provide is a broad and detailed context in which to assess the potential success of those opportunities.

As mentioned above, it is hoped that the Government, private sector, donors and NGO community perceive MAPS as a process in which dialogue is ongoing, consensus is built, and mutually satisfactory and effective reforms are implemented in a manner that supports economic and private sector growth. To perceive MAPS as a product, or strictly a series of documents, undermines the intent and purpose of the project from the start.

C. Recognition

The MAPS team consisted of the following: Michael Borish, Team Leader (J.E. Austin Associates); Karen Hendrixson, Policy Analyst (The Services Group); and Richard Vengroff, Survey Manager (University of Connecticut). This team received an enormous amount of support from numerous individuals and institutions, and would not have been able to perform its research, analysis, dialogue and presentations without them. Most specifically, the following individuals should be recognized: Messieurs Maiga Djibo and Robert Seromba, University of Niamey (Faculté de Sciences Économiques et Juridiques); M. Maliki Barhoui, Ministry of Economic Promotion; Messieurs Patrick Augeraud and Abdelaziz Djibo, Ministry of Plan (Direction de la Statistique et de la Démographie); and Mike Kerst, George Callan, Sidi Mohammed Iddal and Haroura Djibo, USAID. These are only a few of the individuals and institutions to whom the MAPS team feels indebted.

II. STRATEGY CONSIDERATIONS

The following represents a brief summary of key considerations that USAID and others should take into account in formulating private sector strategy. While the list is not exhaustive, it broadly represents key weaknesses and constraints limiting economic and private sector growth.

A. Social and Economic Characteristics

Niger is a traditional society that is still predominantly agro-pastoral and commercial in its orientation. Conditioned by a harsh physical environment, of late frequent drought and displacement, and traditional family and community bonds, Niger is a society whose marketplace still functions in a manner similar to previous decades and centuries.

The vast majority of the population (80%) resides in the countryside, engaged primarily in cereal production and livestock. The country has a decidedly rural character, as only three cities have more than 100,000 people in a nation of 7.5 million. Most producers observe traditional farming techniques, have little to no experience in the manufacturing sector, are risk-averse, and generally live outside the money economy. Their purchasing power is limited, reflecting structural economic constraints in Niger from both the supply and demand side.

Despite this characterization, Niger has long had a commercial tradition dating back to the trans-Saharan trade that linked Arabia and Africa, and pre-dated coastal trade with the Europeans. Products and markets, ethnic groups and nationalities, languages and governments have all changed time and again, yet many of the business practices and bonds that exist in Niger have retained their traditional character: family linkage across borders; the importance of honor and trust, and the concomitant dishonor of the legal document and signature; and social status in the form of property, large stocks of inventory, provision of credit, and construction of community schools, mosques and dispensaries.

A corollary to Niger's commercial tradition is that its manufacturing capabilities are far less developed than its long tradition and history of commercial trade and distribution. Another corollary is that virtually every economically active individual or family is an enterprise: families in the rural areas and in trade, and individuals in artisanal and service sector enterprises in which an average of one to two people are generally employed. Thus, Niger's economy has little absorptive capacity for growing numbers of unemployed, and enterprises in Niger are almost universally small-scale by all international standards.

B. The General Business and Investment Climate

Niger's business and investment climate is characterized by general uncertainty, local investor risk aversion, bureaucratic complexity, civil service suspicion of private sector activity, weak

local purchasing power, and limited distribution in the accumulation of capital. All of these factors, combined with an exceptionally difficult physical environment, make Niger one of the least attractive economies in the world.

This is not to say that Niger lacks positive points. Millet, cowpea and irrigated crop production have increased in recent years despite lower per hectare yields, increasing competition from Nigeria, and scarce water. Service sector activities in the cities, where market demand tangibly exists, meet much of that demand cost-effectively. Selected NGO projects confirm findings from studies that low-tech manufacturing skills exist in the marketplace, but are limited and need significant assistance in terms of training. Once training is provided, however, one has found a positive correlation between training on the one hand, and enterprise formation, credit demand and repayment, and employment on the other.

Positive points aside, Niger is faced with the reality of being one of the least attractive investment sites in the world, and one of the least likely exporters in the world. A complex web of conflicting policies, discretionary administration and implementation of those policies, and substantial "informal" taxation in recent years which has not supported the national Treasury have all made it difficult to operate a business in Niger. The result is virtually everyone is in the informal sector, with less than 400 firms registered with and paying taxes to the central government.

Bureaucratic complexity and, in some cases, hostility to the private sector has made business and capital formation difficult and costly in Niger. The central inputs of any enterprise (land, labor, capital) have all been distorted in price, quantity and quality as a result of poor policy and regulation. Labor as an input has been made more costly by the SMIG, unions, and Labor Code protectionism, adding to Niger's vast array of competitive disadvantages (e.g., being landlocked, transport constraints and associated tax and insurance costs, overvalued currency for formal sector transactions). Capital as an input has been made costly (informal sector) and virtually inaccessible (formal sector) to the vast majority of Nigeriens. Formal sector distortions have resulted from mismanagement of parastatals, non-repayment of parastatal credits, State control of banks and their lack of professional management. Informal sector distortions have arisen from lack of access in the formal sector, and the general scarcity of savings and credit resulting from problems of capital formation (including collateral). Land is exorbitantly priced in Niamey due to corruption in ownership access. Significant speculation exists in Niamey, fully in anticipation of demand for housing in a country that shows significantly increasing levels of urbanization. Rather than procedures facilitating access to land, the existing approach appears to show that investment in and the cost of land will continue to be high.

Without significant policy and regulatory reform, and implementation of such reforms, Niger's economy and private sector will continue to stagnate. This, in fact, will represent a real decline in productivity and incomes in light of population growth.

C. Production and Marketing Constraints

A series of constraints has already been discussed above (e.g., bureaucratic bottlenecks, illegal transport taxes, capital formation, risk aversion, limited investment flows, input costs). Niger is also burdened by the existence of monopsonies and monopolies in the procurement and distribution of goods, limited participation of women in the marketing of goods and services, and a regressive tax system at local levels that creates a disincentive to market activity.

Larger commercial trading operations are known to cartelize activities, representing a distortion in the price and volume of goods available to consumers. This sometimes has the negative effect of reducing producer revenues for agricultural goods due to the limited number of marketing channels for farmers. In other cases, control over supplies of consumer goods limits competition and unnecessarily raises prices. Both of these distortions increase costs and reduce purchasing power.

Due to prevailing socio-cultural norms, women tend to play a lesser role in the economy than in neighboring African countries. While household production of crafts and other goods may be underestimated in official statistics, women do not play the essential marketing and distribution role their counterparts in coastal countries play. The number of women-directed enterprises in Niger is about 50% that of other West African countries, effectively reducing family and individual purchasing power.

Niger's tax system is also one which has failed to provide incentives to increased business formation and market activity. Formal sector firms with premises feel targeted for discretionary and progressive tax collections largely because of their size in a country with a limited tax base. Informal sector operators feel the tax system is arbitrary and regressive, as in the assessment of fixed daily market taxes irrespective of sales revenue.

D. Human Resource Constraints

Niger's formal economy is hindered by lack of professional management and technical skills. Only 1% of the eligible candidates receive a university education, and the largest share of these study letters (e.g., literature). Combined with the traditional Government policy of hiring university students into the civil service, there is the longstanding absence of a modern, professionalized, private sector tradition in Niger. In a country of 7.5 million, there are only a few hundred students each year who take courses in accounting, finance, management, and other business-related courses that would serve as the foundation for developing a modern class of private entrepreneurs.

Along with the university level limitations that exist, Niger has a limited manufacturing tradition, above all at the "modern", non-artisanal level in which capacity is perceived as large- or medium-scale. The result is a lack of technical training and skills required for the construction, ongoing operations and maintenance of highly productive and employment-generating

enterprises. Some NGOs have begun to successfully address these constraints, but these projects only represent a start in the long process of broadening and developing technical skill levels.

E. Financial Intermediation

As mentioned above, financial intermediation is low in Niger. Most Nigeriens have limited access to cash and other assets, and therefore savings are low. Credit in the past was thoroughly mismanaged and abused, resulting in a large percentage of bank credit portfolios becoming non-performing. Losses in the formal sector undermined bank equity, leading to negative net worth (technical default and insolvency) in Niger's largest institutions. The result is a stymied formal banking system with a limited branch network, limited capital, and risk-averse policy of credit allocation. Nearly 100% of all existing credits are short-term, and the majority of those are to commercial traders. The vast majority of Nigeriens offer the banks no incentive to become customers, based on low savings, weak cash flow, limited collateral (if any), past non-performance and high administrative costs. Banks currently play little role in any lending for the construction and maintenance of production capacity.

The alternative is the informal sector. *Tontines* play a primarily savings-oriented role in the Nigerien economy. Operating on small sums, most *tontines* lack the dynamism and investment activities of their counterparts in Cameroon and elsewhere. Credit is accessible from commercial traders and other lenders, yet costs are exceedingly high. The result is a conservative, short-term approach to asset management that reduces the number and size of transactions and reflects the depressed nature of the Nigerien economy.

F. Population/Urbanization and Labor Market/Employment Crisis

Niger's population growth rate is currently an annualized 3.4%, and urbanization is at 8%. In 1988, 2.3 million people were employed out of a potentially economically active population of 3.5 million (about 68%). Projections indicate the number of Nigeriens aged 15-64 will be 5.1 million by 2000. To maintain the 68% status quo, Niger will have to have 3.5 million jobs, a net increase of 1.2 million between 1988 and the end of the century.

Most of these jobs will have to be found in the manufacturing and service sectors of the urban areas. The agricultural sector holds out limited prospects for absorptive capacity given the fragile physical environment, declining yields, limited irrigation and reduced pastures for livestock development. Further, with the urban population expected to increase from 1.5 million in 1990 to 2.7 million in 2000, this will represent an increase in the total urban population from 19% to 27%. Thus, not only will increased food production be required, but key economic and social infrastructure (e.g., housing, schools, health care) will be needed to sustain this growth.

To meet these needs, the Government will have to scale down its own controls and bottlenecks, privatize many of the existing functions of Government (e.g., telecommunications, power), and stimulate private sector activity to the maximum degree possible to absorb the looming unemployment crisis and affordably broaden the tax base.

G. Gulf in Public/Private Sector Perceptions

Primary and secondary research conducted during MAPS confirmed the enormous gap in perceptions between the public and private sector. The Government remains critical of the private sector for its corruption, abuse of peasant farmers and small producers, and control of prices and distribution. The Government also feels the private sector has failed to take advantage of the policy reforms initiated since the 1987 Round Table discussion.

The private sector lacks confidence and trust in the Government, and perceives it as the central impediment to economic growth. Formal sector businessmen complain of bureaucratic meddling, unfair taxation, general resistance to formal business development and high levels of costly corruption. In addition, formal sector businessmen complain that most proposed reforms since the 1987 Round Table have been turned down by the Government, reflecting a lack of interest in promoting the formal private sector. Informal sector operators echo those thoughts, and have acted accordingly by avoiding registration and tax procedures to the extent they can.

Business associations are either controlled by the Government (Chamber of Commerce), or prevented from operating in a free and effective manner (smaller, specialized organizations). While private sector perceptions are certainly not always correct or tantamount to good public policy, there appears to have been limited communications between the public and private sectors. Lack of representative private sector institutions is one of the reasons.

H. "Gray" Areas Between Formal and Informal Sectors

Despite the predominance of the informal sector in the economy (71% of GDP, and 98% of employment), there are a number of "gray" areas that characterize both the formal and informal sectors. Most particularly, these concern taxes and registration.

It is commonly assumed that the informal sector does not pay taxes. This may be true as far as tax payments to the central Treasury are concerned, but not so at the local level. More prosperous commercial traders often make contributions to community infrastructure in the form of schools, dispensaries and mosques. While considered a charitable contribution and done often to convey an image of prestige and status, these contributions nevertheless fund social infrastructure that would otherwise be financed by the Government from tax revenues. More generally (and in varying amounts), informal operators pay an array of legal and illegal local taxes to register with local authorities, set up a market stall or more permanent premise, and satisfy public sector representatives for transport and other public "services". While the

informal sector does not observe legislation concerning the SMIG or social security benefits, it does pay taxes. It also registers some of its 300,000 non-agricultural enterprises to local authorities.

The formal sector is constrained by having registered, identifiable physical premises that are usually permanent until bankruptcy, a phenomenon that appears to have increased since 1988. As such, they are the target of high and arbitrary tax assessments that are progressive in nature and damaging to operations and cash flow. In response, the formal sector has in some cases engaged Government and Customs authorities to reduce such tax assessments. In addition, bookkeeping and accounting techniques have sometimes been employed to reduce turnover and income figures and, effectively, lower tax payments. While different from the techniques used by the informal sector, the formal sector has been forced to operate in as "informal" a manner as possible to be competitive. When this has failed, it has not been uncommon for formal sector enterprises to close down and enter the informal sector.

I. Land Tenure/Business Formation

As mentioned above, land ownership in the Niamey area is a problem due to Government controls over ownership which drives up costs, limits access, and deters investment in business enterprises (not to mention housing). Not only are prices distorted in relation to national income flows, but many of the associated charges are off the books to assist with "processing". In the end, real estate speculation is corrupted by unproductive activities and useless charges that limit investment, thereby reducing incentives for businesses to invest in production capacity and employ urban dwellers. It should be noted that it is only in the Niamey area where land tenure appears to be a problem.

III. RECOMMENDED SUCCESS CRITERIA FOR USAID PRIVATE SECTOR STRATEGY

The following briefly outline recommended "success" criteria in private sector strategy formulation for USAID. These criteria conform with USAID's CPSP criteria, and will help USAID target assistance most effectively within its given resource constraints. USAID has already begun meeting most of these criteria from existing strategy.

A. GON Support, Donor Reinforcement, NEPRP Complementarity and Overall "Comparative Advantage"

USAID should attempt to structure its private sector strategy in a manner that 1) supports elements of the Government of Niger's private sector policy, as stated in the 1987 Round Table; 2) reinforces World Bank and other donor activities consistent with goals and objectives of the Structural Adjustment Program with which USAID is in agreement; 3) complements its existing NEPRP and other private sector components with increased focus on formal, institutional private sector needs in urban areas to promote broader "market efficiency"; and 4) emphasizes USAID's "comparative advantage" in specific project interventions based on experience and success relative to other donors.

B. Development of Institutional Capacity and Emphasis on Long-Term Sustainability

USAID should focus on building local institutional capacity to support private sector development and economic growth in Niger. Without local institutional strength, project interventions are not likely to succeed in the long term. Long-term sustainability should be considered a necessary attribute for any USAID intervention.

C. Financial Resources

USAID should only undertake projects for which it will have sufficient financial resources. To the extent it identifies interventions that exceed such resources, it should pool resources with those of other donors. To the extent there is limited support for such interventions, USAID should not pursue these projects.

D. Human/Managerial Resources

USAID should only undertake projects for which it can access needed human/management capabilities. If these are not to be found in-house, they should be sourced from local institutions, on-site NGOs, and consultants/NGOs from abroad as a last option. Focus should

be on feasibility of and local support for the project, accessibility of needed human resources, and reinforcement of local institutional capacity in the development of human and management resources.

E. Monitoring and Evaluation

USAID should be able to monitor and evaluate progress of each intervention by establishing baseline data and indicators consistent with broader goals and objectives. These data should stress USAID's highest priorities, and be as precisely measurable as possible to assess project impact.

IV. RECOMMENDED USAID PRIVATE SECTOR POLICY ACTIONS

The Phase II: Private Sector Description identified a number of fiscal, monetary, investment, trade, labor, social, and sectoral policy and administrative constraints on private sector development in Niger. Annex I of this report presents a list of these constraints, and systematically outlines policy reform measures to address each one. This chapter identifies those policy constraints most amenable to USAID-led reform, and most consistent with the objectives of overall USAID private sector strategy.

A. Production and Distribution of Goods and Services

Currently, there are a number of regulatory and other impediments which constrain the free flow of goods of services and present substantial barriers to entry to new enterprises. As a result, competition and economic efficiency are constrained and costs are raised. There are four areas in particular where barriers to the free flow of goods and services reduce economic efficiency. These are:

1. Transport: A number of barriers to entry exist for new enterprises in the transport sector.[1] These include the need for multiple authorizations and approvals; proofs of personal legitimacy; participatory controls; payment of taxes and other fees; and the need to satisfy a number of other controls, including authorization to operate from competitors. In total, an estimated 11 separate procedures and 17 different documents must be completed, involving a number of different administrative authorities. Moreover, the assessment of informal road "taxes" on transporters -- estimated to be equivalent to 20 percent of the operating costs of a 17-passenger minibus -- further constrain economic efficiency.

   These procedures are both burdensome and discretionary. The existence of substantial barriers to entry to new transporters is evidenced by the fact that approximately two-thirds of transporters operate in the informal sector. In light of the important role played by cross-border commerce in the Nigerien economy, these barriers impose heavy economic costs. In addition, recent efforts to improve export procedures will be undermined to the extent that such restrictions continue to restrict efficiency in the transport sector.

2. Livestock Exports. As with the transport sector, new entrepreneurs seeking to formally enter the livestock, hides and skins sector must complete as many as 11 procedures. Again, a number of these procedures are discretionary in their application. Constraints

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[1] As noted, the regulatory and other constraints addressed in this section are discussed in greater detail in the Phase II: Private Sector Description.

affecting the efficiency of the livestock sector -- or the transport sector as discussed above -- will be particularly detrimental to Nigerien efforts to compete in livestock markets in southern Nigeria, where competition with livestock raised in central and northern Nigeria has been steadily increasing.

3. Labor Code Rigidities. Currently, the Nigerien Labor Code is outdated and inflexible, raising the cost of labor to a level where it a) is uncompetitive with other countries in the region; b) reduces the factor flexibility required by businesses if they are to compete successfully; and c) deters enterprise formalization owing to the cost and complexity of compliance. Revision of the Labor Code -- as has been recently begun by a number of other African Francophone countries -- could reduce this impediment to economic efficiency and encourage enterprises to enter the formal sector.

4. The Economic Police. The continued operation of the Economic Police does not place an impediment to the free flow of goods and services per se, but the existence of an agency which duplicates the efforts of other existing government agencies constitutes a waste of scarce budgetary resources. More importantly, however, the existence of such agents diminishes private sector confidence and is not congruent with efforts to promote formal private sector activity.

In these four areas, the introduction of policy reforms to reduce regulatory and administrative barriers, as well as to increase the "transparency" by which decisions are made, will remove what are currently substantial barriers to the free flow of goods and services, thereby increasing competition and improving economic efficiency.

B. Business Registration and Investment Procedures

Registration procedures for new businesses are lengthy and complex. Reportedly, as many as 40 permits may be necessary to establish a business, and in some cases the business establishment process may take as long as one year. In addition, while a number of permits are now obtainable at the *préfecture* level, some permits can still only be obtained in Niamey. Foreign investors in particular face a lengthy and rigorous approval process which includes extensive security checks (see DHL below). Moreover, there is a clear lack of transparency, automaticity, and objectivity in the approval process as the government particularly impedes investment which threatens government monopolies or politically powerful local economic entities.

Finally, business establishment, import/export, and investment procedures are not spelled out clearly to potential entrepreneurs. There is no centralized agency or office which is capable of providing advice, nor are there any brochures or guides explaining the procedural process to entrepreneurs.

Policy reform efforts should be directed at both a simplification of the procedures governing investment and business registration, as well as an improvement in the administrative implementation of such procedures. Until these reforms are achieved, the current business registration and investment process will continue to deter enterprise formation and formalization. The objective of such reforms should be the introduction of procedures which are clear and simple, and by which approvals are automatically granted -- or denied -- according to clearly defined criteria. By introducing such "transparency" into the investment process, the Government of Niger will not only make the investment process more equitable and simpler, but it will also remove current obstacles which deter firms from operating in the formal sector.

C. The "Guichet Unique"

The establishment of a "guichet unique" for trade and investment may be an effective means by which simplified business registration and investment procedures can be implemented. Although a "guichet unique" has recently been established, this office applies only to importers and exporters; establishment of a second "guichet unique" is currently under consideration as part of the new Investment Code.

The "guichet unique" concept has been successfully employed by a number of developing countries worldwide to expedite investment approval procedures, and its use should be evaluated in the Nigerien context. It should be noted, however, that a "guichet unique" is not a panacea for improving investment procedures. Rather, such an office symbolizes the principle of what should be achieved: simplified and transparent investment and business establishment procedures. Many so-called "guichet uniques" actually just establish another layer of bureaucracy. Should a "guichet unique" be established in Niger, it is important that foundation of such an agency be predicated on the simplification of investment and other procedures as outlined above.

D. The Role of the Civil Service

During periods of economic reform and the introduction of other policy or administrative changes, government civil servants can pose a substantial constraint to the implementation of such changes. As recorded by both the MAPS Private Sector Description and Private Sector Survey, the implementation of government policy in Niger is widely perceived to be flawed. Such barriers to implementation can occur for several reasons, including a failure by central government authorities to make clear their commitment to the changes in policy, inertia on the part of civil servants, corruption, or simply a failure in communication between higher- and lower-level authorities.

In order to overcome the problems of poor implementation, a number of measures can be introduced. One is making clear to civil servants the level of government commitment to the proposed changes. If central government authorities appear ambivalent about proposed reforms

to aid the private sector, it is unlikely that lower-level civil servants will effectively implement such measures.

Two, improved communication and dialogue between the government and private sector representative groups, as discussed in further detail below, can be extended to include civil servants in order to sensitize them to the needs and concerns of private business. In addition, seminars can be held for selected groups of civil servants so that they can better understand the need for certain reforms -- for example, the need to simplify business registration and investment approval procedures -- and why such reforms are important to businesses. Such seminars are being used in Cameroon to sensitize Customs and other officials to new changes in the regulations and procedures governing exports, and to ensure the effective implementation of these new rules. Such an approach could also be used in Niger to "sensitize" the civil service and encourage a more promotional, service-oriented focus on private sector needs.

E. Tax Reform

The Nigerien tax system has been the subject of a separate study and has not been examined in detail by the MAPS team. Nonetheless, there are a number of areas where tax reform is needed, and where such reform can encourage enterprise formalization. One, the current tax collection system is characterized by a lack of transparency, where taxes are not assessed according to clearly defined criteria, but are often determined by bargaining between tax agents and tax payers. Similarly, the *patente* is widely perceived as arbitrary in its application, and is neither efficient nor equitable in light of other taxes assessed in Niger.[2]

Two, tax rates are multiple and confusing, differing from profession to profession for no apparent reason. This complexity makes compliance difficult, as well as wastes administrative resources in tax collection. Policy reforms in these areas are necessary in order to achieve the simplification of tax assessment in Niger and to improve the transparency with which taxes are levied. Firms will be more likely to pay taxes if taxes are assessed in an equitable manner. Moreover, this is particularly true when tax revenues are used for the provision of valued public services. Simplification of the tax system, therefore, is an area of policy reform which can encourage formalization. In terms of tax rates and collection procedures, serious reforms are needed for private sector development, economic growth, and public sector solvency.

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[2] Barlow, R. and Snyder, W., "Aide-Memoire. La Fiscalité au Niger: Evaluation et Reforme," Study Prepared for USAID/Niger, 1991.

V. RECOMMENDED USAID PRIVATE SECTOR PROJECT INTERVENTIONS

The following are recommended to USAID as projects or interventions that will conform to the above "success" criteria outlined in Chapter III. While not all MAPS team members agree with all options in equal weights, the recommended options discussed below represent a collection of interventions on which there is general agreement. These options are not mutually exclusive, and collectively represent the elements of a revised private sector strategy that offers potential synergies and linkages at differing levels: geographic (urban, rural); economic (agriculture, industry, services); sectoral (public, private); structural (formal, informal); educational (university, pre-university, technical/vocational); and institutional (business organizations, cooperatives, NGOs, schools and training institutes).

A. Representative Private Sector-Managed, -Financed and -Driven Business Associations

One of Niger's most conspicuous institutional weaknesses is its lack of effective, representative private sector associations that are directed, managed and financed by members. The formal private sector claims the Government has ignored a multitude of reforms proposed since the 1987 Round Table. Both the informal and formal private sectors identify the Government as the most serious constraint to private sector growth and development. Meanwhile, the Government believes the private sector has failed to demonstrate the initiative needed to benefit from policy reforms.

As a means of facilitating serious dialogue and consensus building, it is proposed that USAID assist with the transformation of the Chamber of Commerce into an autonomous, representative private sector organization, and the development of selectively chosen nascent associations that have been unable to organize for a number of administrative and financial reasons. The goal should be achievement of strong, representative private sector institutions that provide needed services to their members and play a constructive role in shaping policy and implementation with the Government. Assistance should be geared to improving or providing the following:

1. Data Gathering, Analysis and Dissemination: One of the prime functions of any private sector business organization is to provide relevant information to members. While enterprises must maintain primary responsibility for product, market and other information to remain competitive, member organizations can facilitate access to that information. In addition, organizations can provide supplementary and complementary information that firms will find useful, but may not be able to perform on their own (e.g., macroeconomic, sectoral, tax, regulatory, trade, banking). While the specific information members need should be spelled out by members themselves, business organizations in Niger will need assistance in this domain to enhance service levels and information flows.

2. Responsible Private Sector Policy Voice: Improved data gathering and analytical capabilities will also help business organizations assemble the information they need to become effective representatives for their members. Such capabilities will be required for the organizations to represent their members effectively in establishing a "level playing field" and "transparency", and as an alternative to the current ad hoc approach that is inconsistent and creates uncertainty.

3. Business Registration Support: One of the key problems identified by informal private sector operators and associations is the cost and complexity of business registration. The Government should simplify business registration procedures to the maximum degree possible to encourage registration and formalization. Private sector organizations could assist these operators, helping them with the administrative requirements and procedures ultimately agreed on.

4. Employment Bank and the Job Market: Private sector organizations should take steps to promote employment and help members meet their skilled and semi-skilled labor requirements. Placing job postings, keeping an organized bank of resumés, and holding job fairs might be some of the services provided to members.

5. Investment/Trade Promotion and Facilitation: While individual enterprises must take the lead in identifying individual transactions and the Government must take the lead in fostering an appropriate climate for trade and investment, private sector organizations can facilitate these developments. In addition to influencing Government policy in the establishment of trade and investment policy, these organizations should facilitate promotional activities beneficial to their members. This might include helping with trade and investment missions, arranging conferences or seminars for interested parties, and assembling economic, sector and logistical data for its members to present as a package to prospective partners.

6. Product/Market Developments and Prospects: As with the above employment, trade and investment activities, private sector associations should attempt to disseminate the maximum information possible on product and market developments relevant to its members. Individual firms will have to be responsible for maintaining competitiveness. Nevertheless, private sector organizations can help their members by collecting and distributing this information in periodic publications, and by having libraries in its various branches.

7. Savings and Credit Information: Private sector organizations can assist members with information about and training in credit. While the banking sector is currently paralyzed in Niger, private sector organizations can play a role in providing information about specific types of credit (and associated fees, rates and requirements) that may be accessible from financial institutions (including non-bank institutions). Seminars on credit management, and a better understanding of credit from both the borrower's and

lender's perspective, may be useful to members in developing a creditworthy reputation. By working with formal and "semi-formal" (see below) financial institutions, members may be able to enhance their chances of obtaining credit. This, in turn, may also encourage them to form groups, mobilize savings, and focus on building collateral (e.g., equity).

8. Coordination of Training with University, Technical and Commercial Institutes: Private sector organizations should encourage appropriate training for their members. Members will have to declare their own needs, band together, and determine what is appropriate for them. Organizations can provide some guidance, and above all assist in making contacts with appropriate institutions that may be able to meet member training needs. This could be pursued at the university, technical and commercial institute levels, as well as in conjunction with NGOs working in similar areas.

B. Financial Market Development

As mentioned above, the formal financial sector is virtually paralyzed. Credit is almost entirely short-term and commercial trade-oriented. Banks are doing little to mobilize savings (except from large depositors) due to the high administrative costs associated with such activities. On the other hand, the vast majority of Nigeriens have limited or no cash, and informal credit is costly. The result is a stagnant economy with low financial intermediation, conservative cash management principles, and an aversion to risk that undermines prospects for job- and enterprise-creating investments.

To address financial sector constraints, it is proposed that USAID build on its existing interventions through NGOs (e.g., CARE, WOCCU) to encourage "semi-formal" financial intermediation that will promote savings, and increase access to and lower costs of credit. It is believed that such an approach, intensively managed and with a medium- to long-term institutional perspective, can have a major impact in urban and rural enterprise development in Niger. The following areas should be addressed in promoting financial market development to bridge the gap between the formal and informal extremes:

1. Savings and Credit Mobilization: USAID has already begun to mobilize savings in the Zinder region (via WOCCU) and credit in the Maradi region (via CARE). The Maradi project has worked well, possesses good long-term prospects for success, and has clearly made an impact on hundreds of small-scale entrepreneurs from the technical and financial side. Efforts should be made to replicate this activity to the degree manageable, and to introduce a savings component if feasible and desired by participants. The project in the Zinder region is useful in focusing on savings, although the targeted communities offer little prospect for success. WOCCU should be encouraged to broaden its focus in both urban and rural communities to form groups, mobilize savings, and ultimately allocate credit. Particularly useful for USAID-Niger is the existing collaboration between CARE and WOCCU in the development of a successful credit union movement in Togo.

Lessons could be drawn from their collective organizational and country experience to adapt to Niger. Combined with their experience to date in Niger, this provides USAID with a head start in terms of organizational, human resource and management capabilities in the promotion of savings and credit institutions. This, in turn, should provide greater access to small-scale operators in rural and urban areas, potentially lowering informal sector costs while playing the formal sector role the banking system is currently unwilling and unable to play.

2. Liberalized Interest Rates: While the banking system has long followed a regime of fixed interest rates, USAID is encouraged to promote "semi-formal" institutions that do not adhere to WAMU restrictions. Given the failure of such a system in Niger, these "semi-formal" institutions are encouraged to pursue a regime of flexible interest rates on both savings and credit to accurately reflect the scarcity of money as a commodity (savings), as well as the risk taken in a difficult business environment (credit). People must be given incentives to place their limited moneyed savings with an institution. Key criteria must include safekeeping, to protect depositors and instill confidence. Paying interest to depositors is a legitimate "rental charge" so these institutions have the liquidity and stable funding sources needed to allocate credit. Likewise, liberalized interest rates will permit these institutions to price credits according to risk, and generate profits that will help build equity and allocate needed provisions for loan loss reserves. Any attempt by the Government or transnational organizations to regulate interest rates should be opposed.

3. Technical Training: Technical training should be encouraged as a means of educating individuals on the importance of savings, and with the objective of enhancing private sector operators' creditworthiness. While technical training should be targeted and carefully phased in, results from the CARE project demonstrate the merits of this integrated approach. In addition to operating skills, special training should be given in basic bookkeeping, costing, and working capital (e.g., cash, inventory) management.

4. Associational Formation: As part of financial market development, special effort should be made to encourage groups and associations in both urban and rural areas (e.g., GIEs, cooperatives). This will help in the collection of savings, allocation and administration (including collection) of credit, and technical training activities. Such efforts will be particularly useful in reaching rural producers whose access to credit is likely to be more limited, as well as facilitate credits to these producers for agro-processing and other equipment that would otherwise not occur. The CLUSA project has helped to some degree, although these groups usually lack needed skills and have no member savings or equity.

5. Linkage to Formal Sector Financial Institutions: The role of "semi-formal" financial institutions should be to fill the vacuum that exists between the inaccessible formal sector and the costly informal sector. Given the limitations and costs of each, the semi-formal institutions should remain as independent as possible. Nevertheless, formal institutions

will be needed for minimal services (e.g., placing deposits, processing checks). As the semi-formal institutions develop, they are likely to be viewed by formal banks as an "agent" or administrative arm that the latter can use to increase its loan portfolio. As the banks eventually emerge from their current crisis, the semi-formal institutions should identify areas where formal finance can be of use to their clients. Ultimately, if semi-formal clients are "graduating" into a revived and well managed formal banking system, this will reflect a significant achievement. Until that point, however, the semi-formal institutions should limit their collaboration with the formal sector.

6. NGO Role: In addition to the aforementioned NGOs, USAID should entertain the possibility of using other NGOs for replication of existing successes and broadening efforts at financial market development. Only NGOs with demonstrated competence in the field should be encouraged to participate. Special effort should be made to attract Nigeriens (e.g., ex-bankers) into the field as the foundation for an appropriately scaled semi-formal banking system.

C. Cooperative Movement Enhancements

Niger's cooperative movement has a history of Government influence and control, a top-down organizational structure, and limited success in production and marketing. Given the potential benefits to be derived (e.g., bulk purchasing of inputs, group credit, appropriate technology purchases, treatment and storage, general marketing), it is recommended that USAID build on the existing cooperative program directed by CLUSA. More precisely, given certain "structural" weaknesses in the existing cooperative movement (e.g., lack of share capital, lack of on-site management), it is recommended that USAID enhance its cooperative movement activities by testing another model. This model would focus on or consist of the following:

1. On-site Management Presence: The cooperative movement supported by USAID currently is a loosely managed network of cooperatives in which infrequency of communication, lack of logistical support, periodic training and marketing difficulties are sometimes problematic. To address these problems, the model to be tested should include an on-site manager to be in charge of setting up key management committees, mobilizing member equity collection, arranging debt financing, supervising any required construction or equipment purchases, developing production and marketing strategies in concert with members, attending to bookkeeping and accounting, reporting regularly to members, and conducting ongoing training for sustainable growth and management.

2. Training-Intensive: In light of the serious human resource constraints that often exist in Niger, particularly in rural areas where most cooperatives are located, it is recommended that this model have training as one of its key components. This would focus on basic enterprise needs highlighted above (e.g., bookkeeping and accounting, production and marketing strategies). Above all, the goal of training activities would be to develop a

cadre of cooperative members capable of assuming collective management and leadership roles after the initial start-up and operational phase (e.g., two years).

3. Share Capital: Existing cooperatives lack share capital. Despite the limited cash available in rural areas, members should be required to buy shares as a reflection of commitment and grass roots participation. The model should, therefore, seek out people who will provide sufficient equity (e.g., cash shares, capitalized labor) to demonstrate such commitment, both financial and non-financial. While this may be difficult to achieve, it does not appear the cooperative movement is likely to succeed in providing ongoing benefits to its members without strict levels of commitment and participation.

4. Enterprise Orientation: In keeping with the above, the cooperative should be organized, managed and operated with an enterprise orientation. Rather than simply being a State-built warehouse or small shop, the cooperative should be conceptualized as a business in a competitive market seeking to increase members' incomes and productivity.

5. Pilot Approach for Replication: In contrast to the existing approach under CLUSA, this new approach should involve another NGO with experience in the cooperative movement in Africa. The goal is to test alternative approaches to cooperative development to ascertain which elements of each approach are best suited to Niger. The recommendation is not a repudiation of CLUSA activities. Nevertheless, it represents a more focused, management-intensive approach that, if successful, should serve as a potential model for replication. In some ways it is similar to WOCCU's approach to credit union formation, although this model should seek out the most likely group to succeed to establish a successful model. WOCCU's activities in Niger are not focused on optimal groups.

D. Multi-Level, Multi-Institutional Training

One of the key constraints to private sector development identified by the research and discussion conducted under MAPS is human resources and professional management. There is little available training in business management fields, and Niger's limited manufacturing tradition has kept many craft and technical skills at the basic artisanal level. Apprenticeships play a training role in the informal sector as they do elsewhere, but problems are often associated with these apprenticeships (e.g., simple exploitation of cheap labor, limited training, unwillingness to release apprentices when they want to establish their own businesses).

While USAID should not endeavor to create a developed vocational and commercial training system on its own, it is recommended that efforts be made to reform the educational system to meet the economic needs of the nation. This should primarily include non-university commercial institutions that address fundamental business enterprise needs, and complement the more technical focus of vocational schools and polytechnical institutes which should also be advanced. By involving NGOs to develop these local institutes and using specially trained individuals for instruction, a broad range of course work at these schools (and jointly with the vocational and

polytechnical institutes) could be brought to many of the people who will never have a chance to pursue university studies. (Only 1% of university-aged candidates attend university studies in Niger). Course work could involve bookkeeping, elementary accounting, cash management, procurement, inventory control, production, processing, preservation, maintenance, marketing and distribution. The university, perhaps in conjunction with private sector associations, could play a role in training individuals in more professional fields to promote formal private sector development.

E. Private Sector Research and Development Institute at the University of Niamey

Given the general lack of existing institutional and research capacity dedicated to the private sector in Niger, it is recommended that USAID and other donors help establish such a facility at the University of Niamey to develop such capacity. This would involve course work geared to business and private enterprise development, market research and analysis, and outreach programs in which students and professors would share findings and test theses with the private sector. Such a facility would be a useful source of information for private sector operators and business associations, as well as a bank of information and data for the Government. These capabilities would also serve as a useful partner in the development of commercial training institutes around the country, as discussed above.

VI. U.S. INVESTMENT PROSPECTS IN NIGER

For a number of reasons, short- and medium-term prospects for U.S. investment in Niger are not promising. The reasons underlying these limited prospects include the factors discussed below.

A. Limited Product and Market Areas

With the exception of the mining (other than uranium) and petroleum/natural gas sector, few other strong investment opportunities are currently available in Niger.[3] As will be discussed below, high labor costs make labor-intensive investments relatively unattractive. Tourism, air transport, and telecommunications offer potential investment opportunities. Telecommunications services, for example, will require substantial levels of new investment in upcoming years, and privatization of the provision of these services could provide opportunities to attract U.S. investment. Similarly, privatization of domestic air travel could provide opportunities for U.S. investment. Investment in these sectors would require significant changes or liberalizations in Government policy, however, which do not currently appear to be forthcoming.

B. Language and Cultural Barriers

Both language and cultural barriers act as impediments to U.S. investment. In part owing to the lack of cultural and historical links between the U.S. and most of Africa, investment levels in Africa have to date been negligible, with the exception of Nigeria and South Africa. The prospect for U.S. investment in Niger is further diminished by the lack of French-speaking capability characterizing most U.S. businesses. While these constraints can be overcome -- Togo, for example, has recently been successful in attracting a number of U.S. investors -- a number of other conditions, most notably the investment and regulatory climate, must be highly favorable. It should also be noted that Niger's lack of exposure to English not only hinders potential U.S. investment, but direct foreign investment from much of Europe and Asia as well.

C. High Factor Costs of Production

An additional deterrent to investment is Niger's high factor costs. Electricity and telecommunications costs are high throughout the region, relative to other investment sites. In

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[3] Investment opportunities are defined here to include types of medium- or long-term investment which would yield employment, potential tax revenues, and possible export earnings for Niger. This definition excludes investments which simply constitute sales and marketing opportunities for U.S. goods in Niger.

addition, the value of the CFA franc versus the U.S. dollar makes Francophone countries in general less competitive investment sites than other countries which have recently introduced extensive currency devaluations (e.g., Ghana, Nigeria). Moreover, labor costs in Niger are high owing to the value of the CFA franc and a rigid Labor Code. Labor costs in Niger are high even compared to other CFA-franc countries such as Cameroon, which has a far better educated and skilled work force. Finally, transport costs are extremely high owing to Niger's geographical position. For export-oriented firms in particular, this poses a strong deterrent to investment since few products have a value-to-weight ratio that justifies the cost of air transport.

D. Current Nigerien Business Climate

Currently, the Nigerien business climate is not highly favorable to investors, most particularly foreign investors. The Investment Code, which was revised in 1987, is currently undergoing a second revision, thereby creating uncertainty with regard to specific operating and investment conditions. More importantly, however, the administrative and regulatory climate governing investment approvals is onerous for foreign businesses, particularly in comparison to neighboring countries such as Togo and Cameroon. The approval process is lengthy, complex, and involves excessive security and other checks. The recent case of DHL -- which took 18 months to have its investment approved, succeeding only after the intervention of the U.S. Embassy -- is a case in point.[4] As long as the Nigerien Government's attitude towards foreign investment remains characterized by a wish to control and impede investment, rather than encourage it, U.S. investors in particular will search for other investment sites.

E. Assessment of Current Prospects for U.S. Investment

In sum, the current climate for U.S. investment in Niger is not promising. A lack of attractive investment opportunities, high factor costs, and language barriers act as deterrents to foreign investment in general, including U.S. investment. Moreover, prospects for U.S. investment must be viewed in the broader context of emerging investment opportunities elsewhere in Africa and around the world. Togo, Cameroon, Botswana, and Kenya are among the African countries that have recently launched aggressive drives to attract foreign investors. Some of these countries have the additional advantage of being English-speaking. More importantly, all have implemented pragmatic programs to ease the regulatory and administrative environment governing foreign investment.

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[4] DHL's investment process is described in fuller detail in the interview summaries contained in the MAPS Phase IV document.

VII. PROSPECTS FOR NIGERIEN EXPORTS TO THE U.S.

There is only limited potential for Nigerien exports to the U.S. market. The factors constraining this potential include those discussed below.

A. Limited Product Quality and Marketability

Potential export products (e.g., textiles, hides and skins) currently use methods of production characterized by limited economies of scale, and products are of variable quality and highly substitutable. As a general rule, substitutable products must be characterized by low cost and high volumes of production to become successful export products. Conversely, low-volume products must be able to satisfy a limited "niche" market unexploited by other producers to generate high returns. Currently, Niger does not produce products in either category. In conjunction with the other constraints cited below, these characteristics limit the export potential of Nigerien products. Moreover, limited economies of scale, unreliable (e.g., FAX, telex) and costly telecommunications, and the lack of modern means of transport for timely product deliveries are problematic. (The importance of meeting delivery schedules, and the inability of many developing country manufacturers to meet this requirement, has constrained exports from more sophisticated manufacturers in countries such as Kenya, Nigeria, and Ghana).

B. Difficulty of Market Access

Although the size of the U.S. market seemingly offers many opportunities to exporters, this market is extremely competitive. Developing country exporters typically are most successful in penetrating the U.S. market through the expertise provided by U.S. or other investors (e.g., Taiwan, South Korea) in their own countries familiar with the marketing and other requirements of the U.S. As discussed above, however, the investment prospects for U.S. firms in Niger are not favorable at the current time. Given the generally limited product mix and foreign investment in Niger, it will be difficult for Niger to gain access to the U.S. market.

C. High Factor Costs

As discussed above regarding the prospects for U.S. investment, factor costs in Niger deter investment and make exports less competitive. In particular, high land transport costs, owing to Niger's landlocked position, make exports of nearly all industrial goods (e.g., apparel, shoes) uncompetitive in world markets given that the value-to-weight ratio of such goods does not justify the cost of air transport. Illegal taxes imposed at checkpoints only add to the cost, undermining competitiveness. In addition, the high value of the CFA franc undermines the general competitiveness of Nigerien exports relative to exports from countries with flexible exchange rates.

D. Summary of Nigerien Export Potential

At this time, the prospects for Nigerien exports to the U.S. market are not highly favorable owing to a lack of non-substitutable products, inefficient production methods, insufficient marketing means, and high factor costs. These factors can be offset to some extent should Niger be successful in attracting foreign investors with access to the U.S. market. Similarly, the constraint posed by high transport costs diminishes somewhat for exports to the European market, and even more so to neighboring African countries. Nonetheless, barring significant new levels of foreign, export-oriented investment or substantial changes in the types of non-tradiional exp641Xcurrently produced in Niger, prospects for exports to the U.S. are not favorable. As a result, Government and investor resources would be more rationally used to target market opportunities within the region and in some narrowly defined markets in Europe (e.g., leather), and to improve current production methods in Niger.

ANNEX I

NIGER -- POLICY AND INSTITUTIONAL CONSTRAINTS AND RECOMMENDED ACTIONS

CONSTRAINTS/PROBLEMS	RECOMMENDED ACTIONS
Fiscal Policy	
(1) The tax system is arbitrary and tax rates vary from profession to profession. Taxes are highly regressive and pose an onerous burden on smaller firms.	(1) Revise the tax code to tax professions according to earnings (e.g., progressive, 15% flat tax) to reduce the arbitrariness of tax assessments, and to remove a disincentive for smaller firms to operate in the formal sector.
The tax on industrial and commercial profits (BIC) is high and deters formal sector participation.	Although less important than overall reform of the tax system, revise the BIC as part of the above tax code revision exercise to generate revenue but not to deter small enterprise formation and activity in the formal sector.
(2) The means used to assess the patente are arbitrary and confusing, providing ample opportunity for corruption.	(2) Simplify the method of taxation for merchants, and publicize widely the means used to determine tax assessments. Tighten controls on collection to ensure that taxes reach government coffers.
(3) Market taxes impose a heavy and regressive tax on small- and micro-enterprises and farmers.	(3) As market taxes are imposed at the arrondissement level, more equitable forms of taxation concerning rates and collection should be devised with local authorities to provide services and promote market activity.
(4) A variety of other informal taxes (e.g., bribes, social obligations) are regularly paid, indicating a widespread willingness to pay taxes under certain conditions.	(4) Use a revision of the tax system, in conjunction with improved provision of government services, to capture some of these implicit taxes to support government budgets.

(5) Customs' ability to process tax transactions is weakened by a lack of technical resources.

(5) Determine where Customs services can be most efficiently employed despite limited resources and a large territorial area. Target Customs' resources, training, and donor assistance into those functions.

Monetary Policy

(6) The strength of the CFA relative to that of neighboring countries (such as Nigeria) acts as a constraint on the formal sector.

The devaluation of the naira is only one factor affecting Niger's enterprises in competition with Nigerian goods. Other adverse factors include Nigeria's lower labor costs, subsidized power, cheaper inputs, and greater economies of scale.

(6) These factors cannot be addressed directly by the GON, thereby pointing to the importance of measures to offset Niger's competitive disadvantages through improved policy reforms, revision of the Labor Code, and reduced regulatory and administrative constraints.

(7) Niger's tight monetary policy has led to a relatively low rate of inflation over the 1980-83 period, a strength relative to some other African countries.

(7) Unlike anglophone African countries such as Ghana and Nigeria where control over the money supply has been historically problematical, continued low rates of inflation provide an incentive for investment, assuming other bureaucratic and regulatory constraints can be eliminated. Measures should be taken to support financial sector reform to improve bank credit management so that tight monetary policy does not automatically curtail credit allocations. Such measures should include the development of semi-formal financial institutions (e.g., urban-based banks focussing on artisanal manufacturers and industrial services, rural banks, credit unions) <u>outside</u> WAMU

jurisdiction, and complete liberalization of interest rates to increase incentives for formal sector savings and to permit these institutions a market-determined profit on transactions and risk.

Investment and Trade Policy

(8) Regulations governing the establishment of commercial and industrial enterprises, while improved, could be liberalized further.

Business establishment, investment, and export/import procedures are not clearly spelled out to potential entrepreneurs.

(8) Substantial simplification of business registration procedures, particularly a reduction in the number of required permits, should be encouraged. Considering the need to also simplify investment procedures for both domestic and foreign investors (see below), this represents a substantial opportunity for review and modification of business and investment policy. This would also be an appropriate role for a privatized Chamber of Commerce to lead.

(9) The newly established guichet unique is redundant with existing Customs processes, and the cost of registering transactions exceeds the cost of export licenses under the previous system.

(9) Examine the need to complete a fiche d'enregistration statistique for each export transaction, and if the associated fees can be reduced so as to not pose a deterrent to new or small exporters. Consider making the guichet unique a true one-stop-shop where exporters/importers could complete all necessary procedural requirements, rather than showing proof that these have been completed at other offices.

(10) Government's approach to investors is still characterized by interventionism -- particularly when potential enterprises will compete with government monopolies -- and a lack of commitment to free and open competition.

(10) In the short term, the GON can show its commitment to open competition by eliminating the

(11) Foreign investors seeking incentives under the Investment Code must undergo a rigorous and lengthy approval process.

The 1989 Investment Code is currently undergoing revision in order to simplify investment procedures. A key element of the new investment code will be a guichet unique for investors.

(12) The Chamber of Commerce is ill-equipped to provide adequate technical assistance to the private sector. Its linkage to the Government disqualifies it as an appropriate institution to represent the private sector and respond to its needs.

(13) The continued existence of the Economic Police is incompatible with an environment aimed at fostering business confidence.

Labor and Social Policy

(14) Niger's Labor Code is outdated and restrictive, leading to distortions in the labor market.

current veto power over competing investments held by the Ministry with oversight of that sector. In the medium-term, renewed GON commitment to privatization should increase opportunities for competition by new investors.

(11) The current revision of the Investment Code should be used to achieve, in a single effort, simplified investment procedures for both foreign and domestic investors. The establishment of a guichet unique, while a good idea in principle, is less important than widespread commitment to eliminating constraints to the private sector. This code should be reviewed carefully by investment code experts before its issuance to ensure that it is competitive, equitable, and will not require subsequent revision.

(12) Support efforts to turn the Chamber into a true private sector body by eliminating mandatory membership, encouraging the free election of private sector members to the board, and ultimately, sourcing private sector funding for the Chamber's operations to ensure its independence.

(13) Since the Economic Police duplicates the functions of other sections of government, creates distrust in the private sector, and places Niger at a competitive disadvantage, this extra layer of government should be eliminated.

Niger's wage costs are high relative to other countries in the region, undercutting a potential comparative advantage.

(14) Revise the Labor Code to make it less restrictive, taking into account labor code liberalizations made in neighboring countries such as Togo and Cameroon.

(15) Low levels of literacy and numeracy pose a substantial constraint to economic growth and investment in the formal private sector.

Although the high value of the CFA franc contributes to Niger's high wage cost, liberalization of the labor code and wage levels will bring wages more in line with the widespread availability -- and therefore low cost -- of labor.

(15) This weakness cannot be easily remedied in the short term, thereby again stressing the need to remove all other constraints on private sector development to maximize economic competitiveness. Changes in the university system (see below) will help to maximize Niger's limited educational resources in the near term. Other efforts should support primary education and basic business-related formation activities of NGOs.

(16) The university system is not producing the types of management and technical skills needed to fuel private sector-led economic growth. There are not enough commercial/business training institutes for non-university students, 99% of the eligible population.

(16) Restructure the current university system to encourage an MBA-styled curriculum. Commercial institutes for pre-university level students should be developed. NGO training programs, and private sector business associations should play a role in training and development. Semi-formal bank training institutes for urban and rural enterprises, with NGO assistance, should be encouraged.

Sectoral Analysis

(17) **Agriculture:** Recent policy reforms in the agricultural sector have been important, but further regulatory reforms would eliminate constraints which limit competition and impede economic efficiency.

(17) Reduce the complexity and cost of administrative and regulatory procedures, including the number of needed approvals and authorizations, types of proofs of personal legitimacy, and taxes and other fees. In addition, elimination of the system of road checks (see below) will further enhance Niger's export potential.

(18) **Livestock:** More could be done to fully exploit Niger's livestock potential, and potential for backward linkages in the livestock/hides sector.

(18) Remove disincentives to invest in this sector, while increasing the quality of production methods. Measures to improve the efficiency of the transport sector (see below) will improve the competitiveness of livestock exporters.

(19) **Mining:** Continued poor prospects for uranium prices will necessitate a commitment from the GON to encourage exploration and investment in other mining sub-sectors.

(19) Government budgets must show a substantial downward restructuring to reflect this secular trend, or new sources of revenue must be found. This may potentially occur if the GON implements a promotional private sector investment plan encouraging investment, management autonomy, and reasonable risk-return ratios.

(20) The GON's failure to date to provide services to the informal gold mining sector is sacrificing productivity and safety and an opportunity to broaden the tax base.

(20) The GON should draft a new mining code which legalizes small-scale mining, and provide basic services and training to miners to help improve efficiency and earnings.

(21) **Manufacturing:** The competitive advantages enjoyed by Nigerian formal sector enterprises pose a continued threat to the Nigerien formal sector. Moreover, this threat will intensify should sustained and successful structural adjustment occur in Nigeria.

(21) In light of the substantial competitive disadvantage faced by the Nigerien formal manufacturing sector, government policies should be aimed to support those sectors where the country does have a potential

(22) **Construction:** The uranium industry's decline and cuts in public investment are likely to translate into the continued decline of the formal sector construction industry.

competitive advantage (e.g., agro-pastoral, some agro-industrial production).

(23) **Commercial Trade:** The formal commercial trade sector is undergoing a substantial decline as a result of competition from the informal trading sector.

(22) Small-scale demand for construction services will persist, and these services can be provided by the informal sector. Government and donor public work programs -- such as the proposed World Bank's proposed NIGITEAM program -- can utilize these informal sector construction services, thereby drawing them into formal private sector activities.

(24) **Tourism:** Tourism has potential as a source of economic growth, but the sector faces competitive challenges which must be addressed.

(23) To some extent, the decline is due to limited purchasing power and Niger's small market. Revisions in the country's arbitrary and expensive tax regime, combined with reforms to encourage informal sector operators to regularize their operations, could help prevent further shrinkage of the existing formal commercial trade sector.

(25) **Transport:** Niger's reliance on regional trade and imported manufactures means that improved transport system efficiency is critical, particularly to assist export competitiveness.

(24) Development of the tourism industry will require a policy which encourages foreign private capital and investment, eases administrative constraints, and enables the industry to be fully competitive with neighboring countries.

(25) The following should be encouraged: reduce administrative and other barriers to entry to the transport sector; ease new vehicle registration procedures; lower licensing costs and other fees to raise competitiveness vis-a-vis Nigerian transporters; avoid

efforts to restrict the geographic movement of transporters; and introduce measures to reduce the implicit tax placed on transporters by police corruption. Investment in a private domestic airline should be promoted to assist with tourism development.